2015 White Paper on Small and Medium Enterprises in Japan

Declaring SME Innovation from the Regions

National Association of Trade Promotion
for Small and Medium Enterprises

Outline of the 2015 White Paper on Small and Medium Enterprises in Japan

Part I of this report takes a look at recent developments among small and medium enterprises (SMEs) and micro-businesses, and analyzes their earning power and regional competitiveness from the medium to long-term perspective.

Based on the information analyzed in Part I, Part II provides an analysis that focuses on enterprises, and Part III on regions. More specifically, Part II examines themes related to the profitability improvement of enterprises, such as their initiatives for innovation, market cultivation and securing and developing human resources. Part III discusses regional revitalization initiatives in the context of a changing socioeconomic structure, particularly from the perspective of regional resource utilization and regional business solutions, and introduces the results of such initiatives with reference to concrete case examples.

Part I Developments among SMEs and micro-businesses in fiscal 2014

Economic developments in Japan / Developments among SMEs and micro-businesses

Japan's economy continued on a recovery trend as a reflection of the positive effect of Abenomics, but major changes were observed before and after the consumption tax increase in April 2014. The reactionary fall following the last-minute surge in demand and the impacts of poor weather weakened the economy, and particularly individual consumption, after the tax increase. On the other hand, exports picked up as the yen began to weaken, corporate profits recovered, and the employment environment improved, so that on the whole, Japan's economy has shown continuous gradual recovery.

Despite this situation, SMEs and micro-businesses continue to face relatively difficult business conditions. The business conditions DI and profitability index both show weak movements due to the reactionary fall in demand following the rush demand before the consumption tax increase, coupled with the rise in the costs of raw materials and energy. Although some improvements were seen, such as a drop in the prices of crude oil and domestic petroleum products and a picking up of the macro economic environment, the business trends of SMEs and micro-businesses continue to bear watching by the government.

Environment surrounding SMEs and micro-businesses

The environment surrounding SMEs and micro-businesses is analyzed from the medium to long-term perspective. With a focus on enterprises in general, the changes in their medium to long-term earning power are first analyzed. After showing that the disparity in earning power between high-profit and low-profit enterprises is widening among SMEs and micro-businesses of the same size, the differences in the two groups of enterprises are examined to show that high-profit enterprises are more strongly conscious about technical development and human resource acquisition and development than low-profit enterprises.

Next, regions are analyzed in terms of their role in providing a place of business to many SMEs and micro-businesses. More specifically, upon verifying the medium to long-term growth of regional economies (increase in value-added production values) and classifying the regions by their degree of growth, an analysis is made of regional industrial structures and demographics. Then, from the perspectives of "wide-area demand" and "intraregional demand," a discussion is presented on what is necessary for economic growth that accords with regional circumstances.

Part II A greater role for SMEs and micro-businesses

Amid various medium to long-term changes that are occurring in Japan's socioeconomic structure, including economic globalization and population declines, circumstances surrounding SMEs and micro-businesses have also begun to change. A look at the trade environment of large enterprises and SMEs/micro-businesses in the manufacturing industries shows that the two groups have conventionally shared a relationship of interdependence, and SMEs and micro-businesses that have engaged mainly in manufacturing on commission in such an environment have enjoyed the benefit of demand that large enterprises acquire from the market. However, with the advancement of globalization, the relationship of interdependence between large enterprises and SMEs/micro-businesses has diminished, so that SMEs and micro-businesses are left to face the market and acquire demand by themselves. Taking into consideration the analysis of profitability discussed in Part I, Part II focuses on issues related to "innovation and cultivating markets" and to "acquiring and developing human resources" as initiatives for increasing sales and acquiring profit.

Innovation

Innovation is the source of growth for all enterprises. However, there is a strong impression that initiatives related to innovation are something to be undertaken by relatively large businesses with a wide trade area. Here, SMEs and micro-businesses are classified by the scope of their target market size (businesses that seek to engage in business over a wide area are classified as "wide-area demand-oriented businesses," and businesses that seek to engage in business within their

region are classified as “regional demand-oriented businesses), and the differences and similarities between the two types of businesses are discussed in regard to the status and outcome of their innovation initiatives. Additionally, the various issues that enterprises face in launching and promoting innovation are also examined.

● **Cultivating markets**

SMEs and micro-businesses are strongly conscious about market cultivation, in particular, even among the various management issues they face. However, it is not easy for them to cultivate markets and achieve their sales target, much less cultivate new markets, which proves much more difficult compared to developing existing markets.

This section assesses the market cultivation initiatives of SMEs and micro-businesses and the status of achievement of their sales target, and analyzes issues related to market cultivation. Based on this information, focus is placed on the importance of their confronting and gaining a grasp on the sales channels and markets they aspire to cultivate, and on human resource issues they face in pursuing their market cultivation initiatives.

● **Acquiring and developing human resources**

Human resources are precious management resources above all else, to SMEs and micro-businesses. However, SMEs and micro-businesses are facing a shortage of human resources, both in number and quality, even as improvements are being seen in the employment environment in Japan. In particular, the shortage of specialists who comprise the core of corporate business in such sectors as the R&D, marketing and IT sectors is an issue that cannot be ignored in order for enterprises to face the market and acquire demand.

Here, the present status and issues of SMEs and micro-businesses regarding human resources are examined according to each stage from their acquisition (recruitment) to their retention and development. A discussion is also presented on new, non-conventional sources of human resources, such as women, seniors, foreigners, urban labor, and large enterprise personnel. Furthermore, with an eye on the reality in which SMEs and micro-businesses have limited personnel and monetary resources to secure and development human resources, examples are introduced of initiatives that have overcome the human resource acquisition and development issue through region-wide efforts.

Part III Looking at regional Japan —Dealing with their own changes and traits—

From the medium to long-term perspective, the regions are experiencing a decrease in small retail stores due to population declines and changes in consumer needs, and a decrease in the number of manufacturing businesses accompanying globalization, while at the same time the numbers of medical care and welfare businesses are increasing significantly in response to the advanced aging of society. In other words, the structure of regions as a place of business to many SMEs and micro-businesses is undergoing a major change.

Such changes are transforming the lifestyles of regional residents, and the issues they face are becoming more diverse and serious than ever before. Nevertheless, some regions have achieved revitalization even under such circumstances, by taking initiatives that accord with their situation. This section analyzes and introduces specific case examples of regional revitalization initiatives from the perspective of utilizing regional resources and resolving regional social issues, and sheds light on the importance of taking regional situations into consideration and on future methods for assessing regional situations.

● **Specific measures for regional revitalization**

Today, industries that support regional economies are diversifying, and it is becoming difficult for specific industries to drive their region alone. This situation calls for the utilization of indigenous resources of each region (regional resources). Here, the issues related to the commercialization and marketing of regional resources are analyzed based on an assessment of their utilization status, and specific examples of initiatives that have successfully overcome such issues are introduced.

The issues that local residents face, when looked at in a different light, could lead to realizing lively lifestyles among the residents (creation of social value), producing new added values, and in effect creating new employment (creation of corporate value), if they could be resolved. Such initiatives have a positive impact on regional economies, and should be undertaken not only at the initiative of enterprises, but also of NPOs.

● **Regional responses to changes in the socioeconomic structure**

In order to achieve regional revitalization, it is necessary to assess the reality of the regions in detail and implement proper countermeasures. However, assessing the reality of the regions is not easy. In fact, many local governments regard the assessment of actual situations as an issue in itself, and there is a lack of personnel who are able to undertake the task.

Nevertheless, some regions are utilizing emerging IT technologies to assess their reality in an efficient manner, and are effectively incorporating the results into their policies. In addition to introducing such case examples, this section discusses the assessment of regional situations using the “regional economy analysis system,” which has been actively promoted by the government, based on specific functions and screens of the system, and examines its feasibility.

Contents

Cases described in this report

Part II A greater role for SMEs and micro-businesses

Chapter 1 Efforts at innovation and cultivating markets at SMEs and micro-businesses

Chapter 2 Acquiring and developing human resources at SMEs and micro-businesses

Chapter 2 Regional responses to changes in the socioeconomic structure

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 term "micro enterprises" refers to "micro enterprises" as defined under Article 2, Paragraph 5 of said act. In addition, "medium enterprises" refers to SMEs other than micro enterprises. (More specifically, SMEs and micro enterprises may roughly be categorized as follows.)

Industry	SMEs (meet one or more of the following conditions)		Micro enterprises included among SMEs at left
	Capital	Number of regular employees	Number of regular employees
1) Manufacturing, construction, transportation, 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

* The following industries are separately stipulated as shown below, based on government ordinance related to SME legislation.
[SMEs]
1) Manufacturing
   - Rubber product manufacturing industry: Up to ¥300 million in capital or up to 900 regular employees

3) Services
   - Software industry & information service industry: Up to ¥300 million in capital or up to 300 regular employees
   - Hotel industry: Up to ¥50 million in capital or up to 200 regular employees

[Micro enterprises]
3) Services
   - Accommodations industry & amusement industry: Up to 20 regular employees

2. This report draws largely on recompiled statistical data published by the Japanese Government and the results of surveys conducted by various private-sector entities. Sources, methods of calculation and other relevant information are specified where data are cited, but notes specific to each data source are summarized below.

   (1) Ministry of Economy, Trade and Industry (METI), *Census of Manufactures*
   This survey provides statistics on numbers of business establishments. Surveys of all business establishments are conducted in years ending in 0, 3, 5 and 8 (up to the FY2008 survey), and surveys of business establishments and similar entities with no less than four workers are conducted in all other years.
   In this report, business establishment data for each year are consolidated for analysis. It should be noted, however, that if a business establishment has three workers one year and four the next, it is treated as a new entry. (Conversely, a business establishment that goes from having four workers is 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*
   This survey covers only incorporated businesses with 50 or more workers and a capital of at least ¥30 million. Thus, the results do not include micro businesses.

(4) Ministry of Finance (MOF), *Financial Statements Statistics of Corporations by Industry, Annually and Financial Statements Statistics of Corporations by Industry, Quarterly*
As these statistics focus exclusively on incorporated businesses, they do not reveal overall trends among micro enterprises. In consideration of sample sizes and response rates, moreover, the results concerning micro enterprises need to be viewed with some latitude. It should also be noted that the quarterly version does not include corporations with a capital of less than ¥10 million.

(5) Ministry of Internal Affairs and Communications (MIC), *Establishment and Enterprise Census of Japan, Economic Census for Business Frame* and MIC/METI, *Economic Census for Business Activity*
This census provides statistics on both business establishments and enterprises. In this report, enterprise-based analyses using these statistics also include sole proprietorships. However, the size of sole proprietorships is determined based on the number of workers at their head office or principal place of business only, as name gathering is unfeasible. Additionally, the *Economic Census for Business Frame* and the *Economic Census for Business Activity* cover the same survey subjects as the *Establishment and Enterprise Census of Japan*, but differ from it in that they (1) capture a greater range of business establishments and enterprises by using commercial and corporate registers and other administration records, and (2) adopt a method of surveying enterprises and establishments en bloc by having head offices report information on their branches and other operations. It should thus be noted that numerical differences compared to the results of the *Establishment and Enterprise Census of Japan* do not all indicate increases or decreases.

3. This report contains analyses based on questionnaire surveys on SMEs and micro-businesses and other respondents conducted by various private-sector organizations commissioned by the Small and Medium Enterprise Agency (SME Agency). It should be noted, however, that not all enterprises surveyed have responded to these questionnaires.

4. The indicators for SMEs and micro-businesses vary more widely than those for large enterprises. Thus, when examining statistics on SMEs and micro-businesses, it should be noted that the mean values may not necessarily represent the standard state of SMEs and micro-businesses.

5. The map of Japan shown in this report does not necessarily represent the entire territory of Japan.

Part I

Developments among SMEs and micro-businesses in fiscal 2014

Chapter 1

Economic developments in Japan

Since 2013, the Japanese economy has begun to show steady signs of a "positive growth cycle." Increased corporate profits have led to an increase in wages and employment, which in turn have further increased corporate profits by stimulating consumption and investment. This section will review the developments in the Japanese economy in fiscal 2014, which has seen dynamic changes as a result of the positive economic effect of the "three arrows" of Abenomics (bold monetary policy, flexible fiscal policy, growth strategy that promotes private investment), the last-minute surge in demand before the consumption tax increase, and the negative impact of that rush demand.

[1] Recent developments in the Japanese economy

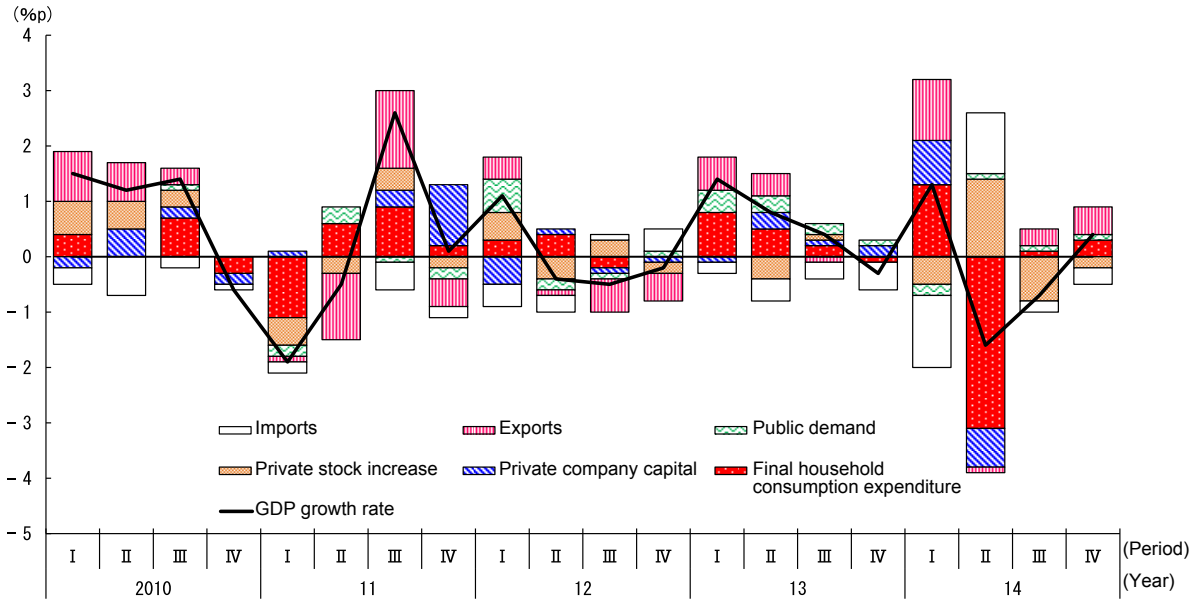
Let us first review recent developments in the Japanese economy.

The Japanese economy, which had been sluggish since mid-2012 as an impact of a global economic slowdown, picked up toward the end of 2012, owing to the effect of the "three arrows" of Abenomics. However, during the first half of 2014, it fluctuated widely, due to the last-minute surge in demand before the consumption tax increase and the negative impact thereof, and recovery from the negative impact lagged particularly from April, due in part to the impacts of the poor summer weather. Nevertheless, a gradual recovery trend has continued from the end of 2014, owing to the drop in crude oil prices and the result of various policies.

When observing these recent developments in the Japanese economy in light of changes in real GDP growth, we can see that personal consumption, exports, and public demand made a positive contribution to economic growth, which turned to an increase during the first quarter of 2013 (Fig. 1-1-1). The positive growth continued in the second and third quarters of 2013, supported by strong personal consumption and exports, but turned to negative in the fourth quarter, due in part to an increase in imports. In the first quarter of 2014[1)], a significant growth in demand was observed, mostly owing to the last-minute surge in demand before the consumption tax increase, but the negative impact thereof pushed growth down to a negative in the second quarter of the year. In the following third quarter, any improvement in personal consumption came to a standstill, partly as a result of the impacts of the poor summer weather, and the economy recorded negative growth for two consecutive quarters. However, an increase in exports and personal consumption pushed growth into positive territory once again in the fourth quarter, and gradual recovery is expected hereafter on the back of improvements in the employment and income environment.

1) A partial statistical discontinuity was observed in the first quarter of 2014. In January 2014, the balance of payments statistics was brought under the sixth edition of the IMF Balance of Payments Manual (BPM6), and accompanying this shift, small-lot transactions of less than ¥30 million per payment were newly estimated and compensated for in the balance of payment of other services, which pushed up exports and imports, respectively (imports contributed to a further decline in GDP).

Fig. 1-1-1 Real GDP growth



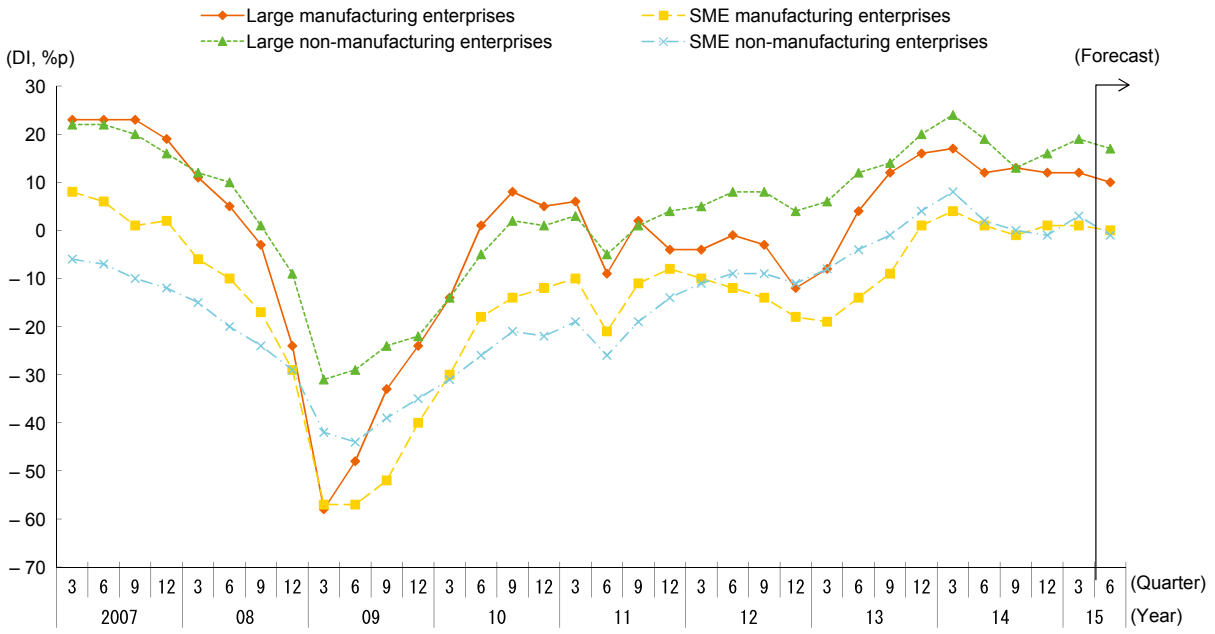
Source: Cabinet Office, *System of National Accounts*.
Notes: 1. 2005 chained yen system
2. Figures are based on "Quarterly (secondary) preliminary GDP estimates for the third quarter of 2014" (announced March 9, 2015).

Next, let us examine the business conditions of Japanese companies by looking at the movements of the business conditions DI (the percentage (%) of companies that described business conditions as favorable, minus the percentage (%) of companies that described them as unfavorable) in terms of the Bank of Japan's (BOJ) *National Short-Term Economic Survey of Enterprises in Japan* (hereinafter referred to as *BOJ Tankan*) (Fig. 1-1-2).

The business conditions of Japanese companies improved on the whole since 2013, with respect to both manufacturing and non-manufacturing large enterprises and SMEs, owing in part to the effects of Abenomics. The December 2013 survey showed that SMEs also marked a continuous improvement, with manufacturing industries turning to positive growth for the first time in six years, and non-manufacturing industries, for the first time in 21 years and 10 months[2]. Thereafter, the June survey showed a certain wariness in the business conditions of enterprises due to weak personal consumption as a negative impact of the last-minute surge in demand before the consumption tax increase, but improvements were also seen in part.

2) It should be noted, however, that from the March 2004 survey, the *BOJ Tankan* has revised its size and industry categories from those based on number of regular employees to those based on amount of capital, and has conducted a considerable review of relevant enterprises. This has created a large statistical fault between the December 2003 and March 2004 surveys.

Fig. 1-1-2 Business conditions DI by industry and enterprise size



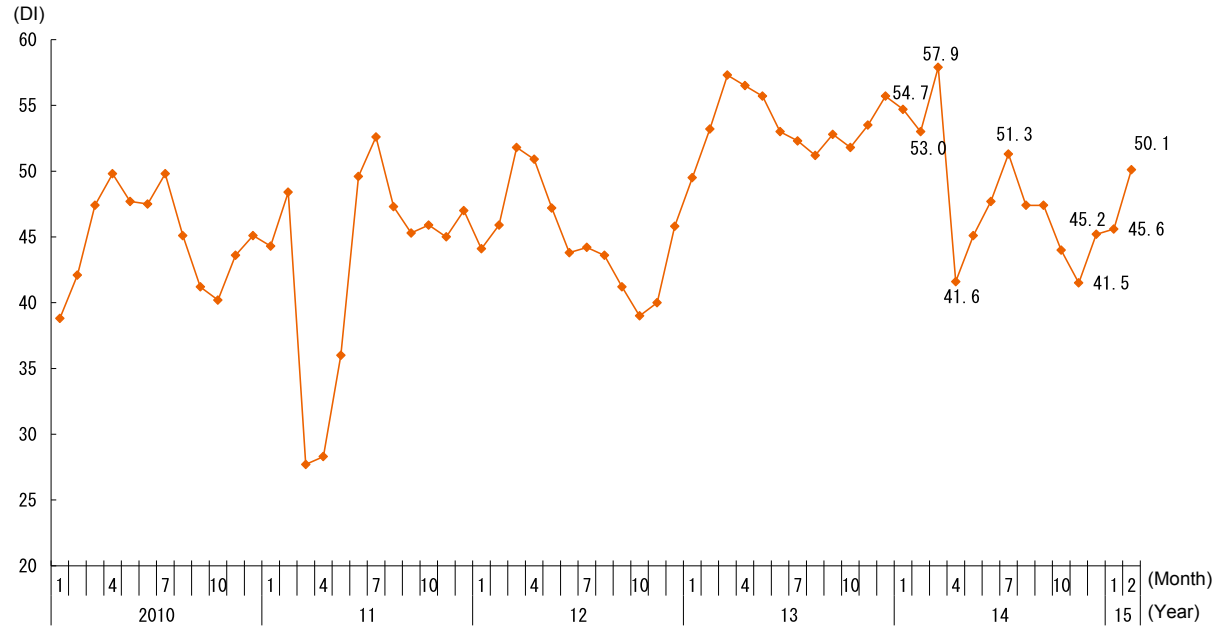
Source: Bank of Japan (BOJ), *National Short-Term Economic Survey of Enterprises in Japan*.
Notes: 1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.
2. Business conditions DI is the percentage (%) of companies that described business conditions as favorable, minus the percentage (%) of companies that described them as unfavorable.

Furthermore, let us examine the state of business confidence at the local level by looking at the current conditions DI presented by the Cabinet Office's *Economy Watchers Survey*[3] (Fig. 1-1-3).

The national current conditions DI remained high in January and February 2014, with an index of 54.7 and 53.0, respectively. In March, it further increased 4.9 points over the previous month to 57.9, owing in part to the last-minute surge in demand before the consumption tax increase. However, by April, the index fell 16.3 points over the previous month to 41.6, due to the decline in performance particularly in the retail trade industry as a negative impact of the rush demand. Thereafter, May, June and July showed a three-month consecutive increase, and the negative impact appeared to be waning, but from August, the index hovered at a low level, as an impact of the poor weather and rise in fuel prices. Nevertheless, December saw a 3.7 point increase over the previous month to 45.2 owing to such impacts as the drop in fuel prices. The rise continued after January 2015, and February saw a 4.5 point increase over the previous month to 50.1. While some weaknesses remain, business confidence at the local level is continuing on a gradual recovery trend.

3) The Cabinet Office's *Economy Watchers Survey* is conducted for the purpose of assessing regional economic trends accurately and promptly, with the cooperation of people who are in a position to observe deep movements related to their regional economy. For this reason, the survey provides direct information on the state of business confidence at the local level.

Fig. 1-1-3 National current conditions DI



Source: Cabinet Office, *Economy Watchers Survey*.

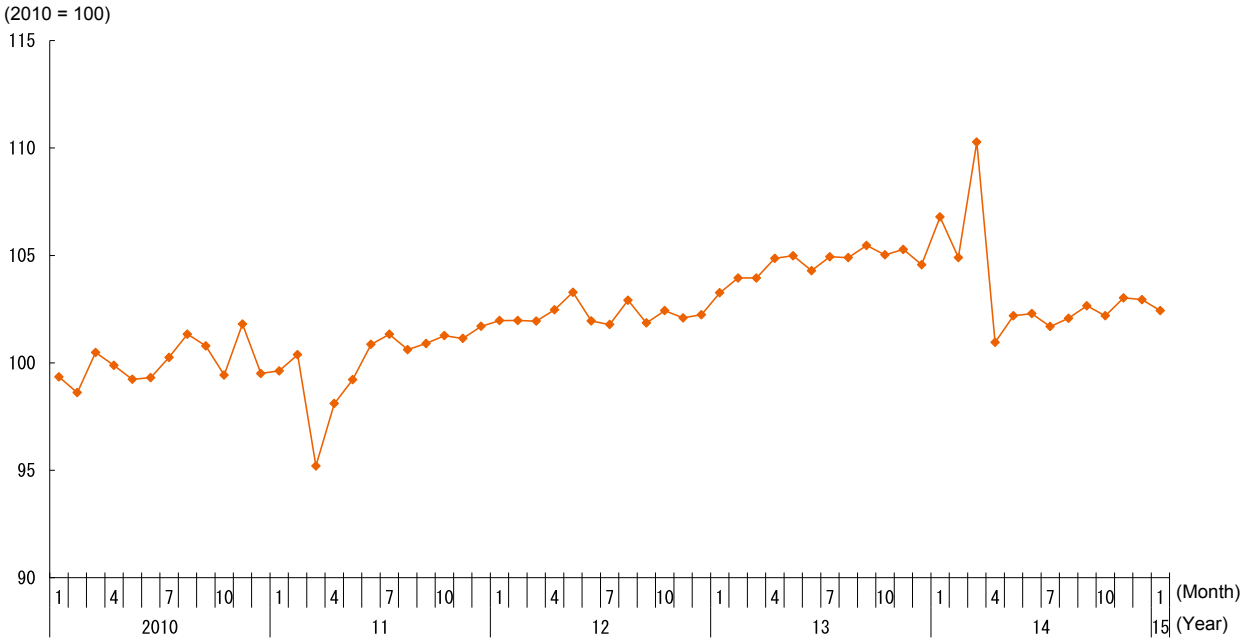
[2] Consumption trends

Below, we will examine in detail recent movements in the Japanese economy, by component of demand.

First let us examine consumption trends (Fig. 1-1-4). According to the Cabinet Office's *Consumption Composite Index*[4], which provides a look at consumption trends according to an index that gives 2010 a value of 100, consumption began to pick up from the end of 2012 to February 2014, and largely increased in March 2014 owing to the last-minute surge in demand before the consumption tax increase, only to weaken once again in April as a negative impact of the rush demand. Some signs of recovery from the negative impact were beginning to be seen in the following months of May and June even while maintaining a weak performance, but the weak trend once again took effect in July and August due in part to the impacts of the poor weather. A steady trend has continued, however, since September.

4) Consumption composite index is an index for assessing consumption trends from both the demand and supply aspects. It is created by processing and integrating the family income and expenditure survey, which provides statistics of demand, with the industrial shipment index, vital statistics of specific service industries, and other supply-side statistics.

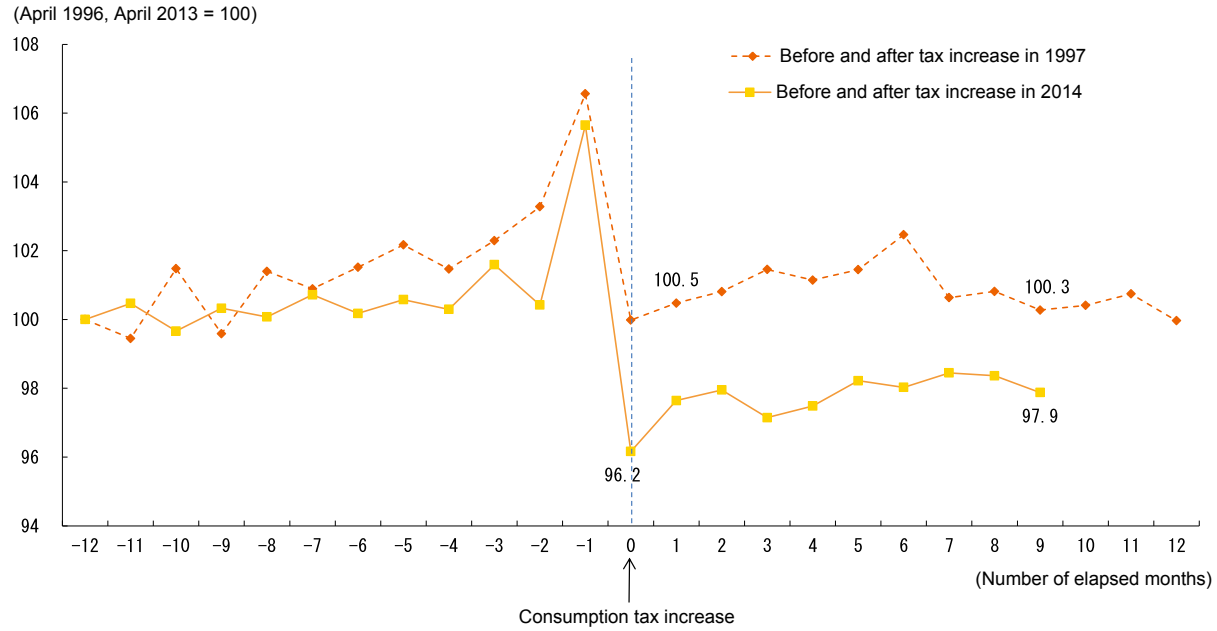
Fig. 1-1-4 Consumption composite index



Source: Cabinet Office, *Consumption Composite Index*.

Characteristic impacts of consumption tax increases on consumption trends could be examined by comparing the recent tax increase to the tax increase in 1997. When looking at consumption movements before and after the consumption tax increase according to an index that gives a value of 100 to the consumption levels in April prior to the consumption tax increase (April 1996, April 2013), the consumption index in 1997 rose to 106.6 in March owing to the last-minute surge in demand before the tax increase and thereafter fell in April as a negative impact of that rush demand, but recovered to 100.5 in May, and practically returned to the level prior to the tax increase in about six months (Fig. 1-1-5). On the other hand, with respect to the recent tax increase, the consumption index fell to a low 96.2 in April 2014 as a negative impact of the last-minute surge in demand before the consumption tax increase, then gradually recovered, but still has not gone over 100, and a weakness remains. This delay in the recovery of consumption differs from the previous tax increase, partly due to the aforementioned impacts of a poor summer weather.

Fig. 1-1-5 Consumption composite index before and after consumption tax increases (comparison with the tax increase in 1997)



Source: Cabinet Office, *Consumption Composite Index*.

[3] Developments in private capital investment

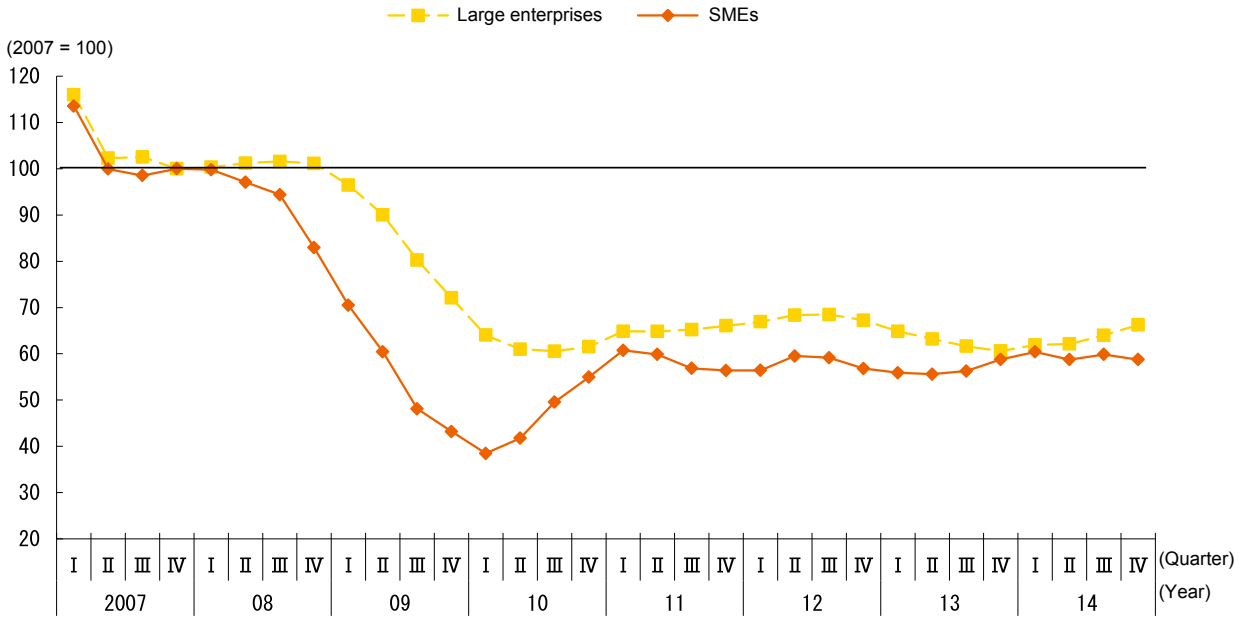
Secondly, let us examine movements in capital investment by enterprises in Japan according to the Ministry of Finance's *Financial Statements Statistics of Corporations by Industry, Quarterly*, which provides a look at the amounts of capital investment by enterprises in Japan by industry and enterprise size, when the rate of capital investment in 2007 prior to the Lehman crisis is given a value of 100 (four-quarter backward moving averages) (Fig. 1-1-6).

With respect to the manufacturing industries, capital investment by large enterprises dropped considerably in 2009 in the context of the Lehman crisis, and thereafter continued on a low level, but began to show signs of picking up in 2014. In the case of SMEs, capital investment similarly dropped significantly in 2009 against the backdrop of the Lehman crisis and other impacts, and thereafter picked up in 2010, but continues on a lower level than 2007. Next, with respect to the non-manufacturing industries, capital investment by large enterprises dropped in 2007 and thereafter continued on a low level. Capital investment by SMEs also dropped significantly in 2009 against the backdrop of the Lehman crisis and other impacts and picked up in 2010, but continued on a lower level than 2007 before picking up once again in the latter half of 2013. It should be noted, however, that the index looks at four-quarter backward moving averages, and shows a time lag with the present state of corporate capital investment.

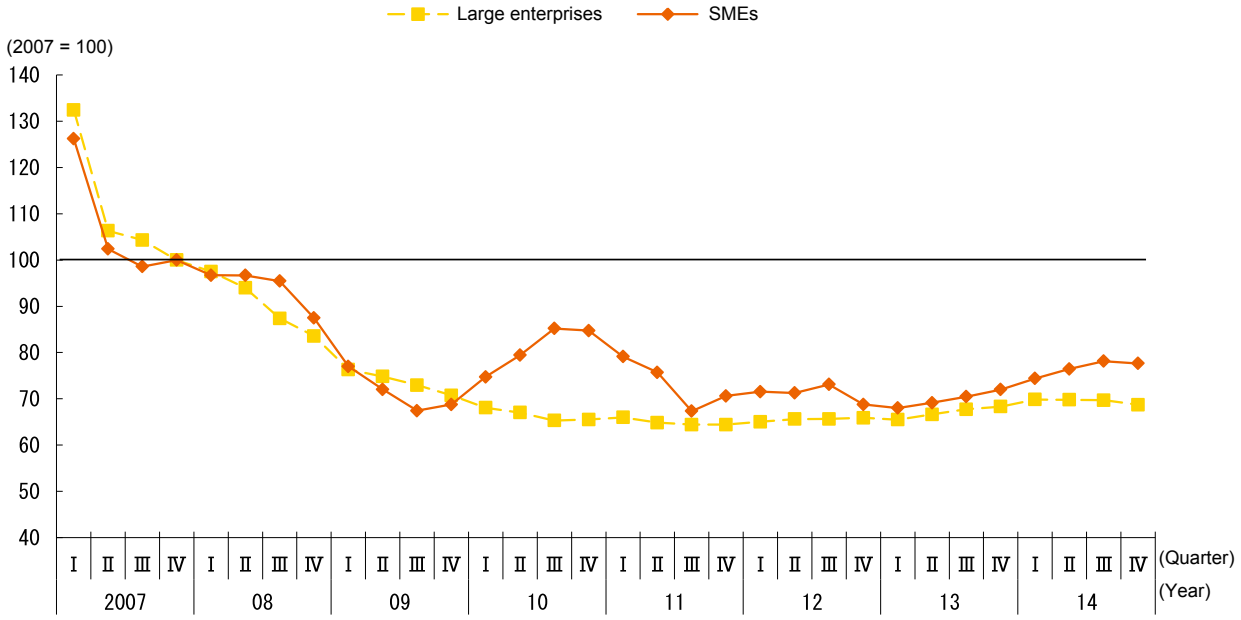
Corporate capital investment continued on a low level since the Lehman crisis, but as signs of picking up have begun to appear, it is necessary to keep a watchful eye on whether enterprises will be able to translate the momentum of today's economic recovery into an increase in capital investment.

Fig. 1-1-6 Amount of capital investment by industry and enterprise size

(1) Manufacturing industries



(2) Non-manufacturing industries

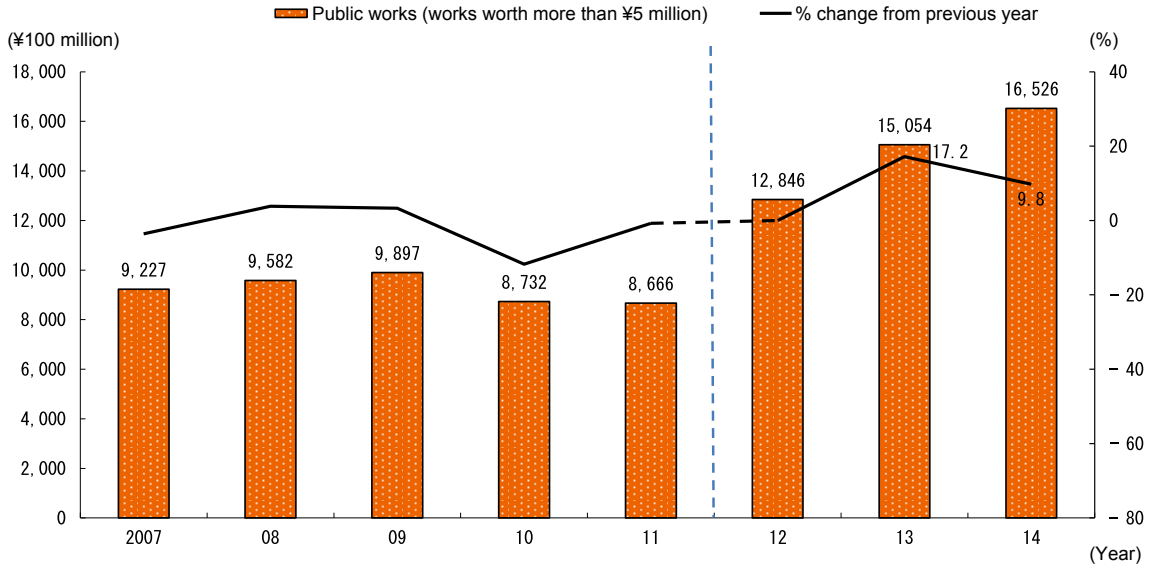


Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Notes: 1. Large enterprises here refer to enterprises with a capital of ¥100 million or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.
2. Here, “amount of capital investment” does not include amounts invested in software.
3. The index shows four-quarter backward moving averages.

[4] Developments in public investment

Thirdly, let us examine developments in public investment. When looking at the values of public works contracts according to the Ministry of Land, Infrastructure and Transport's *Current Survey on Orders Received for Construction*, the value of public works contracts has continued on a high level. It marked ¥15.0535 trillion in 2013, corresponding to a 17.2% increase over the previous year, and ¥16.0526 trillion in 2014, marking a 9.8% increase over the previous year. It could be said that public investment has supported the economy during the phase after the consumption tax increase in 2014 (Fig. 1-1-7).

Fig. 1-1-7 Value of public works contracts



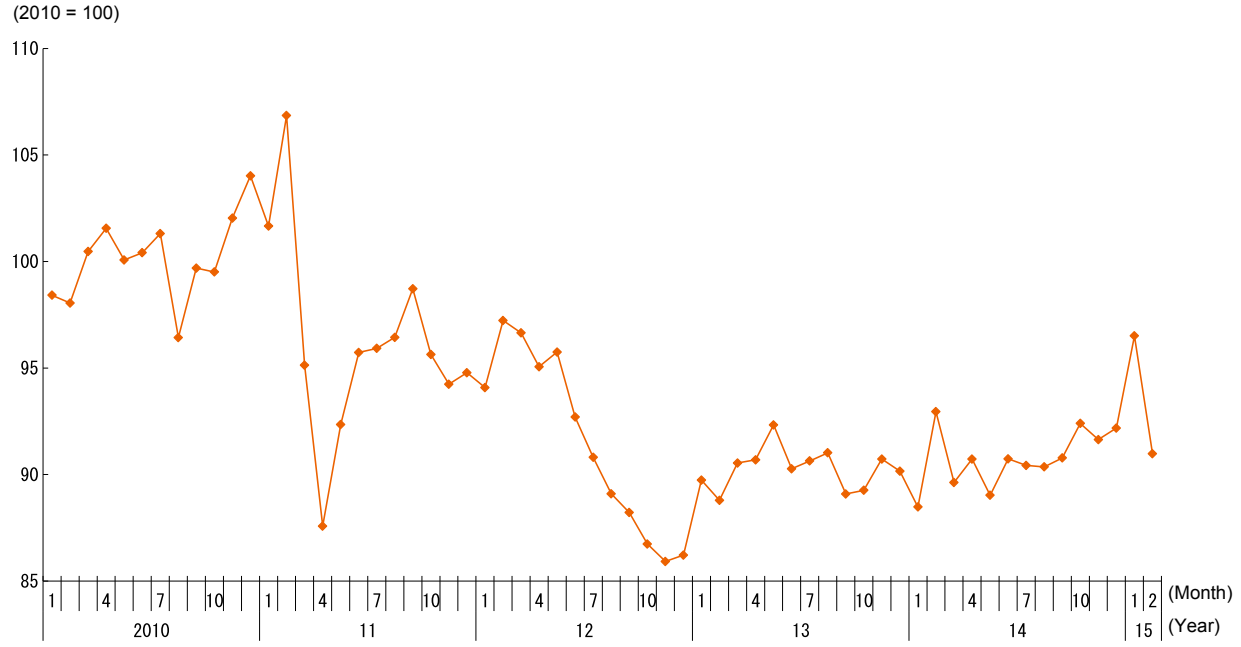
Source: MLIT, *Current Survey on Orders Received for Construction*.
Notes: 1. The values of public works contracts are the values of contracted works according to each contractee.
2. The *Current Survey on Orders Received for Construction* changed its estimation method in April 2013 (the figures for 2012 to March 2013 are those that have been recalculated for reference), so the figures up to 2011 and figures from 2012 cannot be simply compared, but are shown here for reference.

[5] Developments in exports

Fourthly, let us look at exports.

Fig. 1-1-8 (1) shows export volume indices (seasonally adjusted by the Cabinet Office) in which the movement of export volume in 2010 is given a value of 100, based on the Ministry of Finance's *Trade Statistics of Japan*. The export situation continued on the same level until mid-2014, but has recently begun to show signs of improvement.

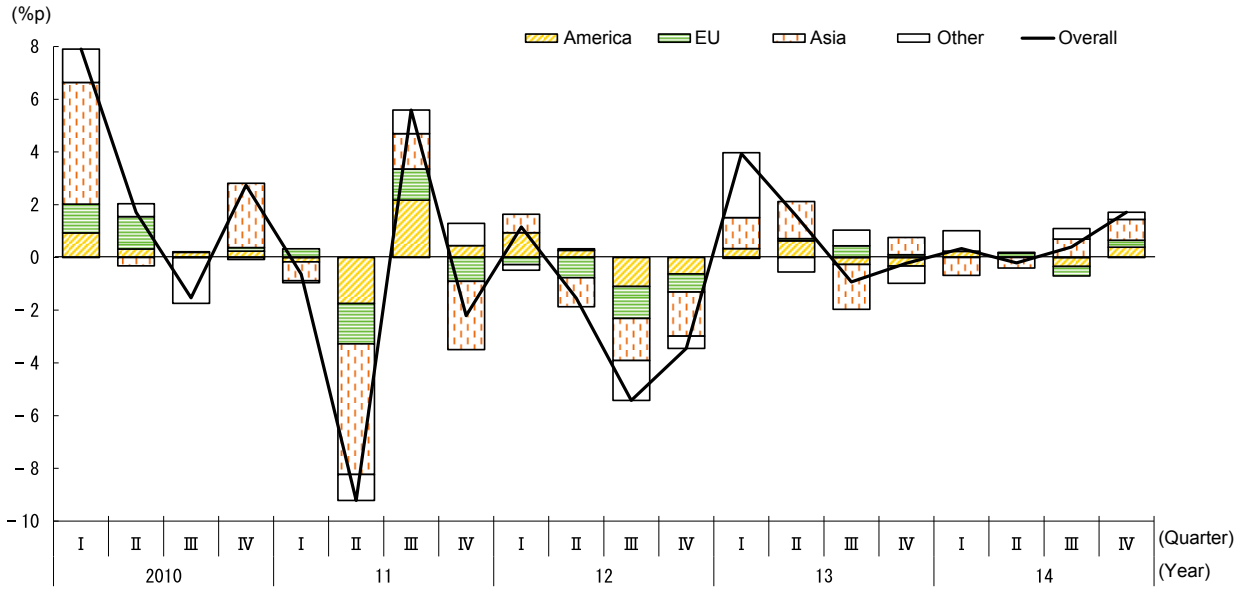
Fig. 1-1-8 (1) Export volume index



Source: Prepared based on MOF, *Trade Statistics of Japan*.
Note: Seasonally-adjusted values by the Cabinet Office.

Next, let us look at regional contribution to increases/decreases in export volume (Fig. 1-1-8 (2)). In the first and second quarters of 2013, exports to Asia and America grew, and marked an increase over two consecutive quarters. In the third quarter, exports slowed down in the context of weakening economies in Asia, and remained unchanged thereafter. However, the latter half of 2014 saw an increase in exports to Asia, and total export volume marked a year-on-year increase over two consecutive quarters.

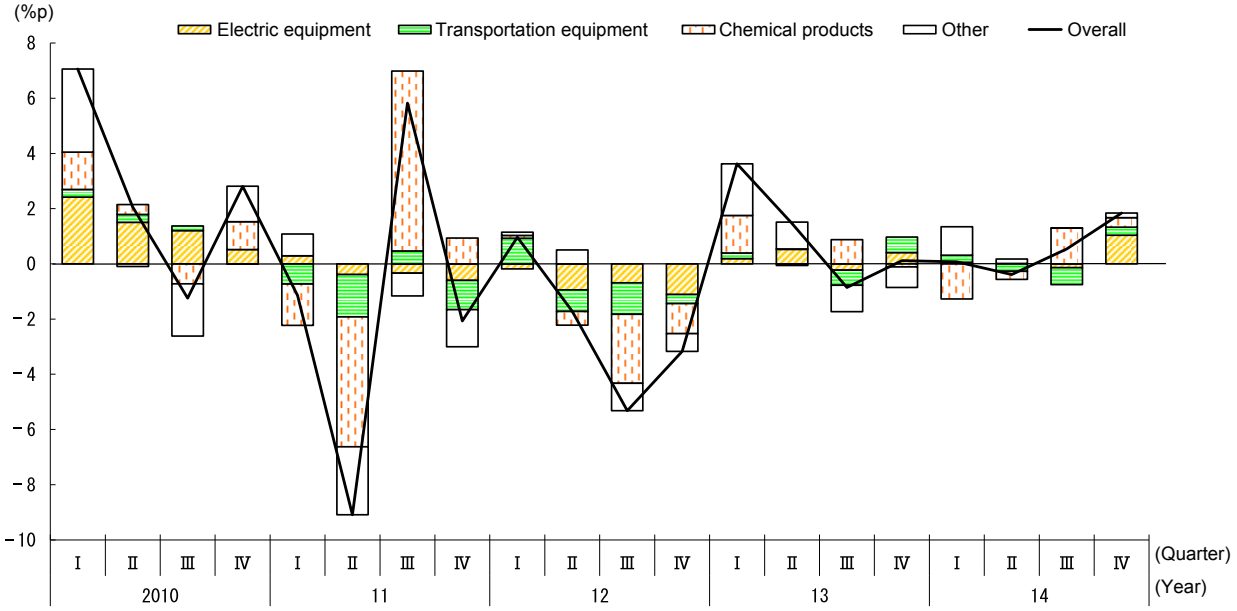
Fig. 1-1-8 (2) Regional contribution to increases/decreases in the export volume index



Source: Prepared based on MOF, *Trade Statistics of Japan*.
Notes: 1. Seasonally-adjusted values by the Cabinet Office.
2. Degree of contribution calculated based on regional trade values in 2010.

Similarly, when looking at the contribution of different product categories to increases/decreases in export volume, we see increases mainly in the export of electric machinery and chemical products owing in part to an improvement in the export environment in the first and second quarters of 2013, but thereafter continued unchanged. It is worth noting, however, that the export of electric machinery and chemical products has increased once again in the latter half of 2014 (Fig. 1-1-8 (3)).

Fig. 1-1-8 (3) Contribution of different product categories to increases/decreases in the export volume index



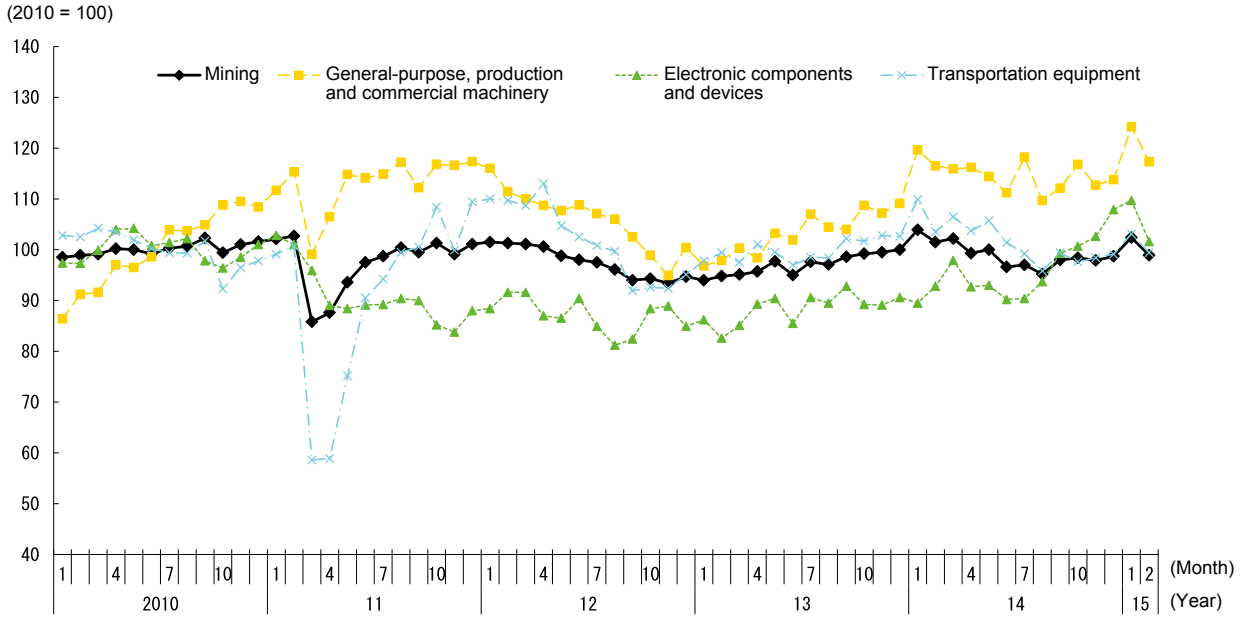
Source: Prepared based on MOF, *Trade Statistics of Japan*.
Notes: 1. Seasonally-adjusted values by the Cabinet Office.
2. Degree of contribution calculated based on trade values per product category in 2010.

[6] Developments in industrial production

Above, we have seen developments in each demand category. Below, let us examine developments in industrial production as a supply-side indicator.

According to the Ministry of Economy, Trade and Industry's *Indices of Industrial Production*, which gives the 2010 production level a value of 100, production in Japan slowed down from mid-2012 due a weakening of exports in the context of a decelerating global economy, but has begun to show signs of recovery in mid-2013 owing to strong internal demand and an improvement in the export environment, particularly in the mining and manufacturing industries and high-added-value industries, including the transportation machinery, electronic components and devices, and general-purpose, production and commercial machinery industries (Fig. 1-1-9). From mid-2014, however, production weakened due in part to the negative impact of the last-minute surge in demand before the consumption tax increase, but has thereafter shown signs of picking up once again in 2015.

Fig. 1-1-9 Indices of industrial production



Source: METI, *Indices of Industrial Production*.
Note: The index shows seasonally-adjusted values.

[7] Corporate profits

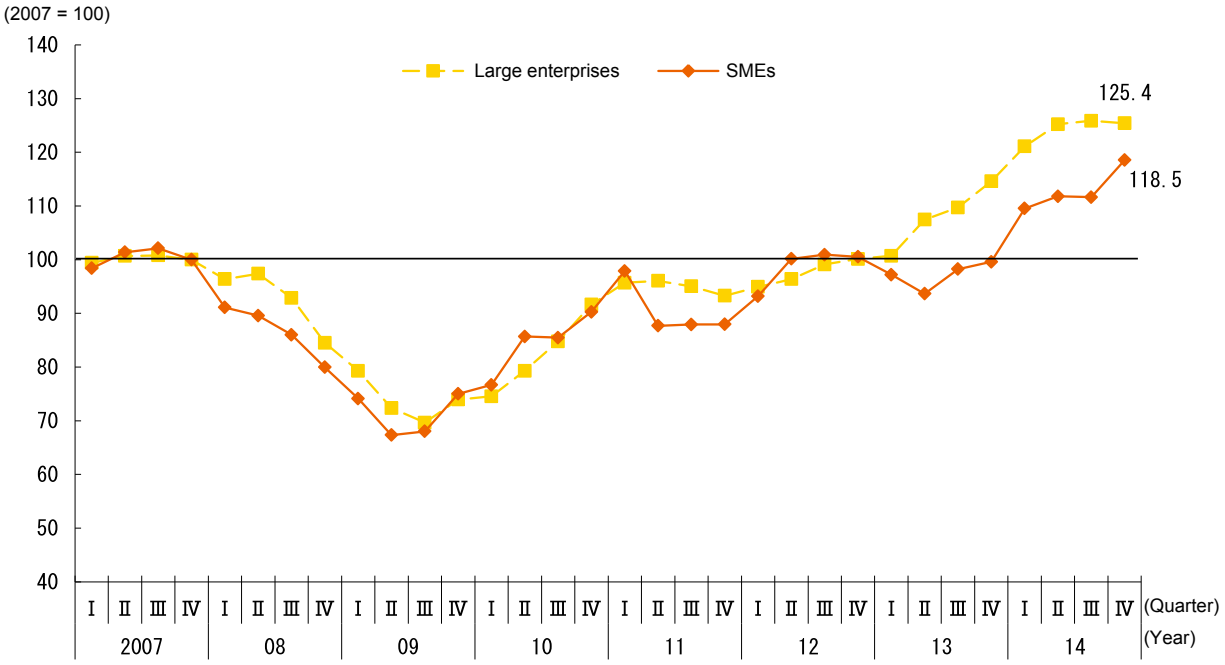
Next, let us examine the distribution of corporate profits.

Fig. 1-1-10 shows corporate profit trends based on the Ministry of Finance's *Financial Statements Statistics of Corporations by Industry, Quarterly*. It shows trends in ordinary profits in terms of four-quarter backward moving averages, giving the level in 2007 prior to the Lehman crisis a value of 100. In the manufacturing industries, enterprises in Japan saw a recovery in ordinary profits from the first quarter of 2013, led mainly by large enterprises. SMEs also saw signs of recovery in ordinary profits, but the trend came to a standstill in 2014, impacted by the rise in costs of raw materials and energy accompanying a depreciating yen. In the non-manufacturing industries, enterprises in Japan saw a recovery in ordinary profits from the first quarter of 2013, led mainly by large enterprises, and in SMEs as well from 2014, such that the ordinary profit levels in both large enterprises and SMEs largely surpassed the level prior to the Lehman crisis. It should be noted, however, that the index looks at four-quarter backward moving averages, and shows a time lag with the present state of corporate profits.

Fig. 1-1-10 Ordinary profits by industry and enterprise size

(1) Manufacturing industries

(2) Non-manufacturing industries



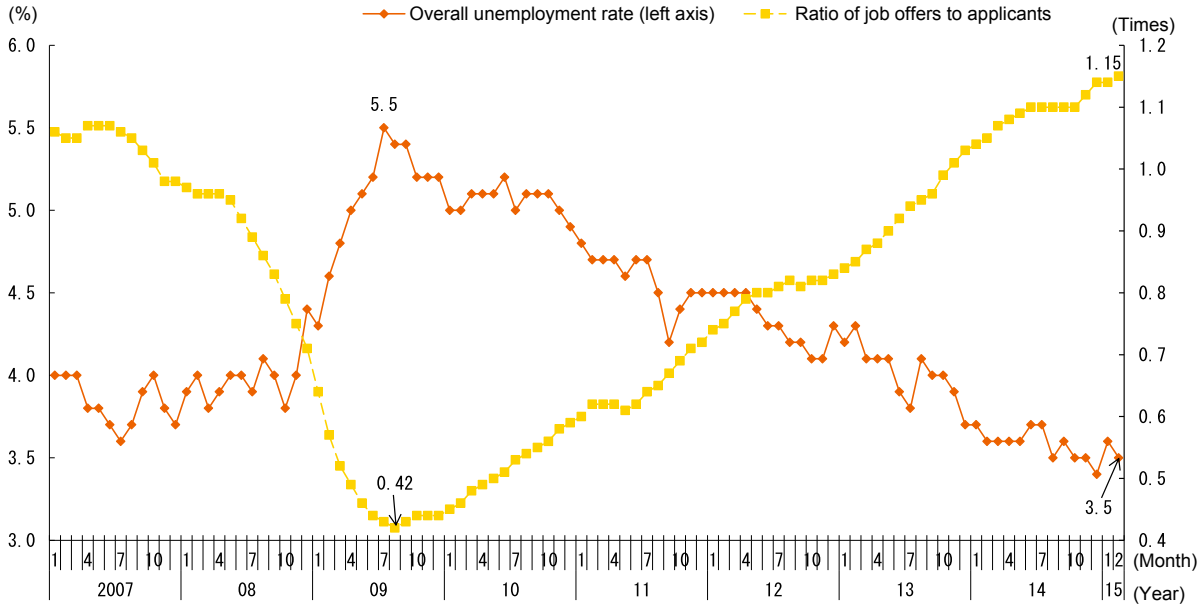
Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Notes: 1. Large enterprises here refer to enterprises with a capital of ¥100 million or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.
2. The index shows four-quarter backward moving averages.

[8] Employment

Now, let us examine the employment environment (Fig. 1-1-11).

The overall unemployment rate largely increased in mid-2008, reached 5.5% in July 2009, and has thereafter continued on a steady improvement path. The ratio of job offers to applicants also largely dropped in mid-2008 and reached as low as 0.42 in August 2009, but has steadily improved thereafter, such that the monthly ratio of job offers to applicants has continued to be larger than the monthly number of job seekers particularly since November 2013. The improvement trend is expected to continue hereafter, but enterprises feel a strong shortage of human resources, and the concern is expected to strengthen even more in the future.

Fig. 1-1-11 Overall unemployment rate and ratio of job offers to applicants



Sources: MIC, *Labor Force Survey*; MHLW, *Report on Employment Services*.
Notes: 1. Overall unemployment rates for March to August 2011 are nationwide estimates that exclude Iwate, Miyagi and Fukushima Prefectures.
(Estimates from September are nationwide estimates that include the three prefectures.)
2. The ratios of job offers to applicants exclude new graduates but include part-time workers.
3. Overall unemployment rates and ratios of job offers to applicants are seasonally-adjusted figures based on figures announced as of March 2014.

[9] Exchange rate developments

Let us next examine exchange rate developments (Fig. 1-1-12).

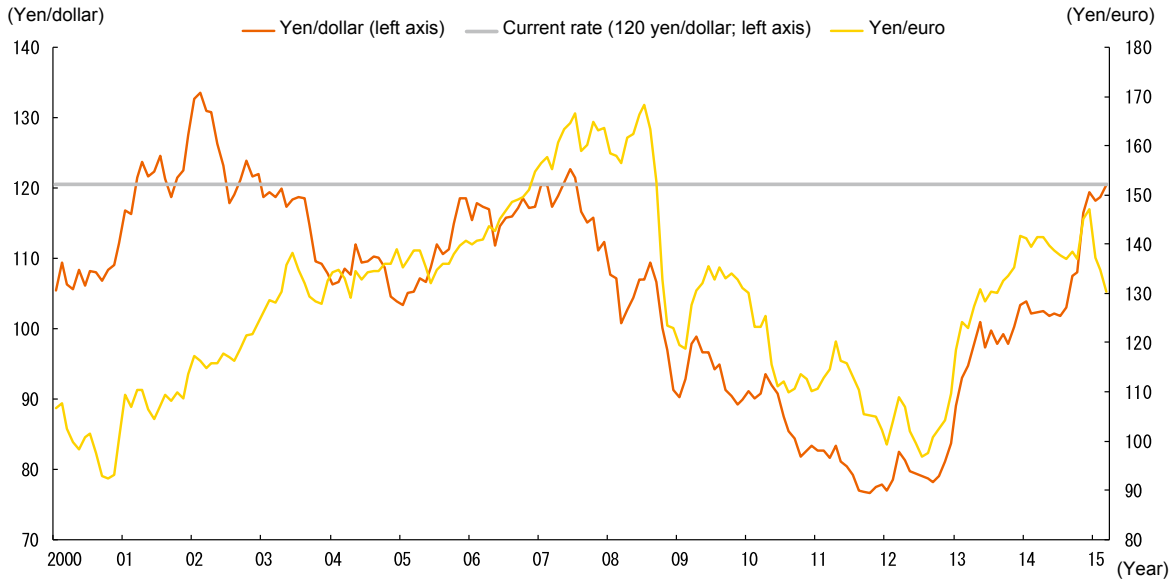
From the long-term perspective, exchange rates trended toward a weak yen, with the yen reaching roughly ¥80 against the dollar around the autumn of 2012, and rising to the ¥105-level around December 2013. The yen was also weak against the euro, marking ¥100 to ¥105 around the autumn of 2012 but rising to about ¥140 around December 2013. From January to August 2014, the yen changed only slightly, and stood at around ¥102 against the dollar and around ¥140 against the euro, but the trend toward a weak yen became more conspicuous in September, reaching up to around ¥120 against the dollar. The yen also continued to be weak against the euro, standing at ¥149 around December 2014, although it has thereafter generally hovered between ¥130 and ¥140 in 2015.

When focusing on exchange rate movements during the past year, in particular, the value of the yen remained practically unchanged from January through August 2014, and hovered between ¥100 to ¥105 against the dollar. However, the US Federal Reserve's official announcement to end the Quantitative Easing program (QE3) on October 29, 2014 and the Bank of Japan's announcement to expand its monetary easing program on October 31 exacerbated the weak yen trend such that the exchange rate against the dollar moved as much as ¥2.5 in a day from October 30 to 31, 2014. The yen stood at roughly ¥116 to ¥122 from January 2015, and hovers at

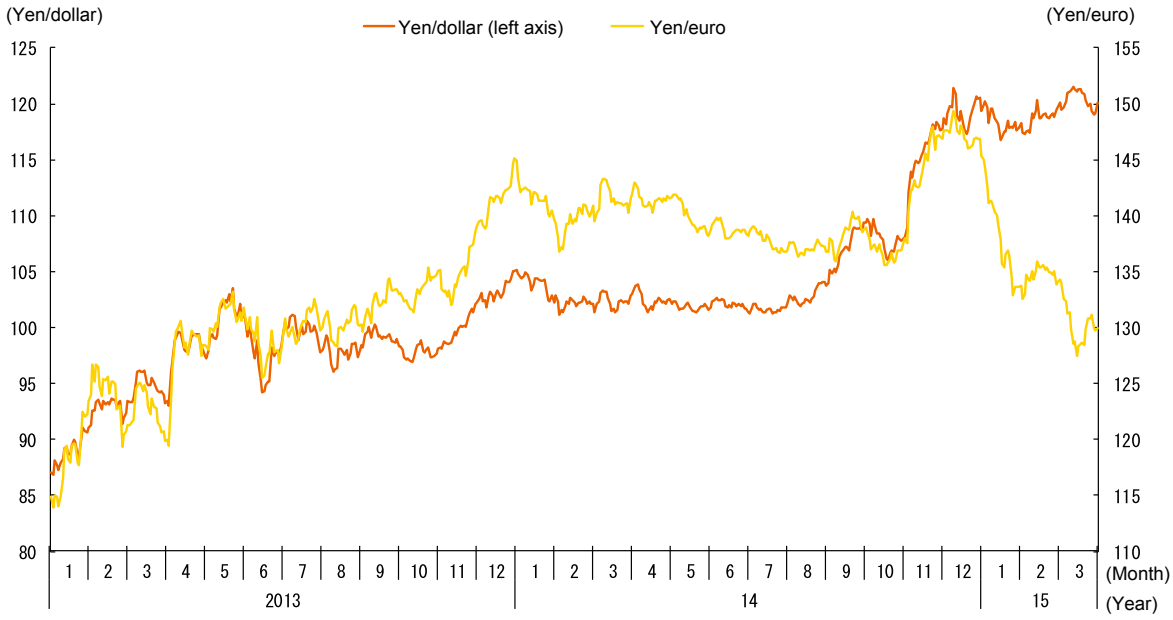
around ¥120 as of March 2015. Against the euro, the yen trended toward depreciation in 2014, as it did against the dollar, but a movement toward a stronger yen took hold as the European Central Bank announced an additional easing policy on January 22, 2015. It now stands at around ¥130 as of March 2015.

Fig. 1-1-12 Exchange rates

(1) Long-term trend



(2) Short-term trend



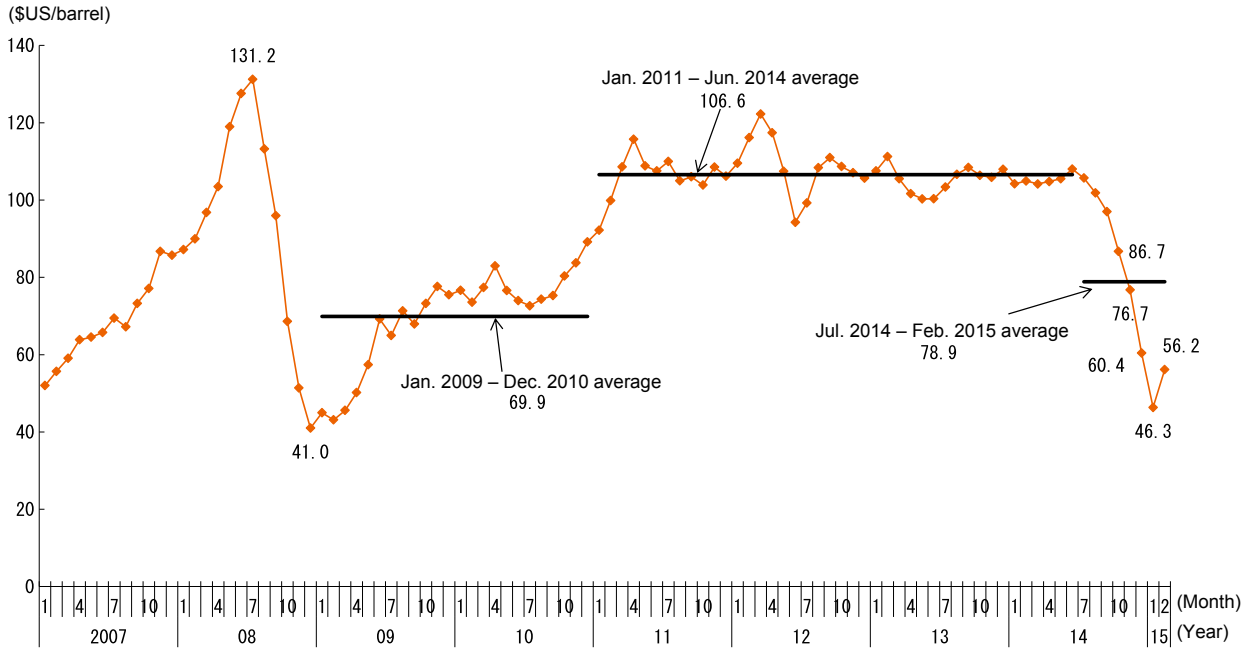
Source: Bloomberg.
Notes: 1. Long-term exchange rates are based on monthly data.
2. Short-term exchange rates are based on daily data.

[10] Trends in petroleum product prices

Lastly, let us examine crude oil prices and petroleum product prices in Japan.

Fig. 1-1-13 shows month-by-month movements in the price of Dubai crude oil since 2007. The average monthly price for Dubai crude oil was $106.6/barrel between 2011 to June 2014, marking a significant increase from the average monthly price of $69.9/barrel between 2009 and 2010, indicating that crude oil prices have continued to stay high. However, prices dropped in July 2014 as an impact of the production of shale gas in the United States, and hovers at around $56/barrel as of February 2015.

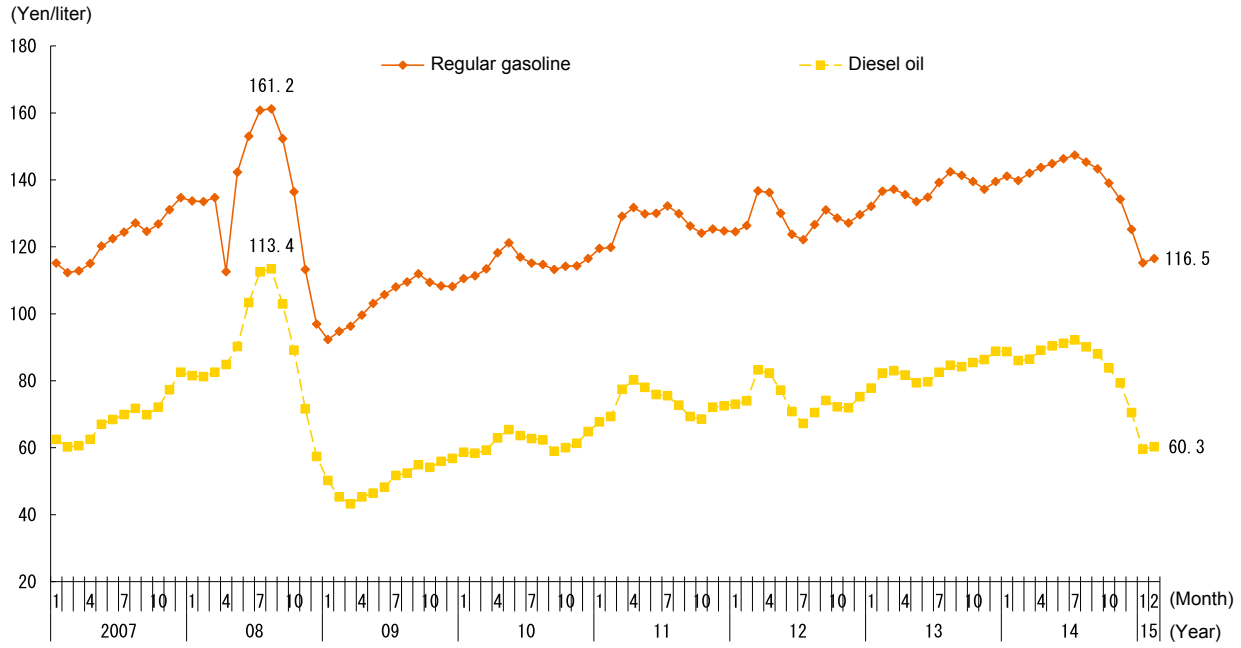
Fig. 1-1-13 Crude oil prices



Source: IMF, *Primary Commodity Prices*.
Note: Prices shown are average monthly prices for Dubai crude oil.

Fig. 1-1-14 shows wholesale trade prices for petroleum products (regular gasoline, diesel fuel) in Japan. As mentioned above, crude oil prices remained high from 2011 to the first half of 2014, but the prices of petroleum products in Japan remained low, given the exchange rate that hovered at around ¥75 to ¥80 to the dollar in 2012. On the other hand, from 2013, the move toward a weak yen and the high trend in crude oil prices gradually pushed up wholesale trade prices of domestic petroleum products and heightened concerns regarding a possible surge in energy prices in Japan. Nevertheless, the prices of regular gasoline and diesel fuel dropped in August 2014, reflecting the falling price of crude oil since July 2014.

Fig. 1-1-14 Wholesale trade prices of petroleum products



Source: METI, Agency for Natural Resources and Energy, *Survey of Petroleum Product Prices*.
Note: Wholesale prices are to exclusive agents of the distributor (excluding consumption tax).

[11] Summary

The Japanese economy in fiscal 2014 fluctuated dramatically due to the consumption tax increase, even while displaying a gradual recovery trend with the effects of Abenomics taking root.

Amid a gradual rise in consumer prices as an effect of Abenomics, economic recovery also gathered momentum, and led to a recovery of capital investment, an increase in the ratio of job offers to applicants, and the invigoration of other such corporate activities. Nevertheless, the Japanese economy fluctuated wildly, due to the last-minute surge in demand before the consumption tax increase in April 2014 and the negative impact thereof, and personal consumption, in particular, weakened from August in the context of poor weather. However, public investment supported the economy in 2014, and production and exports began to show signs of picking up in 2015. Improvements also began to be seen in corporate profits and in the employment environment.

At the same time, however, large numbers of SMEs and micro-businesses continue to struggle through difficult business conditions. In the next chapter, we shall examine in detail the various developments among SMEs and micro-businesses.

Chapter 2

Developments among SMEs and micro-businesses

In the previous chapter we examined recent developments in the Japanese economy. In this chapter, we will focus on SMEs and micro-businesses, as we examine business conditions, unit purchase prices and sales, profitability, production, facilities, employment, financial position, and bankruptcies, in this order.

[1] Business conditions

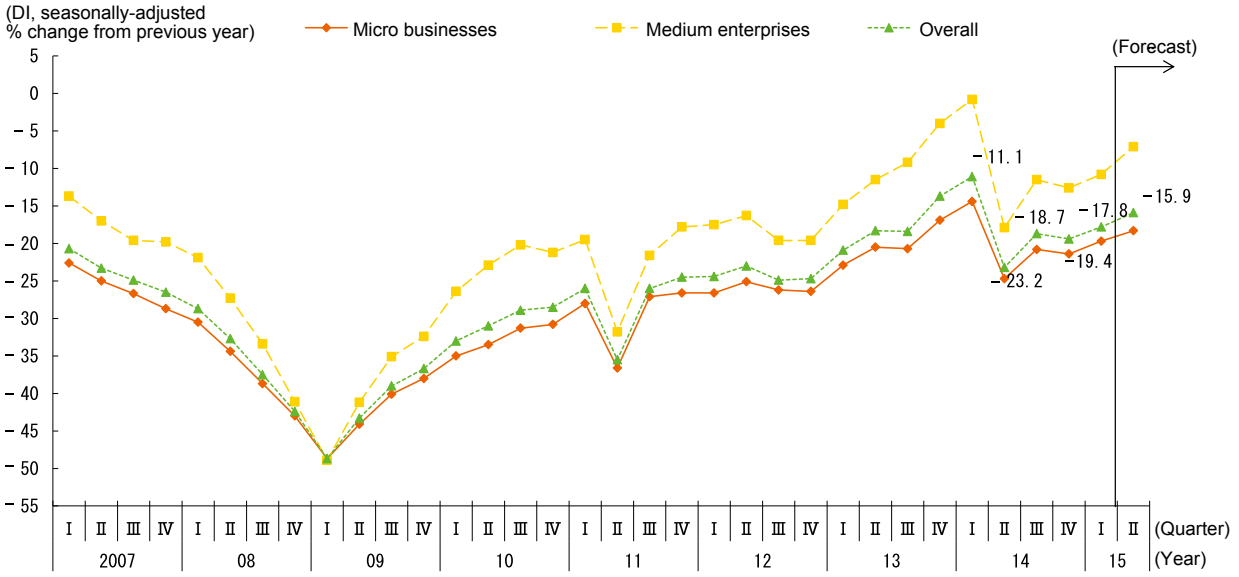
Let us first review the business conditions of SMEs and micro-businesses by examining the business conditions DI (the percentage (%) of companies that described business conditions as favorable, minus the percentage (%) of companies that described them as unfavorable) as presented in the *Survey on SME Business Conditions*[1] by the Small and Medium Enterprise Agency (SME Agency) and the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) (Fig. 1-2-1).

The business conditions DI for SMEs and micro-businesses showed a gradual improvement from the first quarter of 2013 to the first quarter of 2014, owing in part to the "three arrows" of Abenomics. During the first quarter of 2014, in particular, it rose +2.6 points from the previous quarter to -11.1, partly as a result of the last-minute surge in demand before the consumption tax increase, but in the second quarter, the negative impact of that rush demand pushed down the index 12.1 points from the previous quarter to -23.2 and increased the margin of negative growth. Thereafter, in the third quarter, it increased +4.5 points and reached -18.7, but in the fourth quarter, the margin of negative growth increased slightly, with the index dropping 0.7 points from the previous quarter to -19.4. Nevertheless, the first quarter of 2015 saw signs of recovery, with the index increasing +1.6 points from the previous quarter and reaching -17.8. This recovery trend is expected to continue hereafter.

In terms of enterprise size, the business conditions DI for medium enterprises hovers at a higher level than SMEs as a whole, but that of micro businesses remains low. This indicates that micro businesses are facing a more difficult situation compared to medium enterprises.

1) The *Survey on SME Business Conditions* is an interview survey of 19,000 SMEs and micro-businesses as defined by the Small and Medium-sized Enterprise Basic Act, conducted by business advisors at societies of commerce and industry, chambers of commerce and industry across the country and researchers from the National Association of SMEs. Micro businesses comprise roughly 75% of the total number of enterprises surveyed, and account for a larger ratio compared to the *BOJ Tankan*.

Fig. 1-2-1 Business conditions DI for SMEs and micro-businesses, by enterprise size



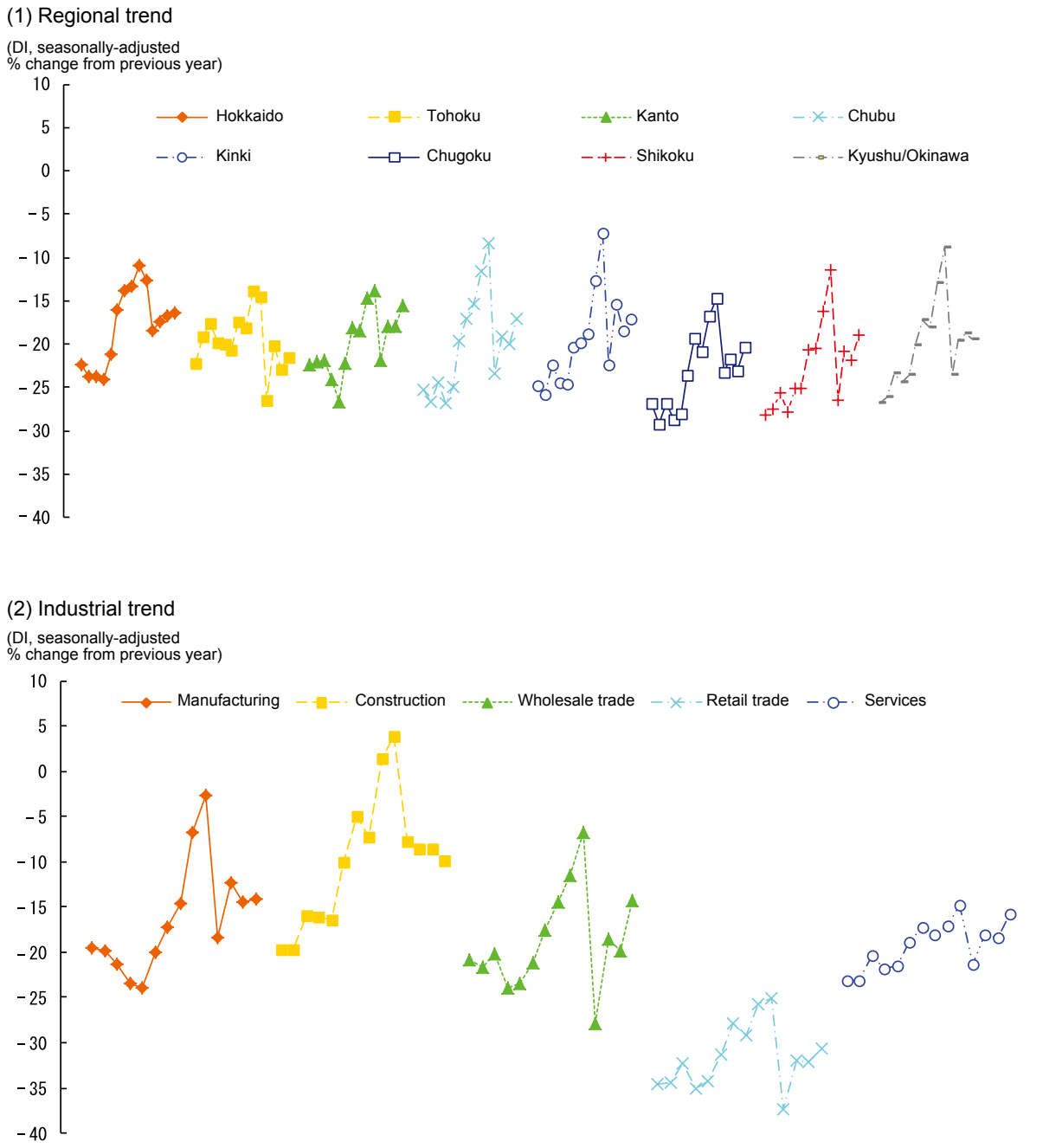
Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The business conditions DI is calculated as the percentage (%) of companies that described business conditions as favorable, minus the percentage (%) of companies that described them as unfavorable.

Above, we examined the business conditions DI for SMEs and micro-businesses based on the *Survey on SME Business Conditions*. Now let us examine the business conditions DI by region.

As shown in Fig. 1-2-2 (1), the regional business conditions DI exhibited an overall improvement trend over the period from the first quarter of 2013 to the first quarter of 2014, despite some differences according to region. In the second quarter of 2014, the negative margin increased in all regions, as a negative impact of the last-minute surge in demand before the consumption tax increase. However, the third quarter saw signs of recovery, although some regional differences remained.

Next, a look at the business conditions DI by industry shows that the negative margin shrank in all industries in the first quarter of 2014. The construction industry showed a particular improvement, marking a positive (+3.9) for the first time since statistics became available in 1994. In the second quarter, however, the negative margin increased once again in all industries, due in part to the negative impact of the last-minute surge in demand before the consumption tax increase. The third quarter saw a decrease in the negative margin in all industries with the exception of the construction industry, and signs of recovery appeared, although a few industries, including the construction industry, appear to be at a standstill (Fig. 1-2-2 (2)).

Fig. 1-2-2 Business conditions DI for SMEs and micro-businesses by region and industry



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Notes: 1. The above figures cover the period from the fourth quarter of 2011 to the first quarter of 2015.
2. Regions are classified according to the prefectures governed by each regional Bureau of Economy, Trade and Industry.
3. The figures for the first quarter of 2015 are based on survey results of as of March 27, 2015.

[2] Impacts of the consumption tax increase on SMEs and micro-businesses

The above-described business conditions of SMEs and micro-businesses were particularly strongly affected by the recent consumption tax increase. As we have seen in Chapter 1, the last-minute surge in demand before the tax increase and the negative impact thereof brought major changes to the Japanese economy. It likewise had an impact on SMEs and micro-businesses. Therefore, in this section, we shall examine the impacts in detail, in

comparison with the previous consumption tax increase (April 1997).

Figs. 1-2-3 (1) and (2) show the sales DI (calculated as the percentage (%) of companies that said their sales increased over the previous month, minus the percentage (%) of companies that said their sales decreased over the previous month) for SMEs and micro-businesses before and after the consumption tax increases, according to the *Survey on SME Business Conditions*[2] and the *National Micro enterprises Monthly Trend Survey*[3] of the Japan Finance Corporation Research Institute. In the construction and capital investment sectors, in particular, the movement of the sales DI appears to reflect the last-minute surge in demand before the consumption tax increase and the negative impact thereof, but no clear movement is seen in the home appliance, dietary life and clothes sectors (Fig. 1-2-3 (1)). In the automobile sector, the sales DI had improved until four months before the consumption tax increase, but thereafter slowed down.

When compared with the previous consumption tax increase, the before-and-after impacts were more conspicuous in the recent tax increase, although there is no denying the impacts that were seen in the home appliance sector before and after the previous tax increase. Additionally, after the previous tax increase, the Asian currency crisis weakened the Japanese economy as a whole, and the sales DI for SMEs dropped, but after the recent tax increase, the sales DI maintained a relatively stable level.

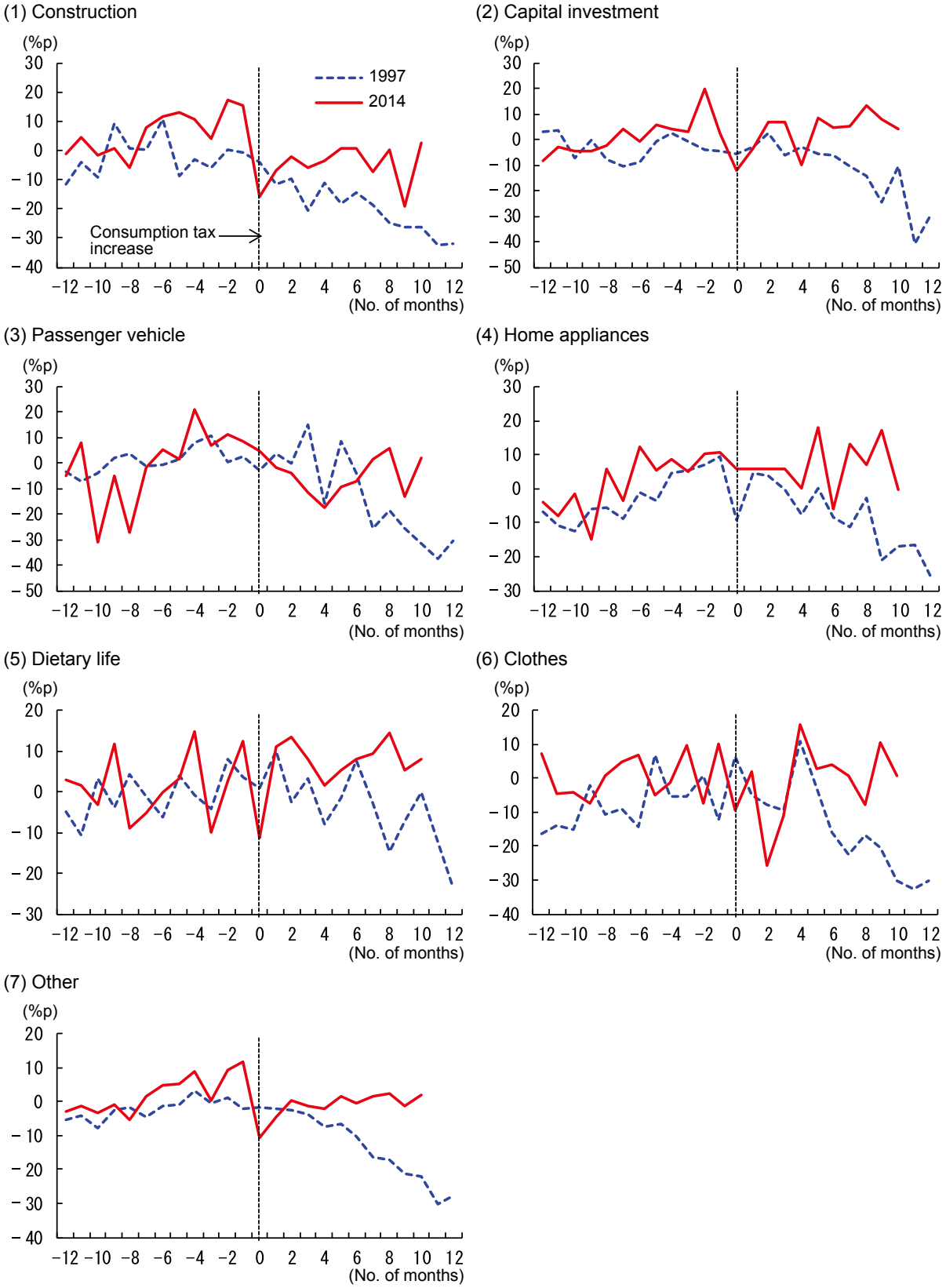
Next, when we look at the sales DI for micro enterprises[4] before and after the two consumption tax increases, we can see movements associated with the last-minute surge in demand before the tax increase and the negative impact thereof in the manufacturing, wholesale trade, retail trade, service, construction, and transportation sectors, although not in the food services industry (Fig. 1-2-3 (2)).

When compared with the previous consumption tax increase, the before-and-after impacts of the tax increase were more conspicuous in the recent tax increase. As with SMEs, the sales DI after the recent tax increase trended at a steady level compared with the previous tax increase, but micro enterprises nevertheless reverted to a weak performance thereafter.

Based on the above, it can be said that the recent consumption tax increase had a large impact on SMEs, and particularly on micro enterprises.

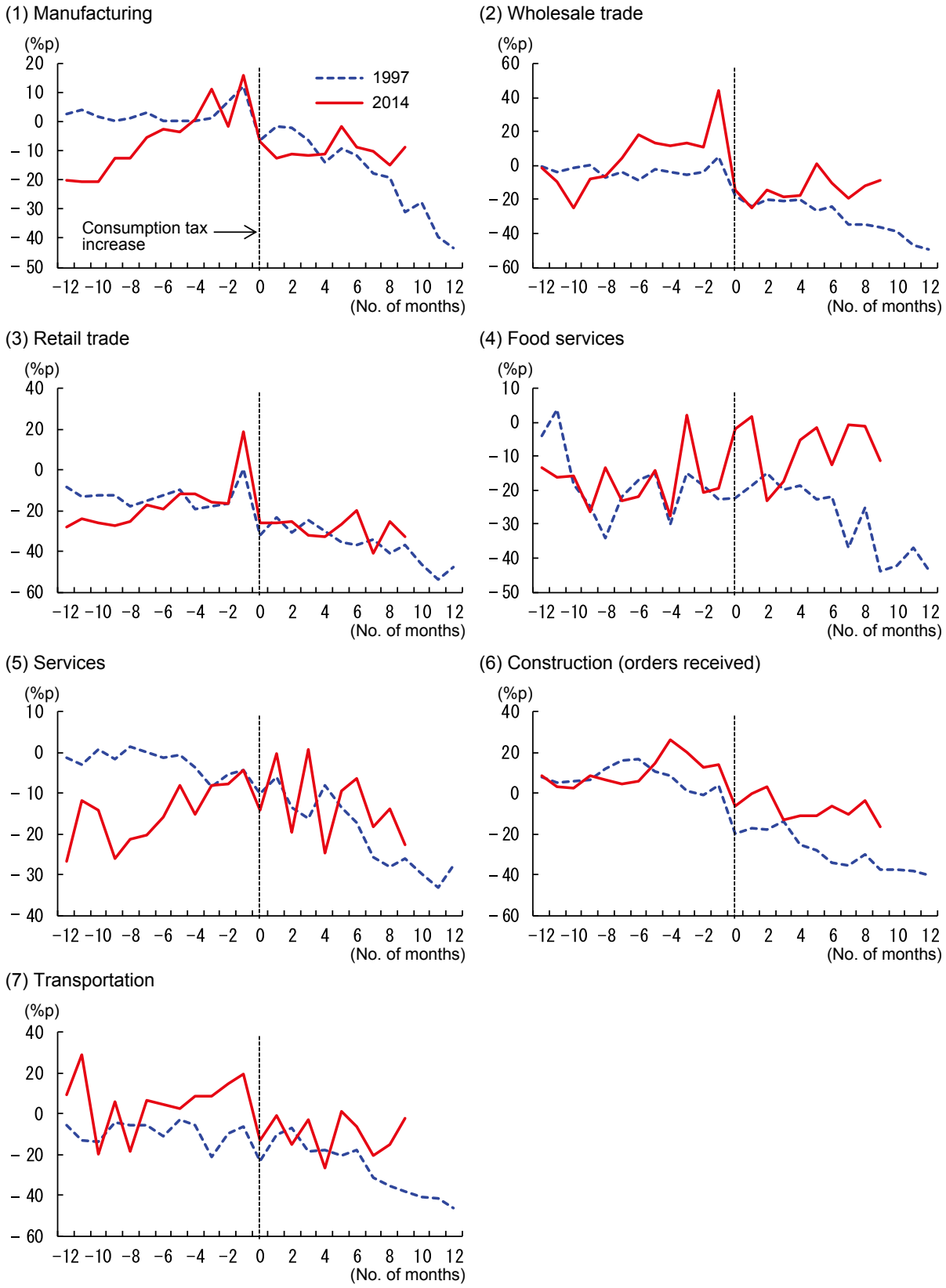
2) The *Survey on SME Business Conditions* of the Japan Finance Corporation Research Institute is conducted every month on a total of 900 customers of Japan Finance Corporation based on the three major metropolitan areas.
3) The *National Micro enterprises Monthly Trend Survey* of the Japan Finance Corporation Research Institute is conducted every month on a total of 1,500 micro enterprises, or enterprises with less than 20 workers, throughout Japan that are customers of Japan Finance Corporation.
4) In this survey, micro enterprises refer to enterprises with less than 20 workers.

Fig. 1-2-3 (1) Sales DI for SMEs and micro-enterprises before and after the consumption tax increase (SMEs)



Source: Japan Finance Corporation Research Institute, *Survey on SME Business Conditions*.

Fig. 1-2-3 (2) Sales DI for SMEs and micro-enterprises before and after the consumption tax increase (micro enterprises)

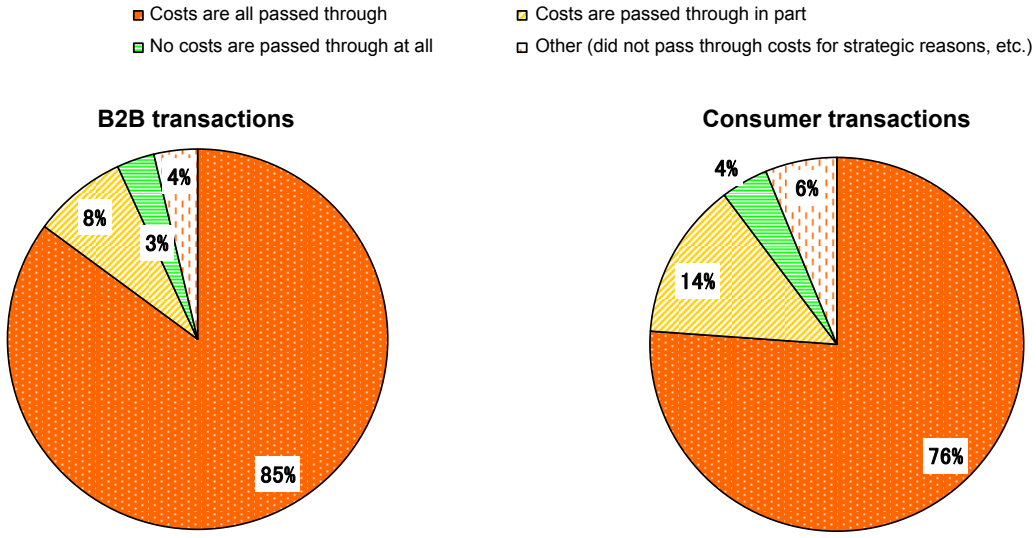


Source: Japan Finance Corporation Research Institute, *National Micro enterprises Monthly Trend Survey*.

Related to the recent consumption tax increase, the SME Agency conducted a questionnaire survey (monthly monitoring survey) on businesses regarding their position on cost pass-through from April 2014, to regularly monitor the cost pass-through situation (Fig. 1-2-4). As shown in the figure, as of February 2015, 85% of businesses are able to pass through all costs in B2B transactions, and 76% are able to do so in consumer transactions. At the same time, however, 3% are unable to pass through costs at all in B2B transactions, and 4% are unable to do so in consumer transactions.

In this way, the recent consumption tax increase has clearly brought large impacts to the sales of SMEs and micro-businesses, such that their situation in passing through the tax increase on sales prices bears further watching hereafter.

Fig. 1-2-4 Ratio of SMEs that are able to properly pass through the consumption tax to sales prices



Source: SME Agency, *Monthly Monitoring Survey on the Cost Pass-through of Consumption Tax*, Feb. 2015.

[3] Raw material and product unit purchase prices, unit sales and profitability

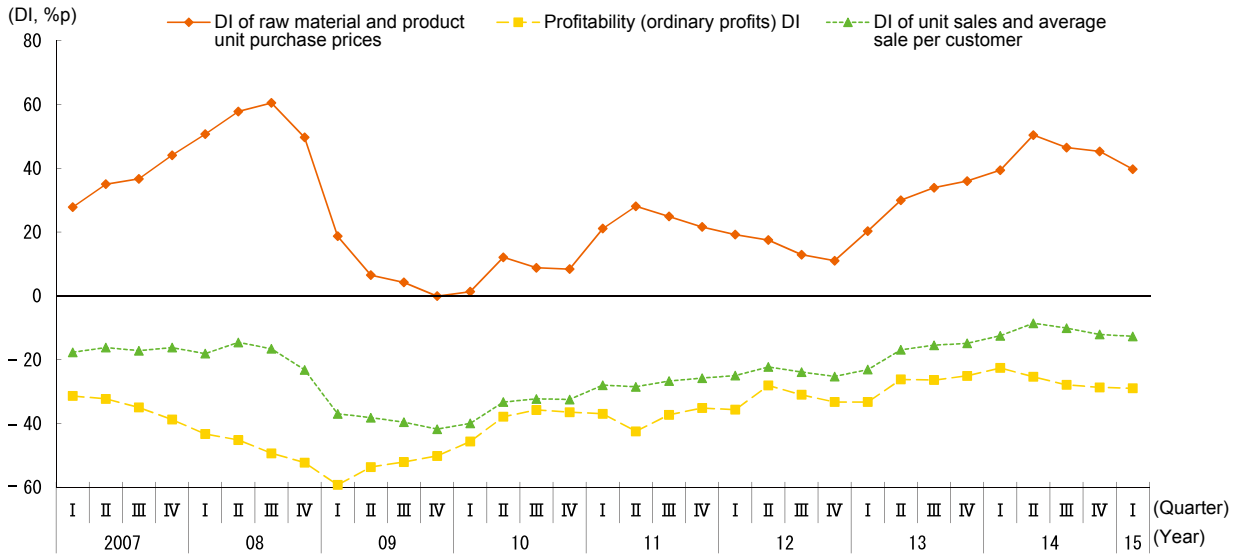
As we have seen in Chapter 1, 2014 was a year in which trends in raw materials, energy and exchange rates brought major impacts on the business conditions of enterprises. Let us therefore examine in detail the trends in raw material and product unit purchase prices, unit sales and profitability among SMEs and micro-businesses.

Fig. 1-2-5 shows changes in the raw material and product unit purchase price DI, unit sales DI and profitability (ordinary profit) DI for SMEs and micro-businesses, based on the *Survey on SME Business Conditions*[5]. A look at the unit sales DI for SMEs (the percentage (%) of enterprises that said their sales have increased over the previous year, minus the percentage (%) of enterprises that said their sales have decreased) shows that unit sales have gradually increased, with the negative margin shrinking for six consecutive quarters, from the first quarter of 2013 to the second quarter of 2014. At the same time, the DI of raw material and product unit purchase prices (the percentage (%) of enterprises that said the unit purchase prices of raw materials and products have increased over the previous year, minus the percentage (%) of enterprises that said the unit purchase prices have decreased) during the same period increased for six consecutive quarters, and put downward pressure on the profitability DI (the percentage (%) of enterprises that said their ordinary profit has increased over the previous year, minus the percentage (%) of enterprises that said it has decreased). During the period from the first quarter of 2014 to the second quarter of 2014, the consumption tax increase also contributed to the rise in DI of raw material and product unit purchase prices, which rose from 39.4 to 50.4 and exacerbated the profitability DI over the same period. However, owing in part to the drop in crude oil prices after July 2014, the index also

5) The *Survey on SME Business Conditions* by the SME Agency and Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) calculates the business conditions DI based on responses that also include the impacts of institutional changes, such as an increase in consumption tax rate.

dropped in the third quarter of the year. Nevertheless, the drop in the profitability DI since the second quarter of 2014 suggests the possibility that SMEs and micro-businesses are not fully able to pass through the increased unit purchase prices of raw materials and products to unit sales prices.

Fig. 1-2-5 Changes in the DI of raw material and product unit purchase prices, DI of unit sales and average sale per customer, and profitability (ordinary profits) DI for SMEs and micro-businesses

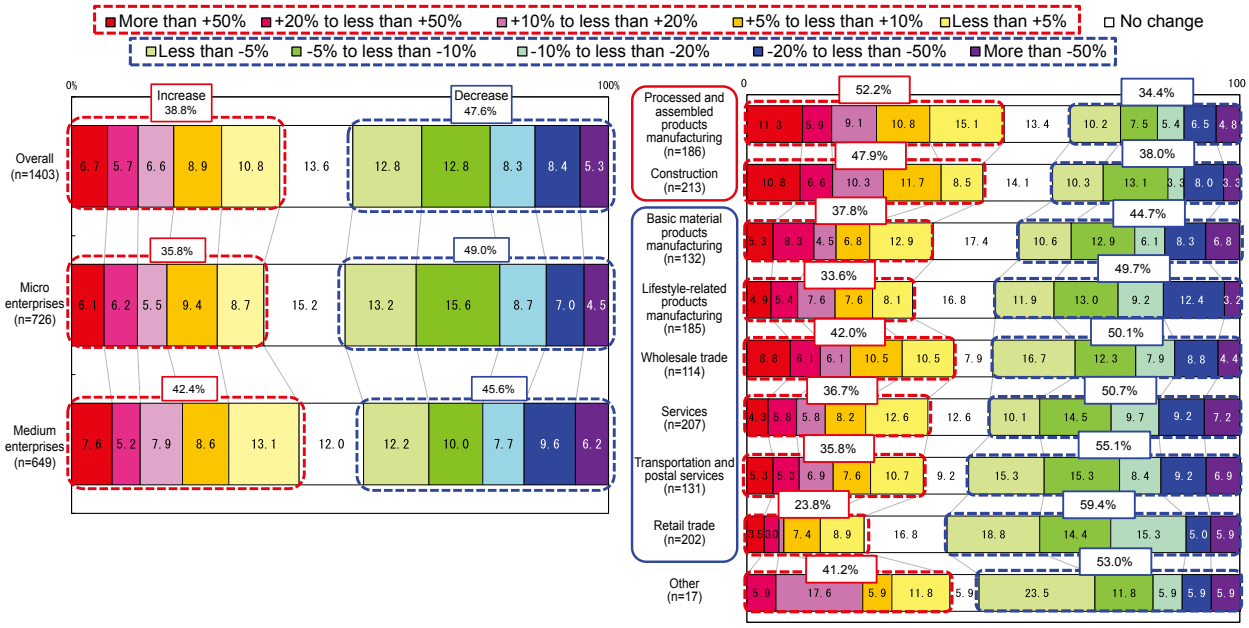


Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Notes: 1. The raw material DI and unit sales DI are calculated by subtracting the percentage (%) of enterprises that said raw material prices or sales have decreased over the previous year, from the percentage (%) of enterprises that said raw material prices or sales have increased.
2. Profitability DI is calculated by subtracting the percentage (%) of enterprises that said their profit has declined, from the percentage (%) of enterprises that said it has increased.

In October 2014, the SME Agency conducted a survey on the impact of raw material and energy cost increases on SMEs and micro-businesses via nationwide commerce and industry associations, chambers of commerce and industry, and the national federation of small business associations, out of concern that increases in raw material and energy costs are weighing heavily on the profits particularly of SMEs and micro-businesses. As a result, while 38.8% of enterprises said their ordinary profit increased compared to October 2013, 47.6% said their ordinary profit decreased (Fig. 1-2-6 (1)). In terms of industry, we can see that in the processed and assembled products manufacturing industry[6] and construction industry, the percentage of enterprises who said their ordinary profit increased surpassed the percentage of those who said it decreased, but in the retail trade, transportation and postal service, service, wholesale trade, lifestyle-related products manufacturing[7], and basic material products manufacturing industries[8], the percentage of enterprises who said their ordinary profit *decreased* surpassed those who said it *increased*.

6) The processed and assembled products manufacturing industry manufactures processed goods, such as automobiles, TVs and clocks.
7) The lifestyle-related products manufacturing industry manufactures products related to clothing, food and housing, such as foods and drinks, clothes, furniture, etc.
8) The basic material products manufacturing industry manufactures products that are used as basic industrial materials, such as steel, petroleum, wood materials, and paper.

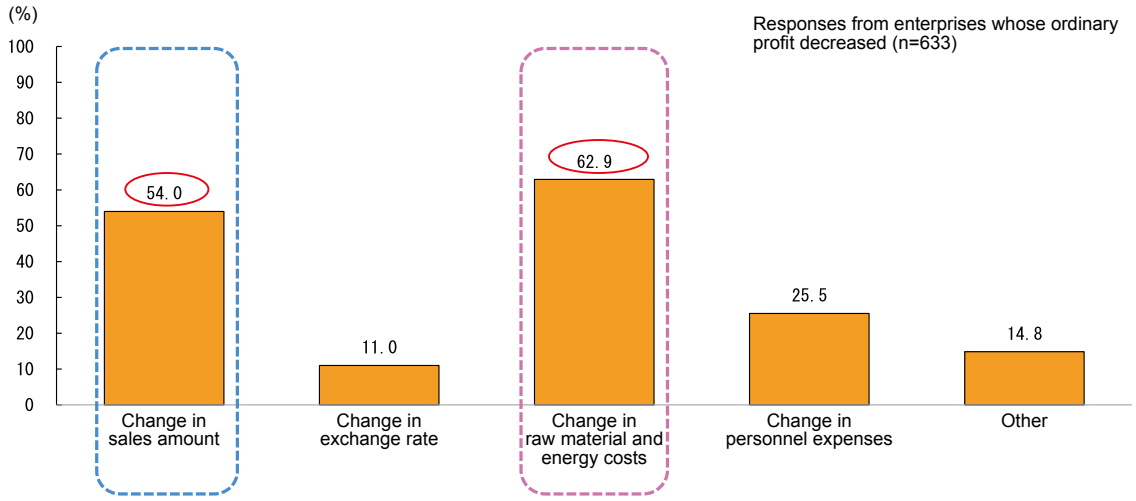
Fig. 1-2-6 (1) Ordinary profits of SMEs and micro-businesses compared to a year ago (Oct. 2014)



Source: SME Agency, *Changes in the business situation of SMEs and micro-businesses over the past year* (Nov. 2014).
Notes: 1. The survey was conducted from October 2 to 10, 2014.
2. A written survey is conducted on SMEs and micro-businesses via nationwide chambers of commerce and industry, commerce and industry associations and the national federation of small business associations.

With regard to the cause of the decline in ordinary profit, the largest response was “change in raw material and energy costs” (62.9%), followed by “change in sales amount” (54.0%) (Fig. 1-2-6 (2)).

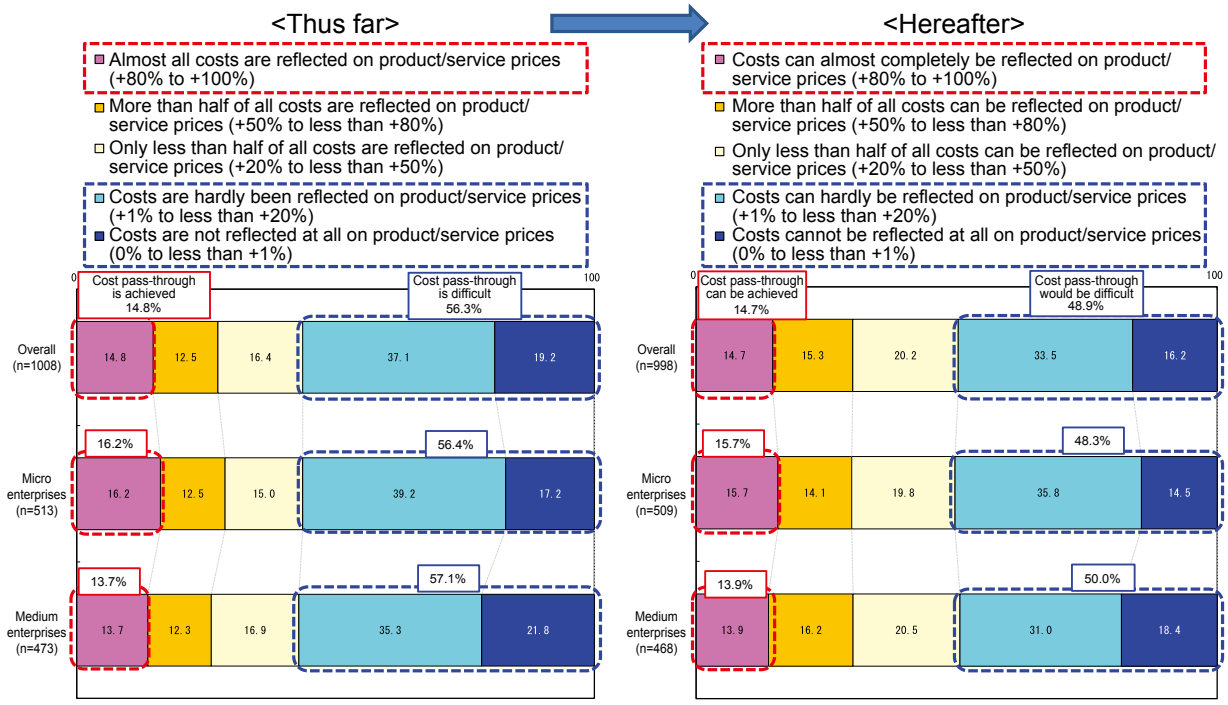
Fig. 1-2-6 (2) Causes of decline in ordinary profit



Source: SME Agency, *Changes in the business situation of SMEs and micro-businesses over the past year* (Nov. 2014).
Notes: 1. The survey was conducted from October 2 to 10, 2014.
2. A written survey is conducted on SMEs and micro-businesses via nationwide chambers of commerce and industry, commerce and industry associations and the national federation of small business associations.

The survey also asked enterprises their cost pass-through situation—that is, whether they are able to reflect changes in raw material and energy costs onto the prices of their products and services. As a result, more than half of all enterprises (56.3%) said they are facing difficulties in passing through such costs ("Costs are hardly been reflected on product/service prices" and "Costs are not reflected at all on product/service prices"). Only 14.8% said they are able to pass through the costs ("Almost all costs are reflected on product/service prices"). When asked their future prospect for cost pass-through, roughly half of all enterprises said cost pass-through would be difficult (48.9%). As only 14.7% said cost pass-though would be possible ("Costs can almost completely be reflected on product/service prices"), it seems that cost pass-through is expected to be difficult.

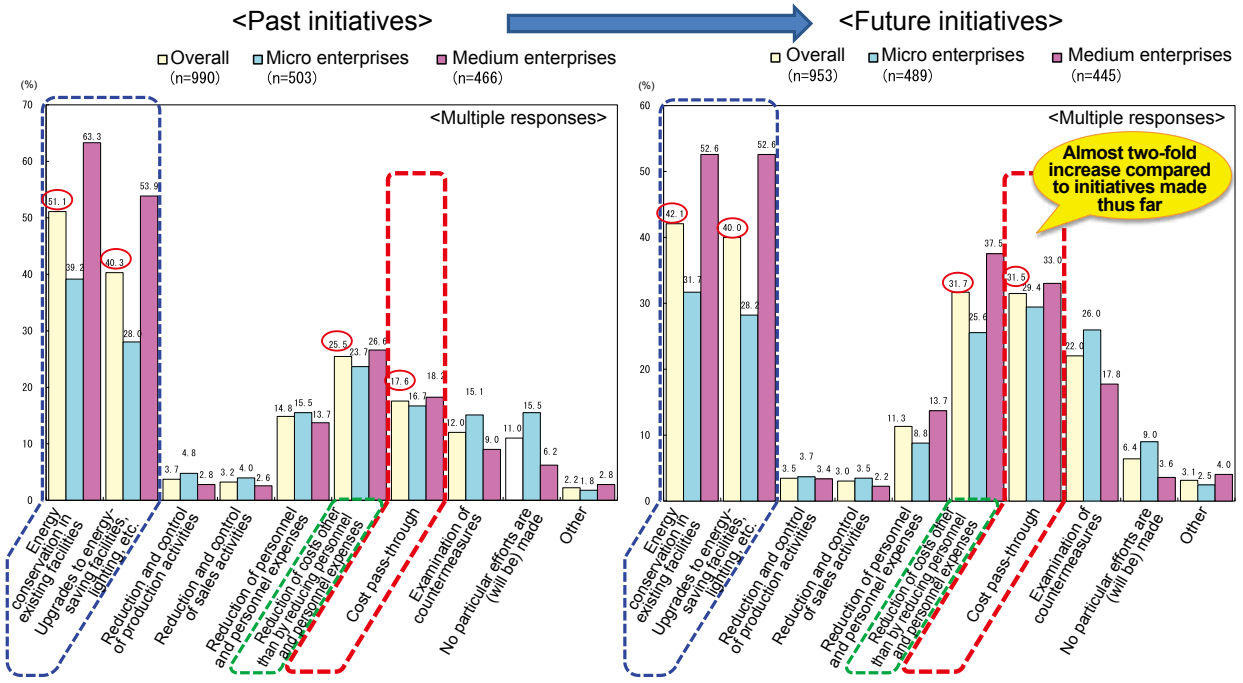
Fig. 1-2-6 (3) Reflection of changes in raw material and energy costs on product and service prices



Source: SME Agency, *Changes in the business situation of SMEs and micro-businesses over the past year* (Nov. 2014).
Notes: 1. The survey was conducted from October 2 to 10, 2014.
2. A written survey is conducted on SMEs and micro-businesses via nationwide chambers of commerce and industry, commerce and industry associations and the national federation of small business associations.

Next, let us take a look at initiatives against increases in energy costs. Some 40 to 50% of enterprises have thus far engaged in energy-saving initiatives, and more than 40% intend to engage in such initiatives hereafter, but what is important here are their cost pass-through measures. More than 17% of enterprises have implemented some type of cost pass-through measure, and more than 31%, or roughly twice the number of enterprises, intend to address this issue hereafter. As mentioned above, the cost pass-through situation is difficult, but we can see that many enterprises have a strong intention to implement a cost pass-through measure in the future. Similarly, more than 25% of enterprises have thus far made efforts to reduce costs other than by reducing personnel and personnel expenses (cut in expenses, etc.), but more than 31% intend to make such efforts in the future.

Fig. 1-2-6 (4) Measures against increases in energy costs



Source: SME Agency, *Changes in the business situation of SMEs and micro-businesses over the past year* (Nov. 2014).
Notes: 1. The survey was conducted from October 2 to 10, 2014.
2. A written survey is conducted on SMEs and micro-businesses via nationwide chambers of commerce and industry, commerce and industry associations and the national federation of small business associations.

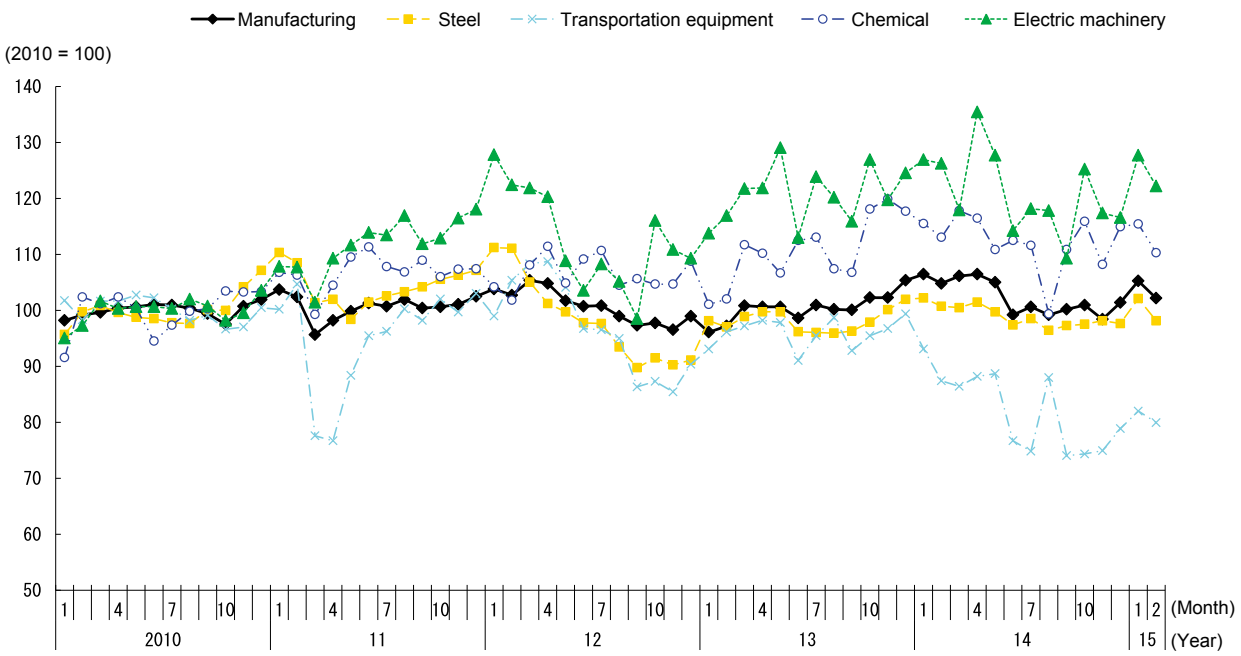
Given the above situation, the Ministry of Economy, Trade and Industry announced a cost pass-through policy package in October 2014 to improve trade conditions. The package consists of responses to changes in the repayment conditions of public financial institutions and on-site inspections based on the Subcontract Proceeds Act. Furthermore, in January 2015, the ministry prepared further countermeasures, which include a revision of each industrial subcontract guidelines by adding case examples of best practices, a request for proper transactions and a follow-up of the implementation status of the guidelines, and stricter enforcement of intensive on-site inspections against large enterprises based on the Subcontract Proceeds Act. The government is thus taking all possible cost pass-through measures to prevent the burden of rising raw material and energy costs from being placed on SMEs and micro-businesses.

[4] Production

Next, let us examine the production situation among SMEs and micro-businesses.

Fig. 1-2-7 shows movements in production among SMEs and micro-businesses based on the *Manufacturing Production Indices by Size of Enterprise* of the SME Agency, which gives the 2010 level a value of 100. In addition to the manufacturing industries, it shows movements in industries with large added value, such as the steel, electric machinery, transportation equipment, and chemical industries. Production among SMEs and micro-businesses has gradually picked up since February 2013 and, despite some weakening stemming from a fall in production in the transportation equipment industry since June 2014, shows signs of recovery once again. In terms of industry, a relatively high level of production is being maintained in the electric machinery and chemical industries, in particular, while a weakening trend is observed in the steel and transportation equipment industries.

Fig. 1-2-7 Manufacturing production indices by enterprise size



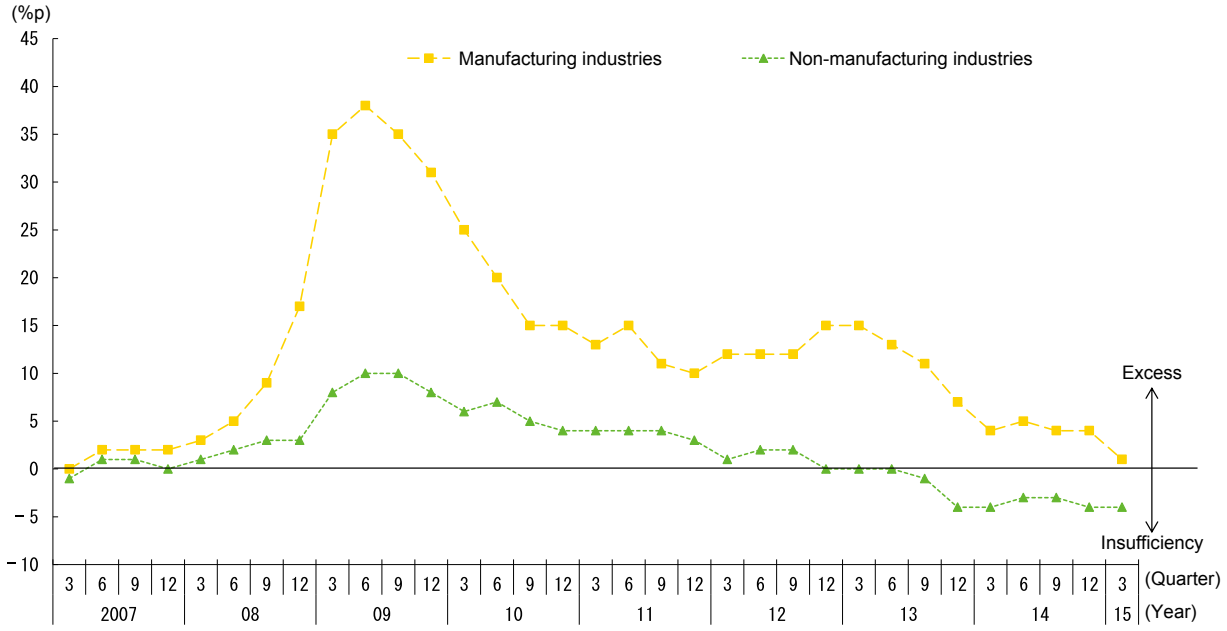
Source: SME Agency, *Manufacturing Production Indices by Size of Enterprise* (SME manufacturing production indices).

[5] Facilities

Next, we shall look at the facilities of SMEs.

When we look at the production and operational facility DI for SMEs by industry (the percentage (%) of enterprises that said they have an "excess" of production and operational facilities, minus the percentage (%) of enterprises that said they have an "insufficiency" of such facilities) according to the BOJ Tankan, we see that in the manufacturing industries, the positive margin has shrunk over four consecutive quarters, from the March 2013 survey to the March 2014 survey, but has practically leveled off since the June 2014 survey (Fig. 1-2-8). In the non-manufacturing industries as well, "insufficiency" surpassed "excess" over seven consecutive quarters from the September 2013 survey, and underlined the sense of insufficiency of facilities among SMEs.

Fig. 1-2-8 Production and operational facilities DI for SMEs



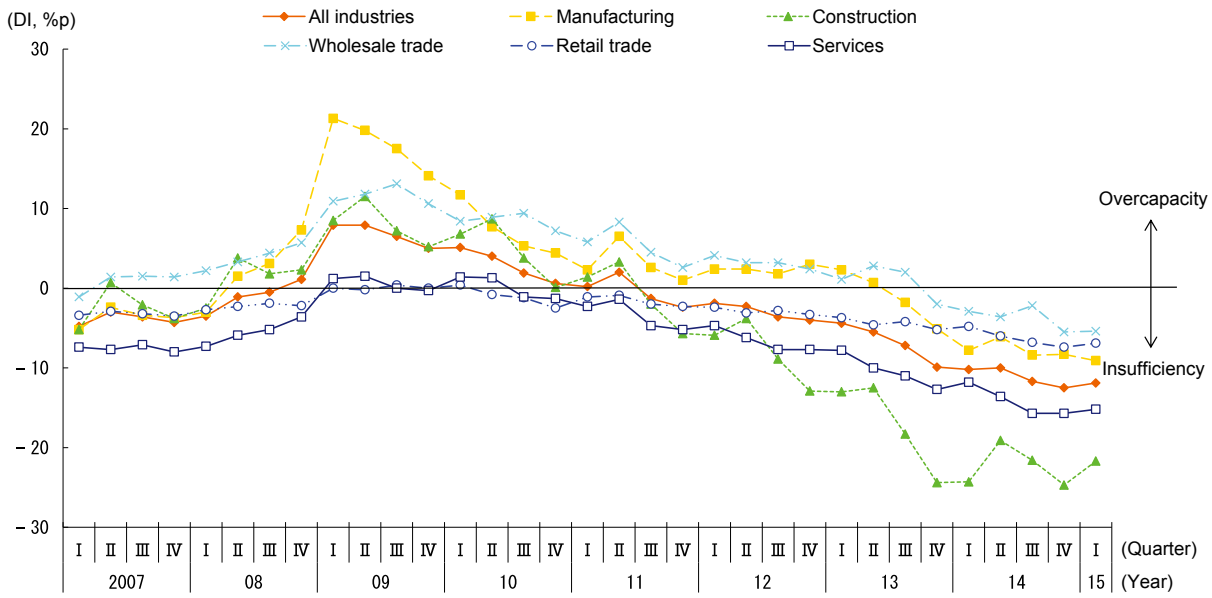
Source: Bank of Japan, *Short-term Economic Survey of Principal Enterprise in Japan* (BOJ Tankan).
Notes: 1. Sense of excess in capital investment DI is the percentage of enterprises that said they have an "excess" of production facilities, minus the percentage of enterprises that said they have an "insufficiency" of such facilities.
2. SMEs here refer to enterprises with a capital of more than ¥20 million and less than ¥100 million.

[6] Employment

Now, let us examine the employment situation among SMEs and micro-businesses.

Fig. 1-2-9 shows the employee overcapacity and insufficiency DI (percentage (%) of enterprises that said they have an "overcapacity" of employees, minus the percentage (%) of enterprises that said they have an "insufficiency" of employees) for SMEs and micro-businesses, by industry. As we have seen in Chapter 1, the employment environment in the Japanese economy as a whole has steadily improved since 2009, such that the sense of overcapacity of employees among SMEs and micro-businesses has gradually waned from the first quarter of 2009, "insufficiency" has surpassed "overcapacity" in the third quarter of 2011, and a sense of insufficiency has strengthened since then. The sense of insufficiency was particularly strong in the construction and service industries compared to other industries.

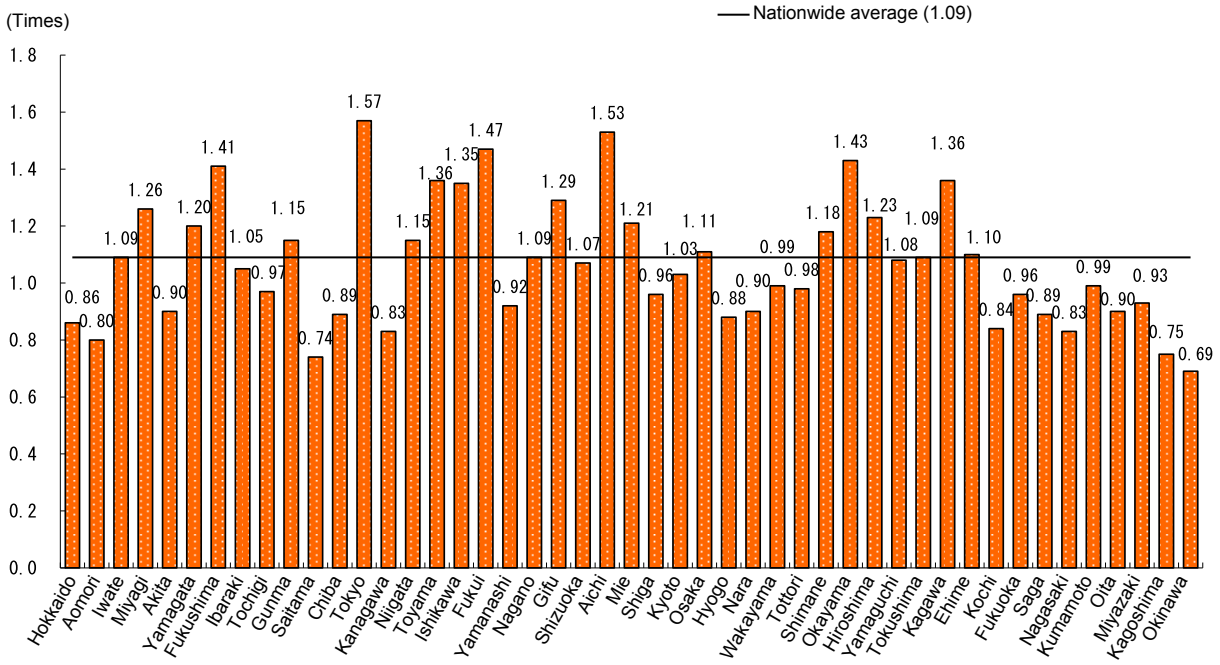
Fig. 1-2-9 Employee overcapacity and insufficiency DI for SMEs and micro-businesses, by industry



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: Employee overcapacity/insufficiency DI is calculated by subtracting the percentage (%) of enterprises that said that have an "insufficiency" of employees from the percentage (%) of enterprises that said they have an "overcapacity" of employees.

While a sense of insufficiency of employees is strengthening among SMEs and micro-businesses, there are regional differences in the job vacancy situation. This is evident when we look at the rate of job offers to applicants by prefecture. The rate of job offers to applicants is more than 1.0 in 25 prefectures, but less than 1.0 in 22 prefectures (Fig. 1-2-10).

Fig. 1-2-10 Rate of job offers to applicants, by prefecture (2014 average)



Source: MHLW, *General Employment Placement Situation*.
Note: The ratios of job offers to applicants exclude new graduates but include part-time workers.

[7] Wage increases among SMEs and micro-businesses

To pull out of the prolonged deflation and put the positive economic cycle of Abenomics into effect, wage increases that outstrip rising prices need to be achieved by all enterprises, including local SMEs and micro-businesses. In this section, we shall thus examine the wage increase situation among SMEs and micro-businesses.

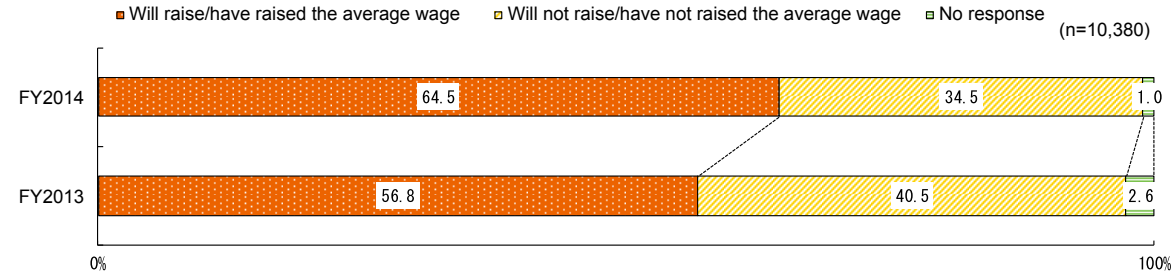
According to the *Survey on the Employment Situation of SMEs* conducted by the SME Agency from June to July 2014, the ratio of SMEs and micro-businesses that "will raise or have raised" the average wage (including regular pay raises) per regular worker (regular employees) increased significantly from 56.8% in fiscal 2013 to 64.5% in fiscal 2014 (Fig. 1-2-11 (1)). As for the main reasons for "raising or having raised" the average wage, "to retain and secure workers" was the most numerous response at 75.7%, reflecting the sense of insufficiency of employees among SMEs (Fig. 1-2-11 (2)). On the other hand, among enterprises that "will not raise or have not raised" the average wage, "weak business performance" was the most numerous reason at 71.7%, indicating that a slowdown in business performance is obstructing wage increases (Fig. 1-2-11 (3)). This was followed by "placing priority on maintaining the employment of workers over wages" and "surge in crude oil and raw material prices," which show that efforts to maintain employment and the impacts of cost increases are factors that inhibit wage increases.

When we look at the ratio of enterprises that "will raise or have raised" wages by region, we see that the average ratio of 58.2% in urban areas (Kanto, Chubu and Kinki areas) was higher than other regions in fiscal 2013, but the average ratio in all regions surpassed this value in fiscal 2014 (Fig. 1-2-11 (4)).

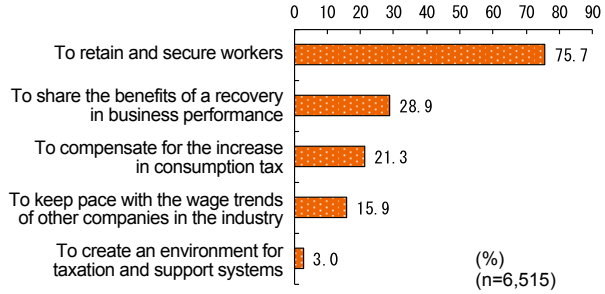
As we have seen above, larger numbers of SMEs and micro-businesses increased wages in fiscal 2014 compared to fiscal 2013, such that regional disparities have shrunk. It can thus be said that the "positive economic cycle" has steadily spread to SMEs.

Fig. 1-2-11 Wage increases among SMEs and micro-businesses

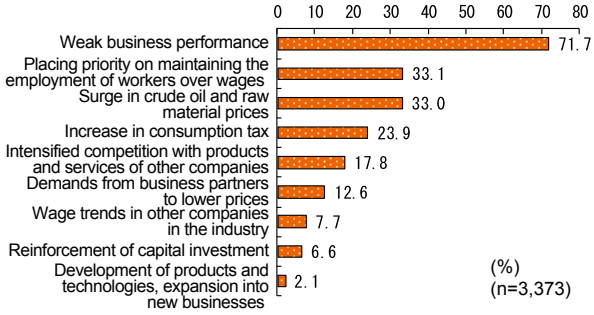
(1) Average wage increase per regular worker (incl. regular wage raises)



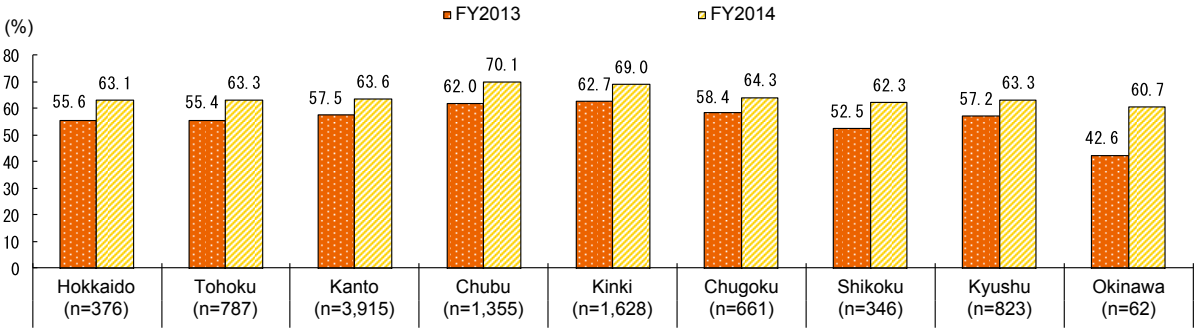
(2) Major reasons for raising/having raised the average wage per regular worker in FY2014



(3) Major reasons for not raising/not having raised wages in FY2014



(4) Ratio of enterprises that have raised wages, by regional block



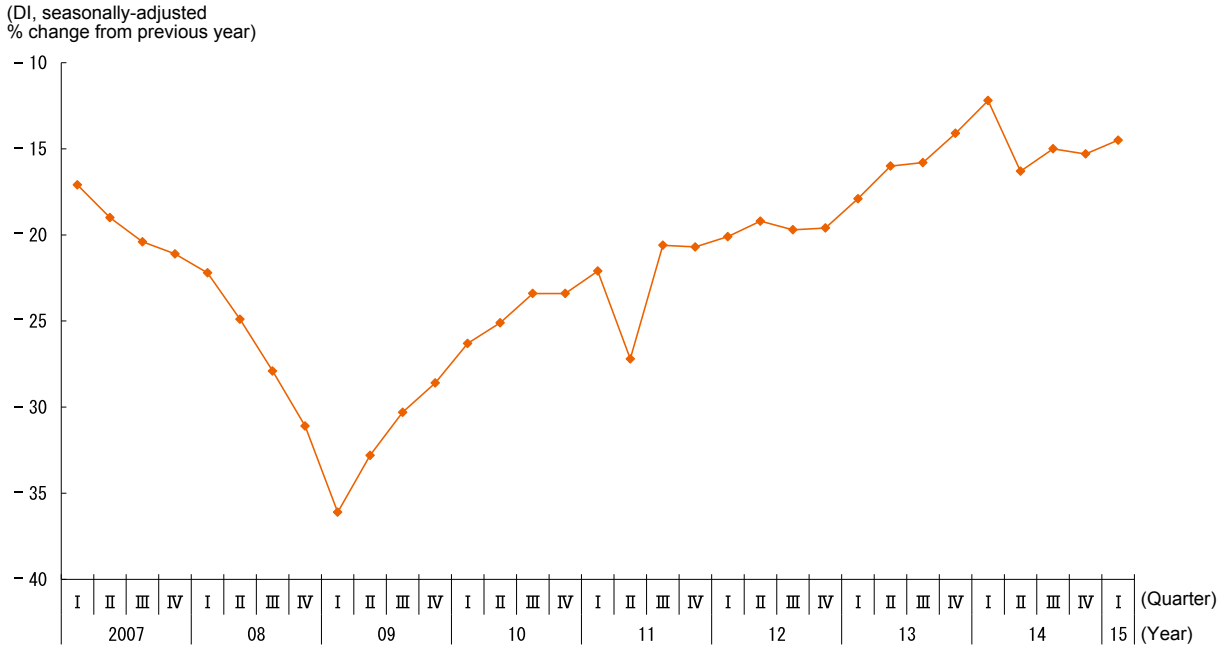
Source: SME Agency, *Survey on the Employment Situation of SMEs* (Aug. 2014).

[8] Financial position

Now let us examine movements in the financial position of SMEs and micro-businesses.

According to the *Survey of SME Business Conditions*, the financial position DI for SMEs and micro-businesses (the percentage (%) of enterprises that said their financial position has "improved" minus the percentage (%) of enterprises that said it has "worsened") (Fig. 1-2-12) has steadily improved since the fourth quarter of 2012, with the negative margin showing a shrinking trend. It thereafter fell once in the second quarter of 2014 due to the last-minute surge in demand before the consumption tax increase and the negative impact thereof, but recovered once again in the third quarter of the year.

Fig. 1-2-12 Financial position DI for SMEs and micro-businesses



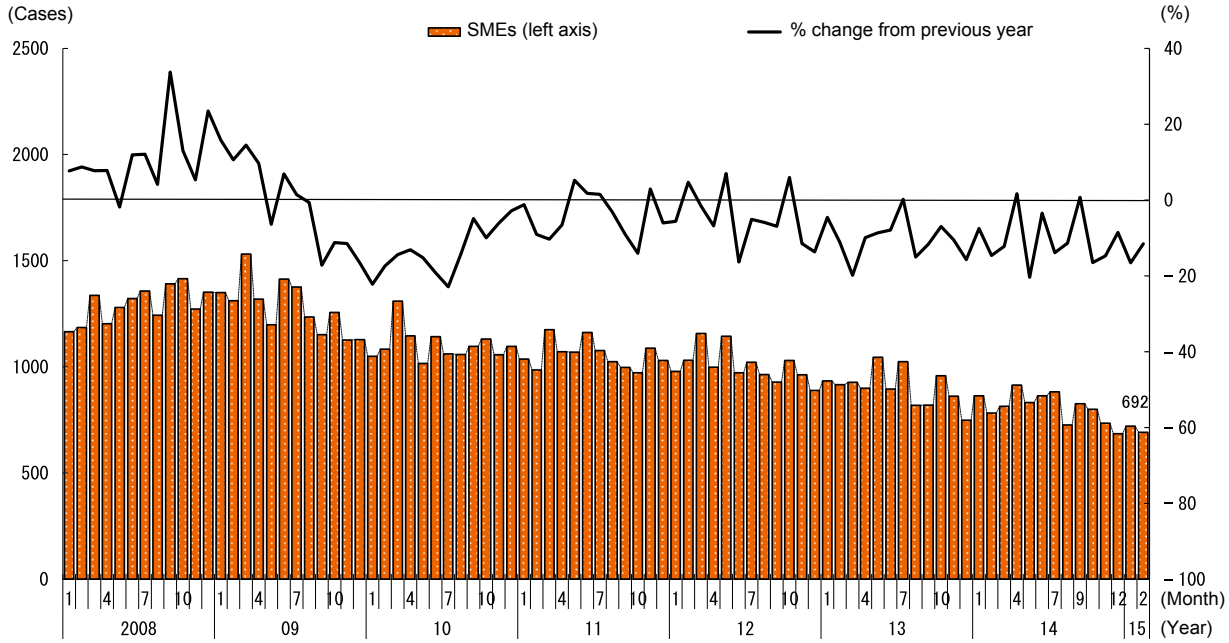
Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The financial position DI is calculated by subtracting the percentage (%) of enterprises that said their financial position has "worsened" from the percentage (%) of enterprises that said it has "improved."

[9] Bankruptcies

Lastly, let us look at changes in the number of bankruptcies among SMEs and micro-businesses.

Fig. 1-2-13 (1) shows movements in the number of bankruptcies by month, according to a survey conducted by Tokyo Shoko Research, Ltd. The number of SMEs and micro-businesses that have gone bankrupt has steadily decreased since 2009 owing to an improvement in the cash-flow situation, and stood at 692 cases as of February 2015.

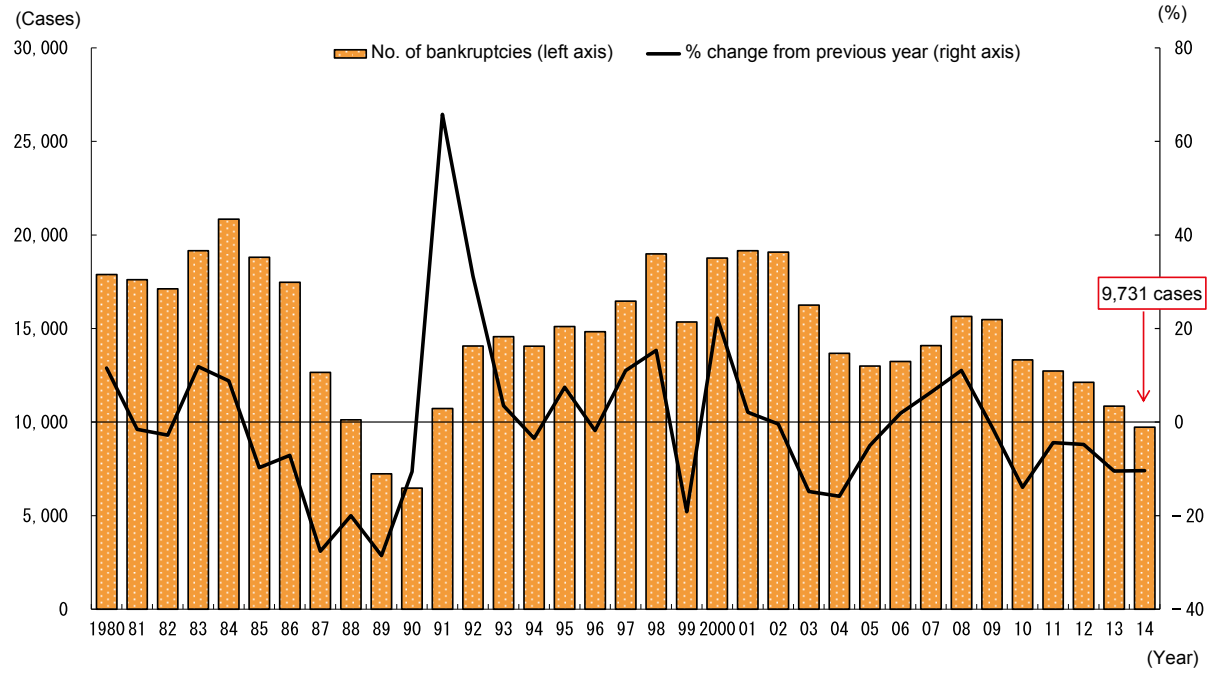
Fig. 1-2-13 (1) Number of bankruptcies among SMEs and micro-businesses (short-term)



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

A look at long-term developments in the total number of bankruptcies, including bankruptcies of large enterprises, shows that the annual number of bankruptcies in 2014 was 9,731 and marked a low level below 10,000 for the first time in 24 years, since 1990 (Fig. 1-2-13 (2)). This corresponds to a 10.3% decrease from the previous year, and the sixth consecutive year since 2009 that the number fell below that of the previous year. In terms of prefecture, the number of bankruptcies fell below that of the previous year in 33 prefectures, indicating a nationwide decrease in bankruptcies.

Fig. 1-2-13 (2) Number of bankruptcies (long-term)

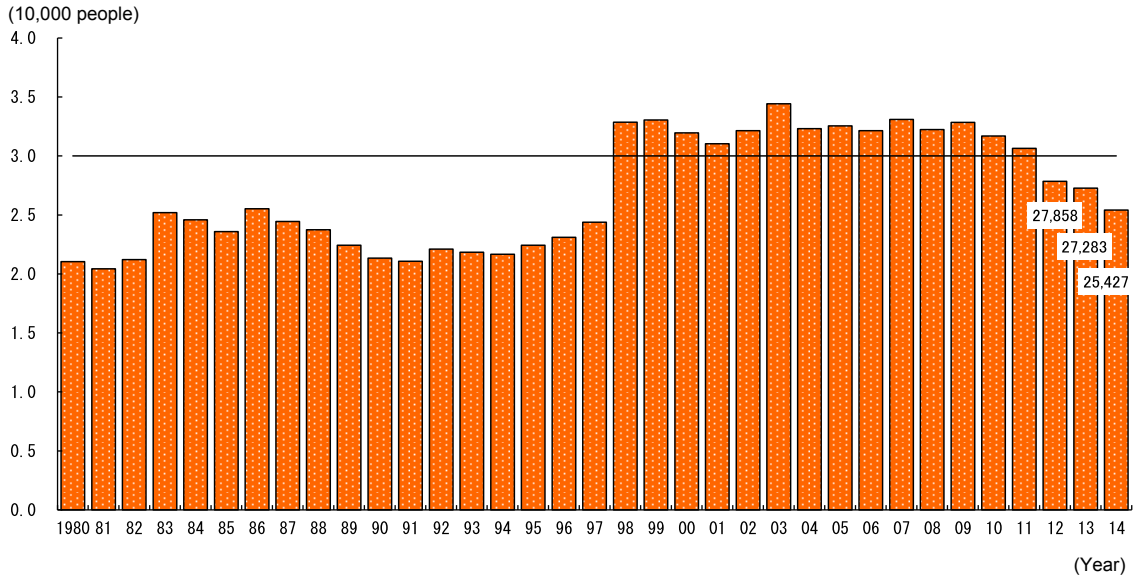


Source: Tokyo Shoko Research, Ltd., *Business Failure News (Monthly)*.

Column 1-2-1 Suicides

Economic trends are said to influence the number of suicides. The number of suicides in Japan continued to surpass 30,000 since 1998, but has shown a year-on-year decrease for five consecutive years since 2010, and has fallen below the 30,000 level to 27,858, 27,283 and 25,427 since 2012. The number of suicides is steadily decreasing (Fig. Column 1-2-1 (1)).

Fig. Column 1-2-1 (1) Number of suicides



Sources: Websites of the National Police Agency and Cabinet Office.

Among the above number of suicides, the annual number of suicides by self-employed entrepreneurs and family employees has surpassed the 3,000 level until 2009, but has steadily decreased since then to 2,129 in 2013 and 1,840 in 2014 (Fig. Column 1-2-1 (2)).

Fig. Column 1-2-1 (2) Number of suicides by occupation

Sources: Websites of the National Police Agency and Cabinet Office.

[10] Summary

As we have seen above, SMEs and micro-businesses continue to face relatively difficult business conditions, and weak movements were seen in the business condition index, due to the last-minute surge in demand before the consumption tax increase, the negative impact thereof, and increases in raw material and energy costs.

Nevertheless, owing to the drop in the domestic prices of petroleum products and the recovery of the macro economic environment, some signs of improvement have begun to appear in the state of business confidence among SMEs and micro-businesses.

Even so, the cost pass-through issue among SMEs and micro-businesses that has emerged accompanying the consumption tax increase and the increase in raw material and energy costs bears further watching, among other issues, and awaits further measures by the government.

Chapter 3

The environment for SMEs and micro-businesses

The Japanese economy has experienced a 20-year period of stagnation due to low levels of economic growth and prolonged deflation. Since the inauguration of the second Abe Cabinet, the effects of the so-called "three arrows" of Abenomics have triggered the start of economic virtuous cycles and we are at last seeing a return of the confidence that was eroded by long-term stagnation and deflation. The effects of the growth strategy are now spreading to SMEs and micro-businesses and regional economies, and positive steps (local Abenomics) are now needed to ensure that those effects are felt throughout all areas of Japan and that a way forward can be seen for regional economies in the medium and long term.

With these problems in mind, in this chapter we will identify the issues that contribute to the growth and development of SMEs and micro-businesses. This will be achieved by ascertaining the medium- and long-term trends among SMEs and micro-businesses since 1980, both from an individual (enterprise) perspective and a broader (regional economy) perspective, and by conducting a structural analysis of the economic growth factors.

Section 1 Competitiveness in SMEs and micro-businesses

In this section, we will identify the issues central to the growth of SMEs and micro-businesses by ascertaining the medium- and long-term trends among SMEs and micro-businesses in Japan since 1980 in terms of the structural competitiveness of those enterprises. Specifically, we will focus on the profitability of enterprises and, by drawing comparisons between enterprises of different sizes and between enterprises of the same size, will identify the factors that govern enterprise profitability and their structural characteristics. This will then guide our consideration of specific measures designed to boost the competitiveness of SMEs and micro-businesses and thereby spur further growth and development in those SMEs and micro-businesses[1].

[1] Approach to the analysis of enterprise profitability

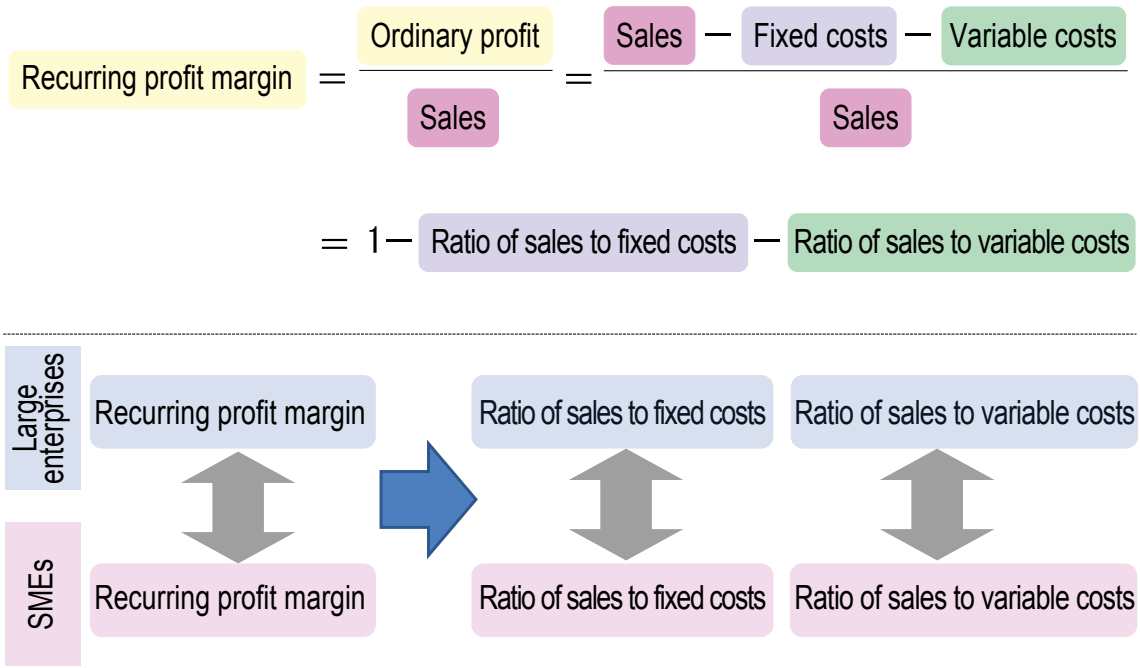
In the analysis in this section, we will focus on the enterprise's recurring profit margin, which is one of the key indicators of profitability. Before launching into a detailed analysis of the recurring profit margin, we will explain the components that make up the recurring profit margin (Fig.1-3-1 (1)). The recurring profit margin is the enterprise's ordinary profit divided by its total sales. However, because the ordinary profit, which is the numerator in the fraction, consists of the total sales minus costs (fixed and variable[2]), the ratio of ordinary profit to sales can be taken to be either the ratio of sales to fixed costs (fixed costs over sales) or the ratio of sales to variable

1) It should be borne in mind that the analysis in this section uses the following two basic premises:
Firstly, this analysis primarily uses the MOF's *Financial Statements Statistics of Corporations by Industry, Annually*. The reasons for using these statistics include: (1) the survey targeted a wide range of incorporated enterprises, from large enterprises through to micro enterprises; (2) the survey was conducted annually over a long period; and (3) the key financial items were surveyed comprehensively. In this section, large, medium and micro enterprises refer to enterprises with capital of ¥100 million or more, ¥10 million or more but less ¥100 million, and less than ¥10 million respectively. The amount of capital is used to define enterprise size because the samples in the survey design for the survey of incorporated enterprise statistics were designed differently according to industry and according to the amount of capital.
Secondly, in order to more clearly identify the structural changes in competitiveness that have arisen between enterprises, irregular variations observed in the chronological data (variations due to factors specific to that year) and cyclical variations (variations due to economic or business cycles) were eliminated. Specifically, purely structural variations were extracted by applying an HP (Hodrick-Prescott) filter to the time series being analyzed.

2) Fixed costs refer to the total expenditure on personnel costs (total of directors' salaries and bonuses, workers' salaries and bonuses, and welfare benefits), depreciation costs and interest paid. Variable costs are defined as net sales minus ordinary profit and fixed costs.

costs (variable costs over sales). Accordingly, as well as comparing the recurring profit margin among enterprises of different sizes, we can also look at the differences in the trends of costs as shown by the ratio of sales to fixed costs and the ratio of sales to variable costs as pointers to trends in the recurring profit margin.

Fig. 1-3-1 Breakdown of factors in recurring profit margin



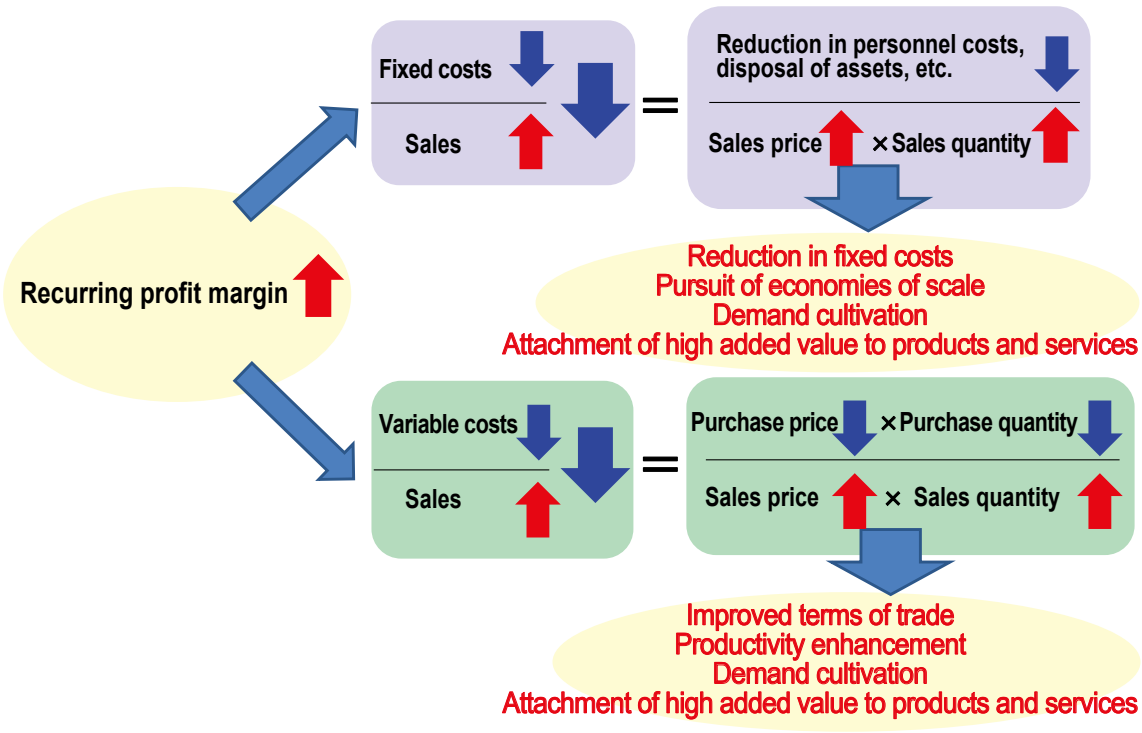
Based on the above approach, the steps needed to increase the profitability of an enterprise are shown in detail below (Fig. 1-3-2). To increase the recurring profit margin, the ratios of sales to fixed costs and to variable costs must both be lowered.

Firstly, to lower the ratio of sales to fixed costs, the enterprise needs to reduce fixed costs such as personnel and depreciation expenses and asset costs and to increase its sales price and the sales quantity. Put another way, these specific measures that must be pursued consist of: (1) reducing fixed costs (reduction in personnel costs and disposal of assets, etc.); (2) pursuing economies of scale (lower fixed cost per unit of production by increasing sales volumes); (3) cultivating demand (increased sales quantities by developing new markets); and (4) attaching high added value to its products and services (increased added value for products and services which is then reflected in the selling price).

Next, to lower the ratio of sales to variable costs, the enterprise needs to reduce its purchasing prices and the quantities it purchases, and to increase its sales price and the sales quantity. Put another way, these specific measures that must be pursued consist of: (1) improving its terms of trade (lower purchasing prices and higher selling prices); (2) higher productivity (higher production volumes as a proportion of purchased volumes[3]); and (3) attaching higher added value to its products and services.

3) Here, rather than the restricted meaning indicated by the formula in Fig. 1-3-2, productivity refers to the more general meaning of productivity (including investment and labor as input rather than just intermediate goods). However, if it is applied in the corresponding formula, a specific increase in the yield rate is included as a measure to boost sales (≒ production) quantities while also lowering the quantities purchased.

Fig. 1-3-2 Measures needed to increase enterprise profitability



[2] Recurring profit margins by enterprise size

We will begin by checking the trends in recurring profit margins by enterprise size (Fig. 1-3-3). Looking at all industries, the levels of recurring profit margin are higher among large enterprises than for medium enterprises and micro enterprises, and that difference grew markedly in the 2000s. This is a result of the substantial growth in the recurring profit margins of large enterprises in the 2000s, but the figure shows that the recurring profit margins of medium and micro enterprises also grew at the same time. The average recurring profit margins for medium and micro enterprises from 2010 onwards are significantly higher when compared with the average figures for the 2000s.

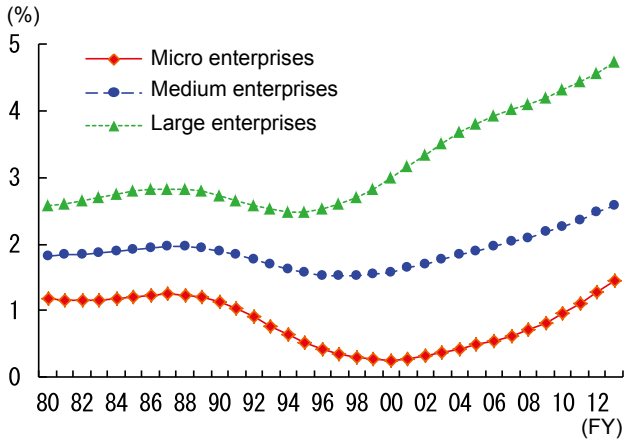
Looking at the figures by industry, the difference between the recurring profit margins of large enterprises and those of medium and micro enterprises in the manufacturing industries shows continued expansion at more or less the same proportions from 1980 onwards. But from 2010 onwards, the growth in the recurring profit margin for micro enterprises is relatively high compared with large enterprises, which resulted in a narrowing of the gap between the two.

In the non-manufacturing industries, the recurring profit margins of large enterprises grew substantially from the 2000s onwards, resulting in a significant widening of the gap in recurring profit margins between large enterprises and medium and micro enterprises. However, the recurring profit margins of medium and micro enterprises also trended upwards from the 2000s onwards.

This is discussed in more detail below, but the widening gap in recurring profit margins between large enterprises and medium and micro enterprises may also be attributable to the tendency for profit downturns at underperforming medium and micro enterprises to put downward pressure on the profits of medium and micro enterprises as a whole. When comparing the recurring profit margins of enterprises of different sizes, we didn't simply compare the average values for each size. We also compared the recurring profit margins of enterprises of the same size to first provide us with a picture of the characteristics of the recurring profit margins across the different enterprise sizes.

Fig. 1-3-3 Recurring profit margins by enterprise size

(1) All industries



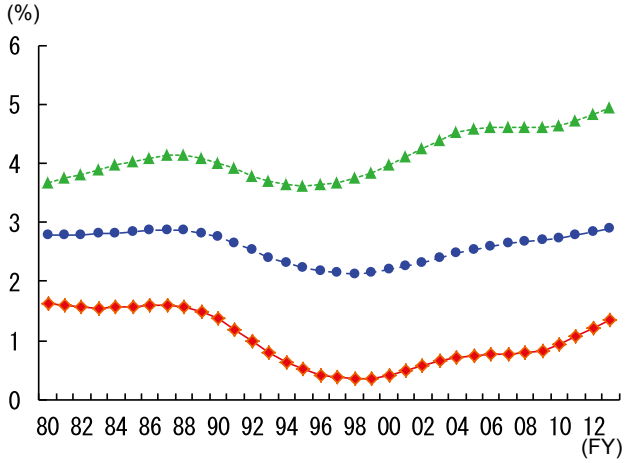
Average recurring profit margin, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	1. 19	1. 90	2. 73
1990s	0. 63	1. 65	2. 61
2000s	0. 48	1. 87	3. 67
2010–	1. 19	2. 42	4. 51

Difference in recurring profit margin with large enterprises (%p)

	Micro enterprises	Medium enterprises
1980s	1. 54	0. 84
1990s	1. 98	0. 96
2000s	3. 19	1. 80
2010–	3. 32	2. 09

(2) Manufacturing industries



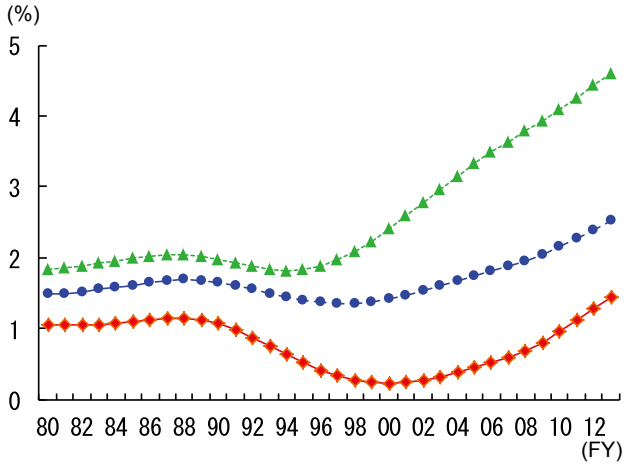
Average recurring profit margin, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	1. 57	2. 82	3. 96
1990s	0. 70	2. 35	3. 75
2000s	0. 68	2. 48	4. 43
2010–	1. 13	2. 80	4. 78

Difference in recurring profit margin with large enterprises (%p)

	Micro enterprises	Medium enterprises
1980s	2. 39	1. 14
1990s	3. 05	1. 41
2000s	3. 75	1. 95
2010–	3. 64	1. 97

(3) Non-manufacturing industries



Average recurring profit margin, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	1. 09	1. 60	1. 96
1990s	0. 61	1. 46	1. 94
2000s	0. 45	1. 72	3. 21
2010–	1. 20	2. 33	4. 35

Difference in recurring profit margin with large enterprises (%p)

	Micro enterprises	Medium enterprises
1980s	0. 87	0. 36
1990s	1. 33	0. 48
2000s	2. 75	1. 49
2010–	3. 15	2. 02

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. Here, “large enterprises” are defined as those with capital of at least ¥100 million, “medium enterprises” are those with capital of at least ¥10 million but less than ¥100 million, and “micro enterprises” are defined as enterprises with capital of less than ¥10 million.
2. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for each time series.

[3] Total sales by enterprise size

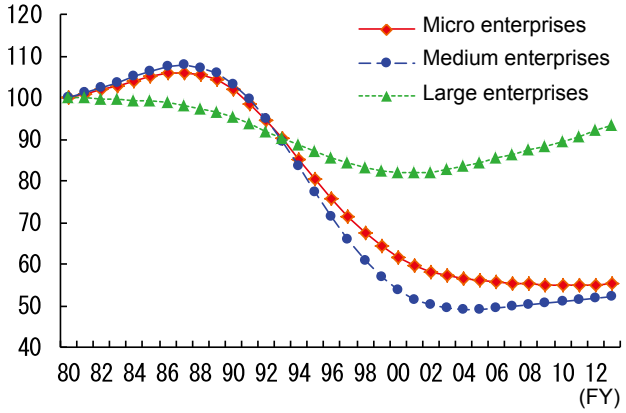
Next, we look at total sales by enterprise size (Fig. 1-3-4). So that we could confirm exactly how much was sold, total sales were taken using actual values with the effects of price variations removed. Taking the average sales for one enterprise in 1980 as a reference value of 100, sales growth for all industries in the 1980s was higher for medium and micro enterprises than for large enterprises. But in the 1990s, sales by medium and micro enterprises contracted, while sales by large enterprises steadily improved through the late 1990s and early 2000s to open up a gap between large enterprises and medium and micro enterprises.

Looking at these figures by industry, in the 1980s there was a weak growth trend for large enterprises as well as medium and micro enterprises in the manufacturing industries. But in the 1990s, while sales by medium and micro enterprises contracted, sales by large enterprises steadily improved, widening the gap between large enterprises and medium and micro enterprises in the 1990s. The late 2000s onwards saw a softening growth trend for large enterprises as well as medium and micro enterprises, but the gap in sales between large enterprises and medium and micro enterprises continued to widen.

In the non-manufacturing industries, sales by medium and micro enterprises increased in the 1980s while sales by large enterprises declined. But moving into the 1990s, sales by medium and micro enterprises declined significantly, while sales by large enterprises steadily improved through the late 1990s and early 2000s, widening the discrepancy in sales between large enterprises and medium and micro enterprises.

Fig. 1-3-4 Average sales per enterprise by enterprise size

(1) All industries



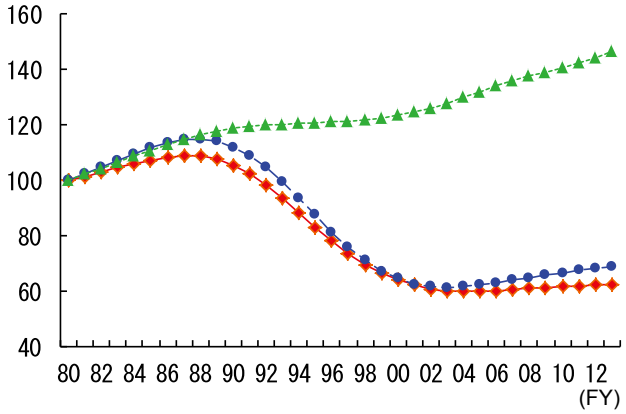
Average average sales per enterprise, by time period
(1980 = 100)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	103. 7	104. 7	98. 9
1990s	83. 0	80. 3	88. 2
2000s	57. 0	50. 3	84. 4
2010–	55. 1	51. 6	91. 5

Difference in average sales per enterprise with large enterprises

	Micro enterprises	Medium enterprises
1980s	– 4. 8	– 5. 9
1990s	5. 2	8. 0
2000s	27. 4	34. 1
2010–	36. 4	39. 9

(2) Manufacturing industries



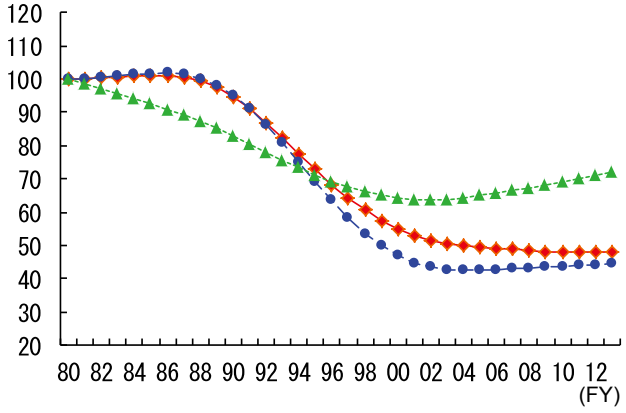
Average average sales per enterprise, by time period
(1980 = 100)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	105. 7	109. 3	109. 4
1990s	85. 9	90. 2	120. 7
2000s	61. 0	63. 2	131. 1
2010–	62. 0	67. 9	143. 6

Difference in average sales per enterprise with large enterprises

	Micro enterprises	Medium enterprises
1980s	3. 8	0. 1
1990s	34. 8	30. 6
2000s	70. 1	67. 9
2010–	81. 6	75. 7

(3) Non-manufacturing industries



Average average sales per enterprise by time period
(1980 = 100)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	100. 1	100. 6	93. 0
1990s	75. 6	72. 3	73. 0
2000s	50. 4	43. 5	65. 3
2010–	47. 9	44. 0	70. 4

Difference in average sales per enterprise with large enterprises

	Micro enterprises	Medium enterprises
1980s	– 7. 1	– 7. 7
1990s	– 2. 6	0. 7
2000s	14. 9	21. 8
2010–	22. 5	26. 4

Sources: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*; RIETI, *JIP Database 2014*.
Notes: 1. Here, “large enterprises” are defined as those with capital of at least ¥100 million, “medium enterprises” are those with capital of at least ¥10 million but less than ¥100 million, and “micro enterprises” are defined as enterprises with capital of less than ¥10 million.
2. The data was deflated using the JIP Database output deflator.
3. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for each time series.

[4] Ratio of sales to fixed costs by enterprise size

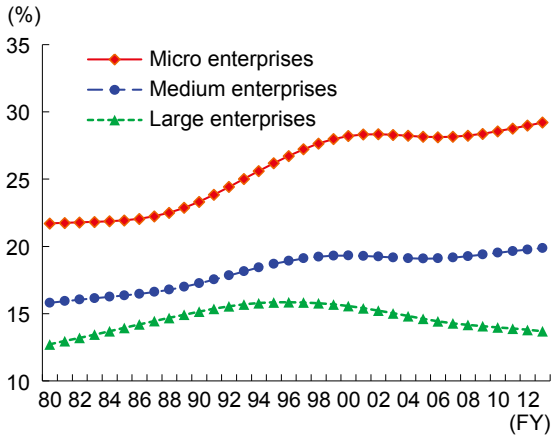
The third step is to look at the ratio of sales to fixed costs by enterprise size (Fig. 1-3-5). Looking at all industries, we can see that the ratio of sales to fixed costs for medium and micro enterprises is higher than that of large enterprises. Also, while the ratio of sales to fixed costs declined for large enterprises in the latter half of the 1990s, the ratio continued to rise for medium and micro enterprises and the difference in the ratio of sales to fixed costs for large enterprises and medium and micro enterprises tended to grow.

When we look at the trend by industry, the ratio of sales to fixed costs for medium and micro enterprises in manufacturing is higher than for large enterprises, and from the 2000s onwards, the ratio has trended downwards for both large enterprises and medium and micro enterprises. But the difference between large enterprises and medium and micro enterprises in terms of the ratio of sales to fixed costs has grown.

In the non-manufacturing industries, the trends are the same as for all industries.

Fig. 1-3-5 Ratio of sales to fixed costs by enterprise size

(1) All industries



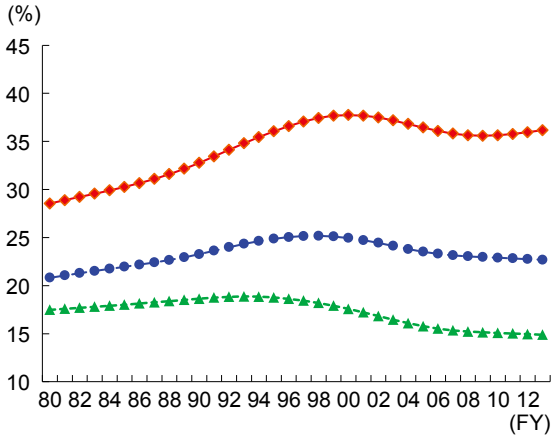
Average ratio of sales to fixed costs, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	22.1	16.3	13.8
1990s	25.8	18.4	15.7
2000s	28.2	19.2	14.8
2010–	28.9	19.7	13.8

Difference in ratio of sales to fixed costs with large enterprises (Large enterprises – medium enterprises/micro enterprises, %p)

	Micro enterprises	Medium enterprises
1980s	−8.2	−2.5
1990s	−10.1	−2.8
2000s	−13.5	−4.4
2010–	−15.0	−5.9

(2) Manufacturing industries



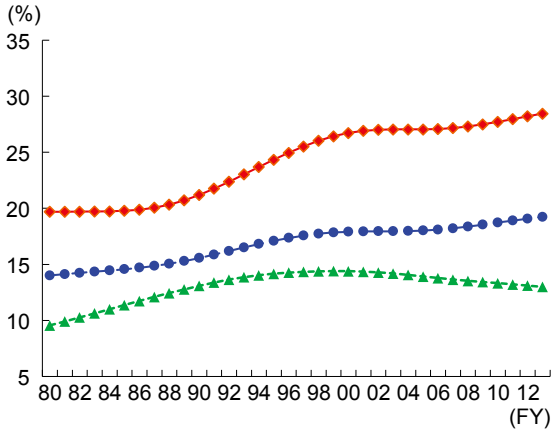
Average ratio of sales to fixed costs, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	30.2	21.9	18.0
1990s	35.5	24.5	18.6
2000s	36.6	23.8	16.1
2010–	35.9	22.8	15.0

Difference in ratio of sales to fixed costs with large enterprises (Large enterprises – medium enterprises/micro enterprises, %p)

	Micro enterprises	Medium enterprises
1980s	−12.2	−3.9
1990s	−16.9	−5.9
2000s	−20.5	−7.7
2010–	−20.9	−7.8

(3) Non-manufacturing industries



Average ratio of sales to fixed costs, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	19.9	14.6	11.2
1990s	23.9	16.9	14.0
2000s	27.1	18.1	14.0
2010–	28.1	19.0	13.2

Difference in ratio of sales to fixed costs with large enterprises (Large enterprises – medium enterprises/micro enterprises, %p)

	Micro enterprises	Medium enterprises
1980s	−8.7	−3.4
1990s	−10.0	−2.9
2000s	−13.1	−4.1
2010–	−14.9	−5.8

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. Here, “large enterprises” are defined as those with capital of at least ¥100 million, “medium enterprises” are those with capital of at least ¥10 million but less than ¥100 million, and “micro enterprises” are defined as enterprises with capital of less than ¥10 million.
2. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for each time series.

[5] Characteristics of profitability in large enterprises and SMEs as shown by the ratio of sales to fixed costs

Based on Figs 1-3-3, -4 and -5, the changes in profitability that have arisen among large enterprises and medium and micro enterprises can be summarized as follows:

(1) From the late 1990s onwards, the recurring profit margins of large enterprises have increased in comparison to those of medium and micro enterprises, and this has resulted in a widening gap between large enterprises and medium and micro enterprises in terms of recurring profit margin.

(2) From the 2000s onwards, average sales per individual large enterprise have increased in real terms when compared with those of medium and micro enterprises, and the difference in sales between large enterprises and medium and micro enterprises has increased as a result.

(3) From the late 1990s onwards, while the ratio of sales to fixed costs declined for large enterprises, the ratio increased for medium and micro enterprises, resulting in a widening gap between large enterprises and medium and micro enterprises in terms of the ratio of sales to fixed costs.

Based on (1) to (3) above, large enterprises enjoyed an improved ratio of sales to fixed costs in the latter half of the 1990 thanks to their efforts to reduce fixed costs. In the 2000s, sales began to recover and increased production (roughly equal to sales) led to a reduction in the fixed costs per unit of production (roughly equal to the ratio of sales to fixed costs). As economies of scale took effect, the recurring profit margins rose relative to those of medium and micro enterprises.

[6] Ratio of sales to variable costs by enterprise size

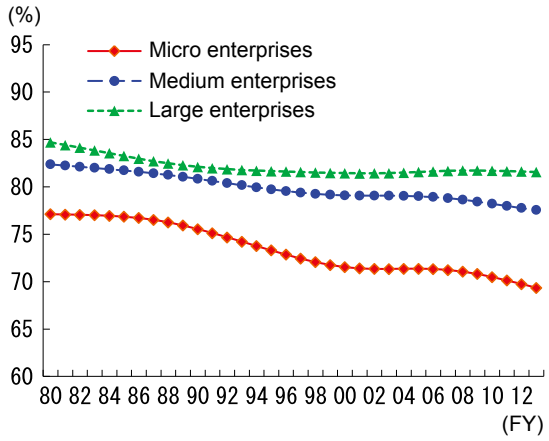
Next, we look at the ratio of sales to variable costs by enterprise size (Fig. 1-3-6). Looking at all industries first, we can see that the ratio of sales to variable costs for medium and micro enterprises is at a lower level than that of large enterprises. From 1980 onwards, the trend has been for the ratio of sales to variable costs to decrease for both large enterprises and medium and micro enterprises. However, the decline has been proportionally greater for medium and micro enterprises than for large enterprises, which has tended to broaden the gap between large enterprises and medium and micro enterprises in terms of the ratio of sales to variable costs.

Looking at the figures by industry, the ratio of sales to variable costs for medium and micro enterprises in manufacturing is generally lower than for large enterprises. From 1980 onwards, the ratio started to decline for both large enterprises and medium and micro enterprises, but this transitioned to a weak increasing trend for both large enterprises and medium and micro enterprises going into the 2000s. In terms of the declines from 1980 onwards, the decrease was proportionally greater for medium and micro enterprises than for large enterprises, while the generally rising trend from the 2000s onwards was characterized on average by a proportionally smaller increase for medium and micro enterprises than for large enterprises, which tended to widen the gap in the ratio of sales to variable costs between large enterprises and medium and micro enterprises.

In the non-manufacturing industries, the trends are the same as for all industries.

Fig. 1-3-6 Ratio of sales to variable costs by enterprise size

(1) All industries



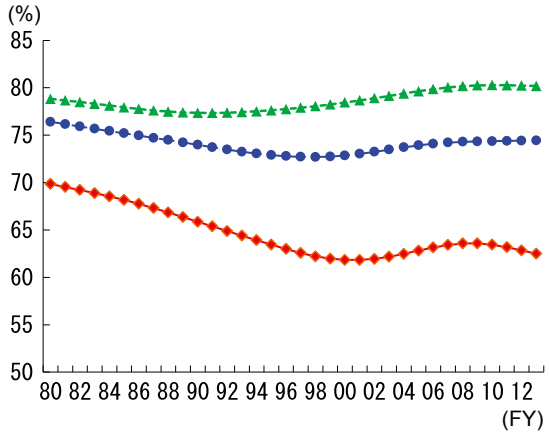
Average ratio of sales to variable costs, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	76. 8	81. 8	83. 4
1990s	73. 6	79. 9	81. 7
2000s	71. 3	78. 9	81. 6
2010–	69. 9	77. 9	81. 6

Difference in ratio of sales to variable costs with large enterprises (Large enterprises – medium enterprises/micro enterprises, %p)

	Micro enterprises	Medium enterprises
1980s	6. 7	1. 7
1990s	8. 2	1. 8
2000s	10. 3	2. 6
2010–	11. 7	3. 8

(2) Manufacturing industries



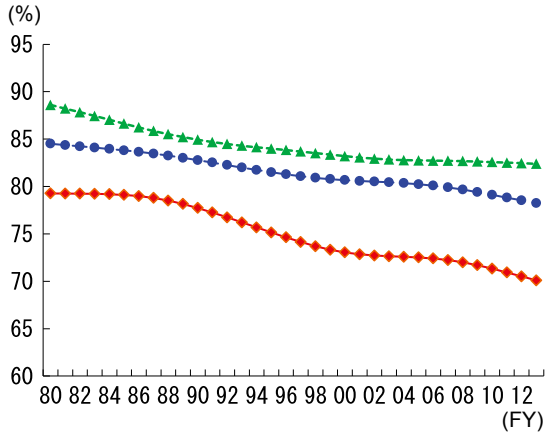
Average ratio of sales to variable costs, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	68. 2	75. 3	78. 1
1990s	63. 8	73. 1	77. 7
2000s	62. 7	73. 7	79. 5
2010–	63. 0	74. 4	80. 2

Difference in ratio of sales to variable costs with large enterprises (Large enterprises – medium enterprises/micro enterprises, %p)

	Micro enterprises	Medium enterprises
1980s	9. 8	2. 7
1990s	13. 9	4. 5
2000s	16. 8	5. 7
2010–	17. 3	5. 8

(3) Non-manufacturing industries



Average ratio of sales to variable costs, by time period (%)

	Micro enterprises	Medium enterprises	Large enterprises
1980s	79. 0	83. 8	86. 9
1990s	75. 5	81. 7	84. 1
2000s	72. 5	80. 2	82. 8
2010–	70. 7	78. 7	82. 5

Difference in ratio of sales to variable costs with large enterprises (Large enterprises – medium enterprises/micro enterprises, %p)

	Micro enterprises	Medium enterprises
1980s	7. 9	3. 0
1990s	8. 6	2. 4
2000s	10. 4	2. 6
2010–	11. 8	3. 8

Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. Here, “large enterprises” are defined as those with capital of at least ¥100 million, “medium enterprises” are those with capital of at least ¥10 million but less than ¥100 million, and “micro enterprises” are defined as enterprises with capital of less than ¥10 million.
2. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for each time series.

[7] Terms of trade for enterprises by enterprise size

In Fig. 1-3-2, it was shown that the terms of trade is one of the constituent elements of the ratio of sales to variable costs. In this section, we will look at the terms of trade enjoyed by enterprises of different sizes. The terms of trade used here are based on the The Bank of Japan's *National Short-Term Economic Survey of Enterprises in Japan* (*BOJ Tankan*). Specifically, the value of the sales price DI[4] minus the purchase cost DI[5] is defined as the terms-of-trade index, and this section will study the changes in this index[6].

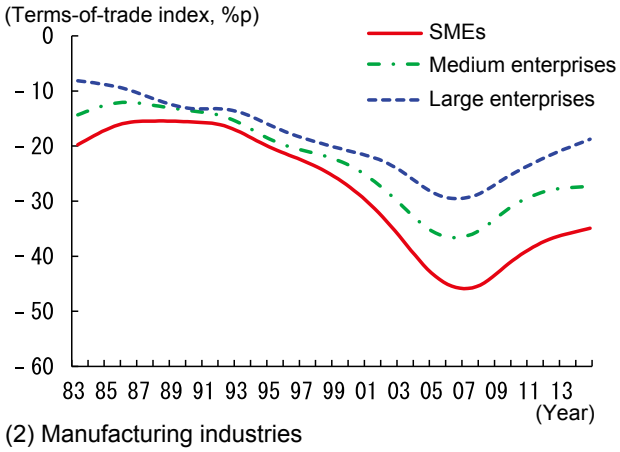
Looking at the terms-of-trade index by enterprise size for all industries, there was a continued negative trend for large enterprises, medium enterprises and SMEs from the 1980s through to the mid-2000s, but this bottomed out and began to improve from the mid-2000s onwards (Fig. 1-3-7). However, as of the 1990s, the worsening of the terms of trade increased in extent for SMEs, and the difference between the terms of trade for SMEs and large and medium enterprises started to grow, with the gap widening markedly in the 2000s. There has continued to be a significant difference in the years from 2010 onwards. Looking at the trends by industry, the terms of trade in the manufacturing industries worsened for large enterprises from the 1980s through to the mid-2000s. They also deteriorated for medium enterprises and SMEs from the 1990s to the mid-2000s, but from the mid-2000s onwards the terms of trade improved for large and medium enterprises and SMEs. However, from the mid-1990s onwards, the extent of the worsening of the terms of trade gradually increased for SMEs. The difference between the terms of trade for SMEs and large and medium enterprises started to grow, and there has continued to be a large gap in the years since 2010.

In non-manufacturing industries, there was an improving trend for large and medium enterprises and SMEs in the 1980s, but this peaked and began to decline in the 1990s through to the mid-2000s before starting to improve again from the mid-2000s onwards. However, as of the 1990s, the extent of the worsening in the terms of trade gradually increased for SMEs, and the difference between the terms of trade for SMEs and large and medium enterprises started to grow, with the gap widening markedly in the early 2000s. Starting in the latter half of the 2000s, the size of the improvement for SMEs has exceeded that for large and medium enterprises, resulting in a gradual closing of the gap.

4) The proportion (%p) represented by the percentage of enterprises who responded that sales prices "Rose" when compared with 3 months previously minus the percentage who responded "Fell".
5) The proportion (%p) represented by the percentage of enterprises who responded that purchase costs "Rose" when compared with 3 months previously minus the percentage who responded "Fell".
6) Due to statistical constraints, the enterprise sizes in the analysis using the BOJ Tankan are defined such that large enterprises are those with capital of at least ¥1 billion, medium enterprises are those with capital of at least ¥100 million but less than ¥1 billion, and SMEs are enterprises with capital of at least ¥20 million but less than ¥100 million. This means that large and medium enterprises as defined here both equate to large enterprises in the analysis for the *Financial Statements Statistics of Corporations by Industry, Annually*.

Fig. 1-3-7 Terms of trade for enterprises by enterprise size

(1) All industries



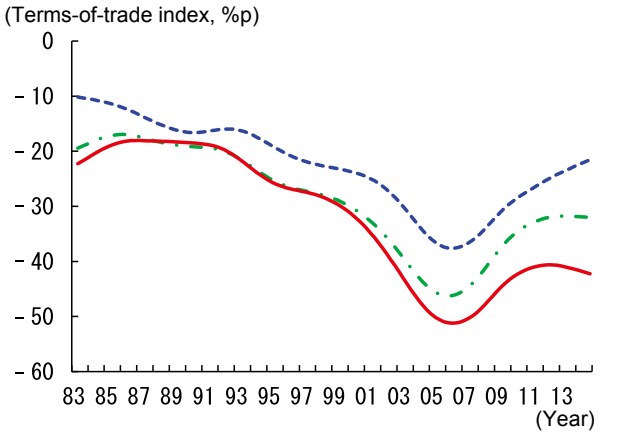
Pseudo terms-of-trade index of enterprises, by time period (%p)

	Large enterprises	Medium enterprises	SMEs
1980s	－10.2	－12.8	－16.5
1990s	－16.2	－18.1	－20.1
2000s	－26.0	－32.0	－39.4
2010–	－21.7	－28.4	－37.2

Difference between large/medium enterprises and SMEs (Large/medium enterprises – SMEs)

	Large enterprises	Medium enterprises
1980s	6.2	3.7
1990s	3.9	2.0
2000s	13.4	7.5
2010–	15.5	8.8

(2) Manufacturing industries



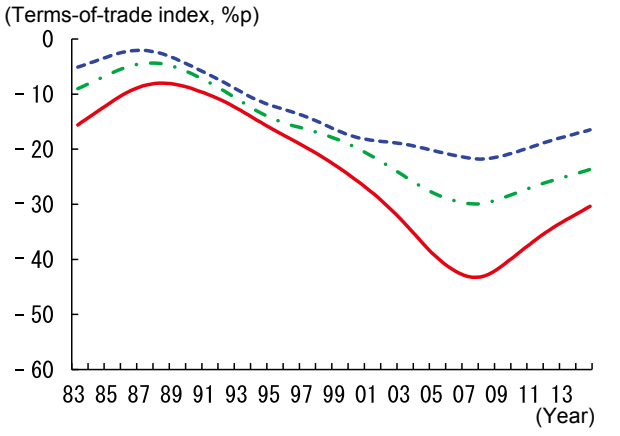
Pseudo terms-of-trade index of enterprises, by time period (%p)

	Large enterprises	Medium enterprises	SMEs
1980s	－13.0	－18.0	－19.0
1990s	－19.1	－24.1	－24.2
2000s	－31.6	－39.7	－44.1
2010–	－25.0	－32.6	－41.4

Difference between large/medium enterprises and SMEs (Large/medium enterprises – SMEs)

	Large enterprises	Medium enterprises
1980s	6.0	1.0
1990s	5.1	0.1
2000s	12.5	4.4
2010–	16.4	8.8

(3) Non-manufacturing industries



Pseudo terms-of-trade index of enterprises, by time period (%p)

	Large enterprises	Medium enterprises	SMEs
1980s	－3.2	－5.8	－10.4
1990s	－11.3	－13.1	－15.9
2000s	－20.0	－26.2	－36.3
2010–	－18.5	－25.8	－34.7

Difference between large/medium enterprises and SMEs (Large/medium enterprises – SMEs)

	Large enterprises	Medium enterprises
1980s	7.3	4.6
1990s	4.6	2.7
2000s	16.3	10.1
2010–	16.2	8.9

Source: Bank of Japan, *National Short-Term Economic Survey of Enterprises in Japan*.

Notes:
1. Here, “large enterprises” are defined as those with capital of at least ¥1 billion, “medium enterprises” are those with capital of at least ¥100 million but less than ¥1 billion, and “SMEs” are defined as enterprises with capital of at least ¥20 million but less than ¥100 million.
2. The pseudo terms-of-trade index is the sales price DI (the proportion of enterprises who responded that sales prices “Rose” when compared with 3 months previously minus the proportion who responded “Fell”) minus the purchase cost DI (the proportion of enterprises who responded that purchase costs “Rose” when compared with 3 months previously minus the proportion who responded “Fell”).
3. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for the index.

[8] Characteristics of profitability in large enterprises and SMEs as shown by the ratio of sales to variable costs

Based on Figs 1-3-3, -4, -6 and -7, the changes in profitability that have arisen among large enterprises and medium and micro enterprises can be summarized as follows:

(1) From the 2000s onwards, while the difference in the recurring profit margin between large enterprises and medium and micro enterprises increased, the recurring profit margin was also trending upwards for medium and micro enterprises. However, sales for medium and micro enterprises remained static.

(2) The difference between large enterprises and medium and micro enterprises in terms of the ratio of sales to variable costs also tended to increase, but this was due to the substantial fall in the ratio of sales to variable costs for medium and micro enterprises.

(3) With regard to the terms of trade for large enterprises and SMEs, the terms of trade for SMEs worsened relative to the terms for large enterprises, particularly from the latter half of the 1990s through to the first half of the 2000s, which widened the gap in the terms of trade between large enterprises and SMEs.

Based on points (1) to (3) above, medium and micro enterprises have, since the 2000s, have made efforts to increase their added value in the face of a declining ratio of sales to variable costs, and through these efforts have boosted their recurring profit margins. Indeed, this trend is more pronounced in medium and micro enterprises than in large enterprises. In addition, declining or static sales for medium and micro enterprises since the 1990s have combined with a widening gap in the terms of trade between large enterprises and SMEs that opened up from the second half of the 1990s through to the first half of the 2000s, due largely to the worsening terms of trade for SMEs relative to large enterprises. Given these circumstances, the efforts by medium and micro enterprises to increase added value are presumably through increased productivity.

[9] Characteristics of profitability in large enterprises and SMEs

Based on the analysis conducted thus far and with Fig. 1-3-2 in mind, we can organize the characteristics for profitability in large enterprises and medium and micro enterprises as shown below.

(0) Profitability

The difference in the recurring profit margin between large enterprises and medium and micro enterprises has increased, especially since the 2000s, due to the fact that the profitability of large enterprises has outstripped that of medium and micro enterprises.

(1) Demand development

The difference between large enterprises and medium and micro enterprises in terms of the average sales per company has increased, especially since the second half of the 1990s, due to the fact that sales by large enterprises have exceeded those of medium and micro enterprises.

(2) Reductions in fixed costs

In the latter half of the 1990s in particular, large enterprises contributed to a rise in their recurring profit margins by reducing their fixed costs to a greater extent than medium and micro enterprises.

(3) Economies of scale

Large enterprises enjoyed the benefits of economies of scale as their sales recovered and production levels increased, particularly in the the 2000s. This enabled them to boost their recurring profit margins relative to medium and micro enterprises.

(4) Terms of trade

The terms of trade for SMEs worsened relative to the terms for large enterprises, particularly from the latter half of the 1990s through to the first half of the 2000s, and this widened the disparity in the terms of trade between large enterprises and SMEs.

(5) Increased productivity

Among medium and micro enterprises in the 2000s in particular, efforts to increase added value by achieving greater improvements in their productivity than large enterprises probably contributed to a rise in their recurring profit margins.

In this way, large enterprises reduced their fixed costs to a greater extent than medium and micro enterprises and were able to increase their profitability through the effects of economies of scale. Medium and micro enterprises on the other hand succeeded in increasing their profitability by working to increase their added value by increasing their productivity more than large enterprises. This is analyzed in more detail below, but one causative factor in the widening disparity in profitability between large enterprises and medium and micro enterprises revealed by

the average values is the downward pressure applied by profit declines at low-profit medium and micro enterprises.

[10] Comparison of recurring profit margins in enterprises of the same size

So far, we have looked at the characteristics of profitability in enterprises by comparing enterprises of different sizes. Below, we look at these characteristics by comparing the profitability of enterprises of the same size. When we compare the averages for same-size enterprises with a recurring profit margin in the top 25% (high-profit enterprises) with the averages for same-size enterprises with a recurring profit margin in the bottom 25% (low-profit enterprises), we can see a tendency for that difference to increase across all industries, regardless of the enterprise size (Fig. 1-3-8).

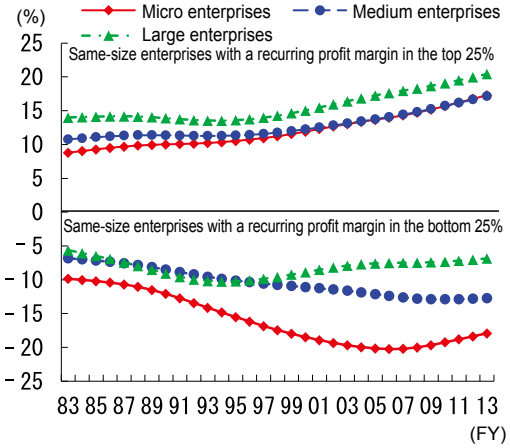
And when we compare large enterprises with medium and micro enterprises in the low-profit enterprise sector, large enterprises tended to improve steadily while medium and micro enterprises declined further, with deterioration among micro enterprises being particularly marked.

By contrast, among high-profit enterprises, both large enterprises and medium and micro enterprises exhibited the same high levels of performance. This suggests that the growing disparity in recurring profit margins between large enterprises and medium and micro enterprises that was observed when we looked at the overall averages is to some extent caused by profit downturns among low-profit medium and micro enterprises.

Looking at the figures by industry, the observable trends are the same as for all industries. But when we focus on high-profit enterprises in the manufacturing industries, the recurring profit margins for micro enterprises typically increased at a higher rate than those of large enterprises from the second half of the 2000s onwards.

Fig. 1-3-8 Comparison of recurring profit margins among enterprises of the same size

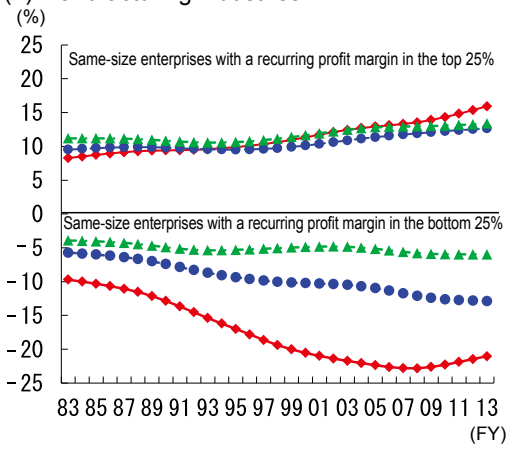
(1) All industries



Average recurring profit margin of enterprises with a recurring profit margin in the top 25% and bottom 25%, by time period (%)

	Micro enterprises			Medium enterprises			Large enterprises		
	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)
1980s	9.4	−10.5	20.0	11.1	−7.4	18.6	14.1	−7.0	21.1
1990s	10.6	−15.1	25.7	11.5	−9.9	21.3	13.9	−9.8	23.7
2000s	13.5	−19.7	33.2	13.6	−12.0	25.7	17.0	−7.9	24.8
2010–	16.5	−18.6	35.1	16.4	−12.8	29.2	19.7	−7.1	26.8

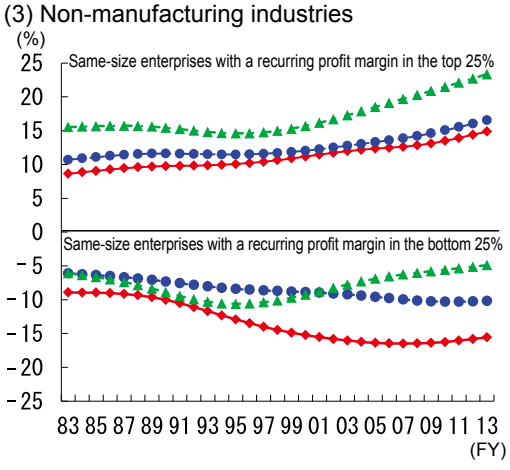
(2) Manufacturing industries



Average recurring profit margin of enterprises with a recurring profit margin in the top 25% and bottom 25%, by time period (%)

	Micro enterprises			Medium enterprises			Large enterprises		
	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)
1980s	8.9	−10.8	19.7	9.8	−6.3	16.0	11.1	−4.2	15.3
1990s	10.0	−16.6	26.5	9.7	−9.0	18.7	10.8	−5.2	16.0
2000s	12.7	−22.0	34.7	11.2	−11.1	22.2	12.6	−5.2	17.8
2010–	15.1	−21.7	36.8	12.5	−12.8	25.2	13.2	−6.0	19.2

(3) Non-manufacturing industries



Average recurring profit margin of enterprises with a recurring profit margin in the top 25% and bottom 25%, by time period (%)

	Micro enterprises			Medium enterprises			Large enterprises		
	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)	Top 25%	Bottom 25%	Difference (top 25% – bottom 25%)
1980s	9.2	−9.1	18.4	11.2	−6.5	17.8	15.7	−7.1	22.7
1990s	10.1	−12.5	22.7	11.6	−8.2	19.8	14.9	−10.0	25.0
2000s	12.2	−16.1	28.3	13.2	−9.5	22.7	18.2	−7.3	25.5
2010–	14.2	−15.9	30.1	15.8	−10.3	26.0	22.4	−5.2	27.6

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

Notes:
1. Here, “large enterprises” are defined as those with capital of at least ¥100 million, “medium enterprises” are those with capital of at least ¥10 million but less than ¥100 million, and “micro enterprises” are defined as enterprises with capital of less than ¥10 million.
2. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for each time series.
3. Values for recurring profit margin that exceeded 100% or that failed to reach –100% were treated as erroneous and excluded.

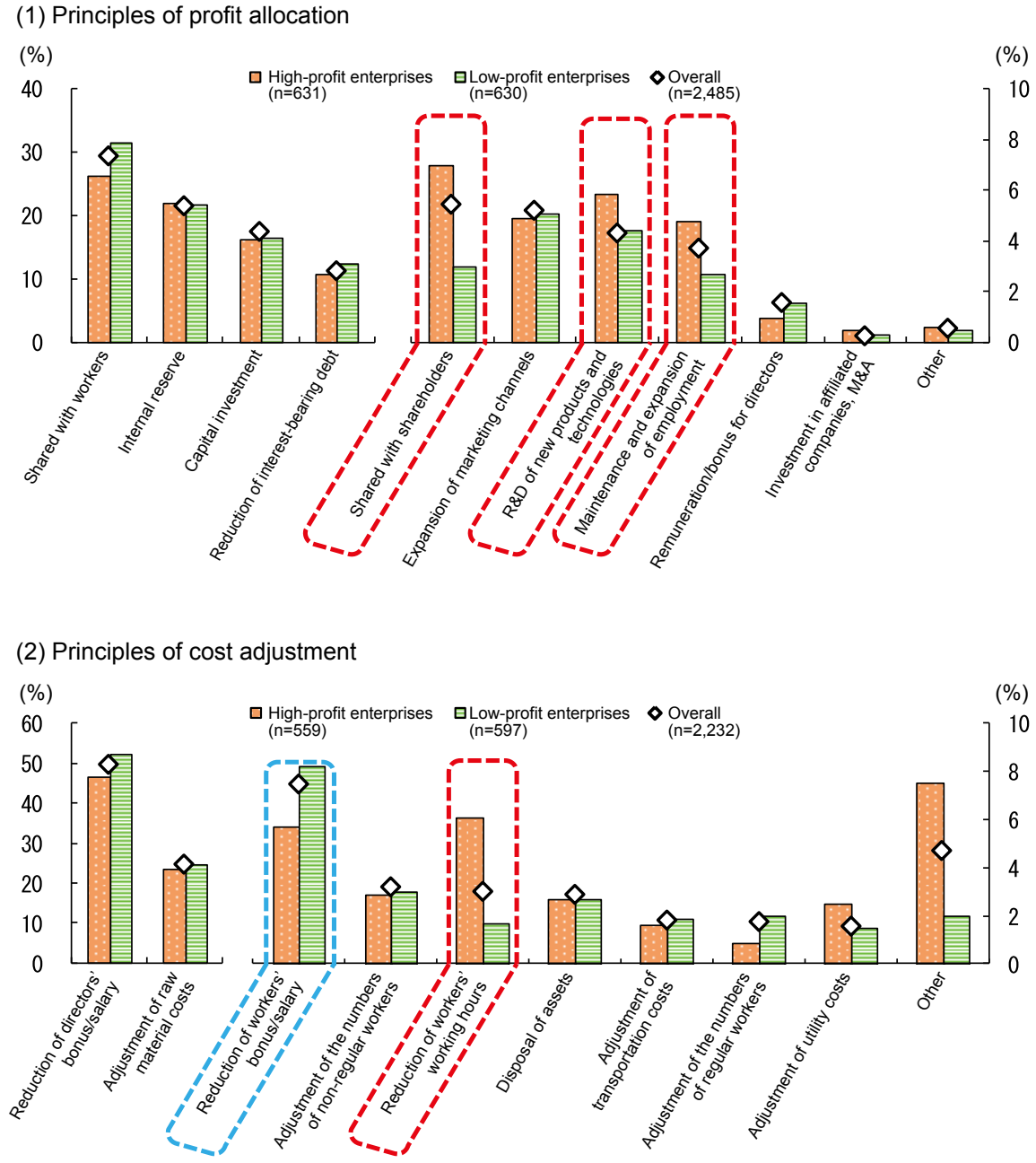
[11] Characteristics of SME management approaches by profitability

Next, we will look at SMEs, focusing on the particular characteristics of high-profit and low-profit enterprises and the differences in their approaches to profit allocation and cost adjustment, as revealed by survey results[7), 8)]. Starting with their approaches to profit allocation, both high-profit and low-profit enterprises[9)] placed a high value on "Shared with workers", "Internal reserve", "Capital investment" and "Reduction of interest-bearing debt" (Fig. 1-3-9 (1)). Noticeable differences between high-profit and low-profit enterprises arose for the "Shared with shareholders", "R&D of new products and technologies" and "Maintenance and expansion of employment" responses, which were selected by a higher proportion of high-profit enterprises than low-profit enterprises, albeit on a relatively low number of responses.

In terms of their approaches to cost adjustment, high-profit and low-profit enterprises both stressed "Reduction of directors' bonus/salary" and "Adjustment of raw material costs" (Fig. 1-3-9 (2)). In contrast to this, while the number of responses was low, there were clear differences between high-profit and low-profit enterprises on the "Reduction of workers' working hours" and "Reduction of workers' bonus/salary" responses. While a significantly higher proportion of high-profit enterprises see "Reduction of workers' working hours" as important when compared with low-profit enterprises, a higher proportion of low-profit enterprises attach importance to "Reduction of workers' bonus/salary" than is the case for high-profit enterprises. This suggests that while high-profit enterprises are able to adjust their personnel costs by rearranging their working hours to minimize workers' overtime, there are many cases where low-profit enterprises do not have the same leeway.

7) September 2014 survey of roughly 40,000 companies conducted by Teikoku Databank, Ltd. commissioned by the SME Agency. Responses were received from 2,655 companies (effective response rate of 6.9%).
8) Totals for SMEs. Here, SMEs are defined as follows:
Manufacturing, Other: Enterprises with capital of ¥300 million or less, or no more than 300 workers
Wholesale trade: Enterprises with capital of ¥100 million or less, or no more than 100 workers
Retail trade: Enterprises with capital of ¥50 million or less, or no more than 50 workers
Services: Enterprises with capital of ¥50 million or less, or no more than 100 workers
9) In the analysis of the survey results, those surveyed SMEs in the top 25% by recurring profit margin were taken to be high-profit enterprises, and those in the bottom 25% were taken to be low-profit enterprises.

Fig. 1-3-9 Approaches to profit allocation and cost adjustment

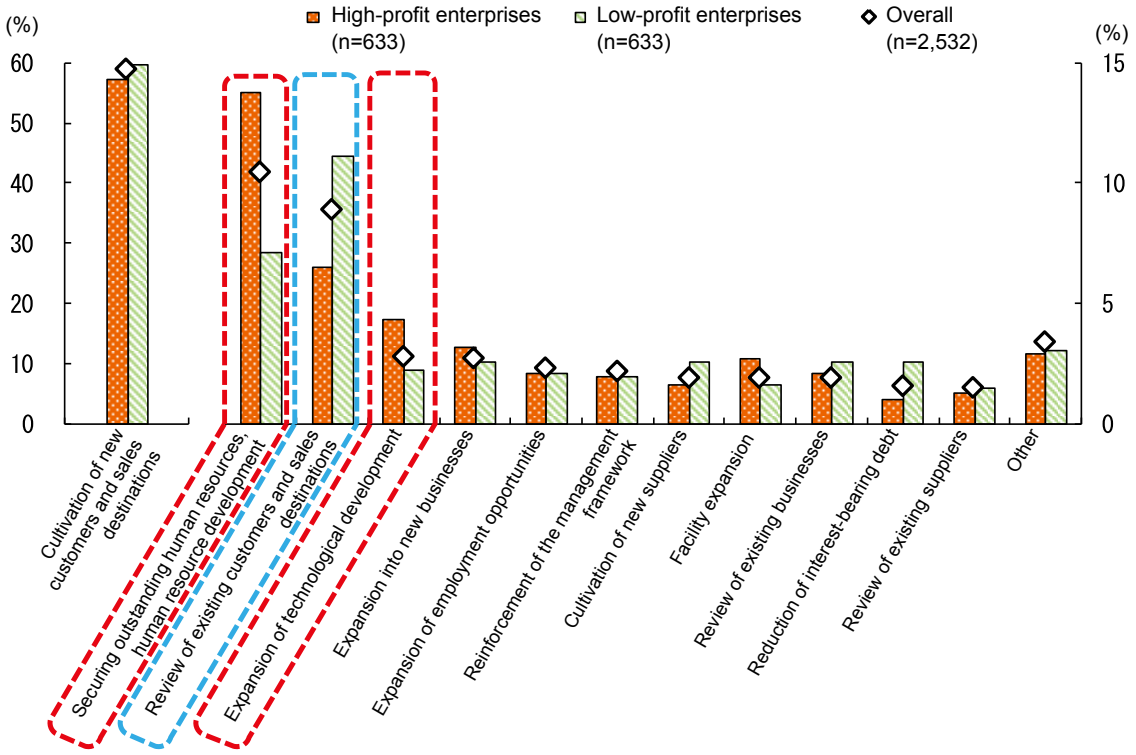


Source: Teikoku Databank, Ltd., *Survey of Structural Competitiveness in Large Enterprises and SMEs* (September 2014), commissioned by the SME Agency.
Note: Those surveyed SMEs in the top 25% by recurring profit margin are referred to as high-profit enterprises, and those in the bottom 25% are referred to as low-profit enterprises.

When we also looked at the issues around increasing profits for SMEs, the highest proportions of both high-profit and low-profit enterprises opted for "Cultivation of new customers and sales destinations" (Fig. 1-3-10). By contrast, a significantly higher proportion of high-profit enterprises opted for "Securing outstanding human resources, human resource development" or "Expansion of technological development" when compared with low-profit enterprises, while the proportion of low-profit enterprises who selected "Review of existing customers and sales destinations" was noticeably higher than for high-profit enterprises. A higher proportion of low-profit

enterprises also chose "Review of existing businesses" or "Reduction of interest-bearing debt", though the number of responses was low. From these results, we gather that high-profit enterprises have a heightened awareness of measures that will increase sales in the medium- and long-term, while low-profit enterprises seem more strongly attracted to measures that will reduce their costs.

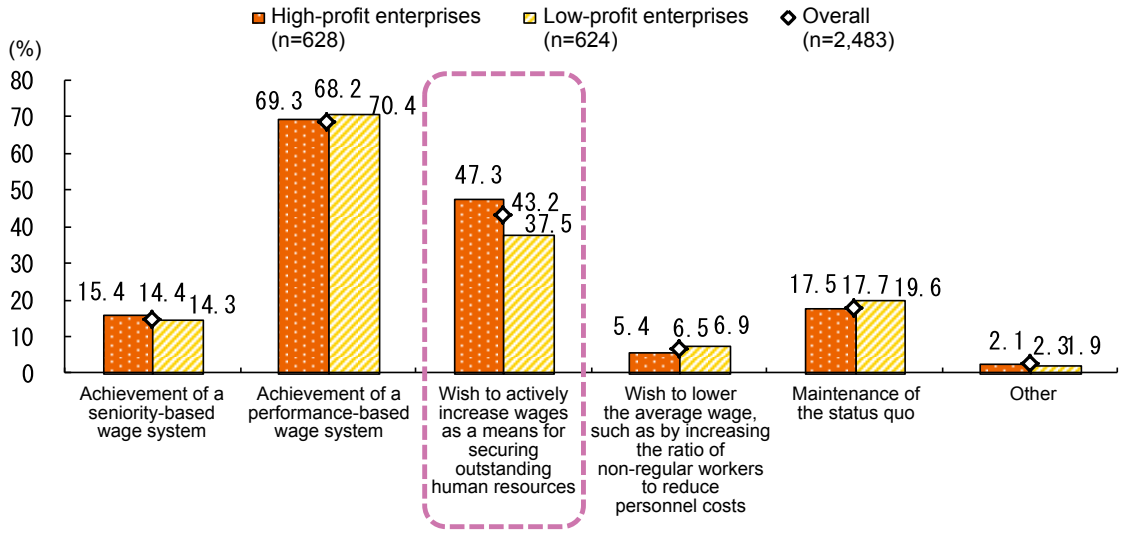
Fig. 1-3-10 Issues for increasing profits in SMEs



Source: Teikoku Databank, Ltd., *Survey of Structural Competitiveness in Large Enterprises and SMEs* (September 2014), commissioned by the SME Agency.
Note: Those surveyed SMEs in the top 25% by recurring profit margin are referred to as high-profit enterprises, and those in the bottom 25% are referred to as low-profit enterprises.

As discussed above, we have seen that high-profit enterprises are more strongly conscious than low-profit enterprises of the need to secure and develop human resources, but what are their attitudes to wages? When we looked at the approaches of high-profit and low-profit enterprises to future wages, the highest proportions of both high-profit and low-profit enterprises opted for "Achievement of a performance-based wage system". But the proportion of high-profit enterprises who selected "Wish to actively increase wages as a means for securing outstanding human resources" was markedly higher than that for low-profit enterprises (Fig. 1-3-11). These results clearly show that strongly growth-oriented high-profit enterprises are willing to actively increase wages in order to secure outstanding personnel.

Fig. 1-3-11 Approaches to future wages



Source: Teikoku Databank, Ltd., *Survey of Structural Competitiveness in Large Enterprises and SMEs* (September 2014), commissioned by the SME Agency.
Note: Those surveyed SMEs in the top 25% by recurring profit margin are referred to as high-profit enterprises, and those in the bottom 25% are referred to as low-profit enterprises.

[12] SME labor productivity by profitability

As discussed above, there appears to be a clear difference between high-profit enterprises and low-profit enterprises in their awareness of issues relating to securing and developing outstanding personnel. But is this difference between high-profit and low-profit enterprises in their awareness of the issues also related to the productivity of the enterprises? When we look at labor productivity in high-profit and low-profit enterprises taking an index value of 100 for 1983, high-profit and low-profit enterprises showed similar increases through the 1980s across all industries. In the 1990s however, while highly profitable medium enterprises continued to improve, labor productivity at highly profitable micro enterprises started to decline before returning to an upward trend in the 2000s (Fig. 1-3-12). In low-profit enterprises, there was a continuing declining trend from the 1990s onwards, but this turned upwards again for micro enterprises from the second half of the 2000s onwards. As a result, the difference between high-profit enterprises and low-profit enterprises in terms of labor productivity growth became more marked as of the 1990s and has remained significant since 2010.

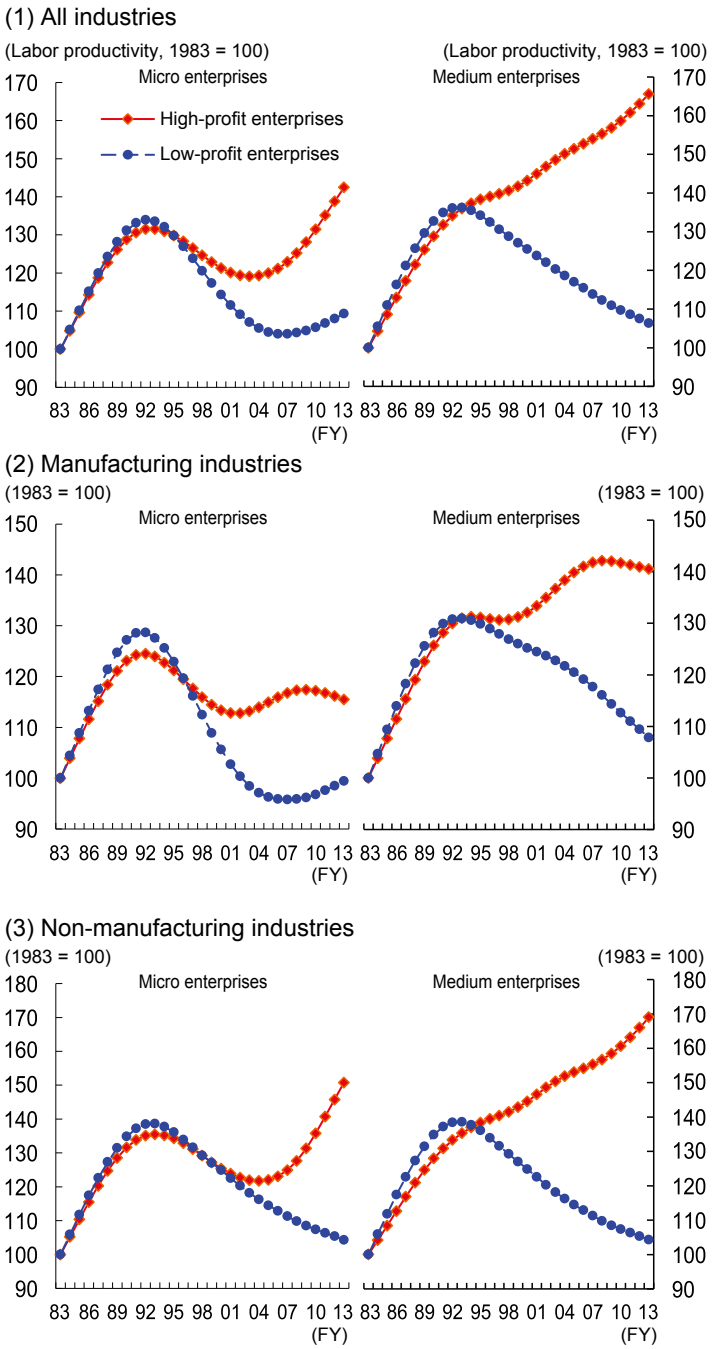
Looked at by industry, high-profit and low-profit enterprises in the manufacturing industries showed similar increases through the 1980s. In the 1990s however, while highly profitable medium enterprises continued to improve, labor productivity at highly profitable micro enterprises started to decline before returning to an upward trend in the 2000s. From the second half of the 2000s onwards, improvements in labor productivity have remained static for highly profitable medium enterprises and micro enterprises. However, low-profit enterprises experienced continuing declines from the 1990s onwards, but for micro enterprises this turned upwards again from the second half of the 2000s onwards. As a result, the difference between high-profit enterprises and low-profit enterprises in terms of labor productivity growth became more marked as of the 1990s and has remained significant since 2010.

In the non-manufacturing industries also, high-profit and low-profit enterprises again showed similar increases through the 1980s. In the 1990s however, while highly profitable medium enterprises continued to improve, labor productivity at highly profitable micro enterprises started to decline before returning to an upward trend in

the 2000s. Conversely, labor productivity at low-profit enterprises has continued to decline from the 1990s onwards. As a result, the difference between high-profit enterprises and low-profit enterprises in terms of labor productivity growth became more marked as of the 1990s and has remained significant since 2010.

The above data not only indicates that high-profit enterprises are strongly aware of the value of securing and developing outstanding personnel, the actual labor productivity growth also shows that those enterprises achieve higher growth than low-profit enterprises.

Fig. 1-3-12 Labor productivity and differences in profitability among SMEs



Labor productivity of high-profit and low-profit enterprises, by time period

	Micro enterprises		
	High-profit enterprises	Low-profit enterprises	Difference
1980s	113.8	114.7	−0.9
1990s	128.5	128.2	0.3
2000s	121.6	106.9	14.7
2010−	137.0	107.5	29.5

	Medium enterprises		
	High-profit enterprises	Low-profit enterprises	Difference
1980s	112.9	115.6	−2.7
1990s	136.8	132.9	3.9
2000s	150.5	118.0	32.5
2010−	162.1	108.0	54.1

Labor productivity of high-profit and low-profit enterprises, by time period

	Micro enterprises		
	High-profit enterprises	Low-profit enterprises	Difference
1980s	111.2	112.9	−1.7
1990s	120.8	121.8	−1.0
2000s	114.9	98.4	16.5
2010−	116.4	98.1	18.4

	Medium enterprises		
	High-profit enterprises	Low-profit enterprises	Difference
1980s	111.4	113.4	−2.0
1990s	130.1	129.0	1.1
2000s	138.2	120.6	17.7
2010−	141.1	110.2	30.9

Labor productivity of high-profit and low-profit enterprises, by time period

	Micro enterprises		
	High-profit enterprises	Low-profit enterprises	Difference
1980s	115.0	115.4	−0.4
1990s	132.6	131.0	1.6
2000s	124.5	111.0	13.5
2010−	143.3	110.4	32.9

	Medium enterprises		
	High-profit enterprises	Low-profit enterprises	Difference
1980s	112.5	116.6	−4.1
1990s	136.7	134.5	2.2
2000s	152.0	115.9	36.1
2010−	164.7	105.8	58.9

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

Notes:
1. Labor productivity is calculated as follows:
   Labor productivity = Added value/Average no. of workers during the period
   Added value = Net operating profit (operating profit - interest paid, etc.) + payroll (directors' salaries (including bonuses) + worker salaries (including bonuses)) + welfare benefits + leasing costs for property/real estate + interest paid, etc. + tax and dues + depreciation
2. Here, "large enterprises" are defined as those with capital of at least ¥100 million, "medium enterprises" are those with capital of at least ¥10 million but less than ¥100 million, and "micro enterprises" are defined as enterprises with capital of less than ¥10 million.
3. The HP (Hodrick-Prescott) filter was used to obtain smoothed values for each time series.
4. Values for recurring profit margin that exceeded 100% or that failed to reach −100% were treated as erroneous and excluded.
5. Labor productivity values of 0 or less were treated as erroneous and discarded.

[13] Status of worsening terms of trade for SMEs and micro-businesses

Fig. 1-3-7 showed that the terms of trade for SMEs have worsened, so now we will look at the results of a survey into the specific business partners with whom SMEs and micro-businesses have felt themselves to be at a disadvantage in their dealings.

If we begin by looking at the sorts of business partners with whom SMEs felt themselves to be in an unfavorable position when setting purchase costs, the highest proportion of responding enterprises (60.7%) chose "Larger companies in the same industry". When the results are broken down by industry, the proportion is still high for both manufacturing and non-manufacturing industries (Fig. 1-3-13 (1)). The next most frequently selected response (51.7%) is "Suppliers", with a slightly higher proportion of enterprises in manufacturing choosing that option compared with enterprises in non-manufacturing industries. The overall proportion of enterprises who selected "Same-size companies in the same industry" was 15.0%, with the proportion of enterprises in non-manufacturing industries being slightly higher than that of manufacturing enterprises.

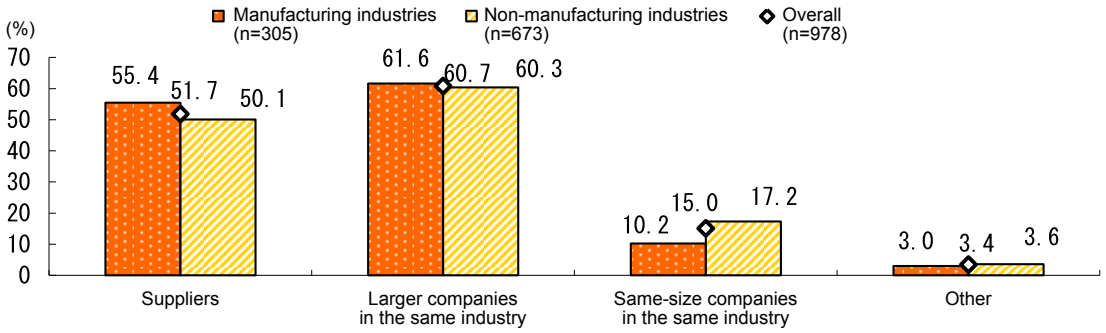
Given that so many enterprises opted for "Larger companies in the same industry" and "Suppliers", the disadvantage experienced by SMEs in setting purchase costs is down to the fact that the larger the enterprise, the greater the quantity purchased, which enables larger enterprises to push down the unit price when goods or services are purchased from smaller enterprises. It is also very likely that large enterprises may well be major customers and consequently have significant negotiating power when it comes to setting purchase costs. Also, a higher proportion of enterprises in non-manufacturing industries responded "Same-size companies in the same industry" compared with manufacturing enterprises, which indicates that factors other than enterprise size and business relationship are more at play in non-manufacturing than in manufacturing industries when it comes to competitive advantage in purchasing.

If we also look at the sorts of business partners with whom SMEs felt at a disadvantage with regard to setting sales prices, the highest proportion of responding enterprises (61.6%) chose "Customers". When the results are broken down by industry, the proportion is higher for manufacturing than for non-manufacturing industries (Fig. 1-3-13 (2)). Overall, 51.8% of the enterprises who responded selected "Larger companies in the same industry" with the proportion in the non-manufacturing industries being slightly higher than that of manufacturing enterprises. The overall proportion of enterprises who selected "Same-size companies in the same industry" was 18.2%, with no major differences between proportions of enterprises in non-manufacturing and in manufacturing enterprises.

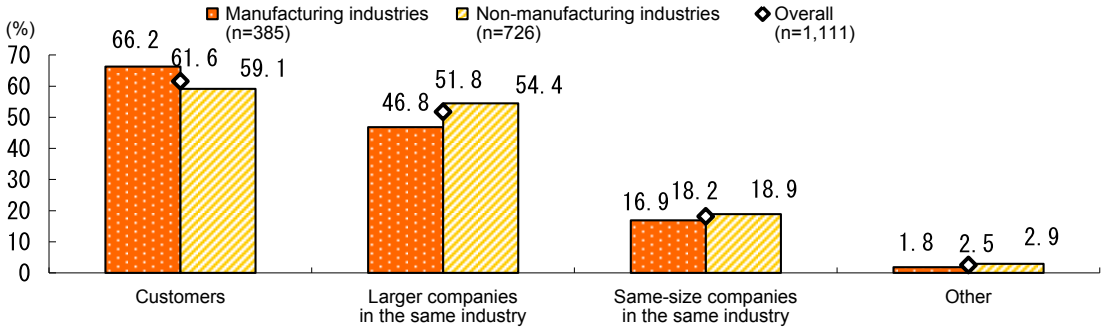
The fact that so many enterprises responded "Customers" and "Larger companies in the same industry" is most probably because SMEs who feel themselves to be at a disadvantage in setting sales prices, particularly in the manufacturing industries, have little negotiating power when setting sales prices for clients placing orders. It is also highly likely that SMEs in the non-manufacturing industries have little price competitiveness when compared with large enterprises.

Fig. 1-3-13 Business partners with whom SMEs feel at a disadvantage

(1) Business partners to whom SMEs feel at a disadvantage with regard to purchase costs



(2) Business partners to whom SMEs feel at a disadvantage with regard to sales prices



Source: Teikoku Databank, Ltd., *Survey of Structural Competitiveness in Large Enterprises and SMEs* (September 2014), commissioned by the SME Agency.

[14] Issues towards improving the terms of trade for SMEs and micro-businesses

In this section, we use the results of a survey to look at the issues that SMEs would consider so as to improve the terms of trade, given the current situation with regard to purchase costs and sales prices.

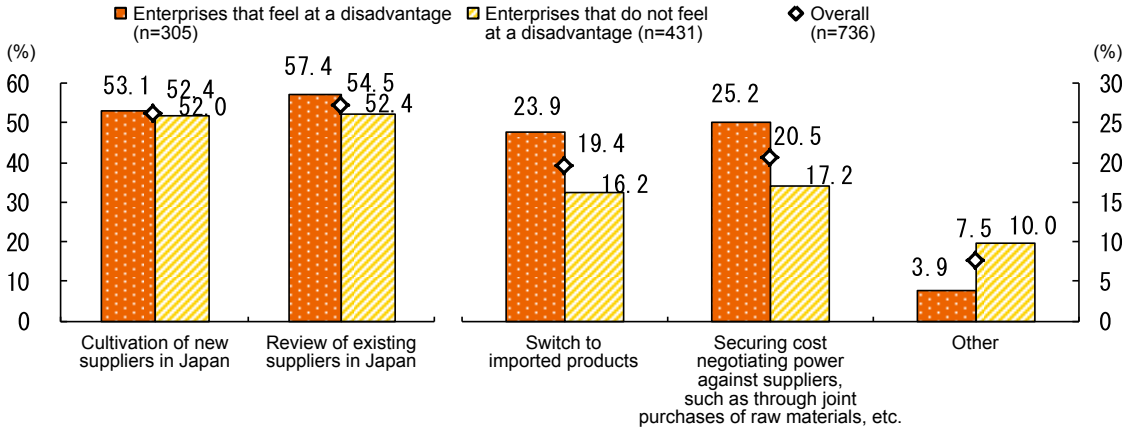
We begin by looking at the issues among manufacturing SMEs (Fig. 1-3-14 (1)). As issues towards addressing the current situation for purchase costs, the highest proportion of enterprises (54.5%) responded "Review of existing suppliers in Japan". This was followed by "Cultivation of new suppliers in Japan" (52.4%), "Securing cost negotiating power against suppliers, such as through joint purchases of raw materials, etc." (20.5%) and "Switch to imported products" (19.4%). When we compare the proportions of enterprises who responded when asked whether they feel at a disadvantage in setting purchase costs, we can see that high proportions selected "Review of existing suppliers in Japan", "Securing cost negotiating power against suppliers, such as through joint purchases of raw materials, etc." and "Switch to imported products", indicating that they are in a position of disadvantage.

As issues towards addressing the current situation for sales prices, the highest proportion of enterprises (71.5%) responded "Increasing the added value of products and services handled". The next most frequently chosen

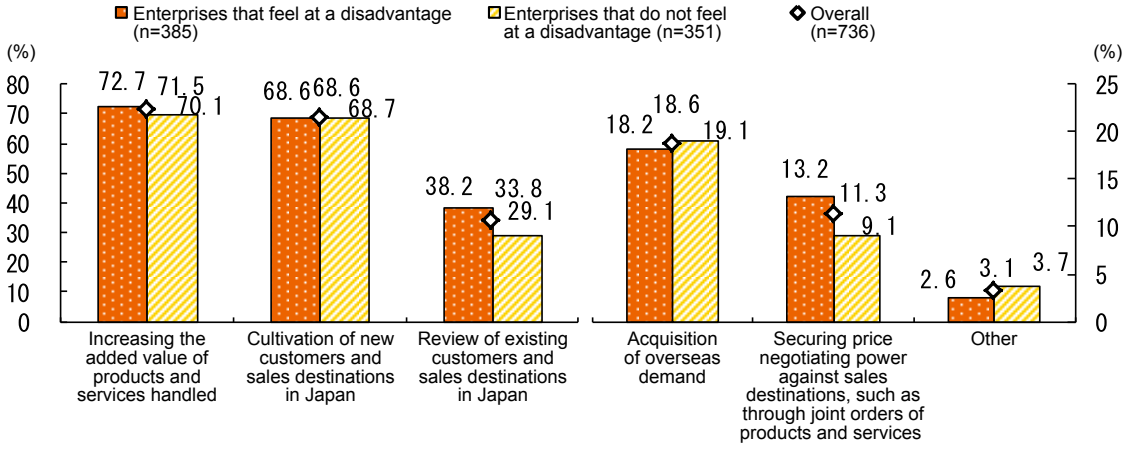
option was “Cultivation of new customers and sales destinations in Japan” (68.6%), followed by “Review of existing customers and sales destinations in Japan” (33.8%), “Acquisition of overseas demand” (18.6%), and “Securing price negotiating power against sales destinations, such as through joint orders of products and services” (11.3%). When we compare the proportions of enterprises who responded when asked whether they feel at a disadvantage in setting sales prices, we can see that high proportions selected “Review of existing customers and sales destinations in Japan” and “Securing price negotiating power against sales destinations, such as through joint orders of products and services”, indicating that they are in a position of disadvantage.

Fig. 1-3-14 (1) Issues towards improving the terms of trade for SMEs (manufacturing)

(1) Issues toward improving purchase costs



(2) Issues toward improving sales prices

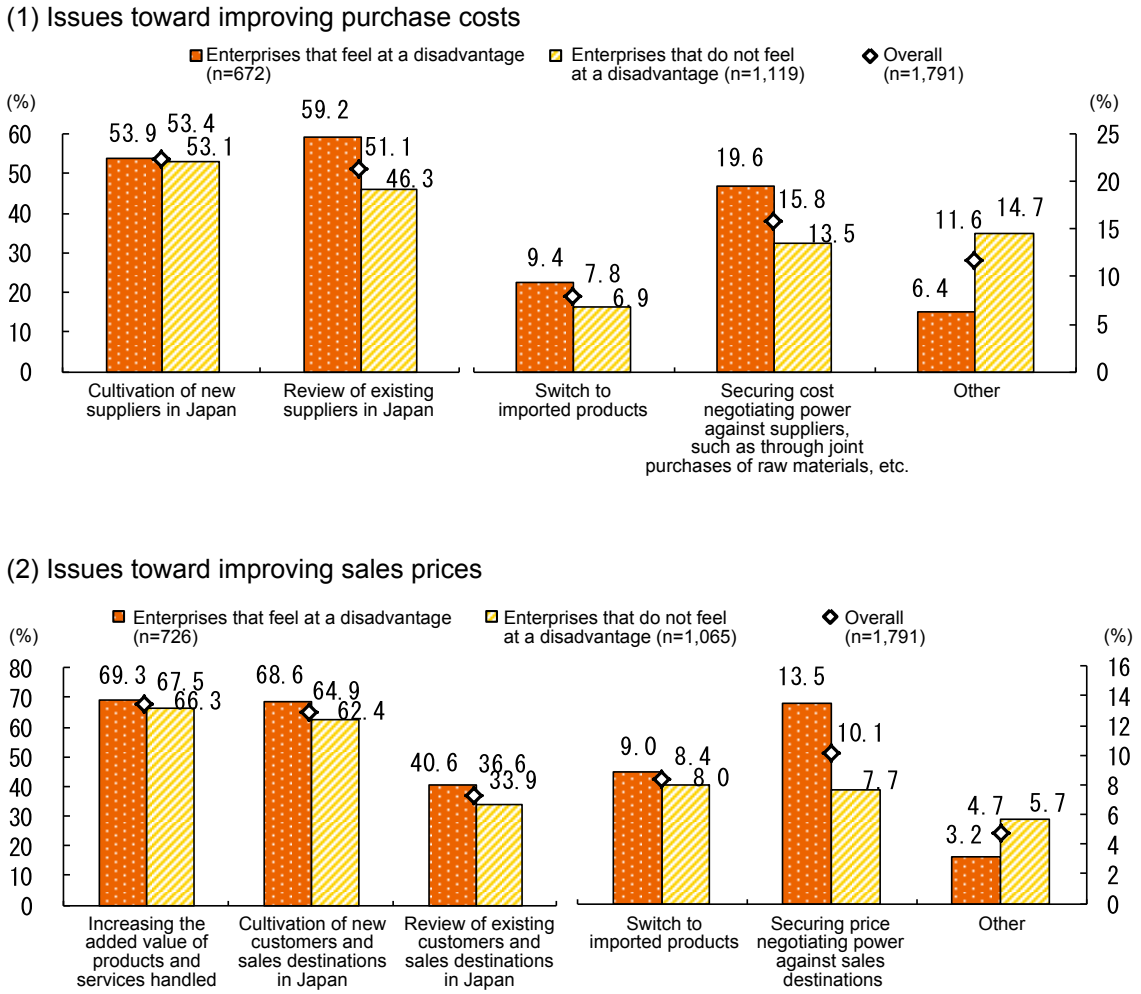


Source: Teikoku Databank, Ltd., *Survey of Structural Competitiveness in Large Enterprises and SMEs* (September 2014), commissioned by the SME Agency.

Next, we look at the issues among non-manufacturing SMEs (Fig. 1-3-14 (2)). As issues towards improving purchase costs, the highest proportion of enterprises (53.4%) responded "Cultivation of new suppliers in Japan". This was followed by "Review of existing suppliers in Japan" (51.1%), "Securing cost negotiating power against suppliers, such as through joint purchases of raw materials, etc." (15.8%) and "Switch to imported products" (7.8%). When we separately compare the proportions of enterprises who responded when asked whether they feel at a disadvantage in setting purchase costs, as in the manufacturing industries, we can see that high proportions selected "Review of existing suppliers in Japan", "Securing cost negotiating power against suppliers, such as through joint purchases of raw materials, etc." and "Switch to imported products", indicating that they are in a position of disadvantage.

As issues towards improving sales prices, the highest proportion of enterprises (67.5%) responded "Increasing the added value of products and services handled". The next most frequently chosen option was "Cultivation of new customers and sales destinations in Japan" (64.9%), followed by "Review of existing customers and sales destinations in Japan" (36.6%), "Securing price negotiating power against sales destinations, such as through joint orders of products and services" (10.1%) and "Acquisition of overseas demand" (8.4%). When we then compare the proportions of enterprises who responded when asked whether they feel at a disadvantage in setting sales prices, we can see that high proportions selected "Cultivation of new customers and sales destinations in Japan", "Review of existing customers and sales destinations in Japan" and "Securing price negotiating power against sales destinations, such as through joint orders of products and services", indicating that they are in a position of disadvantage.

Fig. 1-3-14 (2) Issues towards improving the terms of trade for SMEs (non-manufacturing)



Source: Teikoku Databank, Ltd., *Survey of Structural Competitiveness in Large Enterprises and SMEs* (September 2014), commissioned by the SME Agency.

Based on the results shown in Fig. 1-3-14 (1) and (2), the issues for improving the terms of trade for SMEs can be organized into four factors that yield negotiating power, as follows: (1) reviewing existing customers and cultivating new customers to boost business "metabolism"; (2) cultivating new demand so as to create more added value for products and services; (3) identifying expansion in markets, including offshore markets; (4) forming organizations to overcome the constraints of scale (Fig. 1-3-15).

These four factors can be further classified into two types of initiative: (1) growth initiatives; and (2) initiatives for overcoming restraints, as shown below.

(1) Growth initiatives

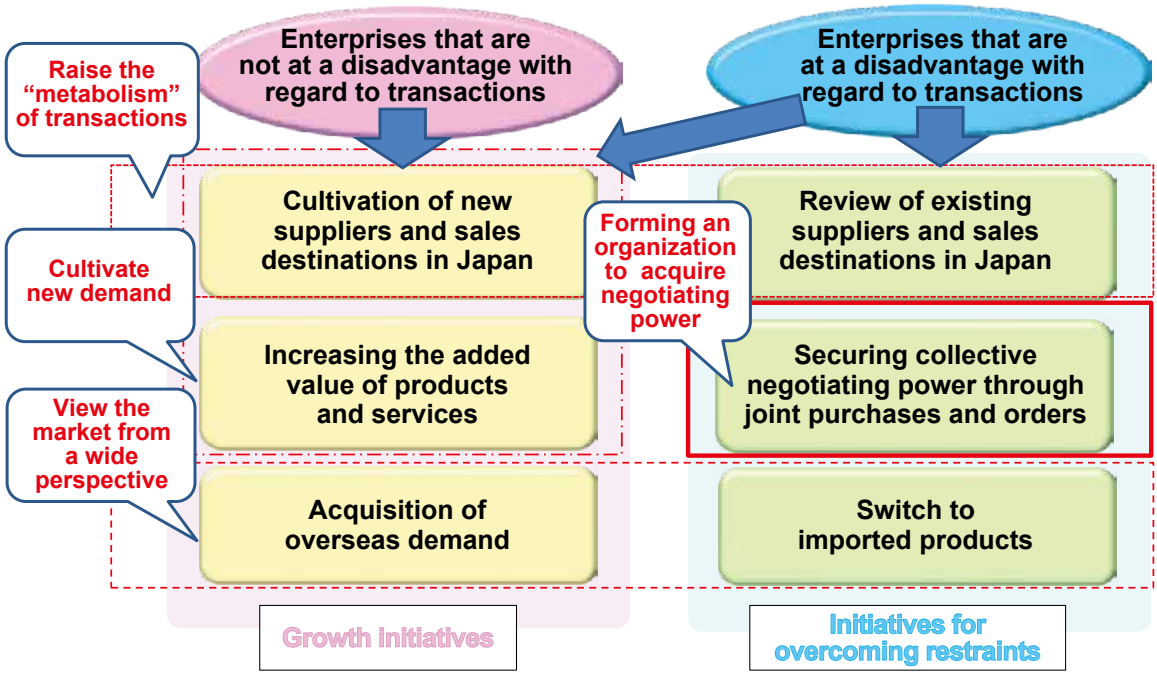
- Cultivation of new suppliers and sales destinations in Japan

- Increasing the added value of products and services
- Acquisition of overseas demand

(2) Initiatives for overcoming restraints
- Review of existing suppliers and sales destinations in Japan
- Switching to imported products
- Securing collective negotiating power through joint purchases and orders

From the above, it seems that what is required in order for SMEs in general to improve their terms of trade is for enterprises who are not at a business disadvantage to strive to further improve their terms of trade through initiatives aimed at growth. Enterprises that are at a business disadvantage need to pursue both initiatives aimed at growth and initiatives to overcome constraints so as to arrest the deterioration in their terms of trade.

Fig. 1-3-15 Organization of issues towards improving the terms of trade for SMEs



[15] Policies to improve profitability for SMEs

Based on the analysis conducted thus far, the characteristics for profitability in SMEs can be organized as shown below (Fig. 1-3-16).

(0) Profitability

Among SMEs, a difference has arisen between high-profit enterprises and low-profit enterprises such that the worsening profits of low-profit enterprises may be dragging down the profitability of SMEs as a whole.

(1) Demand development

Awareness of the need to cultivate demand is high among both high-profit and low-profit enterprises.

(2) Increased productivity

The gap in labor productivity between high-profit and low-profit SMEs is widening and the background to this appears to be the fact that high-profit enterprises have a greater awareness of the need to secure outstanding personnel and develop human resources than low-profit enterprises.

(3) Terms of trade improvement

Many SMEs feel themselves to be at a disadvantage when doing business with larger enterprises. Enterprises that are in a position of disadvantage are also keenly aware of the need to secure collective negotiating power by forming organizations and to overcome constraints.

Based on the profitability characteristics of SMEs identified above, we can also offer the suggestions below with respect to policies aimed at improving the profitability of SMEs (Fig. 1-3-16).

Firstly, strive to improve your terms of trade by either

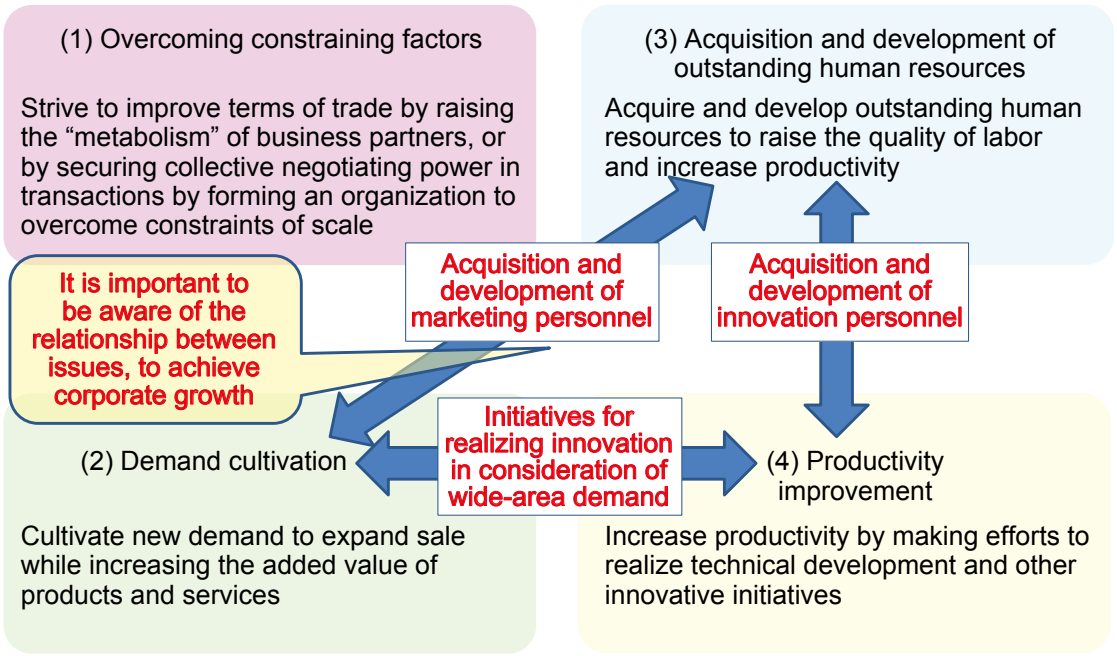
boosting the "metabolism" of your business partners or by forming an organization that enables you to overcome the constraints of scale and secure collective negotiating power in your dealings ((1) Overcoming constraining factors).

Secondly, cultivate new demand to expand sales while increasing the added value of products and services ((2) Demand cultivation). Thirdly, acquire and develop outstanding human resources to raise the quality of labor and increase productivity ((3) Acquisition and development of outstanding human resources). Fourthly, increase productivity by making efforts to realize technical development and other innovative initiatives ((4) Productivity improvement).

It is also important to be conscious of the inter-relatedness of these issues, rather than seeing them as individual, separate issues. In the case of (2) and (3), the "acquisition and development of marketing personnel" is important to their inter-relatedness, while for (3) and (4), the "acquisition and development of innovation personnel" is important. "Initiatives for realizing innovation in consideration of wide-area demand" are also key to inter-relating (2) and (4).

A detailed analysis is provided in Part II, but undertaking initiatives based on the perspectives developed above could be expected to stimulate further growth and development among SMEs and micro-businesses.

Fig. 1-3-16 Policies for increasing profitability among SMEs



Section 2 Regional competitiveness

In this section, we will analyze Japan's regional economies since 1980 from a medium- and long-term perspective. To give a clear answer to the question of why regional economies are being analyzed in this white paper, the fact is that many of Japan's SMEs and micro-businesses have their roots in regional areas, and in order to fully understand the situation in which those SMEs and micro-businesses find themselves, we must first understand the nature of the regions in which those enterprises are based. What is more, where the problems that SMEs and micro-businesses face are the result of structural problems in the region, enterprises have only limited capacity to resolve those problems by themselves. So we need to clearly identify the structural problems that beset the regions and consider support measures from a region-wide perspective.

The analysis procedure used in this section is explained in detail below. (1) First, we categorize the regions into types according to the rate of regional economic growth. (2) We then compare the changes in industrial structure,

employment structure and production activity, focusing on the respective regional types. (3) We also look at the characteristics of each region, taking into account major underlying changes in their economic and social structures. (4) Based on this, we then point out what is necessary for regions to achieve growth commensurate with their circumstances given the economic and social changes[10].

[1] Region categorization and the characteristics of the industrial structures in each region

When we look at economic growth in each of Japan's regional areas, it is clear that the rates of growth vary according to region. Using the *R-JIP Database 2012* compiled by the Research Institute of Economy, Trade and Industry (RIETI), we calculated the average growth rates for each prefecture between 1980 and 2008 and divided the prefectures up into 3 regions. Region 1 consists of the prefectures with average rates at or below the first quartile of the average growth rate for all prefectures (bottom 25%) (12 prefectures). Region 2 consists of the prefectures with average rates above the first quartile but lower than the third quartile (above the bottom 25% but below the top 25%) (23 prefectures), and region 3 consists of those prefectures with average rates at or above the third quartile (top 25%) (12 prefectures). When we then looked at the size of the real value-added production value (average for each prefecture) across all industries, region 3 was the largest, followed by region 1 and then region 2 (Fig. 1-3-17). If we then look at the average growth rates for each decade, growth rates in the 1980 were high across the board, with region 3 having the highest rate, followed by region 2 and then region 1. In the 1990s, growth overall stalled and the differences between the regional growth rates contracted. From 2000 onwards, the growth rate again increased for all regions, but though regions 2 and 3 grew, growth in region 1 was soft and relatively unchanged from the 1990s.

If we look at the size of the real value-added production value in the manufacturing industries, it was highest in region 3, and the figure for region 1 exceeded that of region 2 until the first half of the 1980s. From the second half of that decade onwards however, region 2 surpassed region 1. If we then look at the average growth rates for each decade, overall growth rates in the 1980s were high, with region 3 having the highest rate, followed by region 2 and then region 1. In the 1990s, growth overall stalled, with region 2 showing the highest growth rate followed by region 3. Region 1 experienced negative growth. In the 2000s, growth rates again rose, with regions 2 and 3 growing at much the same rate. In region 1 also, growth exceeded the rates enjoyed in the 1980s.

Looking at the size of the real value-added production value in the non-manufacturing industries, it was highest in region 3, followed by region 1 and then region 2. If we then look at the average growth rates for each decade, overall growth in the 1980s was high, with region 3 having the highest rate, followed by region 2 and then region 1, though the difference between regions 1 and 2 is minimal. In the 1990s, growth was weak overall, with region 3 enjoying the highest growth rate. The growth rates in regions 1 and 2 were almost on a par. In the 2000s, growth continued to be generally weak, with region 3 still having the highest growth rate followed by region 2 and then region 1.

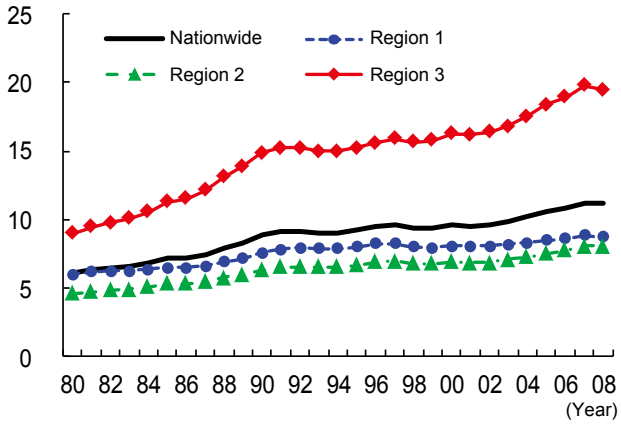
10) The analysis in this section uses the following two basic premises:
Firstly, to provide greater clarity and ease of understanding regarding the cycles of regional competitiveness in the analysis conducted here, the methods used essentially classify the many and diverse regions solely in terms of their economic growth and study those regions based on those characteristics. However, given the particular nature of the concept of a region, it is likely that there is scope for the inclusion of a considerable amount of subjectivity on the part of the person interpreting the analysis results. Accordingly, particular regional characteristics have, as far as possible, been excluded from the analysis in this section.
Secondly, in the analysis of economic growth and industrial structures in this section, we have basically used the *R-JIP Database 2012* data provided by the Research Institute of Economy, Trade and Industry (RIETI). Our reason for using these statistics is that they compiled data for each prefecture over a long period using standardized industry classifications. However, because the most recent year in the database is 2008, it is primarily useful for identifying medium- and long-term trends since 1980, so other statistics were used to supplement the database in the consideration of more recent trends.

Fig. 1-3-17 Real value-added production value by region

Region 1: Average of 12 prefectures with the lowest rates of change in all industries between 1980 and 2008 (bottom 25%)
Region 2: Average of prefectures with the 13th to 24th lowest rates of change in all industries between 1980 and 2008 (prefectures excluding the top and bottom 25%)
Region 3: Average of 12 prefectures with the highest rates of change in all industries between 1980 and 2008

(1) All industries

(Average per prefecture, trillion yen)

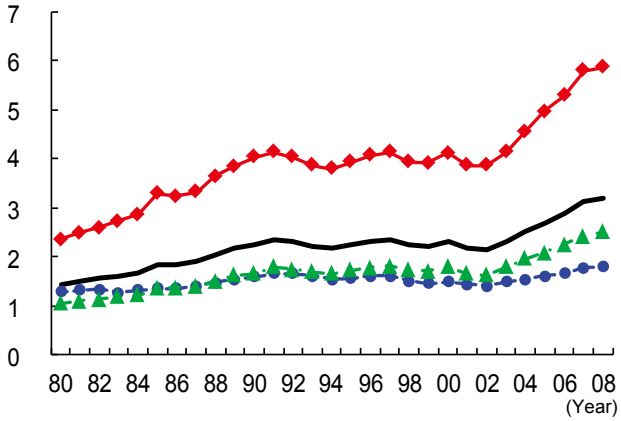


Average growth rate by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980s	3.5	2.0	3.0	5.0
1990s	1.2	1.1	1.3	1.3
2000s (up to 2008)	1.9	1.1	1.9	2.4

(2) Manufacturing industries

(Average per prefecture, trillion yen)

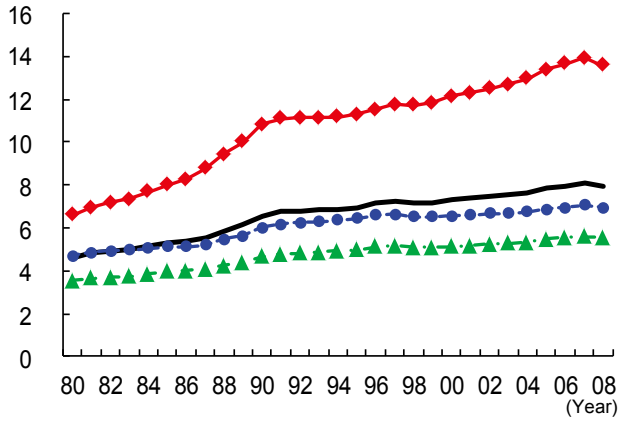


Average growth rate by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980s	4.7	2.1	4.9	5.7
1990s	0.2	− 0.6	0.5	0.2
2000s (up to 2008)	4.3	2.5	4.5	4.7

(3) Non-manufacturing industries

(Average per prefecture, trillion yen)



Average growth rate by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980s	3.2	2.0	2.4	4.7
1990s	1.6	1.5	1.5	1.7
2000s (up to 2008)	1.2	0.7	1.0	1.6

Source: RIETI, *R-JIP Database 2012*.

Next, we look at changes in industrial structures in each region. Looking at the changes in the ratio of manufacturing industries in each region, the highest ratio in the 1980s was in region 3, followed by region 2 and then region 1. From the 1990s onwards, the ratios were roughly the same in regions 2 and 3 (Fig. 1-3-18) When we look at trends in the ratio, we see that there is a declining trend in all regions from the 1990s onwards. Looking at the ratio for non-manufacturing industries, which is represented as the inverse of the manufacturing industries ratio, it is highest for region 1 and the trends in the ratio show a rising trend in all regions from the 1990s onwards.

Based on Fig. 1-3-17 and 18, we can summarize the characteristics of the economic growth and industrial structures in each region, particularly since the 2000s, as follows:

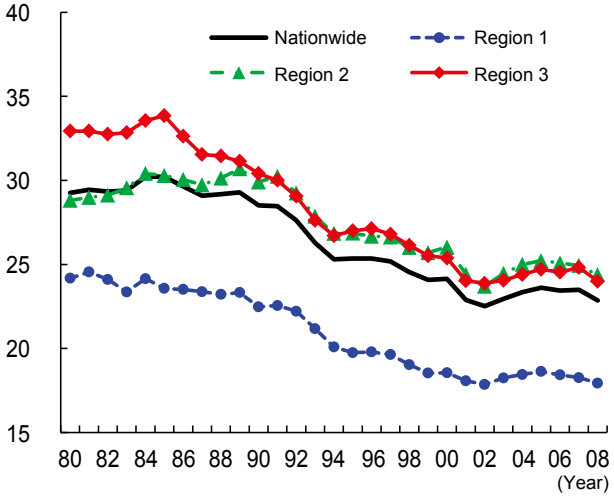
(1) Looking at the size of the real value-added production value in all industries, it was highest in region 3, followed by region 1 and then region 2.
(2) When we consider the industrial structure in region 1, the ratio of manufacturing industries is noticeably lower when compared with regions 2 and 3.
(3) In regions 2 and 3, growth in the real value-added production value in the manufacturing industries in particular made a large contribution to overall growth.
(4) In region 3, the rate of growth in the real value-added production value in the non-manufacturing industries was higher than in regions 1 and 2.

From the above, we can conclude that the manufacturing industries made a large contribution to regional economic growth and that there is a direct correlation between the differences in the ratio of manufacturing in the industrial structure and the differences in regional economic growth. We can also say that manufacturing is not solely responsible for the variations in the growth of the regional economies. The contribution of non-manufacturing industries to regional economic growth is also significant and has also had a role in creating discrepancies in the growth of the regional economies.

Fig. 1-3-18 Changes in industrial structure by region

(1) Ratio of manufacturing industries

(Ratio of nominal added value in all industries, %)

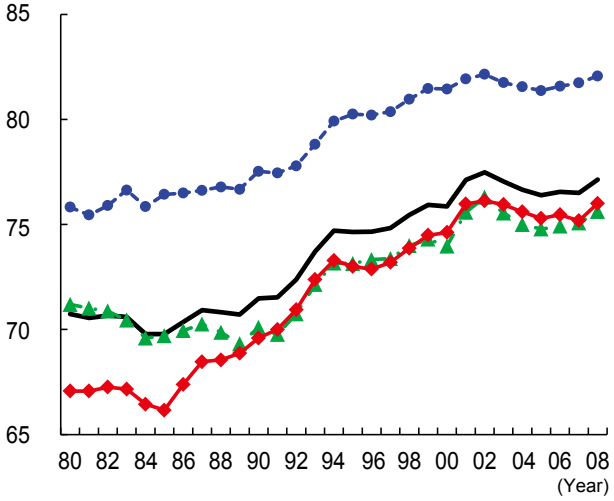


Ratio of manufacturing industries by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980	29. 3	24. 2	28. 8	32. 9
1990	28. 5	22. 5	29. 9	30. 4
2000	24. 1	18. 6	26. 0	25. 4
2008	22. 9	17. 9	24. 4	24. 0

(2) Ratio of non-manufacturing industries

(Ratio of nominal added value in all industries, %)



Ratio of non-manufacturing industries by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980	70. 7	75. 8	71. 2	67. 1
1990	71. 5	77. 5	70. 1	69. 6
2000	75. 9	81. 4	74. 0	74. 6
2008	77. 1	82. 1	75. 6	76. 0

Source: RIETI, *R-JIP Database 2012*.

[2] Regional characteristics as revealed by economic growth

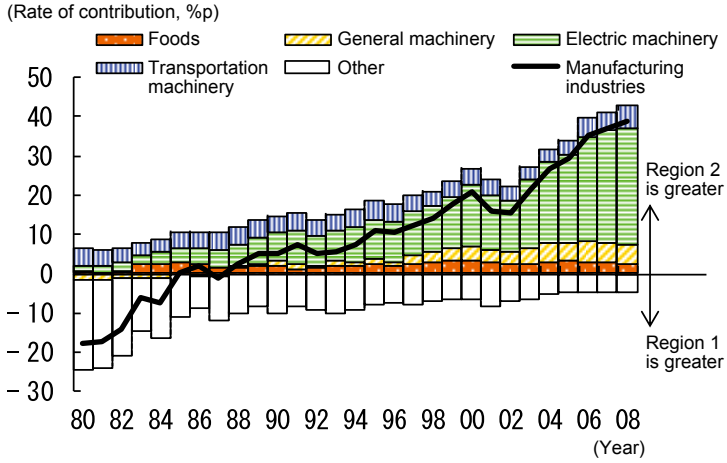
In the previous item, we discussed the nature of the economic growth and industrial structures in each of the regions, and now we will consider regional characteristics by comparing in detail the regional production activities in each industry.

Firstly, we look at the differences in the real value-added production value in the manufacturing industries in each region. We have already discussed the differences in the production scale in each region, and we will now look at how those differences in production scale are manifested in differences in production in specific industries (Fig. 1-3-19). If we begin by comparing manufacturing production in regions 1 and 2, we see that increased production in electric machinery contributed to the widening of the disparity in production between regions 1 and 2. And if we compare regions 1 and 3, we see that production increases in electric machinery in region 3 also contributed to the greater difference in production between regions 1 and 3. Comparison of regions 2 and 3 shows that the difference between the

two remains fairly constant, but the contribution to the difference in production between the two regions made by the "Other" category declines, while the contribution by electric machinery and transportation machinery grows.

Fig. 1-3-19 Regional comparison of real value-added production value in manufacturing

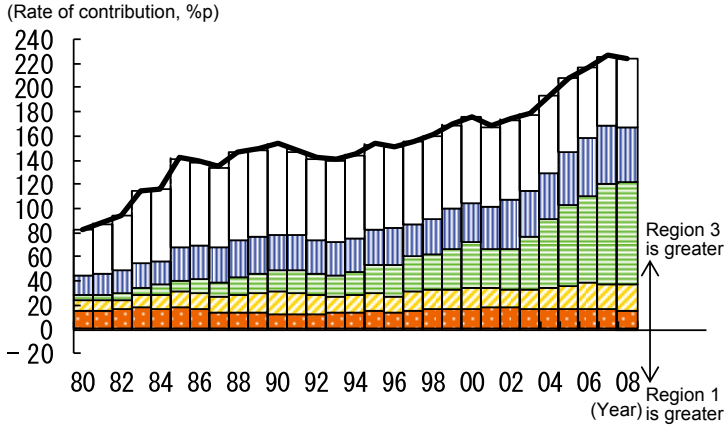
(1) Percentage of variance between Regions 1 and 2
(Region 2 / Region 1)



Comparison between 1980 and 2008
Larger than 0: Production is larger in Region 2
Smaller than 0: Production is larger in Region 1

	1980	2008
Manufacturing industries	– 17. 6	38. 7
Foods	0. 7	2. 8
General machinery	– 1. 4	4. 6
Electric machinery	1. 4	29. 9
Transportation machinery	4. 4	5. 8
Other	– 22. 8	– 4. 5

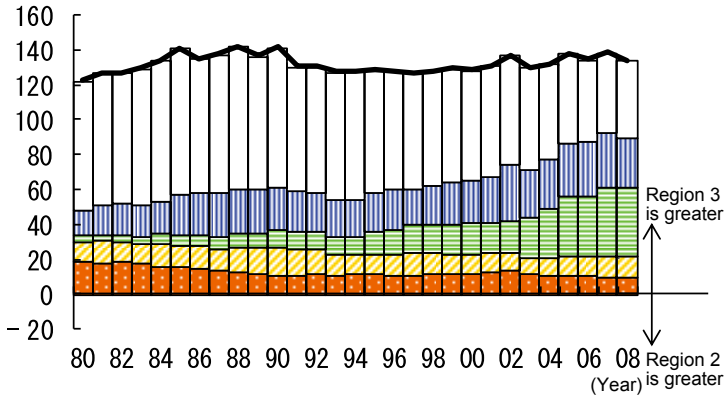
(2) Percentage of variance between Regions 1 and 3
(Region 3 / Region 1)



Comparison between 1980 and 2008
Larger than 0: Production is larger in Region 3
Smaller than 0: Production is larger in Region 1

	1980	2008
Manufacturing industries	83. 0	224. 8
Foods	16. 0	16. 3
General machinery	8. 1	22. 1
Electric machinery	4. 5	84. 5
Transportation machinery	16. 5	44. 2
Other	37. 8	57. 6

(3) Percentage of variance between Regions 2 and 3
(Region 3 / Region 2)



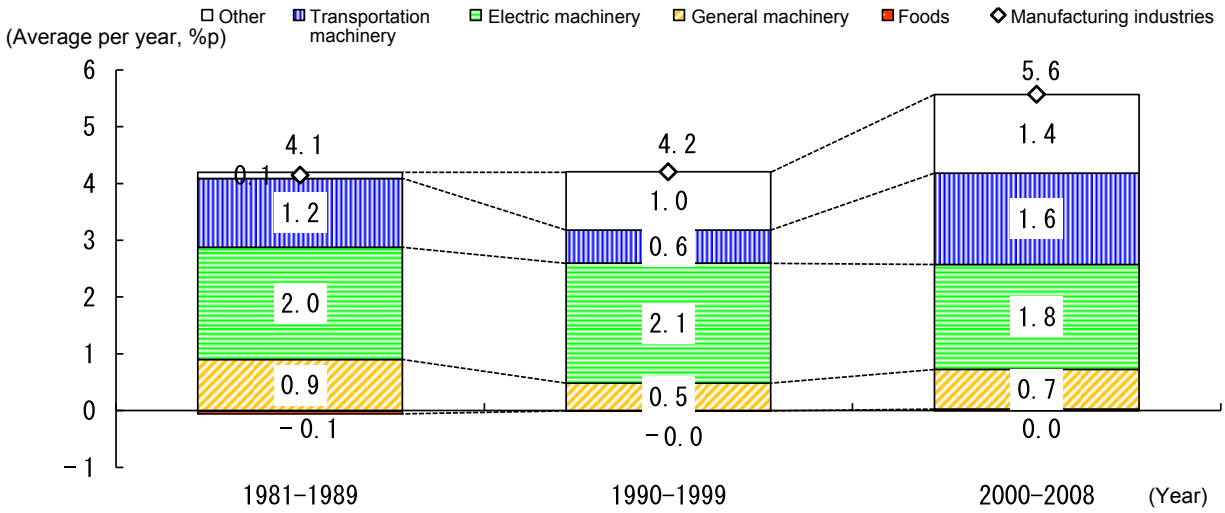
Comparison between 1980 and 2008
Larger than 0: Production is larger in Region 3
Smaller than 0: Production is larger in Region 2

	1980	2008
Manufacturing industries	122. 2	134. 2
Foods	18. 6	9. 8
General machinery	11. 6	12. 6
Electric machinery	3. 7	39. 4
Transportation machinery	14. 7	27. 7
Other	73. 6	44. 8

Source: RIETI, *R-JIP Database 2012*.
Note: The "Other" category refers to the total for all other manufacturing industries, including textiles, pulp and paper, chemicals, petroleum and coal products, ceramic, stone and clay products, primary metals, metal products and precision machinery.

The above clearly shows that the differences in production levels for electric machinery and transportation machinery are a major factor behind the emergence of variances in manufacturing production in the difference regions. However, another characteristic of these industries is that they are export industries. If fact, when we analyze the extent of the contributions to changes in exports by decade, we see that the contribution by electric machinery and transportation machinery makes up more than half of the total, and that the differences in manufacturing production in each region are determined by whether or not demand was successfully generated in the broader market (Fig. 1-3-20).

Fig. 1-3-20 Contributions by each industry to changes in real exports

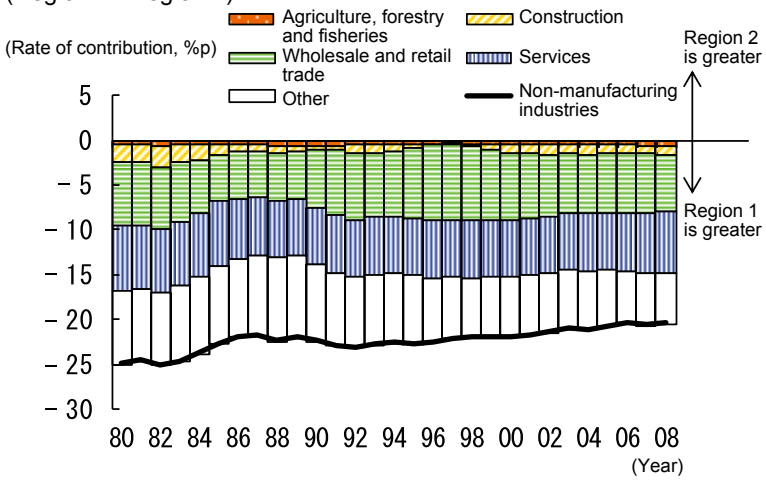


Source: RIETI, *JIP Database 2014*.
Note: The "Other" category refers to the total for all other manufacturing industries, including textiles, pulp and paper, chemicals, petroleum and coal products, ceramic, stone and clay products, primary metals, metal products and precision machinery.

Next, we will consider the differences in the real value-added production value in the non-manufacturing industries in each region. We have already discussed the differences in the production scale in each region, and we will now look at how those differences in production scale are manifested in differences in production in specific industries, as we did for the manufacturing industries (Fig. 1-3-21). If we begin by comparing regions 1 and 2, the variance in production levels between the two regions is contracting, with the reduction of the production gap in the "Other" category making the biggest contribution to the overall contraction. When we compare regions 1 and 3, the production variance in services contributes most to the overall difference in production, followed by "Other" and the wholesale and retail trade. Comparing regions 2 and 3, we see that the results are basically the same as the results of comparing regions 1 and 3.

Fig. 1-3-21 Regional comparison of real value-added production value in non-manufacturing

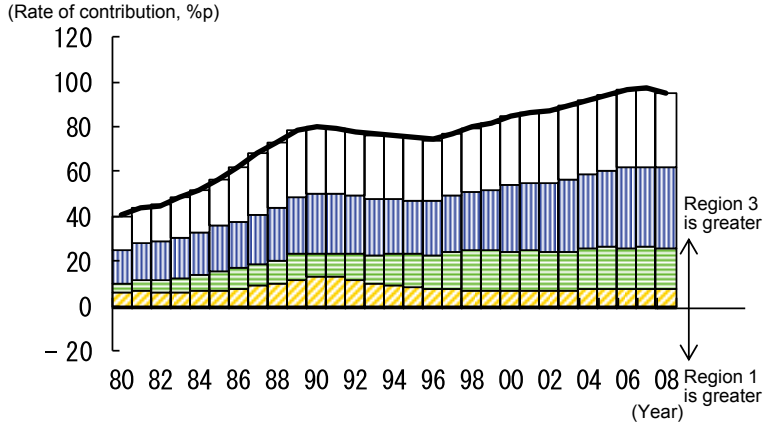
(1) Percentage of variance between Regions 1 and 2
(Region 2 / Region 1)



Comparison between 1980 and 2008
Larger than 0: Production is larger in Region 2
Smaller than 0: Production is larger in Region 1

	1980	2008
Non-manufacturing industries	－24.9	－20.4
Agriculture, forestry and fisheries	－0.4	－0.6
Construction	－2.1	－0.9
Wholesale and retail trade	－7.1	－6.5
Services	－7.2	－6.7
Other	－8.2	－5.7

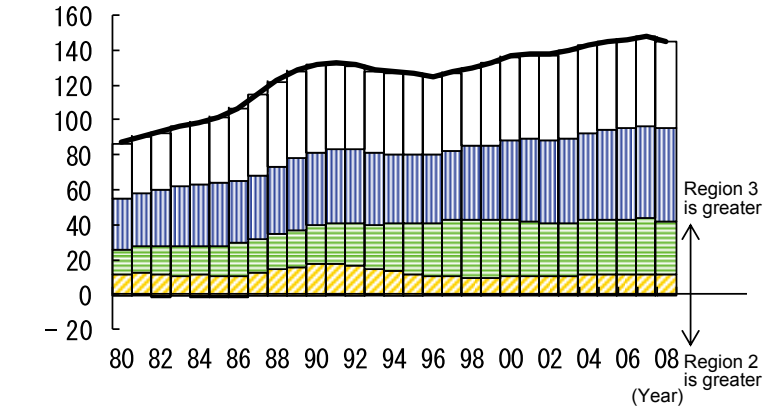
(2) Percentage of variance between Regions 1 and 3
(Region 3 / Region 1)



Comparison between 1980 and 2008
Larger than 0: Production is larger in Region 3
Smaller than 0: Production is larger in Region 1

	1980	2008
Non-manufacturing industries	40.3	95.1
Agriculture, forestry and fisheries	－0.2	－0.2
Construction	6.7	8.1
Wholesale and retail trade	3.6	18.0
Services	14.8	35.9
Other	15.5	33.3

(3) Percentage of variance between Regions 2 and 3
(Region 3 / Region 2)



Comparison between 1980 and 2008
Larger than 0: Production is larger in Region 3
Smaller than 0: Production is larger in Region 2

	1980	2008
Non-manufacturing industries	86.9	145.1
Agriculture, forestry and fisheries	0.2	0.5
Construction	11.6	11.3
Wholesale and retail trade	14.2	30.7
Services	29.4	53.6
Other	31.6	49.0

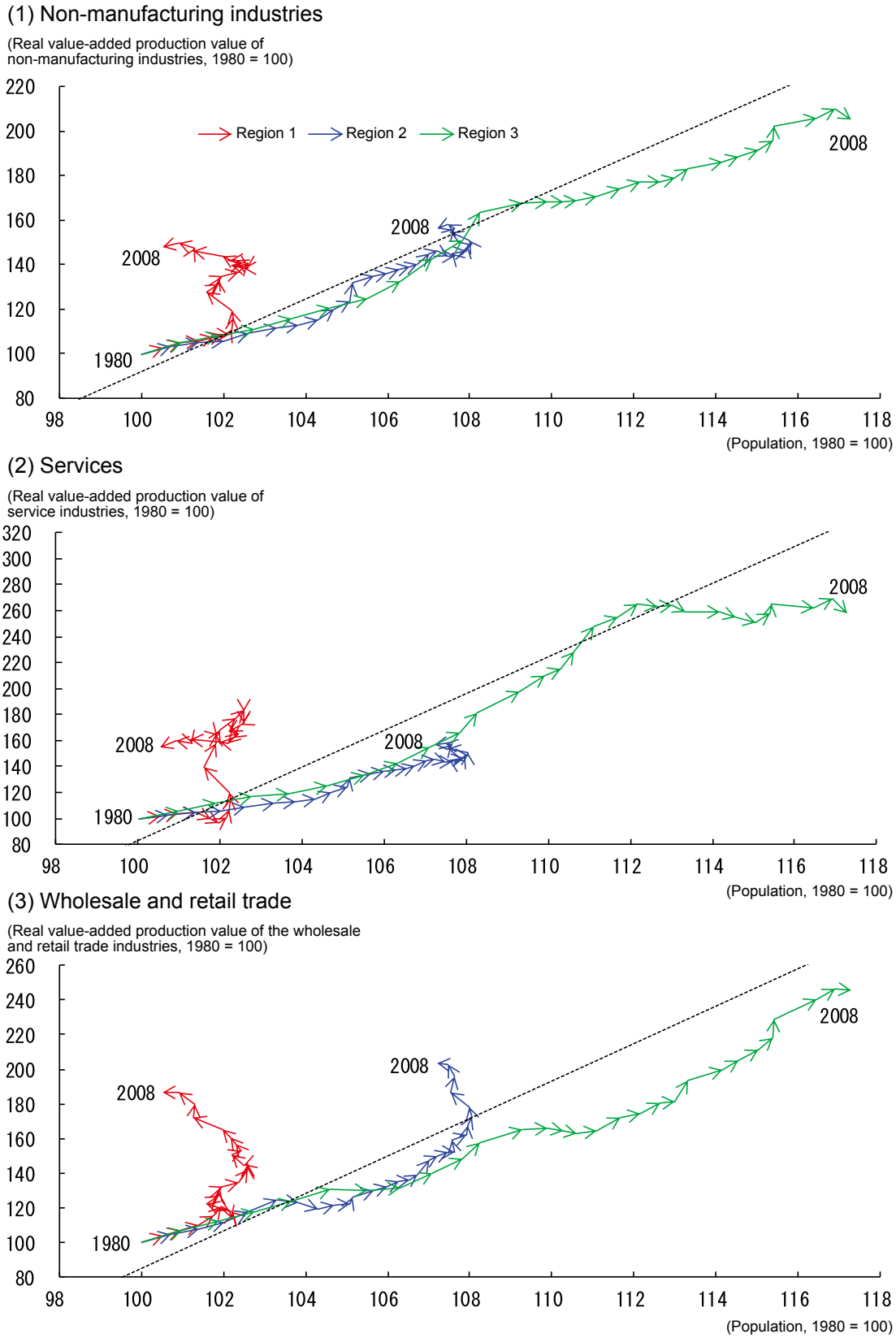
Source: RIETI, *R-JIP Database 2012*.
Note: "Other" refers to the total for mining, utilities (electricity, gas and water), finance and insurance, real estate, transportation and communications and services (government).

The above analysis reveals that, if we exclude the "Other" category, the main industries causing variances in non-manufacturing production activity in the regions are firstly services, followed by the wholesale and retail trade. However, one particular feature that characterizes the services industry is the simultaneity of production (service provision) and consumption, which means that differences among regions in production activity in the non-manufacturing industries probably correlate with regional population movements. When we look the relationship between the real value-added production value in non-manufacturing industries and population movements, we observe that there is a positive correlation (Fig. 1-3-22).

However, we can also see that there are differences between the regions. While population rises in region 3 are matched by an increase in the real value-added production value for the non-manufacturing industries, in regions 1 and 2 the population went from increasing to decreasing and yet the real value-added production value in the non-manufacturing industries did not decrease in line with the population declines.

Looking at the trends for specific industries, population rises in region 3 were matched by an increase in the real value-added production value in the services industry, but in regions 1 and 2 we observe that population declines were also accompanied by falls in the real value-added production value for services. By contrast, in the wholesale and retail trade, the population rises in region 3 were again accompanied by an increase in the real value-added production value, but in regions 1 and 2 we observe that the real value-added production values for the wholesale and retail trade continued to rise despite declining populations. This suggests that the real value-added production values are not necessarily constrained by regional population limitations.

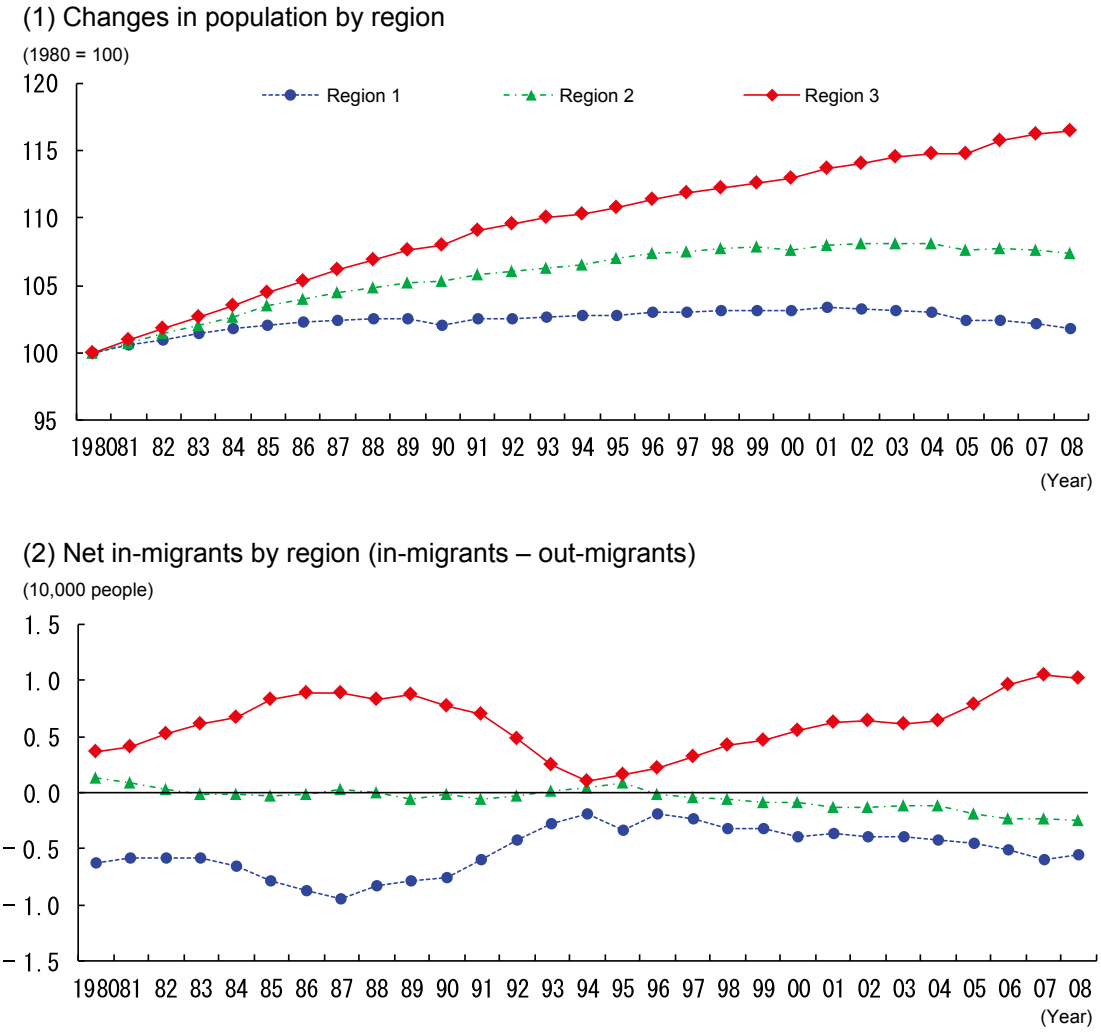
Fig. 1-3-22 Population changes and real value-added production values in non-manufacturing industries by region



Sources: RIETI, *R-JIP Database 2012*; MIC, *Regional Statistical Database*.

Next, if we look at the population trends by region, we see that while the population in region 3 has risen significantly, the population trended downwards in regions 1 and 2 once we get into the 2000s (Fig. 1-3-23). In addition, looking at the net in-migrants in each region (in-migrants minus out-migrants) shows that the out-migration occurring in regions 1 and 2 has been absorbed by region 3.

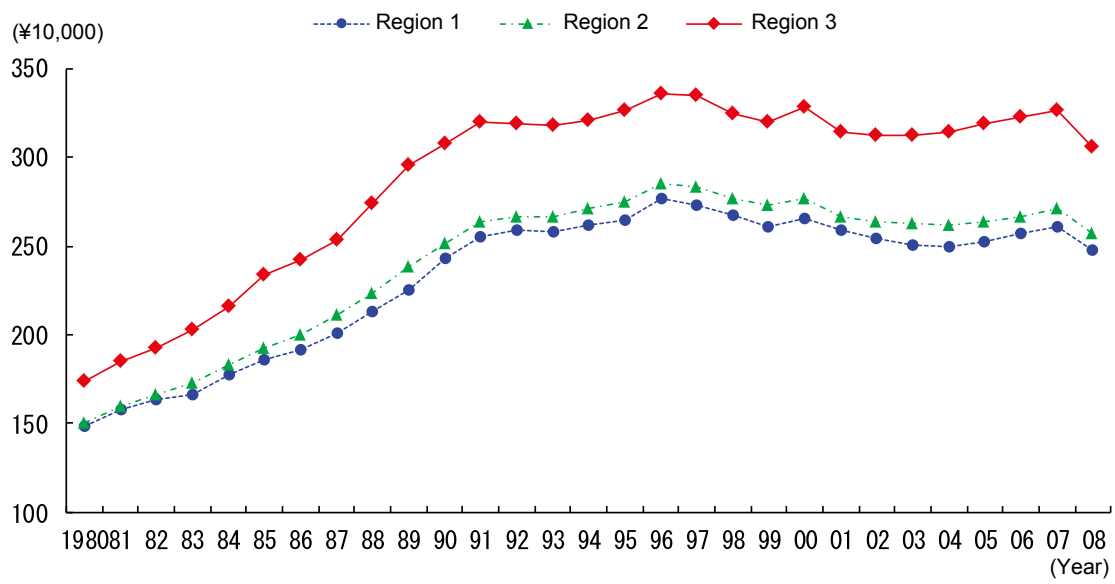
Fig. 1-3-23 Population movements by region



Source: MIC, *Regional Statistical Database*.

So, why have populations moved from regions 1 and 2 to region 3? If we look at the population's per-capita income by region, it is clear that region 3 far exceeds both region 1 and region 2, with region 1 recording the lowest figures (Fig. 1-3-24). Thus, we can pose the possibility that one factor driving the movements of populations between regions is the difference in the respective populations' per-capita incomes.

Fig. 1-3-24 Per-capita income by region



Source: RIETI, *R-JIP Database 2012*.

Based on Figures 1-3-19 to 24, we can summarize the characteristics of the economic activities in each region as follows:

(1-1) In regions 2 and 3, production by the manufacturing industries made a large contribution to regional economic growth.

(1-2) Differences in manufacturing production are determined by whether or not demand can be created over a wide area.

(2-1) Growth in production in services is larger in region 3 than in region 1 or 2.

(2-2) The population in region 3 has grown by absorbing part of the population of regions 1 and 2, and this variance in population growth may be a result of differences in service industry production (service provision).

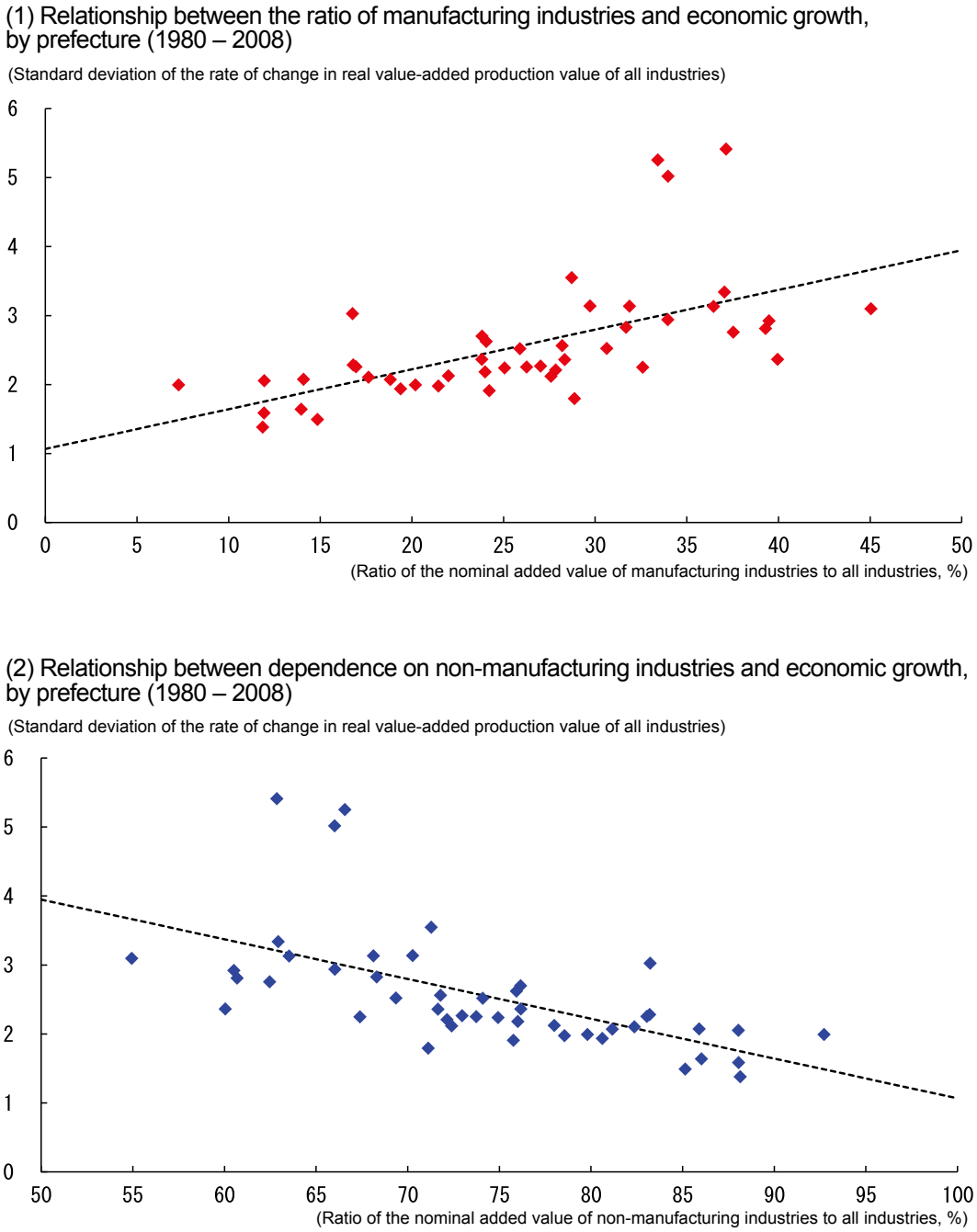
(2-3) It is likely that differences between the respective populations' per-capita incomes are driving the movements of populations between regions.

From the above, the characteristics of each of the regions can be organized as follows: Firstly, in region 3, because they have succeeded in cultivating demand from a broader market and their value-added production value is high relative to other regions, their per-capita income is also higher than in the other regions. As a result, there has been population inflow from the other regions and this has probably helped to raise demand within the region (local demand as manifested in the production (provision) of services). By contrast, region 1 has had little success in generating broader market demand when compared with regions 2 and 3 and has also experienced more rapid population declines than the other regions. As a result, demand within the region has also fallen, which has probably contributed to softer economic growth than regions 2 and 3. In region 2, generation of broader market demand has contributed to economic growth, but a relatively static population has resulted in flat local demand, which has probably contributed to softer economic growth compared with region 3.

The discussion above suggests that cultivating demand from a broader market and revitalizing local demand are important for regional economic growth. However, the progressive decline in regional populations due to factors such as declining birth rates and population aging means that it is becoming more and more important for regions to somehow foster demand in the wider market. However, creating demand in the broader market is an uncertain process. Fig. 1-3-25 (1) shows the correlation between the fluctuations in the ratio of manufacturing industries and economic growth by prefecture. It shows that the higher the ratio of manufacturing industries, the greater the variations in the economic growth rate. In a reverse of this situation, higher ratios of non-manufacturing industries correlate with smaller variations in the economic growth

rate (Fig. 1-3-25 (2)). The existence of strong local demand is also important for stable growth in regional economies. The changes in economic and social structures exemplified by population aging are accompanied by changes in demand, and regional economic growth is also important from the perspective of being able to cope with such changes in demand.

Fig. 1-3-25 Stability of extra-regional and local demand



Source: RIETI, *R-JIP Database 2012*.

[3] Regional characteristics as revealed by employment structures

Thus far, we have identified regional differences in terms of production activity. Below, we turn our attention to regional characteristics as expressed in employment structures. If we look at the numbers of people employed per region (average value per prefecture), region 3 has the highest number, followed by region 1 and then region 2. If we then look at the average rates of change for each decade, there were large increases overall in the 1980s, with region 3 being the highest, followed by region 2 and then region 1 (Fig. 1-3-26).

In the 1990s, there were generally weak increases overall, with region 3 still showing the largest increase followed by region 2 and then region 1. In the 2000s, employment numbers began to decline across the board, with falls in every region. Region 1 showed the highest rate of decline, followed by region 2 and then region 3.

Looking at the numbers by industry, region 3 had the highest number of people in work by region in the manufacturing industries, with region 1 coming second and region 2 third until the first half of the 1980s. In the second half of the 1980s, the positions of regions 1 and 2 were reversed. If we then look at the average rates of change for each decade, there were large increases overall in the 1980s, with region 3 being the largest, followed by region 2 and then region 1. In the 1990s, overall employment numbers peaked and began to fall in every region. Region 1 showed the highest rate of decline, followed by region 2 and region 3 which both had similar rates. In the 2000s, overall employment numbers continued to decline, with region 1 showing the highest rate of decline, followed by region 2 and then region 3.

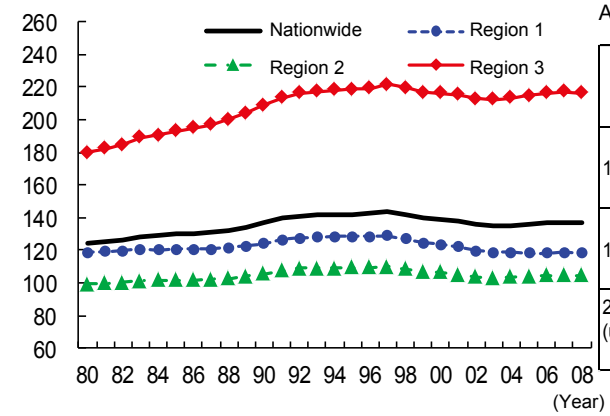
Looking at the employment numbers by region in the non-manufacturing industries, region 3 had the most people in work, followed by region 1 and then region 2. If we then look at the average rates of change for each decade, there were large increases overall in the 1980s, with the highest rates in region 3, followed by region 1 and region 2, which had similar rates.

In the 1990s, there were continued large increases overall, with region 3 still showing the largest increase followed by region 2 and then region 1. In the 2000s, there were generally weak increases overall, with region 3 again showing the largest increase followed by region 2 and then region 1, which actually recorded a decrease.

Fig. 1-3-26 Number of people employed by region

(1) All industries

(Average of each prefecture, 10,000 people)

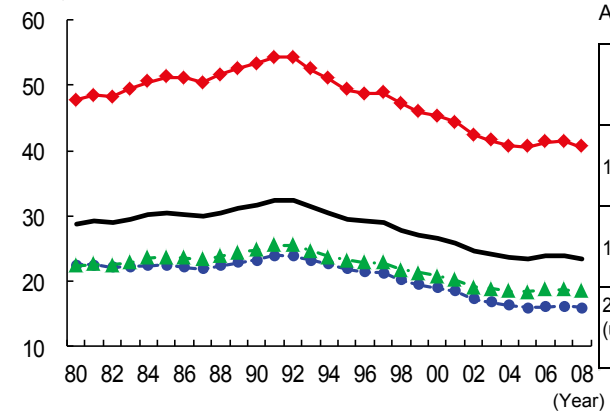


Average rate of change by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980s	0.84	0.38	0.54	1.43
1990s	0.39	0.16	0.29	0.61
2000s (up to 2008)	− 0.25	− 0.58	− 0.28	− 0.03

(2) Manufacturing industries

(Average of each prefecture, 10,000 people)

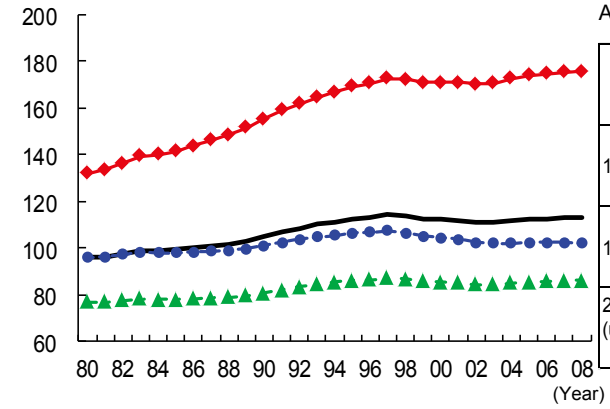


Average rate of change by time period (%)

	Nationwide	Region 1	Region 2	Region 3
1980s	0.87	0.19	0.99	1.07
1990s	− 1.37	− 1.57	− 1.33	− 1.32
2000s (up to 2008)	− 1.57	− 2.14	− 1.53	− 1.36

(3) Non-manufacturing industries

(Average of each prefecture, 10,000 people)



Average rate of change by time period (%)

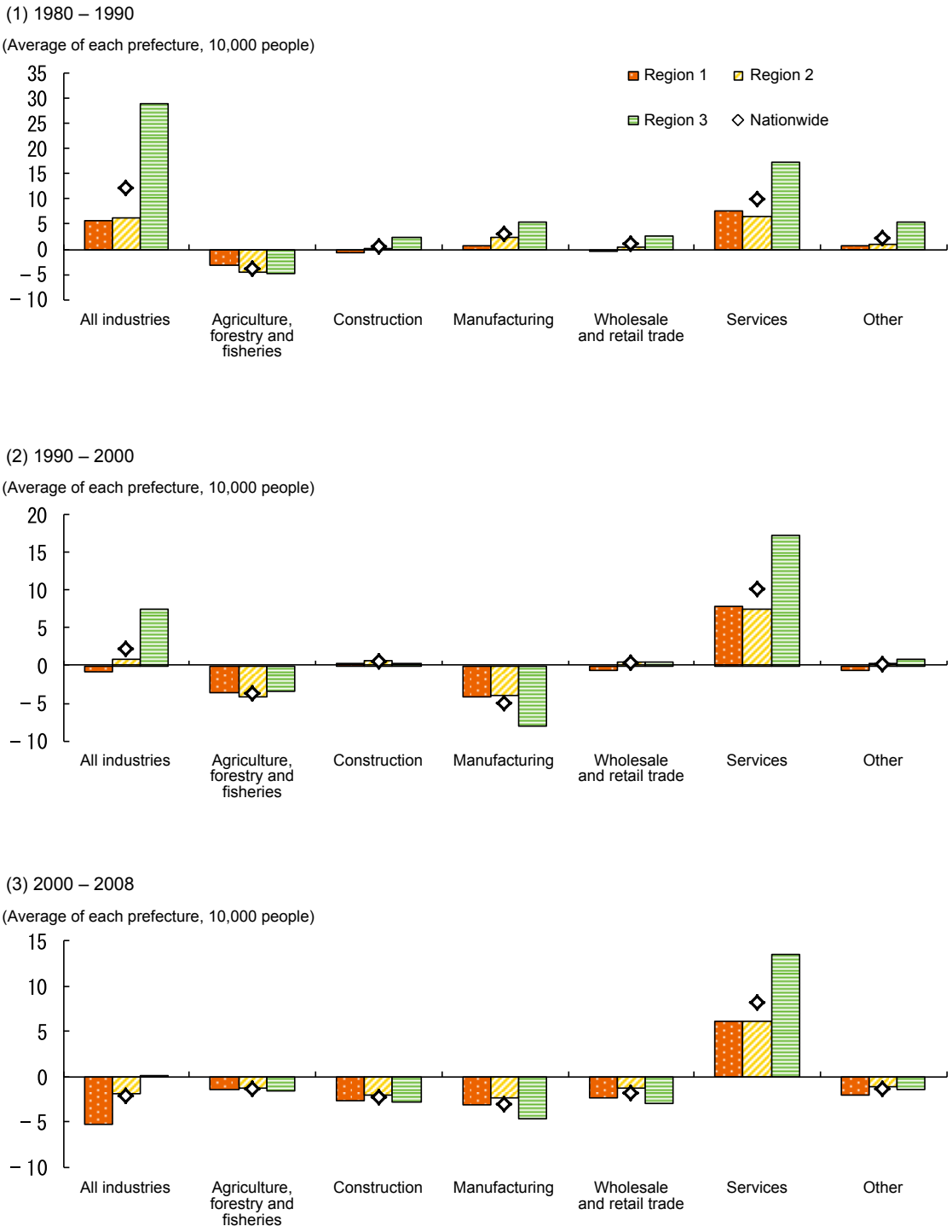
	Nationwide	Region 1	Region 2	Region 3
1980s	0.83	0.42	0.41	1.56
1990s	0.87	0.53	0.75	1.21
2000s (up to 2008)	0.05	− 0.31	0.01	0.31

Source: RIETI, *R-JIP Database 2012*.

Next, we look in more detail at the changes in the employment numbers in each region according to industry. If we compare the figures for 1980 and 1990, in all regions the number of people employed in agriculture, forestry and fisheries fell during that period but the number employed in services rose substantially, which contributed considerably to the increased employment numbers for all industries (Fig. 1-3-27). If we then compare the figures for 1990 and 2000, there were falls in the number of people employed in all regions in manufacturing as well as agriculture, forestry and fisheries. The number employed in services continued to climb rapidly, underpinning higher employment numbers for all industries. A comparison of the figures for 2000 and 2008 shows that in all regions, the number of people employed fell in every sector except services, which continued to enjoy large increases in employment.

This clearly shows that while employment numbers fell in all areas in the manufacturing industries and in agriculture, forestry and fisheries in particular, there were also large rises in the numbers employed in services.

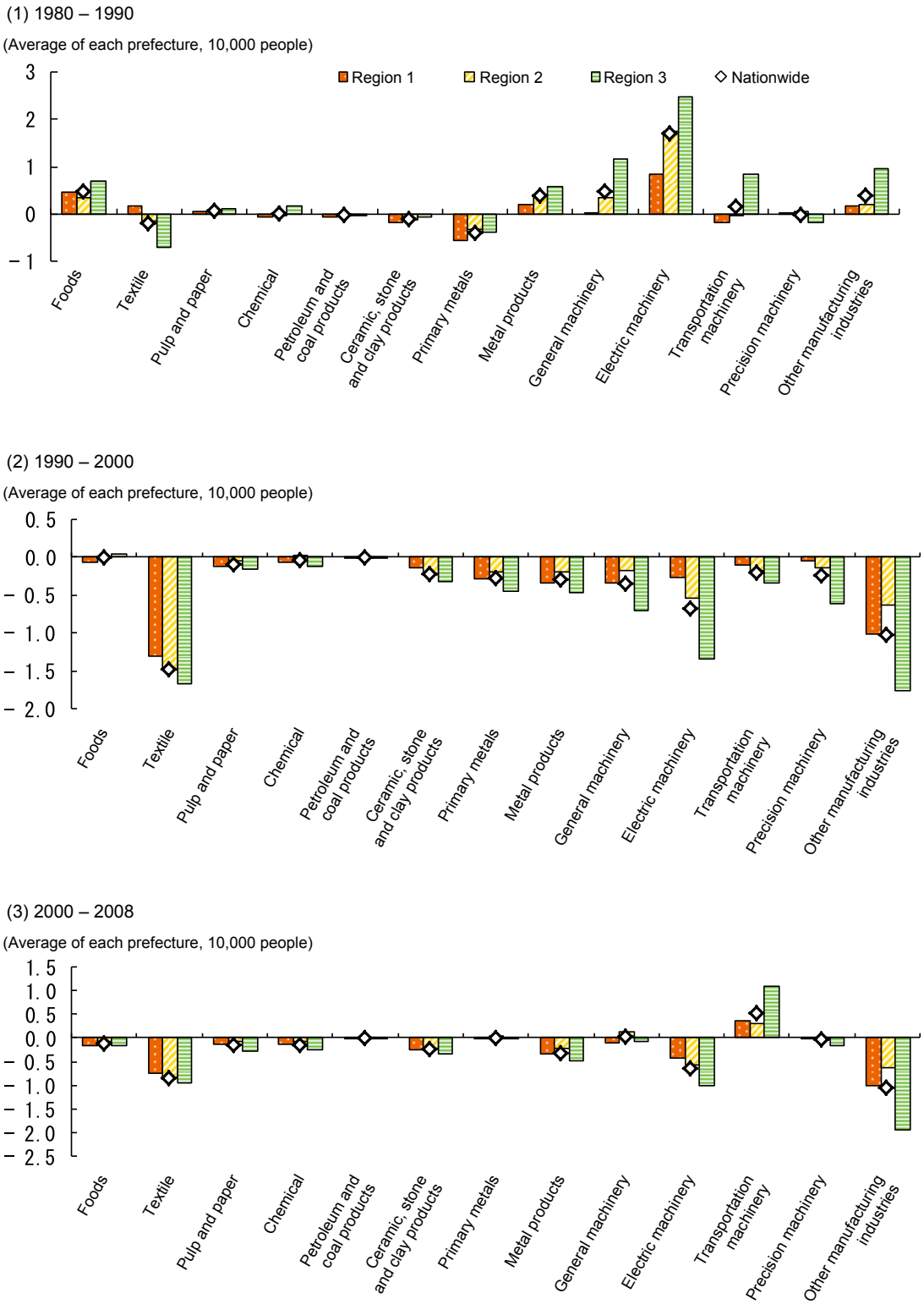
Fig. 1-3-27 Changes in the number of people employed by industry and by region



Source: RIETI, *R-JIP Database 2012*.
Note: "Other" refers to the total for mining, utilities (electricity, gas and water), finance and insurance, real estate, transportation and communications and services (government).

We now focus in still greater detail on the changes by decade in the employment numbers in manufacturing in each region. A comparison of the figures for 1980 and 1990 reveals that the number of people employed in electric machinery rose markedly during that period, particularly in regions 2 and 3 (Fig. 1-3-28). If we then compare the figures for 1990 and 2000, the number of people employed in textiles and other manufacturing industries fell sharply in all the regions. There were also large declines in the numbers employed in electric machinery in regions 2 and 3. By comparing 2000 and 2008, we see major falls during that period in the number of people employed in other manufacturing industries, textiles and electric machinery in all the regions. The single exception was transportation machinery, where employment numbers increased in all the regions, region 3 showing the largest rise followed by region 2 and then region 1.

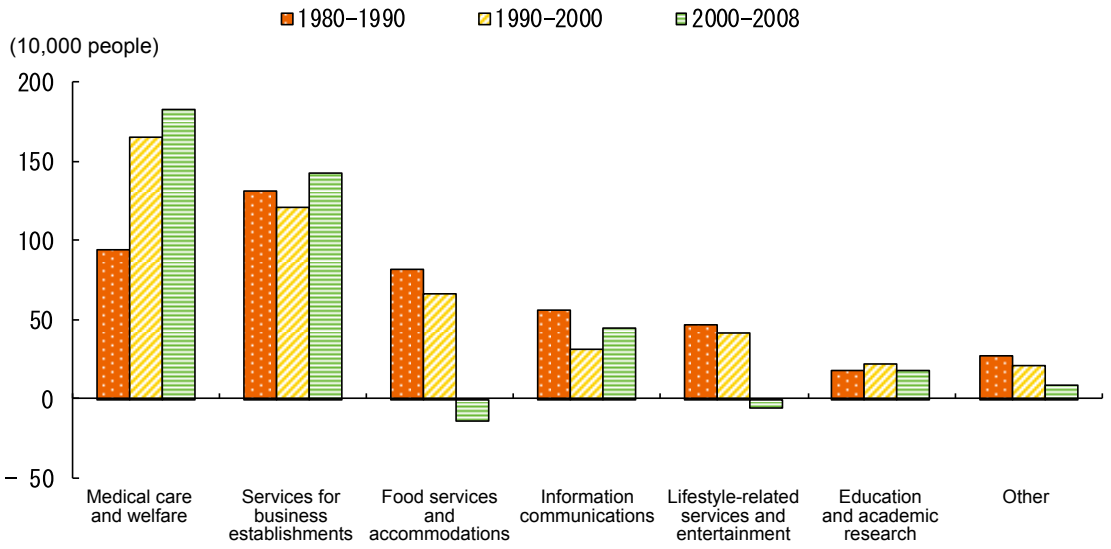
Fig. 1-3-28 Changes in the number of people employed in manufacturing by region



Source: RIETI, *R-JIP Database 2012*.

Next, we look in detail at the changes in the number of workers in services (Fig. 1-3-29). When we compare the figures for 1980 with those for 1990, the number of workers employed in services for business establishments recorded the biggest increase over the period, followed by medical care and welfare and food services and accommodations. If we then compare the figures for 1990 and 2000, the number of workers employed in medical care and welfare increased significantly during that period, recording the largest rise, followed by services for business establishments and then food services and accommodations. A comparison of the figures for 2000 and 2008 shows that the number of workers employed in medical care and welfare continued to rise during that period, followed by services for business establishments, whereas employment in food services and accommodations fell.

Fig. 1-3-29 Changes in the number of people employed in services



Source: RIETI, *JIP Database 2014*.
Note: Totals for the industry were compiled as follows:
Medical care and welfare: Medical care (private), health and hygiene (non-profit), medical care (public), medical care (non-profit), social insurance/welfare (non-profit)
Services for business establishments: Commercial goods rental services, automobile maintenance and repair services, other services for business establishments
Food services and accommodations: Eateries, hotel businesses
Information communications: Advertising businesses, broadcasters, information services, other video, audio and text information production businesses
Lifestyle-related services and entertainment: Entertainment businesses, laundry, barber, beauty care and bathing services
Education and academic research: Education (private, non-profit), research institutions (private), research institutions (non-profit)
Other: Other public-sector services, other services for individuals, others (non-profit)

[4] Structural factors driving changes in the employment structure

The previous section showed that among the manufacturing industries, textiles, other manufacturing and electric machinery contributed significantly to the overall decline, whereas in the services, rises in the numbers of people employed in medical care and welfare, services for business establishments and food services and accommodations contributed strongly to the overall increase. In this section, we focus on the structural factors that lie behind the variations in the employment levels in these industries and the light those factors shed on the characteristics or each region.

We begin by considering the impacts of globalization as a factor contributing to falls in the number of people employed in manufacturing in the regions. If we look at the relationship between import penetration (imported goods as a proportion of the products supplied in Japan) and changes in the number of people employed in manufacturing, we can see a trend for higher import penetration to correlate with larger decreases in employment numbers. Compared with the 1980s, import penetration was higher in the 1990s and 2000s and the number of people employed decreased (Fig. 1-3-30).

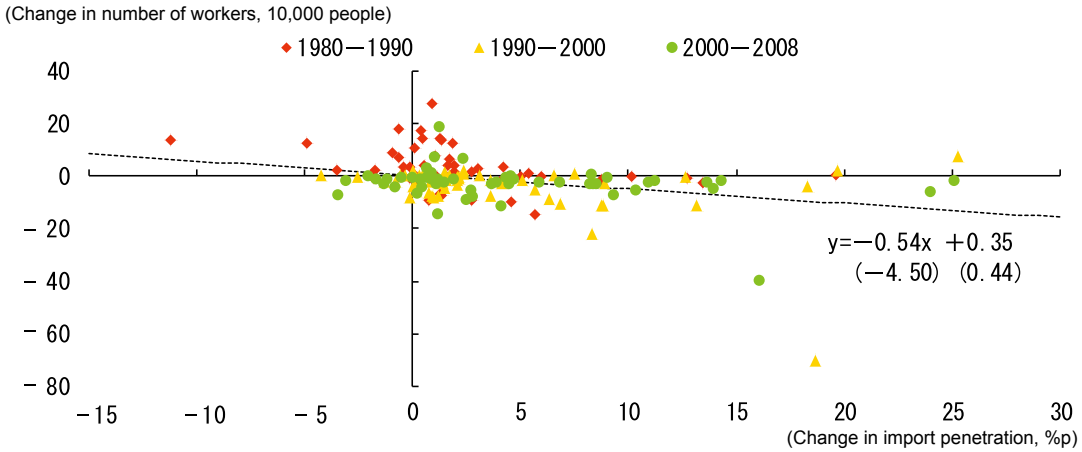
If we then look at the five industries with the largest falls in employment, they are textile products, lumber and wood products (one of the other manufacturing industries), heavy electric machinery (a subset of electric machinery), furniture and fittings (one of the other manufacturing industries) and other manufactured industrial products (one of the other manufacturing industries). Particularly for textile products, we observe a particularly marked trend for increased import penetration to be accompanied by reductions in the number of employees. We can also see corresponding increases in import penetration in lumber and wood products, heavy electric machinery and furniture and fittings.

By contrast, if we then look at the five industries with the largest increases in employment, they are automotive parts and accessories (a subset of transportation machinery), electronic parts (a subset of electric machinery), foods not otherwise included (a subset of foods), electronic computers and peripheral devices (a subset of electric machinery) and semiconductor devices and integrated circuits (also a subset of electric machinery). Particularly in the case of automotive parts and accessories and foods not otherwise included, there was almost no apparent increase in import penetration. However, there were marked increases in import penetration for electronic computers and peripheral devices and semiconductor devices and integrated circuits.

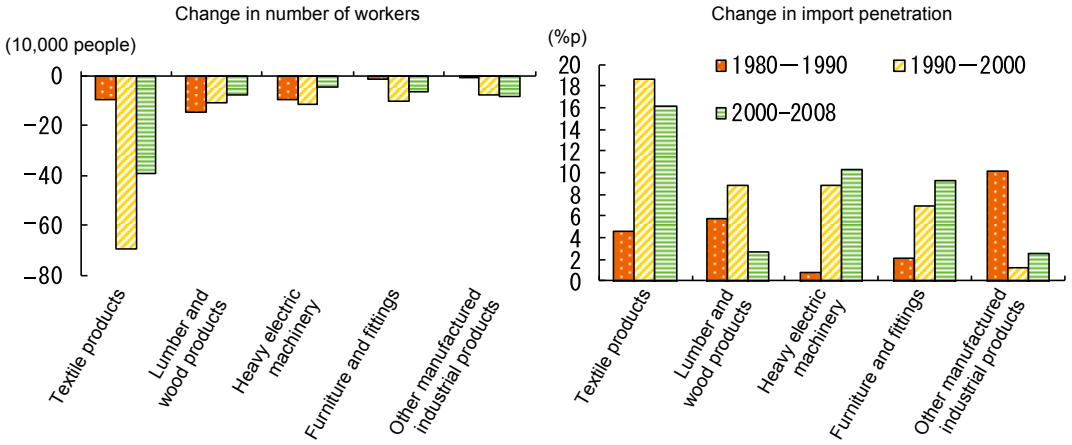
Based on Figures 1-3-28 and 1-3-30, we can say that there is a probable correlation between the lower numbers of people employed in textiles and other manufacturing industries in all the regions and the rising import penetration resulting from globalization. Also, when we compare electric machinery and transportation machinery, both of which enjoyed substantial rises in production through the cultivation of demand in the broader market, we see increased import penetration in electric machinery and overall declines in the number of people employed. But in transportation machinery, there is no apparent rise in import penetration and the number of workers increased in the 2000s. This suggests that import penetration is an important factor for employment even in industries where demand is being successfully generated in the broader market.

Fig. 1-3-30 Changes in the number of workers in manufacturing industries and changes in import penetration

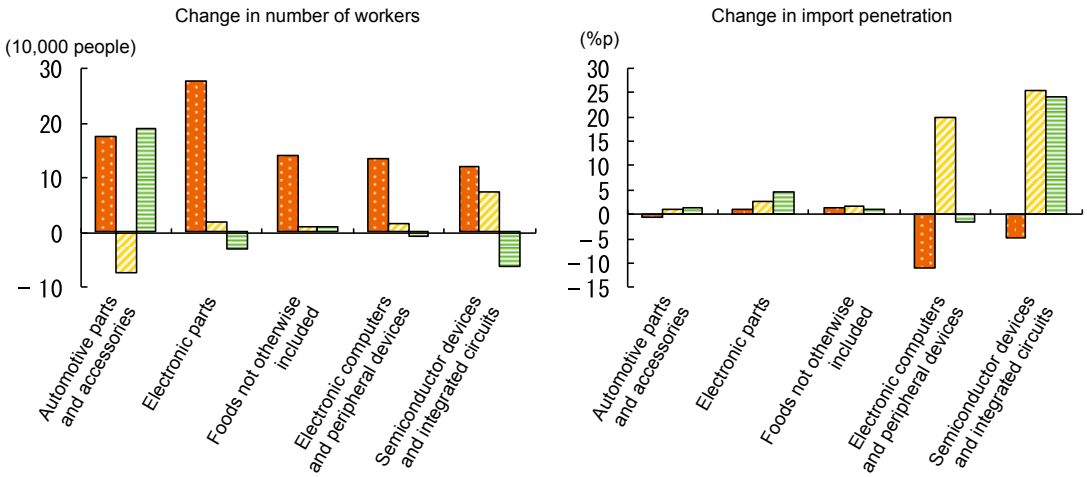
(1) Changes in the number of workers and penetration of imports in manufacturing industries



(2) Changes in the number of workers in manufacturing industries (5 industries with the largest decrease)



(3) Changes in the number of workers in manufacturing industries (5 industries with the largest increase)



Source: RIETI, *JIP Database 2014*.
Note: In the estimation formulae, figures in parentheses are t values.

Next, we look at regional characteristics and changes in the number of workers in services, focusing on the three industries that made the largest contributions to employment numbers in services (medical care and welfare, services for business establishments and food services and accommodations).

One particular feature that characterizes the services industry is the simultaneity of production (service provision) and consumption. Based on this, we can say that production activity in services is governed by factors rooted in that location. For this reason, the analysis below uses municipal data to delve into the economic and social structures as factors that underlie activity in the services sector.

Firstly, we will look at the numbers of workers in medical care and welfare (Fig. 1-3-31). One of the likely factors behind the large increases in the number of workers in medical care and welfare is the progressive aging of the population. If we examine the correlation between the elderly population and the number of workers in medical care and welfare, municipalities with large populations of elderly residents tend to have large numbers of people employed in medical care and welfare. We can also see that the smaller the size of the elderly population in a municipality, the greater the divergence from the overall trend, with differences in the number of medical care and welfare workers appearing among municipalities depending on the size of the elderly population.

So, do these differences between municipalities in the number of medical care and welfare workers according to the elderly population size indicate the characteristics of the different regions? Looking at the distribution by region[11] of the divergence from the general trend, region 1 has the most municipalities with numbers of medical care and welfare workers that are higher than the overall trend, with region 3 having somewhat fewer and region 2 fewer still. By contrast, region 2 has the most municipalities with fewer medical care and welfare workers than the overall trend, followed by region 1 and then region 3. Note also that regions 1 and 3 have similar overall distribution patterns.

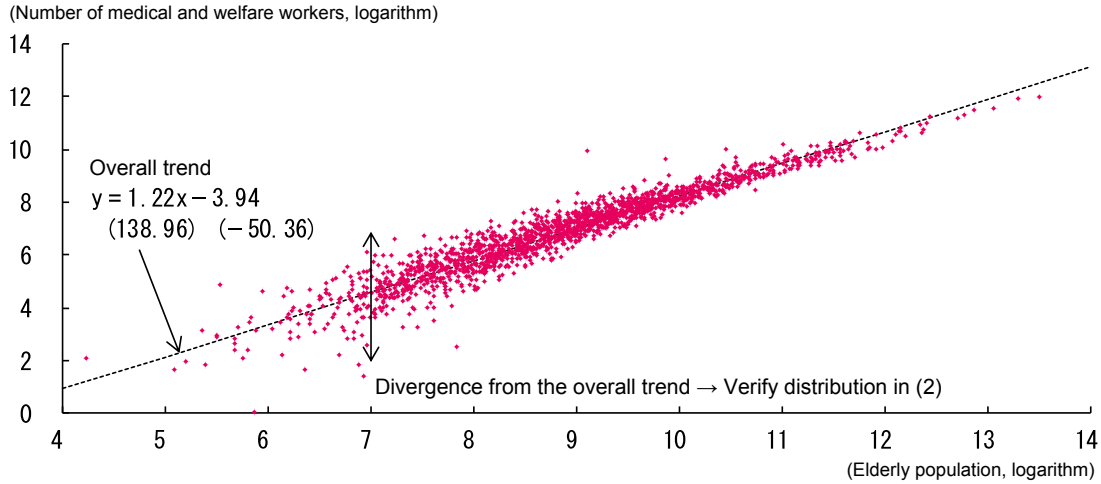
If we then look at the distribution of elderly population ratios by region, region 1 had the most municipalities with elderly population ratios higher than the national average, followed by region 2 and then region 3. On the other hand, region 3 has the most municipalities with elderly population ratios lower than the national average, followed by region 2 and then region 1. Also, compared with region 3, regions 1 and 2 have similar overall distribution patterns and more advanced population aging than region 3.

From the above, it is clear that a relatively high number of workers are employed in medical care and welfare in region 1, which has the most advanced population aging. However, in region 2, despite aging being similarly advanced, the number of medical care and welfare workers is in fact relatively low.

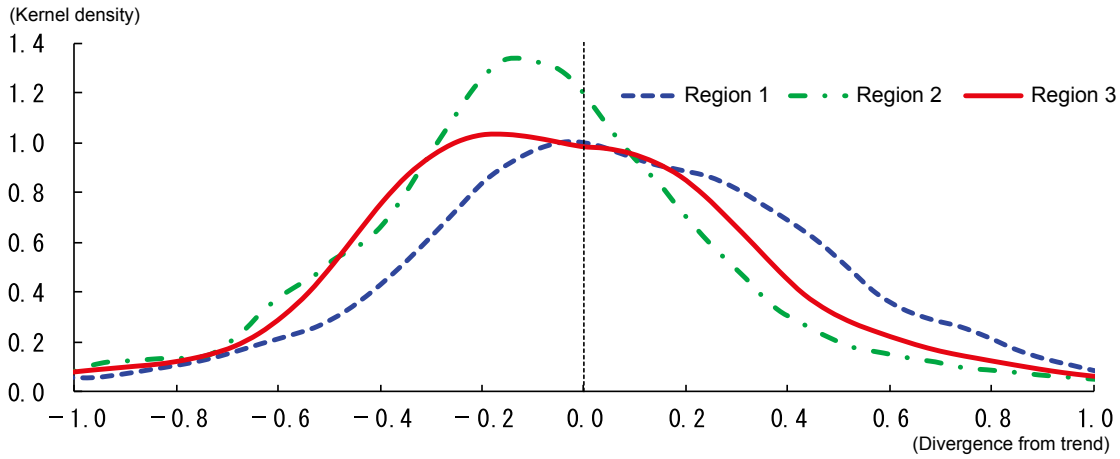
11) Histograms are a common means of checking the shape of data distribution, but the difficulty in terms of analysis is that the distribution shape differs depending on where the class boundaries are set. In this case, the distribution shape is checked by using kernel density estimation in which population distribution is estimated that is independent of class boundaries. When checking the distribution in subsequent analysis (including in Part II), kernel density estimation should be used for the same reasons.

Fig. 1-3-31 Elderly population and the number of medical care and welfare workers by region

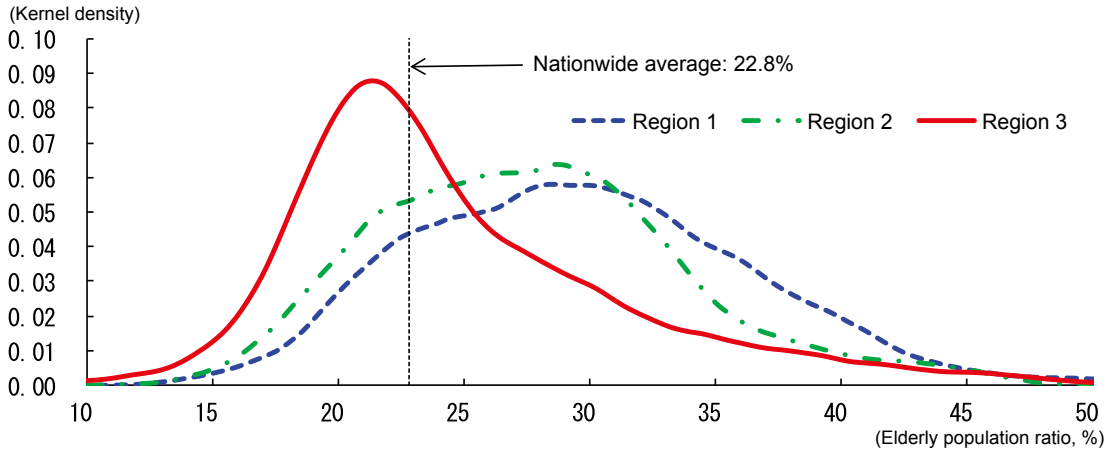
(1) Relationship between the elderly population and medical and welfare workers



(2) Divergence of the number of medical and welfare workers from the overall trend, by region



(3) Distribution of the elderly population ratio by region



Sources: MIC, *Regional Statistical Database*; MIC & METI, *2012 Economic Census for Business Activity*.
Notes: 1. Figures for population and elderly population are for 2010, figures for medical care and welfare workers are for 2012.
2. Figures for population, elderly population and workers are statistics by municipality.
3. In the estimation formulae for overall trends, figures in parentheses are t values.

Secondly, we look at the numbers of workers in services for business establishments (Fig. 1-3-32). Due to the nature of the work, the number of workers in services for business establishments is likely to be closely tied to the concentration of business establishments. So when we look at the correlation between the number of workers in services for business establishments and the number of business establishments in each municipality, the general trend is that the number of workers tends to be greater when there are more business establishments. Also, where business establishments are less concentrated, the fluctuations in the divergence from the overall trend are larger, particularly in municipalities that have fewer workers than the overall trend.

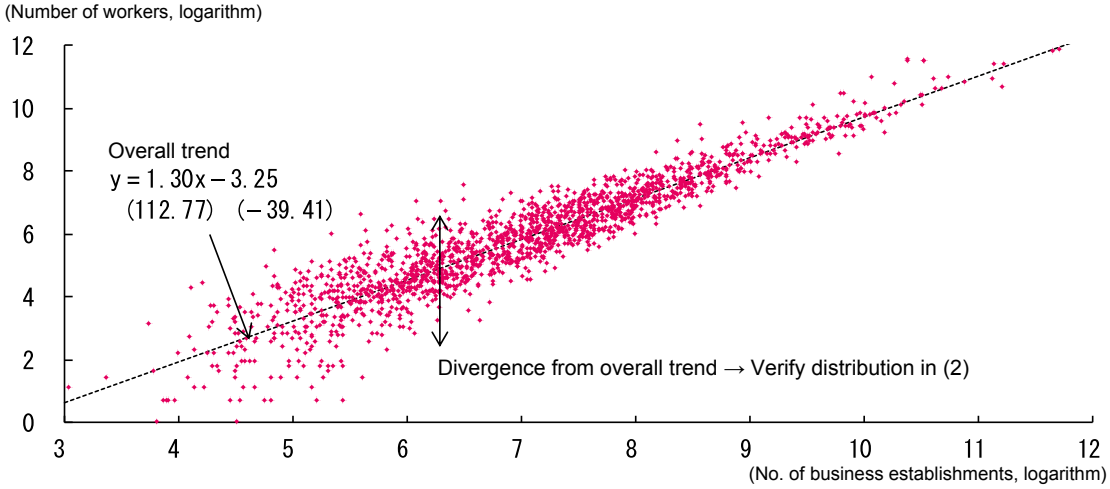
So, do these differences between municipalities in the number of workers in services for business establishments according to the level of business establishment concentration indicate the characteristics of the different regions? Looking at the distribution by region of the divergence from the general trend, compared with regions 1 and 3, region 2 has fewer municipalities where the numbers of workers in services for business establishments are higher than the overall trend. At the same time, region 2 also has more municipalities than regions 1 and 3 where the numbers of workers in services for business establishments are lower than the overall trend. Another feature is that region 1 shows larger variations than region 3.

If we then look at the distribution of the level of business establishment concentration in each region, region 3 has most municipalities with more than the national average number of business establishments, followed by region 2 and then region 1. However, region 1 has the most municipalities with less than the national average number of business establishments, followed by region 2 and then region 3.

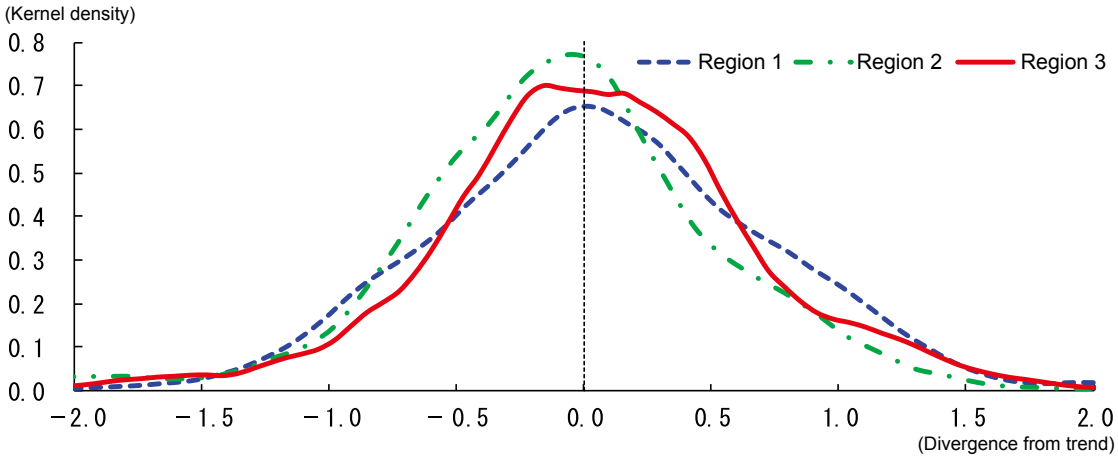
From this, we can clearly say that region 2, where the distribution of business establishment concentration is somewhere between that of regions 1 and 3, has relatively few workers in services for business establishments for its concentration of business establishments when compared with regions 1 and 3. Also, region 1 has many municipalities with concentrations that are below a set level, and those municipalities tend to have noticeably fewer workers than the overall trend.

Fig. 1-3-32 Concentration of business establishments and number of workers in services for business establishments by region

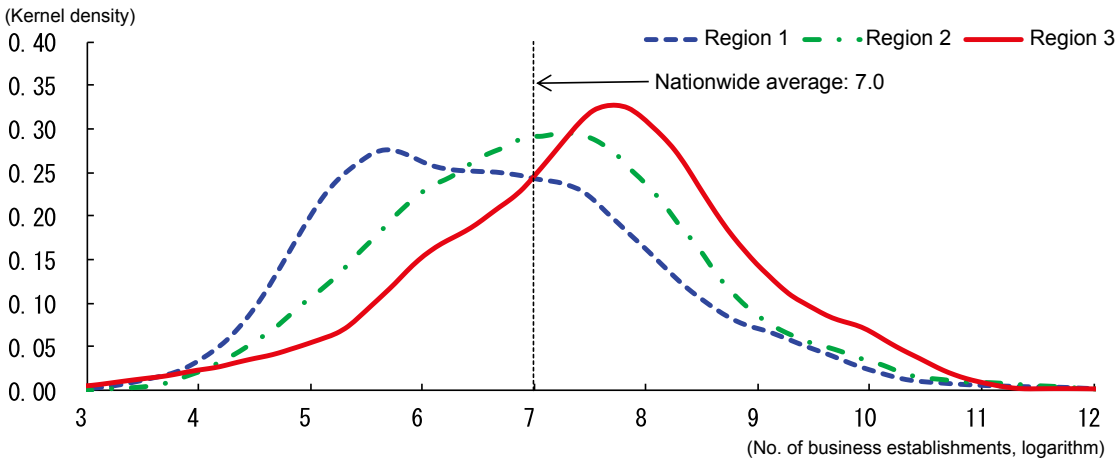
(1) Relationship between number of business establishments and number of workers in service industries for business establishments



(2) Divergence of the number of workers in service industries for business establishments from the trend, by region



(3) Distribution of the number of business establishments by region



Source: MIC & METI, *2012 Economic Census for Business Activity*.
Notes: 1. Figures for the number of business establishments and workers are statistics by municipality.
2. In the estimation formulae for overall trends, figures in parentheses are t values.

Thirdly, we will look at the numbers of workers in food services and accommodations (Fig. 1-3-33). In food services in particular, it is likely that the number of workers is closely linked to the population of the locality. So when we look at the correlation between the population of each municipality and the number of workers in food services and accommodations, we see that the general trend is that a larger population means a higher number of workers. And where the population is lower, the fluctuations in the divergence from the overall trend are larger, particularly in municipalities that have more workers than the overall trend. This is because the food and accommodations services are meeting demand from people outside those municipalities, indicating that population size is not necessarily a limiting factor.

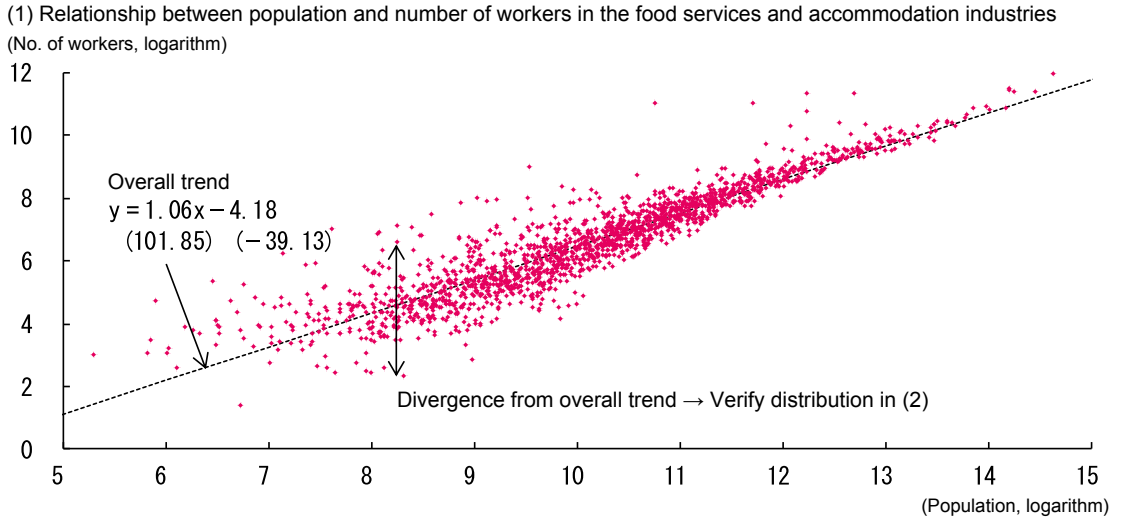
But do these differences between municipalities in the number of workers in food services and accommodations according to the population size indicate the characteristics of the different regions? If we look at the distribution by region of the divergence from the general trend, compared with regions 1 and 2, region 3 has more municipalities where the numbers of workers in food services and accommodations are higher than the overall trend. In particular, it has more municipalities with divergence of a set amount or more. At the same time, region 3 also has fewer municipalities than regions 1 and 2 where the numbers of workers in food services and accommodations are lower than the overall trend.

If we then look at the distribution of population size for each region, region 3 has most municipalities with populations above the national average, followed by region 2 and then region 1. However, region 1 has the most municipalities with populations that are lower than the national average, followed by region 2 and then region 3.

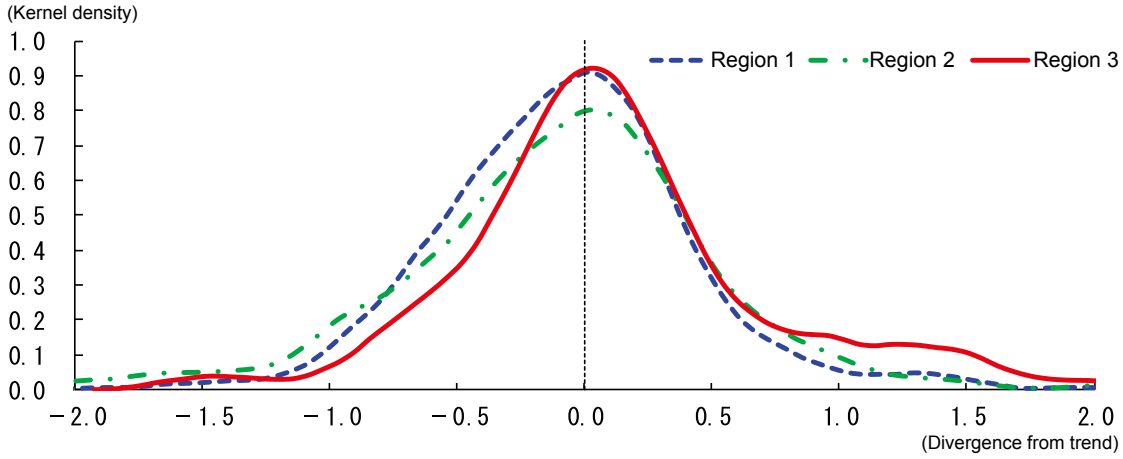
This leads us to infer that region 3 not only has a higher population, it also has many municipalities where the number of workers per population size is higher than the national average, so another factor is presumably the creation of demand from outside the region as well as inside the region.

Fig. 1-3-33 Number of workers in food services and accommodations by region

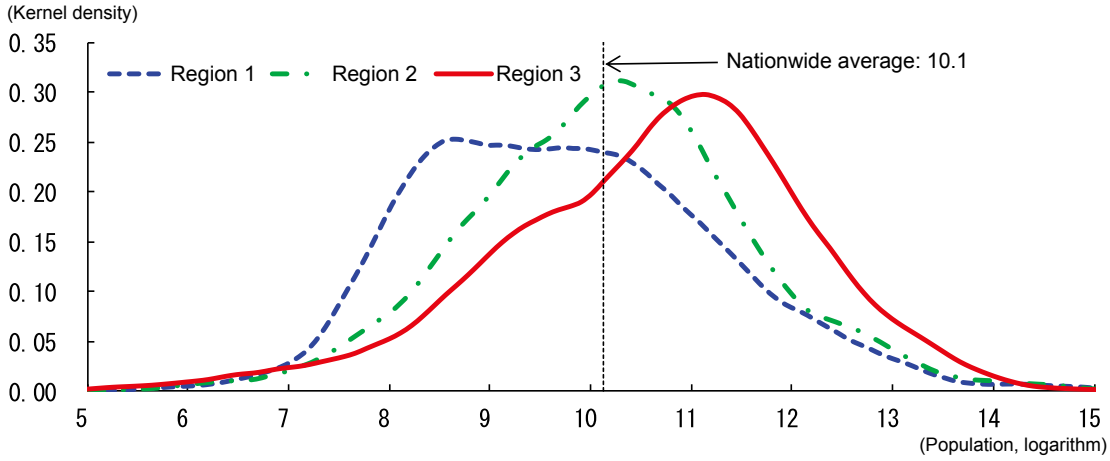
(1) Relationship between population and number of workers in the food services and accommodation industries



(2) Divergence of the number of workers in the food services and accommodation industries from the trend, by region



(3) Population distribution by region



Sources: MIC, *Regional Statistical Database*; MIC & METI, *2012 Economic Census for Business Activity*.
Notes: 1. Figures for population are for 2010, figures for workers in food services and accommodations are for 2012.
2. Figures for population and workers are statistics by municipality.
3. In the estimation formulae for overall trends, figures in parentheses are t values.

In this section, we have delved into the factors relating to economic and social structures that are likely to have some influence on changes in regional employment structures. We have shown that the rise in import penetration resulting from globalization correlates with falling numbers of workers employed in the manufacturing industries. We have also seen that in the non-manufacturing industries, the large increases in employment in the services sector is driven by factors such as dealing with the aging of regional populations and responding to the demands of regional business establishments (Fig. 1-3-34).

When we also look at the particular characteristics of the different regions, the declining employment in manufacturing associated with increased import penetration due to globalization is a phenomenon common to all regions. However, in the services sector, which demonstrates a high degree of regional specificity, the progressive aging of the population has resulted in relatively high numbers of workers in medical care and welfare in region 1, whereas in region 2, despite it having similar levels of population aging, the number of workers is relatively low. In terms of the growth in services for business establishments according to the concentration of business establishments, we have seen that compared with regions 1 and 3, region 2 tends to have fewer workers employed in those services according to concentrations of business establishments. We also saw that demand from outside the region as well as inside the region was a factor in food services and accommodations in region 3, which has a particularly large number of municipalities with high populations.

Fig. 1-3-34 Regional characteristics as revealed by employment structures

	Region 1	Region 2	Region 3
Manufacturing	Given the increased import penetration due to globalization, the number of workers employed in textiles, electric machinery and other manufacturing industries decreased.		
Services Medical care and welfare	More municipalities with **progressive population aging than regions 2 and 3**. More municipalities with **higher numbers of workers per elderly population than regions 2 and 3.**	More municipalities with **progressive population aging than region 3**. More municipalities with **lower numbers of workers per elderly population than regions 1 and 3**.	More municipalities with **a lower ratio of elderly population than regions 1 and 2**. More municipalities with **lower numbers of workers per elderly population than region 1**.
Services Services for business establishments	More municipalities with **a lower concentration of business establishments than regions 2 and 3**. More municipalities with **higher numbers of workers per business establishment than region 2**.	More municipalities with **a higher concentration of business establishments than region 1**. More municipalities with **lower numbers of workers per business establishment than regions 1 and 2**.	More municipalities with **a higher concentration of businesses than regions 1 and 2**. More municipalities with **higher numbers of workers per business establishment than region 2**.
Services Food services and accommodations	More municipalities with **a smaller population than regions 2 and 3**. More municipalities with **lower numbers of workers per population than region 3**.	More municipalities with **a higher population than region 1**. More municipalities with **lower numbers of workers per population than region 3**.	More municipalities with **a higher population than regions 1 and 2**. More municipalities with **higher numbers of workers per population than regions 1 and 2**.

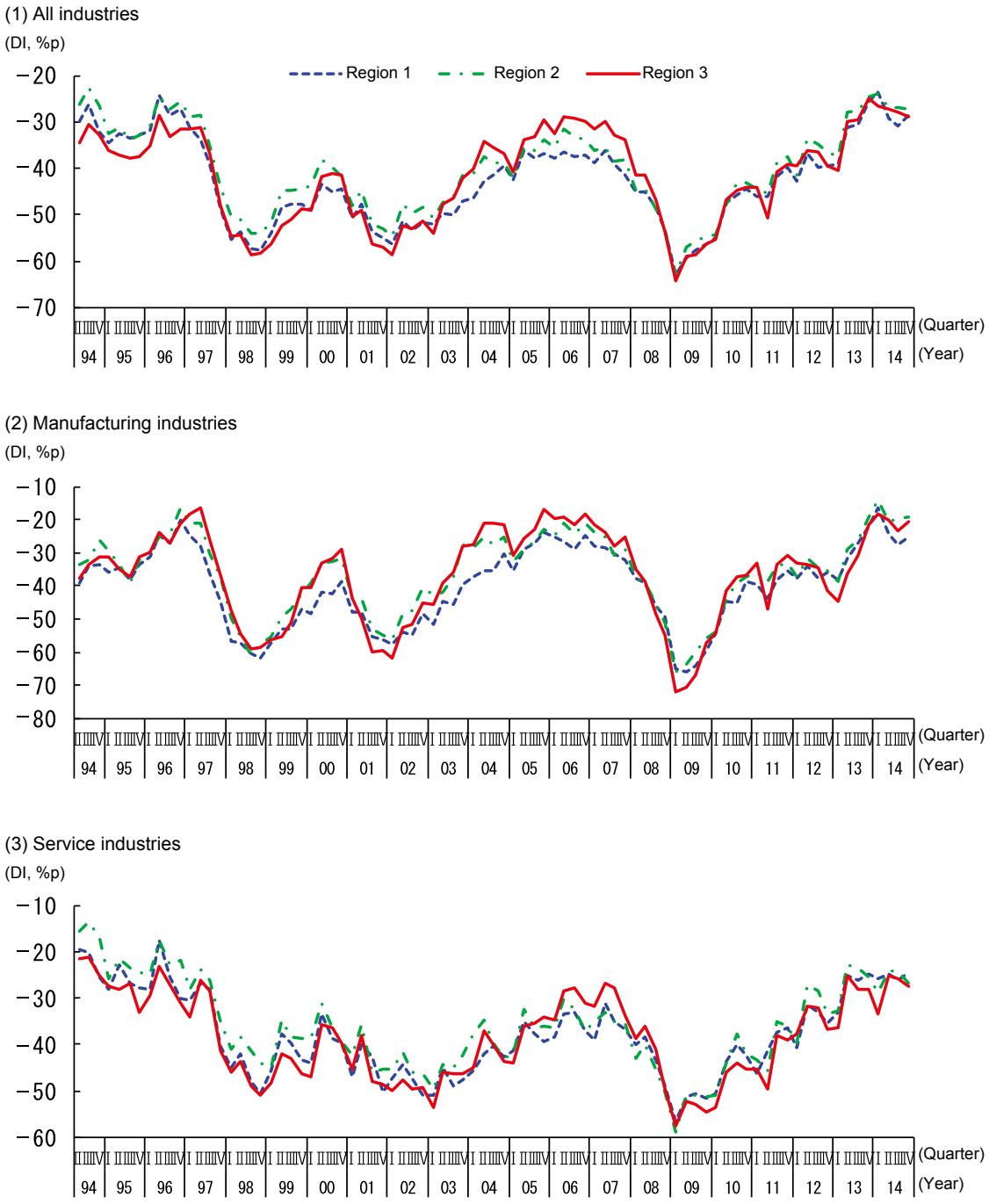
[5] Business conditions for SMEs and micro-businesses

Thus far, we have looked at the situation for regional economies as a whole, but are there in fact regionally specific characteristics to the conditions for the SMEs and micro-businesses based in the regions. Here, we use the results of the *Survey on SME Business Conditions* conducted by the SME Agency and the Organization for Small & Medium Enterprises and Regional Innovation, Japan to look at the business conditions by region for SMEs, including micro businesses (Fig. 1-3-35). If we look at the business conditions DI for SMEs and micro-businesses by region, the swings in the business conditions DI for SMEs and micro-businesses in region 3 are larger than in regions 1 and 2 up until the Lehman crisis in 2008. The trend was for rapid improvements when business conditions were favorable and equally rapid downturns when conditions were unfavorable. However, in the favorable business conditions since the Lehman crisis, there is no clearly visible difference between any of the regions in the level or direction of the DI.

If we look at the figures by industry, the trends for all industries are more clearly evident in the manufacturing industries, whereas in the services sector, regardless of region or period, there are no clear differences in the level or direction of the DI.

The above clarifies that, if we look at regional economies individually, there are differences between the regions in terms of each region's rate of economic growth and the particular regional characteristics that derive from their economic and social structures. Though there were no clear differences between the regions in terms of the business conditions for each region's local SMEs and micro-businesses.

Fig. 1-3-35 Business conditions for SMEs and micro-businesses by region



Source: SME Agency & SMRJ, recompiled from *Survey on SME Business Conditions*.
Note: The business conditions DI is calculated as the percentage of enterprises who responded that the level for the current period was "Good" minus the percentage of enterprises who responded "Bad".

[6] Perspectives required for economic growth in Japan's regions

So far, we have categorized the regions from the perspective of economic growth and identified the characteristics of the respective regions. To achieve balanced economic growth suited to the regional circumstances, Japan's regions must adopt the perspectives of cultivating wide-area demand, primarily in the manufacturing industries, and developing local demand centered on the services sector (Fig. 1-3-36).

(1) Perspective of wide-area demand

In regions with relatively slow economic growth, the share of added value in the manufacturing industries is relatively small when compared with regions of relatively rapid economic growth, and the share tends to be particularly low in industries that are competitive in the wider market, such as transportation machinery and electric machinery. In such regions, revitalization of industries with the aim of developing wide-area demand can be expected to significantly boost the rate of economic growth. On the other hand, regions where economic growth rates are moderate or high need to be aware of the impact on manufacturing industry employment of increased import penetration due to globalization.

(2) Perspective of intra-regional demand

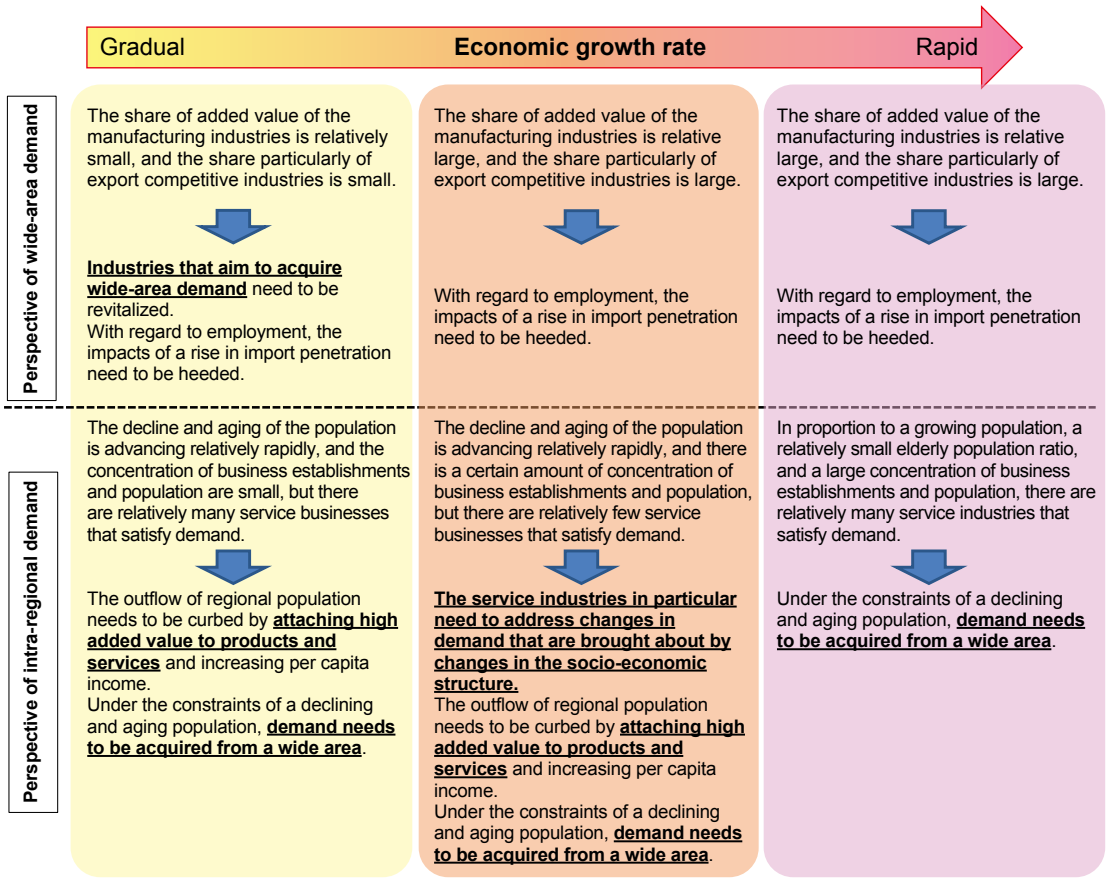
In regions where economic growth is relatively weak or moderate, population decline and aging is progressing relatively quickly and governments must respond to the changes in demand that will flow from such structural change in communities. We have seen that in regions with sluggish economic growth, population decline and aging is progressing particularly quickly and there is a relatively large number of service sector enterprises catering to the resulting demand for services. We also noted that the services sector is relatively small in regions with moderate economic growth. For these reasons, we need to act appropriately to address the changes in demand that are occurring due to population declines and aging.

Measures to arrest population decline are also vital. We also noted population outflow, particularly from regions with slow economic growth to regions with rapid economic growth. This is largely due to the marked difference between the regions in per-capita income, so lessening this gap between incomes would be likely to lessen these population outflows. To achieve this, regional enterprises must find ways to attach higher added value to their products and services. Given the population limitations, it is also important for enterprises to attract wide-area demand so as to achieve sustained economic growth. Given these circumstances, one effective measure is to uncover local resources, attach added value to them and then supply them as products to the broader market.

By contrast, a feature of regions with high rates of economic growth is that they have relatively low ratios of elderly population and continued population growth. In such regions, overcoming their population limitations and attracting wide-area demand is likely to spur even more growth.

From the above perspectives, by implementing initiatives tailored to the circumstances of the respective regions, it should be possible for all of Japan's regions to achieve balanced economic growth. However, for this, we must identify in detail the particular circumstances of the various regions and then make the correct decisions as to what is required to achieve further growth. This perspective is explored in detail in Part III.

Fig. 1-3-36 Perspectives required for economic growth in Japan's regions



Part II

A greater role for SMEs and micro-businesses

Chapter 1

Efforts at innovation and cultivating markets at SMEs and micro-businesses

As discussed in Part I, the management environment for Japan's SMEs and micro-businesses is growing increasingly harsh as a result of a changing outlook concerning medium- to long-term economic and social structures in the country, a development caused in part by economic globalization and population decline. Amid these structural changes, the transaction structure among SMEs and micro-businesses continues to change and face a growing need to confront markets directly. In addition to examining the conditions faced by these SMEs and micro-businesses and the issues faced by business operators, this chapter will provide an analysis of policies for resolving these issues as well as market development initiatives.

Section 1 A transformation of the transaction structure between large enterprises and SMEs

Part I, Chapter 3, Section 1 discussed a widening profitability gap among SMEs and the fact that high-profit SMEs are achieving the same rates of return as high-profit large companies. On the other hand, worsening profitability at low-profit SMEs is putting downward pressure on the profits of SMEs as a whole. The structural cause behind this phenomenon is likely the transformation in the transaction structure among large enterprises and SMEs and micro-businesses.

A look at the business relationships between large enterprises and SMEs and micro-businesses in the manufacturing industry shows a subcontracting structure defined by a "keiretsu" business pattern among the various enterprises. SMEs and micro-businesses contracting for large enterprises have provided production services consisting mainly on single-process, commissioned processing. The SMEs and micro-businesses that became a part of this powerful industrial structure have refined their technologies and expertise through a business model that processes products with concern for delivery schedules and cost in accordance with order specifications. These companies enjoy the advantage of not needing to do their own marketing or invest corporate resources into advertising and other sales promotion activities[1]. Factors such as advancing globalization and a prolonged recession have worsened business performance and prompted more positioning of production functions overseas by large enterprises. For large enterprises, this has eroded the stamina for and advantages of maintaining a robust subcontracting structure, and diminished the advantages for subcontractors, as well[2]. The apparent result of this is a weakening of business relationships between large enterprises and SMEs and micro-businesses (Fig. 2-1-1).

1) For a detailed analysis, see the *2003 White Paper on Small and Medium Enterprises in Japan*.
2) For a detailed analysis, see the *2003 and 2005 White Paper on Small and Medium Enterprises in Japan*.

Fig. 2-1-1 Corporate transaction structure transformation

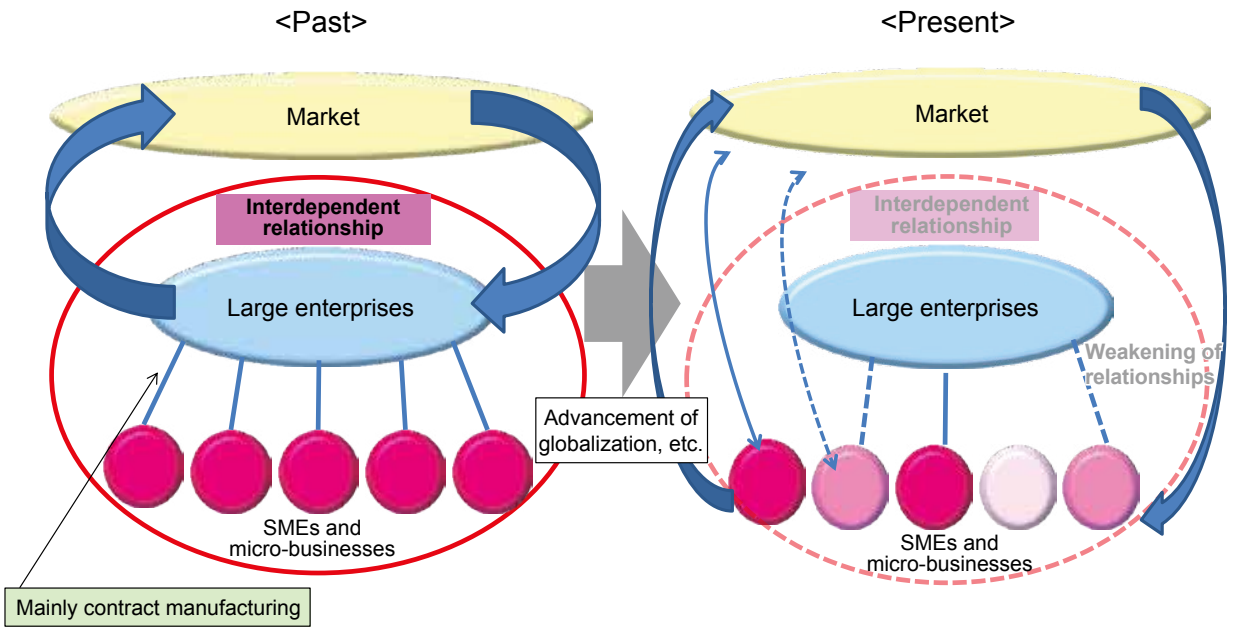


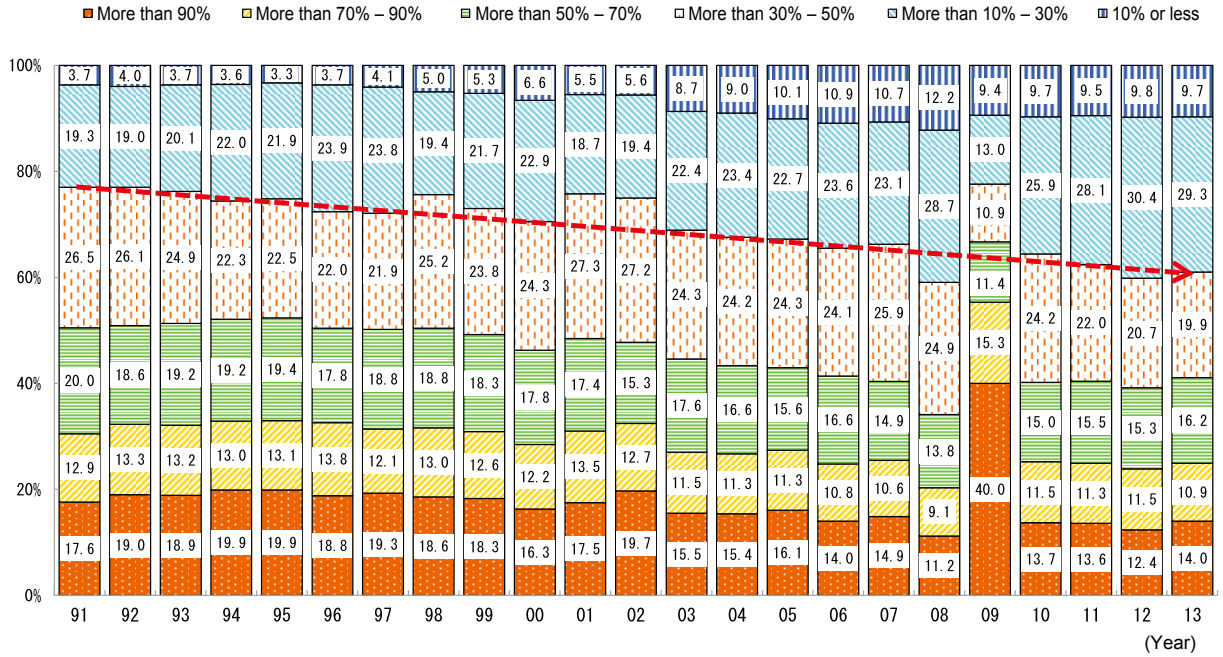
Fig. 2-1-2 (1) looks at transactions done under subcontracting relationships. It shows the dependency on revenues earned by the parent business with which the contractor does the most high-value business, with the commissioning business as the parent business and the commissioned business as a contractor[3]. In 2009, immediately after the Lehman crisis, the parent company with the highest transaction value temporarily skyrocketed. However, while 77.0% of SMEs and micro-businesses had a 30% or higher dependency in 1991, this dropped to 61.0% in 2013.

Fig. 2-1-2 (2) shows the historical numbers of parent companies doing business with contractors on a constant basis. Although 68.9% of SMEs and micro-businesses had 5 or fewer parent companies in 1995, this declined to 53.7% in 2013.

The above indicates an upward trend in the number of parent companies doing business with contractors on a constant basis, and a downward trend in dependency on parent companies with which transaction value is the highest. The result in terms of business relationships between companies has been a gradual move away from close reliance on fewer business partners and towards multifaceted business relationships with many partners. It could thus be said that the rigid business relations of the past have softened over the years.

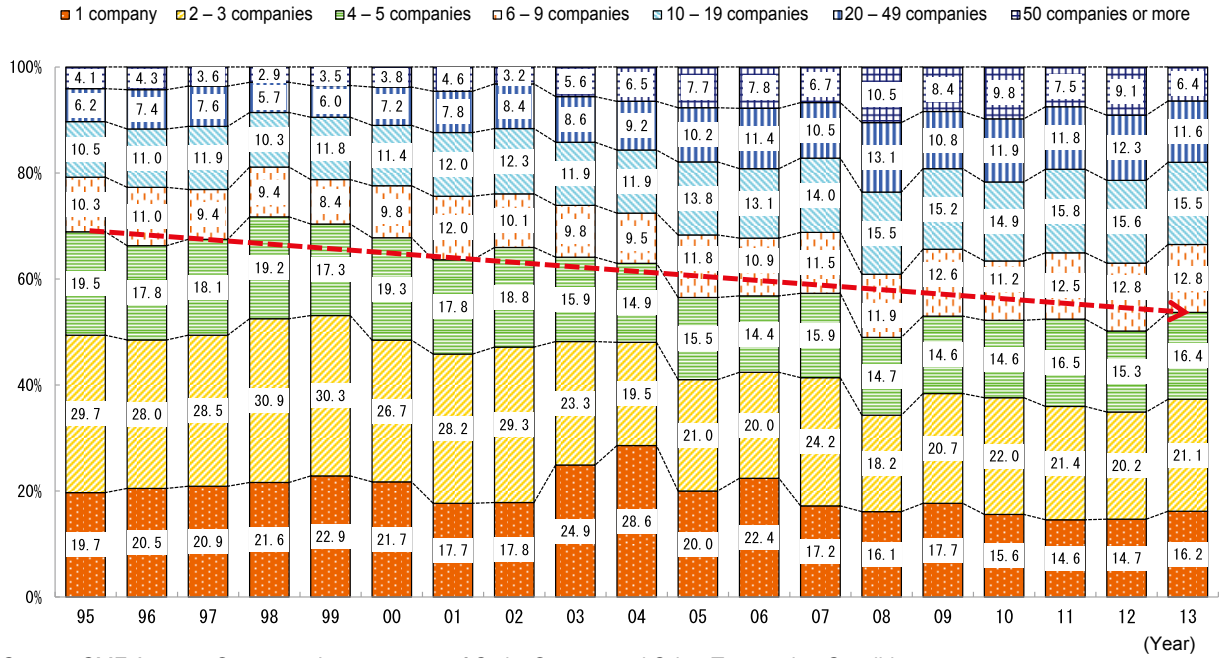
3) For details concerning subcontracting, see Appended note 2-1-1.

Fig. 2-1-2 (1) Dependency on parent companies with the highest transaction value



Source: SME Agency, *Survey on Improvement of Order System and Other Transaction Conditions*.

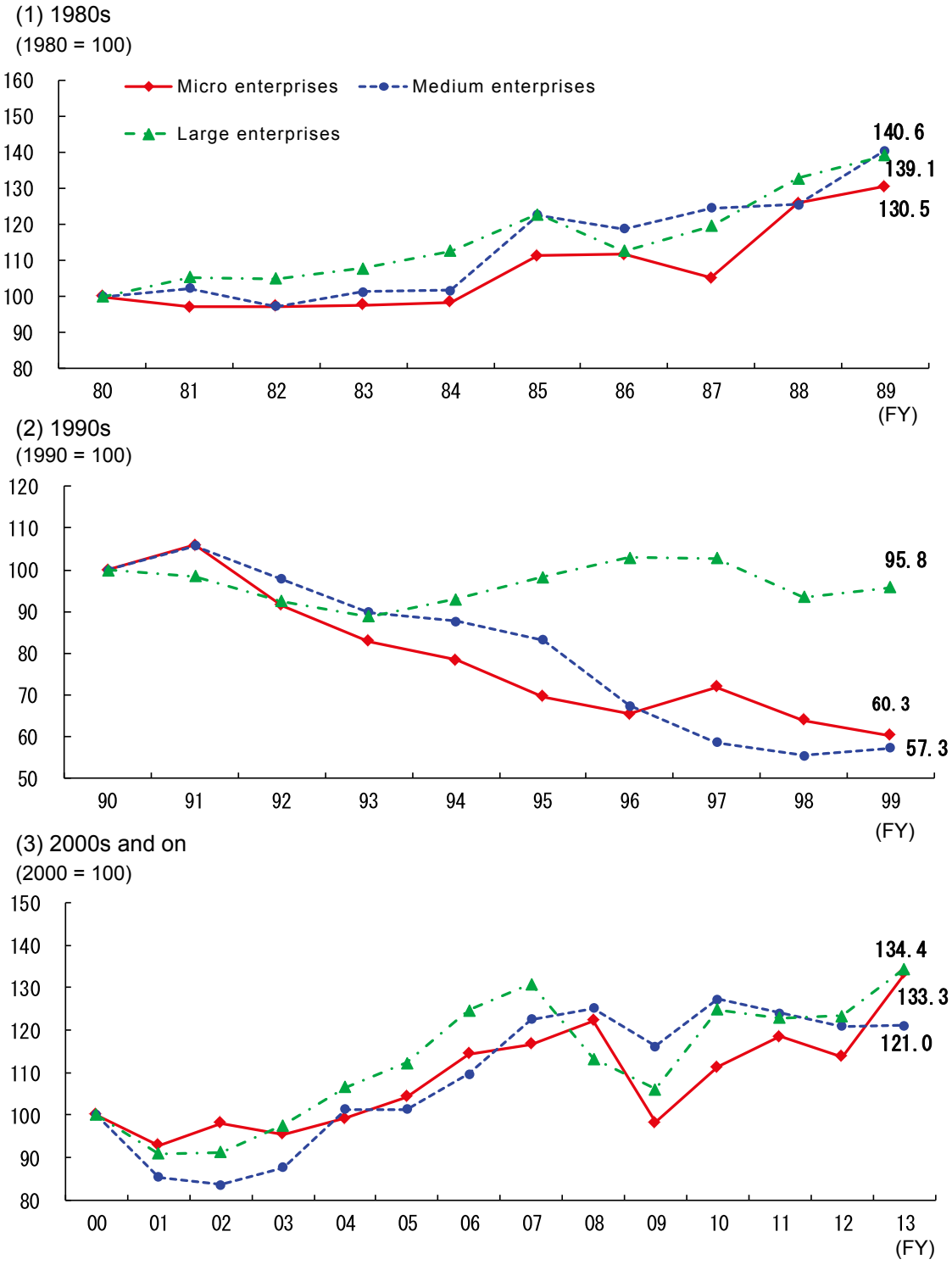
Fig. 2-1-2 (2) Number of parent companies doing business with contractors on a constant basis



Source: SME Agency, *Survey on Improvement of Order System and Other Transaction Conditions*.

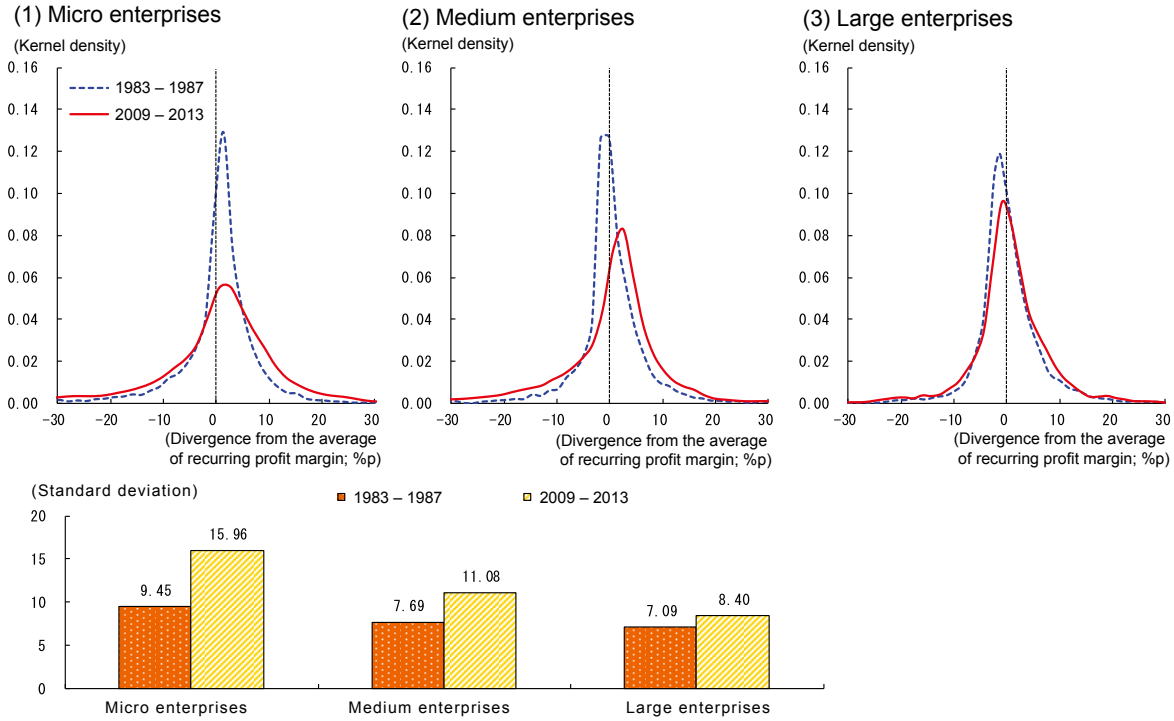
Furthermore, this transformation of the transaction structure has brought significant changes to how large enterprises and SMEs are growing. Fig. 2-1-3 shows historical indicators of real value added at large enterprises and SMEs. Here we can see that SMEs grew alongside large enterprises under a subcontracting structure in the 1980s. In the 1990s, large enterprise growth prospered while SME growth plummeted amid weakening business relationships between the two. Growth was once again strong between the two from the 2000s and on. However, as discussed in Part I, Chapter 3, the situation at large enterprises and at SMEs were wholly different in the 1980s and from the 2000s and on. SMEs in the 1980s were subcontractors of large enterprises and had few opportunities to be exposed to the uncertainties of the market. This results in little variation in rate of return overall. In contrast, due to a weakening of business relationships with large enterprises, SMEs from the 2000s and on were forced to work with the market directly. Market uncertainties produced gaps in corporations' rate of return as some companies achieved high rates and others did not. Variation in rate of return increases the smaller the companies get (Fig. 2-1-4).

Fig. 2-1-3 Historical average real value added per company by company size (manufacturing industry)



Sources: MOF, *Annual Report on Survey of Corporate Statistics*; RIETI, *JIP Database 2014.*
Notes: 1. Large enterprises are enterprises with capital of ¥100 million or more, middle enterprises are enterprises with capital of ¥10 million or more and less than ¥100 million, and micro enterprises are enterprises with capital of less than ¥10 million.
2. Real values are derived using added value deflators from the JIP database.

Fig. 2-1-4 Changes in recurring profit margin variation



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Large enterprises are enterprises with capital of ¥100 million or more, middle enterprises are enterprises with capital of ¥10 million or more and less than ¥100 million, and micro enterprises are enterprises with capital of less than ¥10 million.
2. To factor out the impact of a given year from recurring profit margin variation, distribution and variation is calculated using the average of the recurring profit margin according to year and company size subtracted from recurring profit margin for each individual company.

As we have seen so far, it appears that the widening gap in profitability among SMEs can be attributed to a transformation in the subcontracting structure. As a result of the consequent weakening business relationships between SMEs and large enterprises, SMEs and micro-businesses are forced to face the market directly and capture demand themselves. The result is a widened gap between companies who succeed in capturing demand and those that do not. In this environment, the nature of innovation and market development required of SMEs and micro-businesses is changing, and a transformation is underway concerning what is required of the people who will achieve it.

Based on this understanding of the problem, the below will explore specific strategies for capturing demand from the market, improving profitability, and achieving growth for SMEs and micro-businesses working directly with the market. This will involve analyzing primarily the problems of (1) achieving innovation aimed at capturing demand, (2) find new customers based on market needs, and (3) a lack of key human resources.

Case 2-1-1 TOP Co., Ltd.

Beset by intense global competition and facing severe difficulties, this company, previously the subsidiary of a major electrical manufacturer, became independent and pulled itself back from the brink

TOP Co., Ltd. (employees: 380; capital: ¥18 million), based in Echizen City, Fukui Prefecture, manufactures small motors for automotive electrical devices and household appliances.

The company was previously a 100% subsidiary of a major electronics manufacturer, producing motors for domestic appliances and automotive applications among other products, but competition with Chinese products and the offshore movement of the manufacturers that formed its customer base negatively affected its results. As a result, the parent company decided to liquidate its subsidiary in 2003. However, Keiichi Yamamoto, then an employee of the subsidiary and now President of TOP, felt that the technical expertise in motor manufacture that the company had developed over the course of its history would still be required, and that the company should produce parts to supply domestic household appliance manufacturers. Above all, Mr. Yamamoto felt strongly that he had to support employment in his region, given that the company had more than 600 employees at the time of its liquidation. Based on these feelings, Mr. Yamamoto and two other employees of the subsidiary brought together the necessary capital and established the new company TOP Co., Ltd. in 2003 to take over the business of the former subsidiary. They named the new company Takefu Original Production, expressing their determination to ensure that manufacturing industry remained in the Takefu region (Echizen City was formerly named Takefu City).

Following its establishment, TOP conducted its business, from the purchase of parts to the delivery of finished products, with the cooperation of its former parent company. However, the company began to experience a strong sense of urgency regarding the necessity of conducting its own developments and creating an independent sales system, feeling that it would not find its feet if it did not. This is not to say that it had immediate prospects: Because it was able to exist by manufacturing as a subcontractor for its former parent company, the company had little disposition towards active marketing or product development, and it experienced difficulty in cultivating new customers. The turning point for TOP came in 2005, two years after its foundation, at the time that the company had established a development team due to the necessity to expand into new business areas. The manufacturer of an automatic wallpaper glue application machine consulted with the company regarding the possibility of reducing the weight of its product. Making use of its motor manufacturing technologies, TOP succeeded in reducing the weight of the machine from more than 100 kilos to approximately 28 kilos. This development then spurred developments in a variety of fields.

Among the company's various development projects, the key to its expansion into a new business area was the development of a motor for an electric vehicle. The development, commenced as the result of a request from a major automotive manufacturer, took several years. The electric vehicle in which this motor was fitted was exhibited at the G8 Summit held at Lake Toya in 2008, and attracted considerable interest. But just when TOP believed that it had found its proper business course, the Lehman crisis caused a significant decline in production of electric vehicles, and in the automotive industry more generally. TOP was facing a crisis that might have affected its ability to continue as a company, when a request arrived from a major automaker for the development of another motor, this time for a hybrid vehicle. The vehicle that used this motor was a surprise hit product, and TOP was able to weather its crisis.

As a result of establishing its own development team and working to create new businesses, TOP was able to expand into the automotive motor field, a new area for the company. Today, motors for automobiles represent 80% of the company's business. TOP can truly be said to be walking its own path, with independently developed products making up half of its sales. In 2013, 10 years after its foundation, seeking to send a message to the future, the company engaged in the joint development of a small electric vehicle. The concept car that resulted from this development was exhibited in the 2013 Tokyo Motor Show. Mr. Yamamoto says "We got a lot of feedback from exhibiting in the Tokyo Motor Show, and we have had inquiries from companies that we have never previously done business with. I think that it has also changed the way that we are viewed – not just as a parts maker manufacturing motors, but as a multiple device manufacturer which is also able to present ideas for the application of its motors."

Mr. Yamamoto (second from right) and young employees of TOP around the concept car that the company exhibited in the 2013 Tokyo Motor Show

Case 2-1-2 NISSIN KOGYO Co., Ltd.

Formerly a subcontract manufacturer, NISSIN KOGYO became independent with the end of the cathode ray tube television era, and is now making great progress towards becoming a global manufacturer

NISSIN KOGYO Co., Ltd. (employees: 430; capital: ¥90 million), based in Otsu City, Shiga Prefecture, is mainly involved in the manufacture of machined parts for automobiles.

The company's main business focus was originally the manufacture of parts for cathode ray tubes, and at its height, this represented approximately 90% of its sales. With the worldwide decline in demand for cathode ray tube televisions, the company turned to the manufacture of parts for flat screen televisions, but factors including fierce competition with other companies resulted in its withdrawal from television-related manufacturing in 2010.

NISSIN KOGYO had originally manufactured parts for cathode ray tubes under instruction from manufacturers of the tubes. Because of this, the company gave little consideration to the development of new business for itself. However, with the predicted end of production of cathode ray tubes, the company experienced a sense of panic regarding the loss of the greater part of its sales in the near future, causing it to begin to focus on the development of new business areas. These efforts bore fruit, and today NISSIN KOGYO has significantly expanded its automotive-related sales, with a focus on parts used in hybrid vehicle batteries and ABS[4] and airbag parts.

In addition to its technological expertise, it was the company's global network that enabled it to enter the automotive field and expand its sales. With the overseas expansion of Japanese electrical manufacturers, NISSIN KOGYO had established bases in regions throughout the world, and therefore possessed the infrastructure for local production. Automakers which had also similarly established bases overseas were required by national regulations to source products locally, and therefore chose to do business with the company because it enabled them to procure parts locally. This was the background to NISSIN KOGYO's entry to the automotive industry. The company also found that praise from their overseas customers led to inquiries and new business in Japan. NISSIN KOGYO's technological prowess and global network also attracted orders from major overseas car part manufacturers in 2014, and today it holds a 20% global share in the area of parts for brake systems, including ABS.

Regarding NISSIN KOGYO's plans for the future, Takashi Shimizu, the company's President, says "We want to further increase sales in our automotive-related business and boost our global share with a focus on battery parts for hybrid and electric vehicles and brake-related parts. In order to do so, we will draw up strategic maps showing the status of business for each of our parts in each country in which we do business, and look for the markets in which further growth is possible." In addition, he says emphatically "Currently, there are cases in which individual bases of ours around the world possess their own unique expertise. We need to centralize that expertise and share it throughout the entire company. We are working to do so at the moment, and it will enable us to build more robust sales and development systems."

Takashi Shimizu, NISSIN KOGYO's President, discussing the company's global business in front of some of its products

4) An abbreviation of "antilock brake system." These systems reduce the chance of sliding due to the wheels locking when braking suddenly or operating the brakes on a slippery road.

Section 2 Innovation initiatives at SMEs and micro-businesses

In Section 1, we explored how the transaction structure for SMEs is changing and how growth patterns are emerging between large enterprises and SMEs and micro-businesses. To satisfy rapidly changing customer demands amid these changes, SMEs and micro-businesses are facing an increasing need to create new products and services in response to various concerns including market trends, in addition to developing highly-original ideas and technologies and creating new demand. This and subsequent sections will explore innovative efforts by SMEs and micro-businesses to create new products and services and develop highly-original ideas and technologies, and will look at efforts to find new customers using these products and services.

[1] Efforts at innovation among SMEs and micro-businesses

Innovation activities

Let us first look at a few examples of efforts to innovate by SMEs and micro-businesses in Japan. This section looks at the results of a survey of SMEs and micro-businesses concerning "market cultivation" and "new initiatives.[5]" Although "innovation" generally refers to creating new products and services, the intended meanings in this chapter are separated into two categories: (1) product innovation (developing and providing new products and services in-house, or greatly improving upon existing ones), and (2) process innovation (implementing new methods for producing products or for providing services, or greatly improving upon existing methods)[6].

Initiatives aimed at product innovation and process innovation—hereafter referred to as "innovation activities"—are further broken down into "initiatives new to the market, ahead of one's competitors," "initiatives that are already implemented by competitors but that are new to one's own company," and "initiatives that are a dramatic improvement over existing ones." Furthermore, improving profitability, raising productivity, acquiring new expertise, improving worker skills, and other such instances where specific achievements were made as a result of innovation activities are referred to as innovation achievements.

State of innovation activities based on product or process

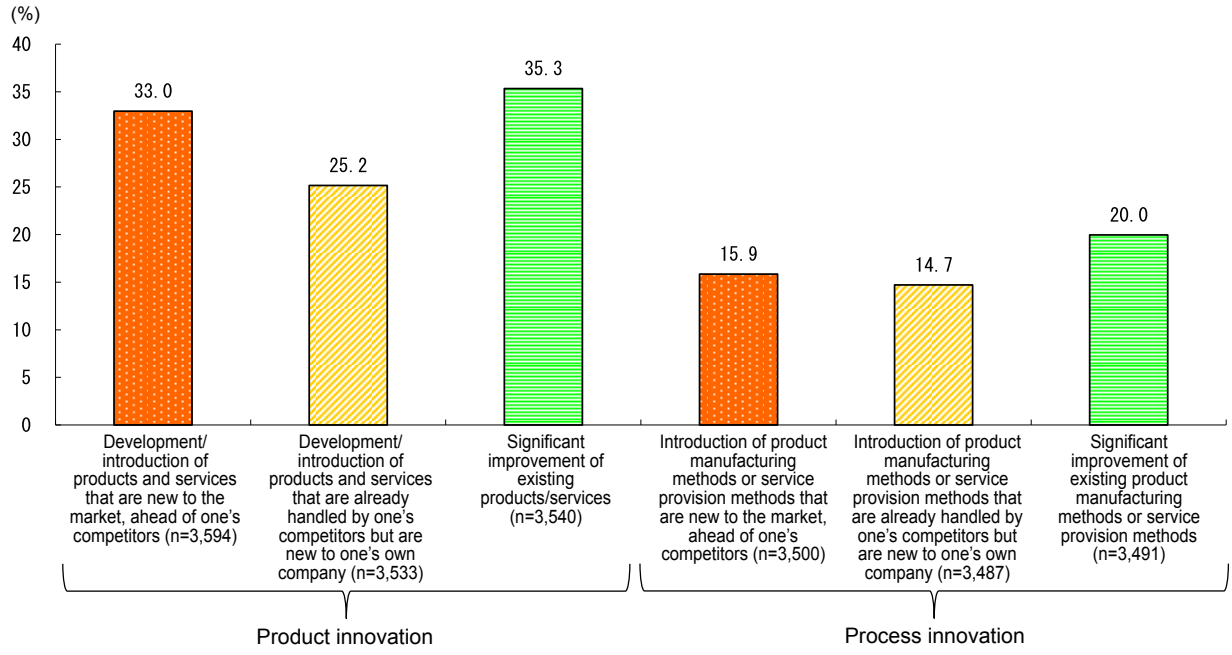
Fig. 2-1-5 shows the percentages of SMEs and micro-businesses that engaged in product innovation or process innovation.

Looking at a breakdown of product innovation activities, "initiatives that are a significant improvement over existing ones" are at the top, followed by "initiatives ahead of one's competitors" and "initiatives implemented by competitors but new to one's company." Although companies achieving dramatic improvements to existing products and services account for the largest percentage, with respect to providing new products and services, many companies are focused on providing products and services that are not only new to their company but to the market, as well. This can be attributed to a market trend in Japan whereby companies must bring new products to market to survive amid market contraction and changing market needs resulting from population decline, the growing number of elderly people and less children, and other such changes to the social structure.

A comparison of "initiatives ahead of one's competitors" and "initiatives implemented by competitors but new to one's company" produces a difference of 7.8% in the product innovation category but a 1.2% difference in the process innovation category, indicating that many companies are adopting other companies' methods.

5) Mitsubishi UFJ Research and Consulting Co., Ltd., from a survey of 30,000 companies conducted in December 2014 and commissioned by the SME Agency. The response rate was 13.9%.
6) For further information on the definition of innovation, see Column 2-1-1 below.

Fig. 2-1-5 State of innovation activities based on innovation category



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

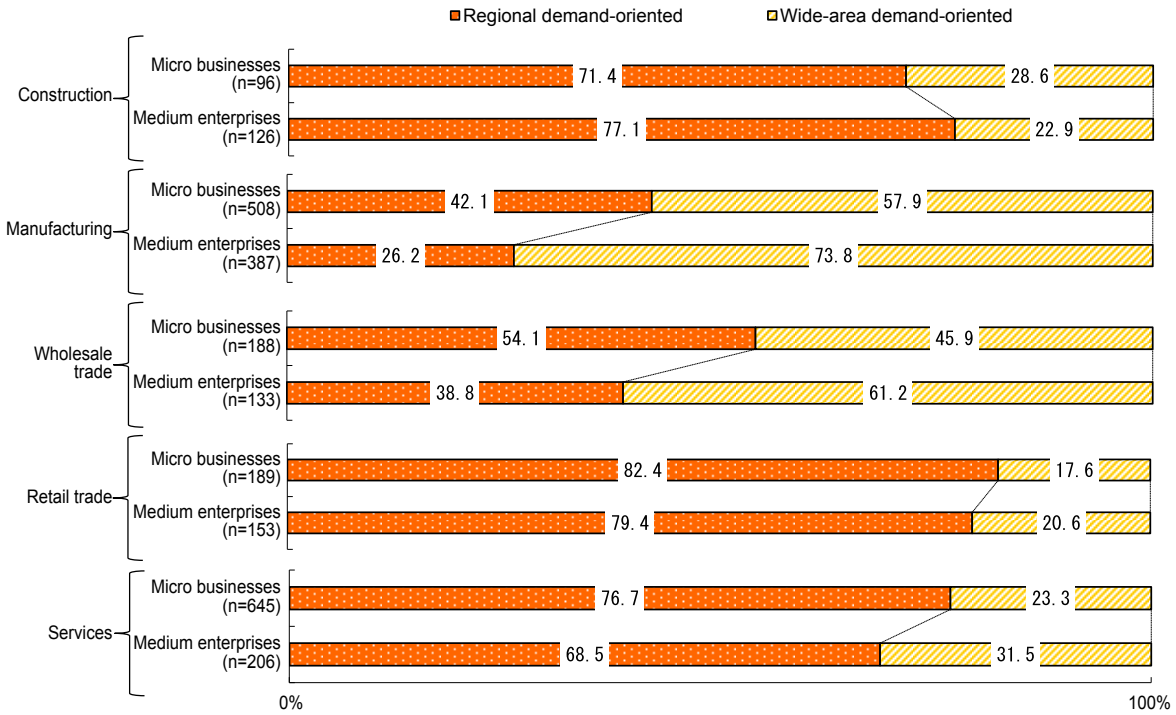
State of demand orientation and innovation activities

The following discussion will take a closer look at innovation activities among SMEs and micro-businesses. Although it may seem that innovation activities will differ depending on the nature of companies' business activities, we will look at industry-specific innovation activities pursued by companies based on analysis results from the *2014 White Paper on Small and Medium Enterprises in Japan*[7].

Fig. 2-1-6 shows the differences between wide-area demand-oriented enterprises and regional demand-oriented enterprises based on industry and company size. Looking at industry, we see that 70–80% of companies in the construction, retail trade, and services industries are regional demand-oriented enterprises. Moreover, there are more wide-area demand-oriented enterprises in the manufacturing and wholesale trade industries than in other industries, with these enterprises making up more than 50% of the manufacturing industry. Broken down by company size, although demand orientation changes little as company size changes for the construction and retail trade industries, "throughout Japan" and "overseas" demand orientation grows along with company size for the manufacturing and wholesale industries. In the services industry, although the difference is not as conspicuous as with the manufacturing and wholesale industries, demand orientation tends toward wide area as companies grow larger.

7) In accordance with Part II of the *2014 White Paper on Small and Medium Enterprises in Japan*, those who responded with "within the same municipality" or "within the same prefecture" were ascribed to being "Regional demand-oriented enterprises" while those who responded with "throughout Japan" or "overseas" were ascribed to being "Wide-area demand-oriented enterprises" with respect to their top-priority market for the future.

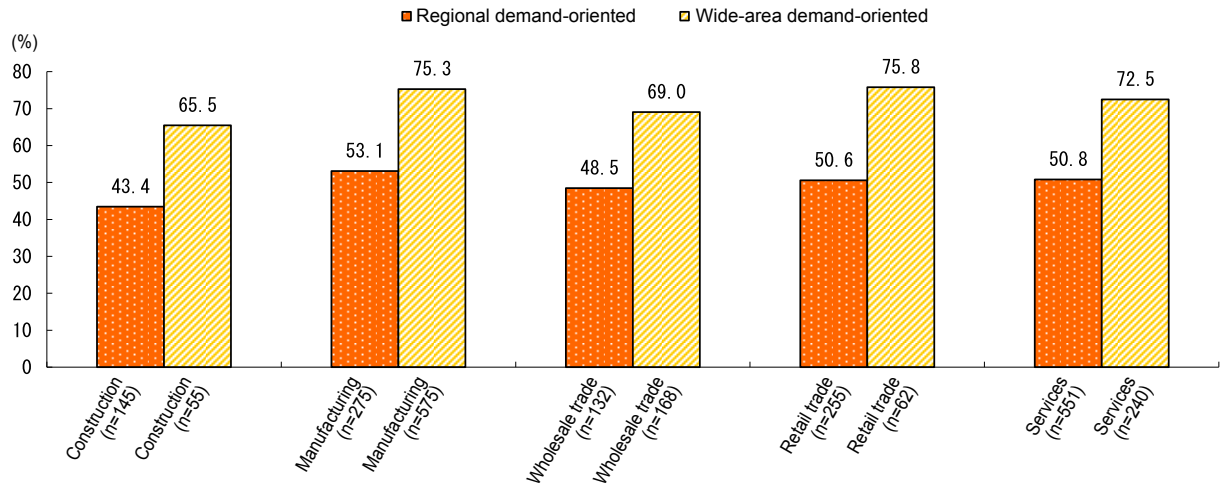
Fig. 2-1-6 Differences in demand orientation based on company size and industry



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Figure 2-1-7 shows the state of innovation activities based on demand orientation (wide-area or regional demand orientation). We can see that, for all industries, wide-area demand-oriented enterprises are more active than regional demand-oriented enterprises where it concerns innovation activities. When targeting wide-area demand, there is a greater need to respond to more diverse needs. Furthermore, there are more competitors and companies need to provide new, or make significant improvements to, products and services in order to differentiate themselves from competitors. As such, it is likely that opportunities for engaging in innovation activities arise more often. On the other hand, it would seem that competition is not as intense for regional demand-oriented enterprises as it is for wide-area demand-oriented enterprises, which presents fewer such opportunities for engaging in innovation activities.

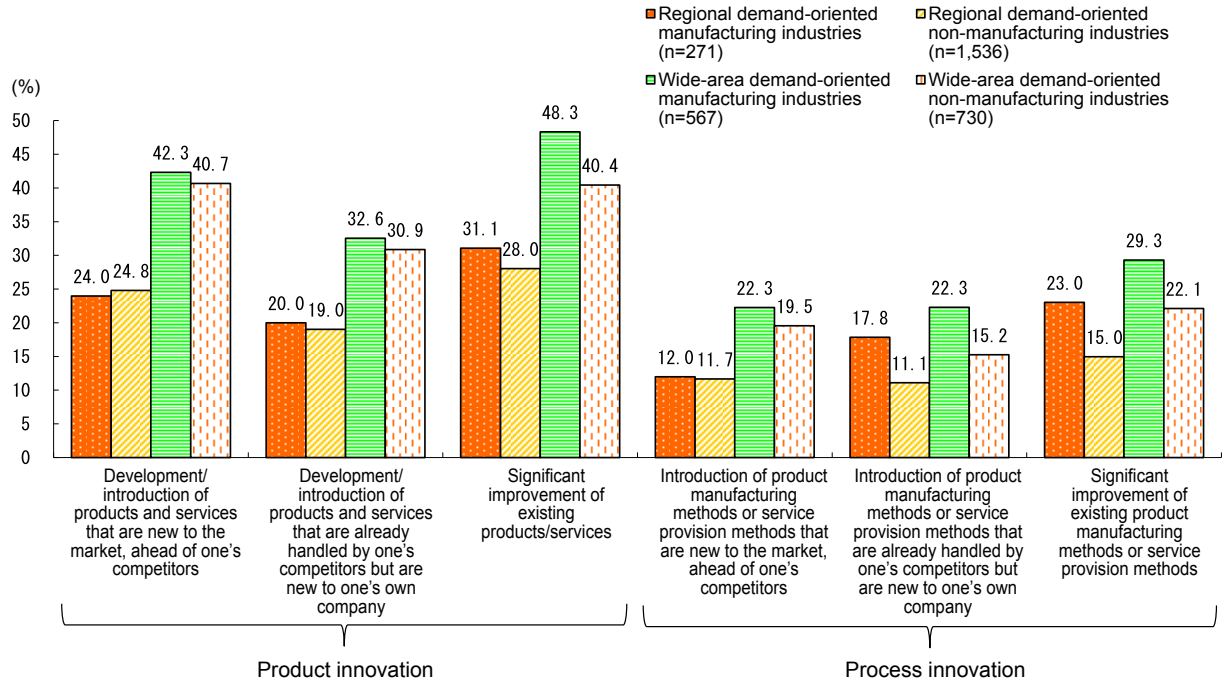
Fig. 2-1-7 Status of innovation activities based on demand orientation



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: "Status of innovation activities" is the result of tabulating those businesses that engaged in innovation activities for the purpose of achieving either product innovation or process innovation, as indicated in Fig. 2-1-5, in the last 3 years.

Fig. 2-1-8 presents the state of product innovation and process innovation activities based on demand orientation (wide-area or regional demand orientation) and on manufacturing or non-manufacturing. Looking at product innovation, a greater percentage of wide-area demand-oriented enterprises are engaging in innovation activities, with the most activity seen in the manufacturing industry among wide-area demand-oriented enterprises. Looking at process innovation, although manufacturing industry activity is most prevalent among wide-area demand-oriented enterprises, the manufacturing industry is number two among regional demand-oriented enterprises with respect to "introduction of product manufacturing methods or service provision methods that are already handled by one's competitors but are new to one's own company" and "significant improvement of existing product manufacturing methods or service provision methods." In the manufacturing industry for regional demand-oriented enterprises, efforts are being focused on adopting methods already implemented at competitors and significantly improving existing methods.

Fig. 2-1-8 Innovation activities based on demand orientation, manufacturing/non-manufacturing, and innovation category



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Initiatives aimed at promoting innovation activities

Fig. 2-1-9 examines specific efforts underway to promote innovation activities. Broken down by company size, we can see that medium enterprises are the most active regarding "encouragement of cooperation beyond the bounds of departments and internal communication," "recruitment of mid-career workers to bring in new air", and other efforts to revitalize their organization and human resources. In terms of demand orientation (wide-area or regional demand orientation), companies with a wide area demand orientation are more engaged in activities involving collaboration with outside parties. This would suggest that companies tend to involve outside parties more as the range of their business activities extend. On the other hand, there was a high rate of involvement among all companies concerning "consistent information collection/analysis with a view to cultivating new markets" and "research/development to achieve differentiation in the market." This illustrates that it is also SMEs and micro-businesses that are engaging in innovation activities with a focus on market cultivation.

Fig. 2-1-10 shows a comparison of ordinary income trends among companies that are and are not engaging in "consistent information collection/analysis with a view to cultivating new markets" as part of efforts to promote innovation. Among companies collecting and analyzing information, 47.4% are realizing increased profits, while those who are not are increasing profits by 35.2%. This shows that collecting and analyzing information with a view to cultivating new markets is important, even among companies conducting innovation activities. As we saw in Fig. 2-1-1, changes in the subcontracting structure are prompting a greater need among SMEs and micro-businesses to innovate and cultivate new markets. At the same time, these SMEs and micro-businesses that are focusing on innovation with a focus on responding to market needs and differentiating themselves from competitors are succeeding in improving their productivity and profitability.

Fig. 2-1-9 Initiatives underway to promote innovation activities

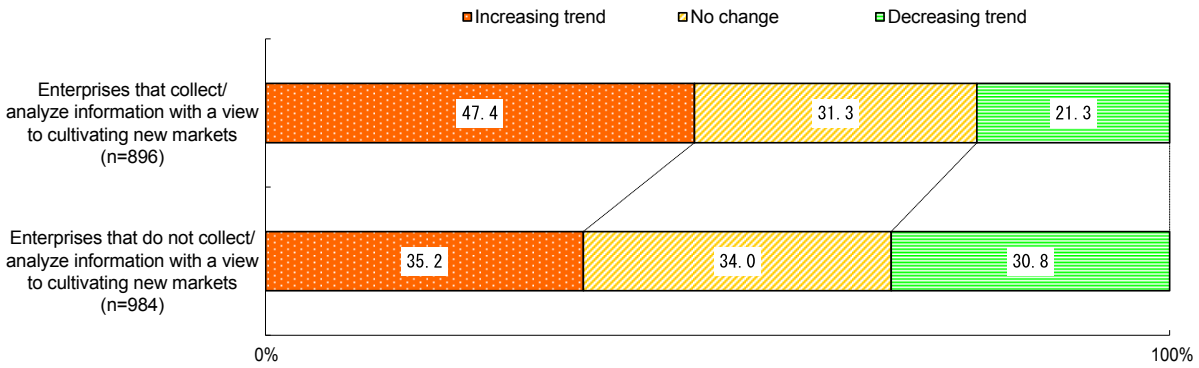
Most numerous response | Second most numerous response | Third most numerous response

(%)

		Regional demand-oriented micro businesses (n=294)	Regional demand-oriented medium enterprises (n=512)	Wide-area demand-oriented micro businesses (n=251)	Wide-area demand-oriented medium enterprises (n=605)
Responses concerning organization/ human resources	Encouragement of cooperation beyond the bounds of departments and internal communication	30.6	55.7	44.6	61.7
	Recruitment of mid-career workers to bring in new air	19.4	41.8	21.1	40.8
	Recruitment of human resources while placing importance on diversity	9.5	13.1	10.0	13.6
	Allotment of a certain budget regardless of business conditions	22.8	17.4	19.5	27.1
Responses concerning products/ services	Consistent information collection/ analysis with a view to cultivating new markets	35.7	45.7	45.0	54.0
	Information collection/analysis for provision of products at moderate prices	38.8	33.2	31.9	36.9
	Research/development to achieve differentiation in the market	38.1	41.0	51.0	45.6
Responses concerning external ties	Initiatives for strengthening external collaboration	24.5	30.5	33.5	42.6
	Convenient location for strengthening external communication	13.3	13.9	10.8	11.9
	No particular initiatives are taken	5.1	2.7	4.8	2.0

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-1-10 Trends concerning ordinary income based on initiatives involving "collecting and analyzing information with a view to cultivating new markets"



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Here, companies who chose "information collection/analysis with a view to cultivating new markets" from among responses concerning initiatives aimed at promoting innovation are referred to as "enterprises that collect/analyze information with a view to cultivating new markets" and those that do not as "enterprises that do not collect/analyze information with a view to cultivating new markets."

[2] Innovation achievement and issues impeding innovation treatment

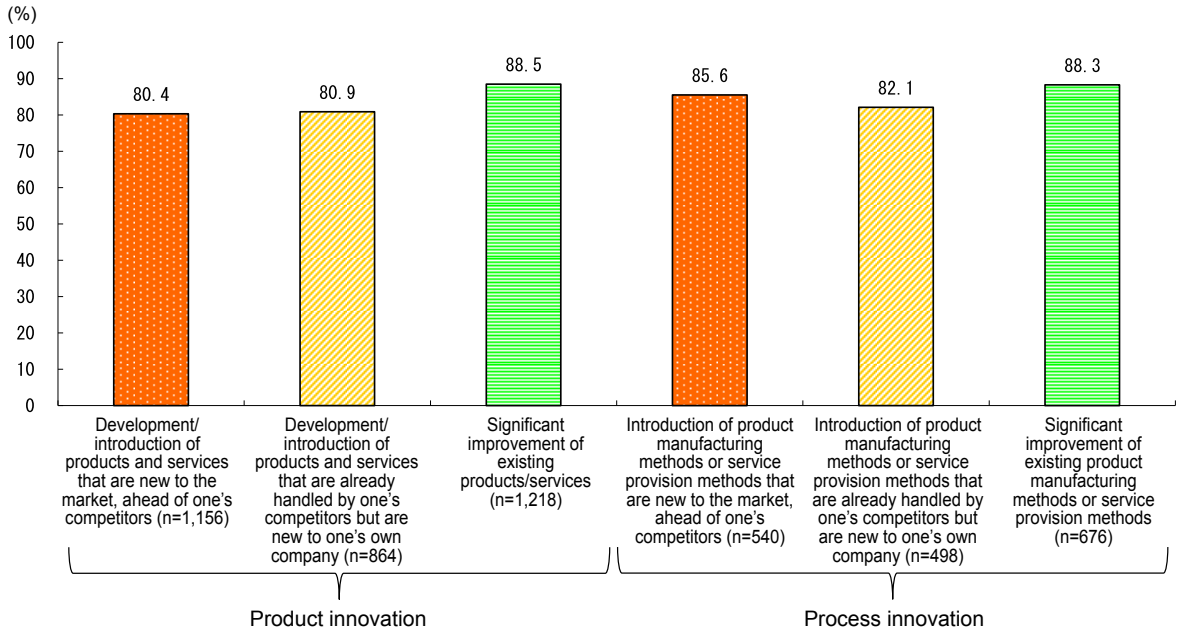
While the above paragraphs have focused on the state of innovation activities, the following discussion explores the specific content of innovation achievement and the issues impeding such achievement.

As discussed at the beginning of the previous subsection, "innovation achievement" is used to refer to the improvement of profitability, the improvement of productivity, the acquisition of new expertise, the enhancement of worker skills, and other specific achievements that result from innovation activities.

Innovation achievement based on innovation category

Fig. 2-1-11 shows the percentage of innovation achievement among companies that conducted innovation activities. In the product innovation category, 80.4% of companies achieved the "development/introduction of products and services that are new to the market, ahead of one's competitors," 80.9% achieved the "development/introduction of products and services that are already handled by one's competitors but are new to one's own company," and 88.5% achieved a "significant improvement of existing products or services." In the process innovation category, 85.6% of companies achieved the "introduction of product manufacturing methods or service provision methods that are new to the market, ahead of one's competitors," 82.1% achieved the "introduction of product manufacturing methods or service provision methods that are already handled by one's competitors but are new to one's own company," and 88.3% achieved a "significant improvement of existing product manufacturing methods or service provision methods." More than 80% of the companies that conducted innovation activities made achievements including expanding profitability or improving productivity by achieving innovations. Over 88% succeeded in significantly improving existing products or services. Only a small percentage conducted innovation activities yet failed to achieve any impact or make any innovations.

Fig. 2-1-11 Percentage of companies who conducted innovation activities and achieved innovations, based on innovation category

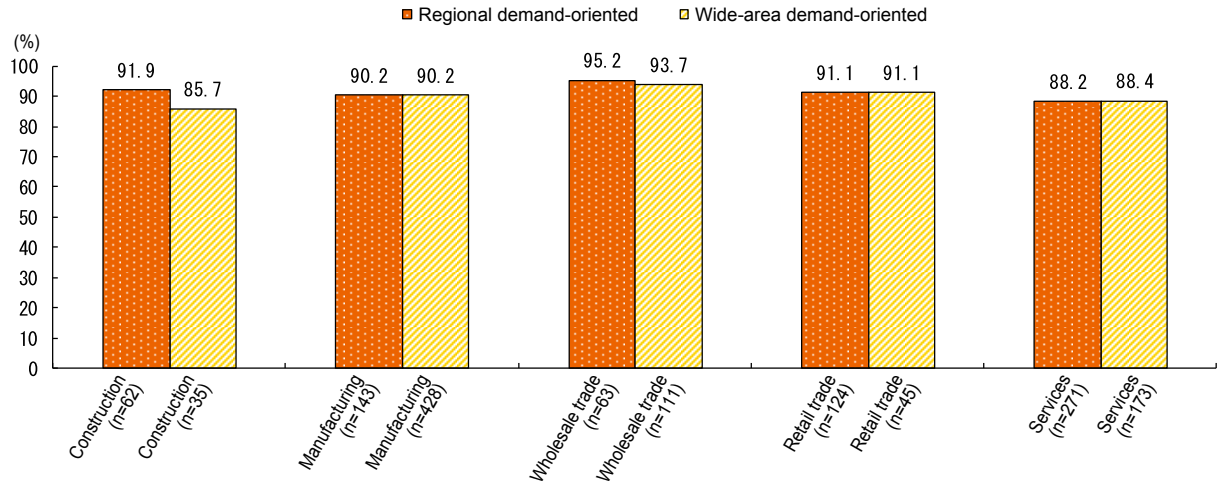


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: For each response, the companies that conducted activities with a view to achieving innovation and made achievements were tabulated.

Status of innovation achievement based on demand orientation

Fig. 2-1-12 shows the state of innovation achievement based on demand orientation (wide-area or regional demand orientation). Regardless of demand orientation or industry, nearly 90% of companies that conducted innovation activities indicated having made innovation achievements and a small percentage of companies stated they made no innovation achievements.

Fig. 2-1-12 Status of innovation achievement based on demand orientation



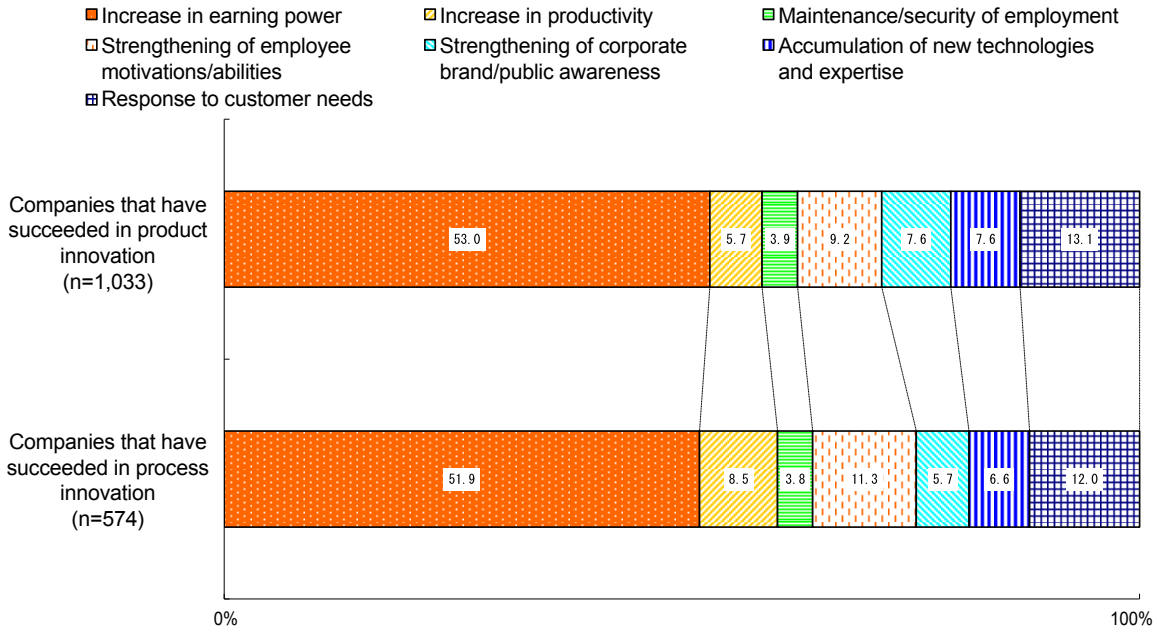
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: "Status of innovation activities" is the result of tabulating those businesses that engaged in innovation activities for the purpose of achieving either product innovation or process innovation in the last 3 years.

Fruits of innovation achievements

Now let us look at the specific results of achieving innovation.

Fig. 2-1-13 shows the most highly-valued results of innovation based on category of achieved innovation. More than 50% of companies in both the product innovation and process innovation categories value improving profitability the most, followed by responding to customer needs.

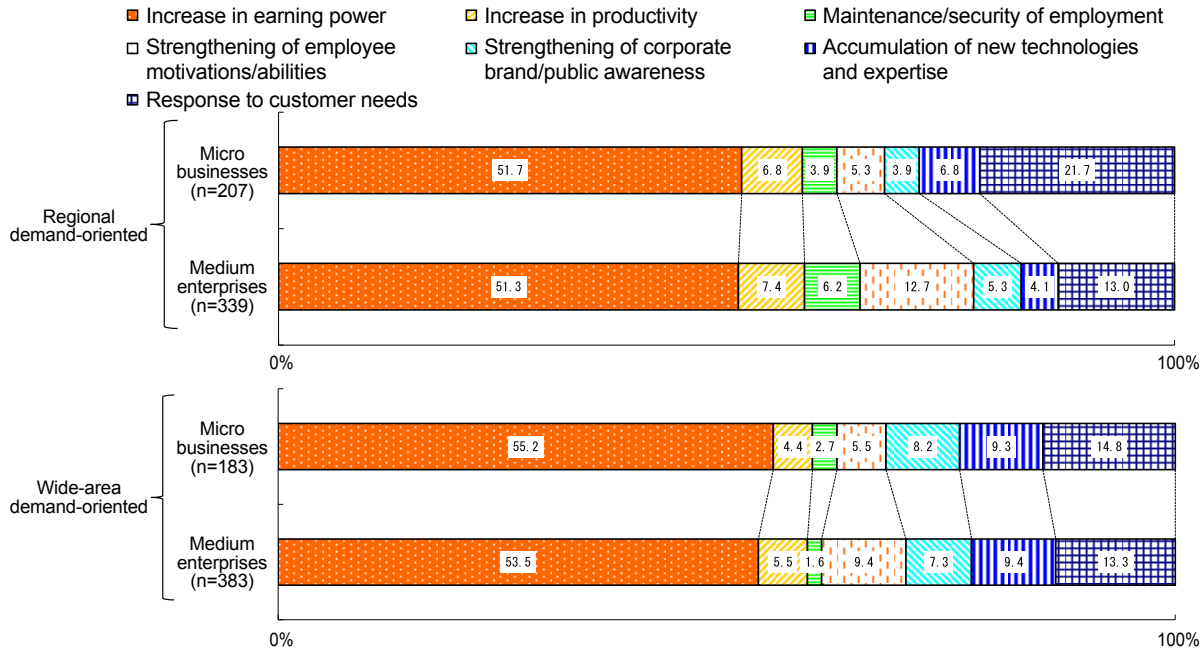
Fig. 2-1-13 Most highly-valued results of innovation based on category of achieved innovation



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Fig. 2-1-14 shows the most highly-valued results of innovation based on demand orientation (wide-area or regional demand orientation) and company size. Overall, roughly half of companies responded with "increase in earning power," the highest-percentage response. This indicates that improving earning power by enhancing productivity through innovation is the most highly valued achievement for SMEs and micro-businesses. Broken down by company size, medium enterprises value "strengthening of employee motivations/abilities" more than do micro businesses.

Fig. 2-1-14 Most highly-valued results of innovation based on demand orientation

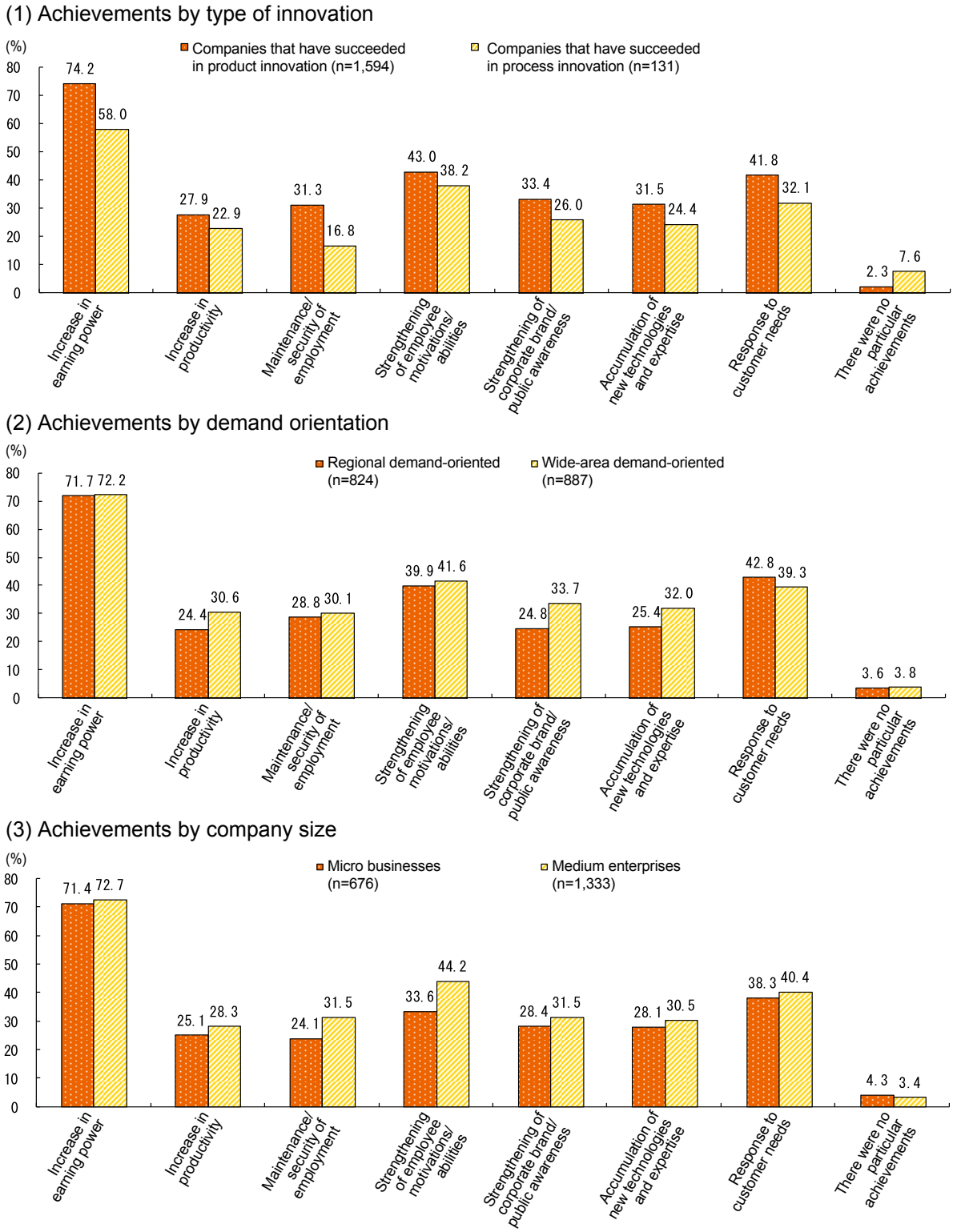


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Next, Fig. 2-1-15 shows the results that actually resulted from innovation achievement by SMEs and micro-businesses as broken down by innovation category and demand orientation (wide-area or regional demand orientation). Overall, the largest percentage of companies responded with "increase in earning power." Looking at the categories of innovation, we can see that companies which achieved product innovation are getting good results across-the-board.

A breakdown by demand orientation shows that responses such as "strengthening of corporate brand/public awareness" and "accumulation of new technologies and expertise" was common among wide-area demand-oriented enterprises, indicating that there are many such enterprises achieved results in areas concerning intellectual property. For regional demand-oriented enterprises, a high percentage of companies indicated "response to customer needs," which is an innovation-related result. Viewed by company size, we see that a large number of medium enterprises achieved human resource-related results, as indicated by such responses as "maintenance/security of employment" and "strengthening of employee motivations/abilities." As shown in Fig. 2-1-9, this outcome is likely the result of medium enterprises' proactive efforts aimed at human resources as a means to promote innovation.

Fig. 2-1-15 Results obtained through innovation achievement



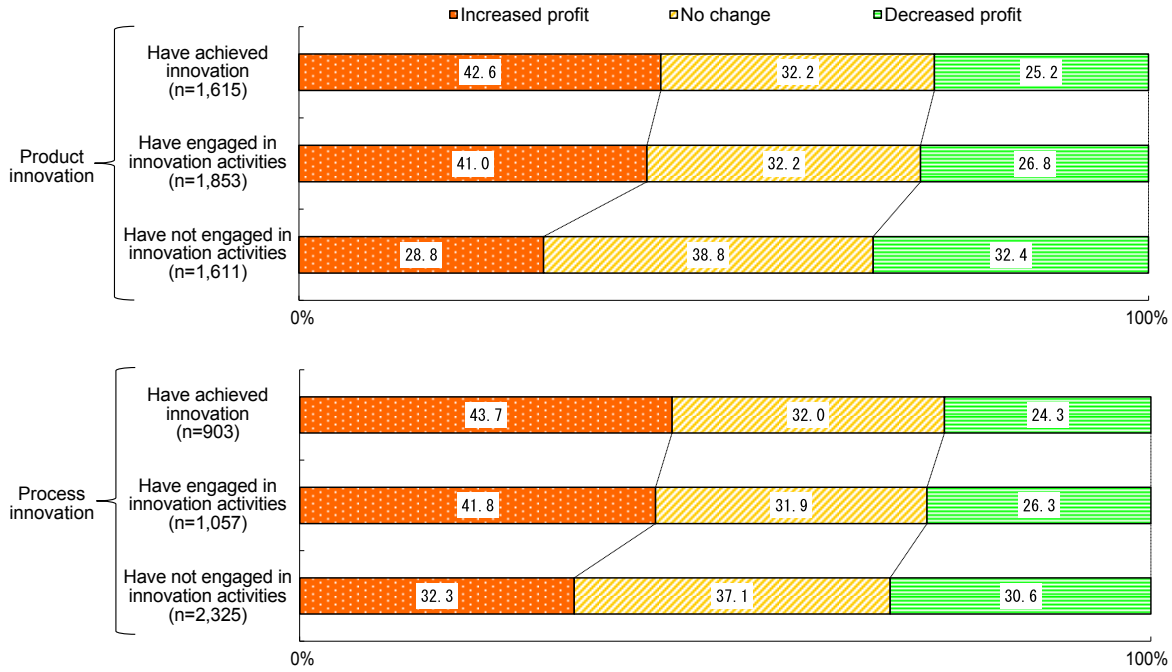
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Now we will look at the relationship between innovation activities and earnings based on innovation category and demand orientation (wide-area or regional demand orientation). Fig. 2-1-16 shows ordinary income

trends broken down by the categories of innovation achieved by companies.

More than 40% of both companies that achieved product innovation and companies that achieved process innovation responded that ordinary income was on the rise. The percentages of companies that claimed an increase in ordinary income were, in ascending order, companies that did not conduct innovation activities, companies that conducted innovation activities, and companies that achieved innovation. This suggests that product innovation and process innovation are playing a part in improving profitability among SMEs and micro-businesses.

Fig. 2-1-16 Ordinary income trends based on innovation achievement



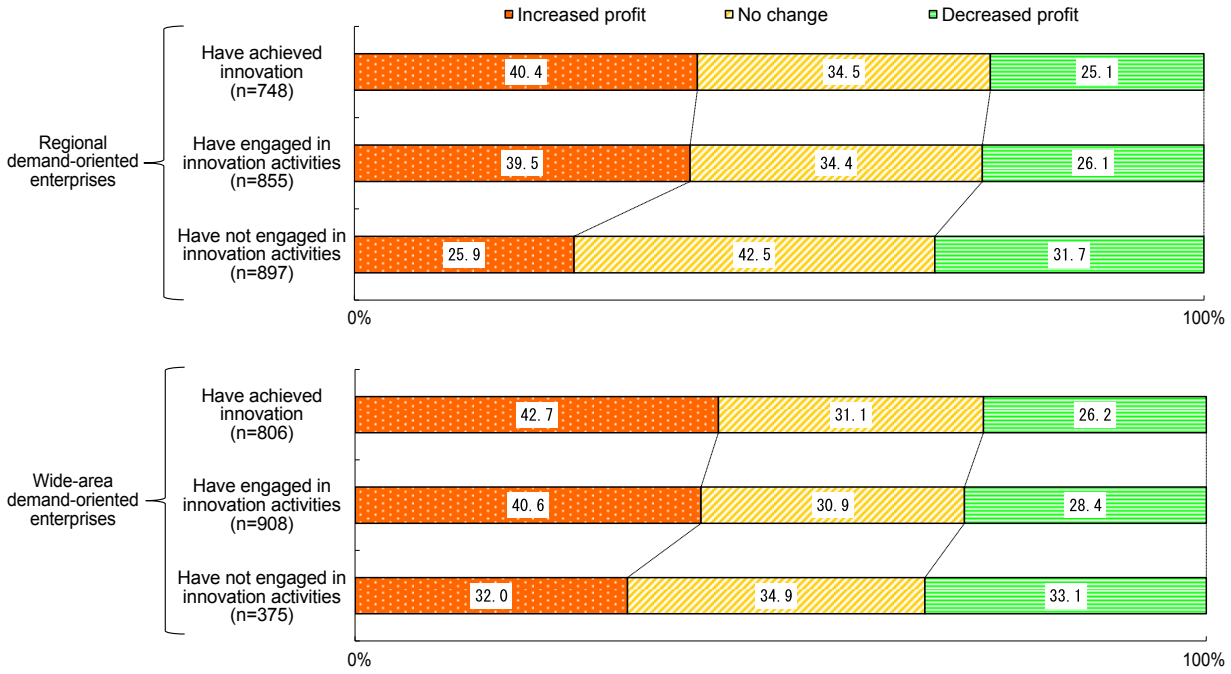
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Concerning ordinary income trends for the most recent three years, "increased profit" companies are those who claimed "significantly increased profit" or "marginally increased profit", while "decreased profit" companies are those claiming "significantly decreased profit" or "marginally decreased profit".

Figure 2-1-17 shows the relationship between the state of innovation activities and ordinary income trends based on demand orientation (wide-area or regional demand orientation). Both for regional demand-oriented enterprises and wide-area demand-oriented enterprises, the percentages of companies that claimed a rise in ordinary income were, in ascending order, companies that did not conduct innovation activities, companies that conducted innovation activities, and companies that achieved innovation. Furthermore, the difference among companies that claimed an ordinary income increase based on whether or not they conducted innovation activities was 13.6% for regional demand-oriented enterprises and 8.6% for wide-area demand-oriented enterprises—a significant difference in the case of the former. From this we can see that companies oriented towards regional demand that is relatively more stable than that of wide-area demand-oriented enterprises have a weaker incentive to conduct innovation activities. Consequently, companies who conducted innovation activities are more likely to enjoy increased profit. In other words, regional demand-oriented enterprises have growth potential and, precisely because they are regional demand-oriented enterprises, have the capacity for increasing profitability through innovation activities. As shown in Fig. 2-1-6, while there are a large number of regional demand-oriented enterprises in the retail trade and services industries, there is strong growth potential through innovation and opportunities to improve profitability in these non-manufacturing industries.

The above suggests that, in order to further improve

profitability at Japanese SMEs and micro-businesses, it is important to focus on these regional demand-oriented enterprises and provide support for their activities.

Fig. 2-1-17 Ordinary income trends based on demand orientation and state of innovation achievement



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Note: Concerning ordinary income trends for the most recent three years, "increased profit" companies are those who claimed "significantly increased profit" or "marginally increased profit", while "decreased profit" companies are those claiming "significantly decreased profit" or "marginally decreased profit".

Case 2-1-3 Suwashoten, Inc.

A manufacturer and wholesaler focused on regional demand that increased its profits by turning to retail

Suwashoten, Inc. (employees: 83; capital: ¥10 million), based in Ichihara City, Chiba Prefecture, is a manufacturer, wholesaler and retailer of souvenirs and local specialties of Chiba Prefecture, in addition to planning products in the same area.

From the time of its establishment in 1969, Suwashoten operated as a manufacturer and wholesaler, conducting B to B business. But at the time that Toshikazu Suwa, the second generation of the founding family and now the President of the company, joined in 1996, intense competition with other companies in the same industry had caused a feeling of hopelessness to take hold.

An experiment in conducting drive-in sales after Mr. Suwa joined the company made him aware of the pleasure of retailing directly to customers, and convinced him of the considerable potential of B to C business. The company began in 1997 with mail order sales. The effect of the recession in the second half of the 1990s caused a decline in sales, producing a sense of crisis in the company, but in 2002 it launched a chain of stores called Fusa no Eki, becoming a fully-fledged product retailer.

What led the company to make the transition from exclusive wholesaler to fully-fledged retailer was the feeling that by contrast with handling products for specific clients as a wholesaler, involvement in retail would enable it to create a unique sales space expressing the characteristics of Chiba Prefecture, and that this would lead to improved results and new business.

Making use of its direct connection with farmers and fishermen, Suwashoten develops as many as 500 new products per year, and concentrates on creating a lineup of high-quality products with a focus on regional demand. These efforts have been successful, and 80% of the company's customers at Fusa no Eki are residents of Chiba Prefecture. The effect of the Great East Japan Earthquake caused wholesale sales to decline, but Fusa no Eki still throngs with local customers.

Today, wholesale represents 60% of Suwashoten's sales, with retail making up 40%. Previously, the company had been at the mercy of factors such as fluctuations in sales, but since entering the retail arena, it has established a balance between wholesale and retail, and its business results are stable. In addition, the display of products in Fusa no Eki has led to wholesale inquiries, and the company claims that there is a powerful synergistic effect between retail and wholesale.

"In the future, we want to create a food-focused theme park called Fusa no Mura that offers places to stay, which will be based on our Fusa no Eki stores. There are sightseeing areas in different locations throughout Chiba Prefecture, but our dream is to bring all of these together in a single base. When tourists see our establishment bustling with local customers, they will be naturally drawn to come and visit. That would be ideal," says Mr. Suwa with passion.

In addition to being an example of a company improving its sales by focusing on local demand and offering its customers products that respond to their needs, the story of Suwashoten shows a company oriented towards local demand realizing innovation and increasing its profitability. Another example of successful innovation is the company's hedging against business risk and creation of more robust business foundations by generating two business streams with its entry into the retail industry.

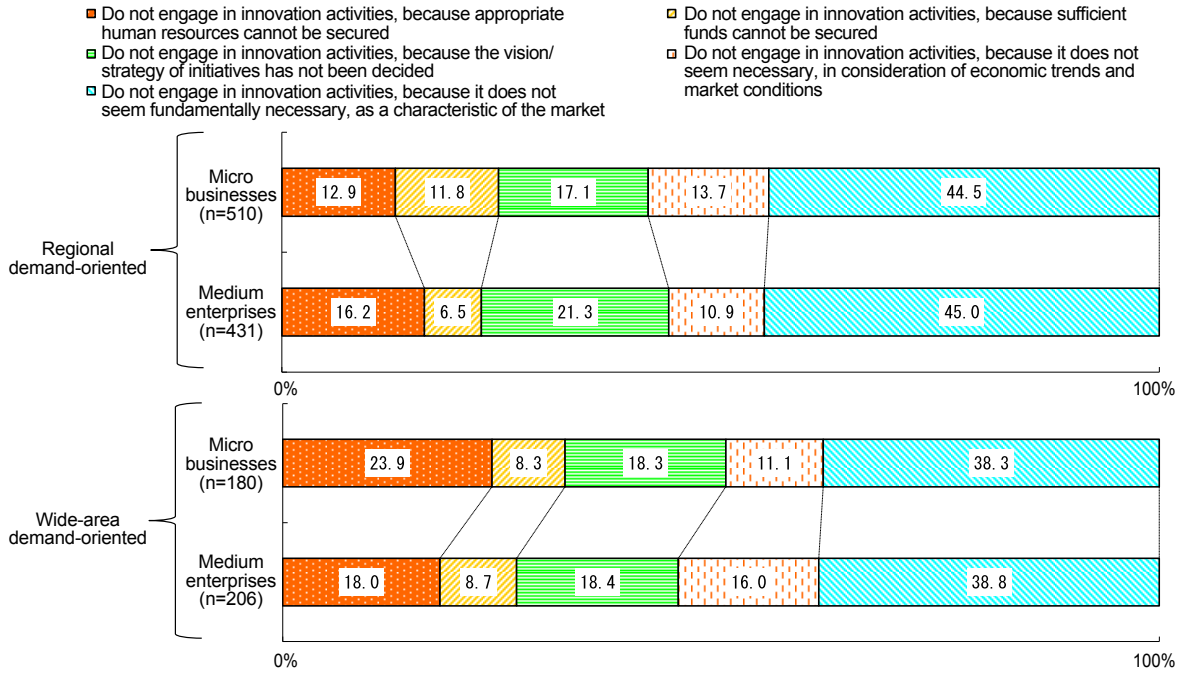
A Fusa no Eki retail store, offering Chiba Prefecture souvenirs and specialties

Issues concerning innovation achievement

We will now look at issues faced by SMEs and micro-businesses in achieving innovation. The discussion views the issues based on two situations: (1) innovation activities are not even being conducted and (2) innovation activities are being conducted but no achievements are being made.

Fig. 2-1-18 shows the reasons why companies are not conducting innovation activities. Over 50% of companies responded with either "do not engage in innovation activities, because it does not seem fundamentally necessary, as a characteristic of the market" or "do not engage in innovation activities, because it does not seem necessary, in consideration of economic trends and market conditions", indicating that the majority of companies do not feel the need to conduct innovation activities. As regional demand could decrease as a result of depopulation and other factors, even companies who do not feel the need for innovation and are not conducting innovation activities—for reasons that include market characteristics or economic trends—need to improve competitiveness by focusing on innovation, which can be said to be the wellspring for growth. On the other hand, we can see that even the roughly 50% of companies that feel the need for innovation are not undertaking such activities due to financial or human resource-related reasons. When compared to regional demand-oriented enterprises, wide-area demand-oriented enterprises more frequently cited a lack of human resources as a reason. This is especially true for wide-area demand-oriented enterprises that are micro businesses: more than 20% responded that insufficient human resources preclude innovation activities. This shows that while these companies are very determined to expand business targeting wide-area demand, insufficient human resources is posing a problem.

Fig. 2-1-18 Reasons for not conducting innovation activities, based on demand orientation and company size



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

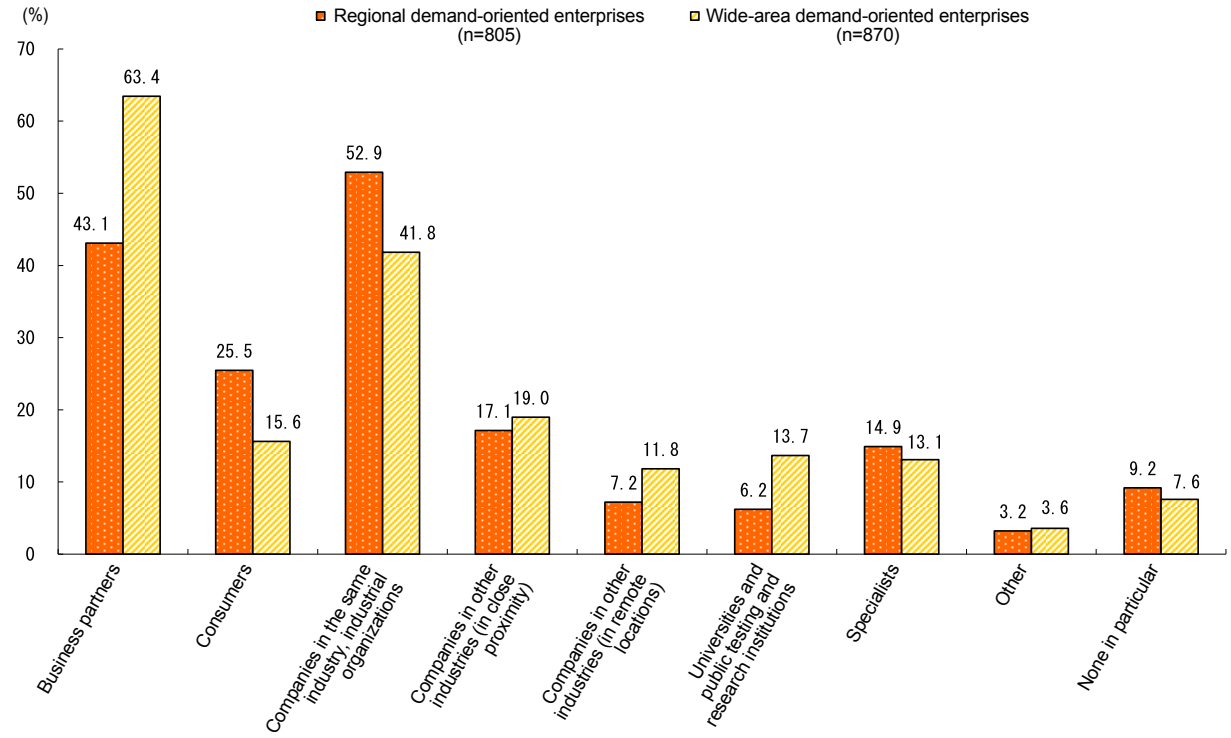
Initiatives that motivate companies to seek innovation

As shown in figure 2-1-9, the more that companies target wide-area demand the more effort they put into initiatives that involve collaborating more with outside parties.

On the other hand, regional demand-oriented enterprises face issues in collaborating with outside parties. Fig. 2-1-19 examines the types of organizations that companies confer with as an important motivation to seek innovation, broken down by demand orientation (wide-area or regional demand orientation). Among regional demand-oriented enterprises, the highest percentage of responses was "companies in the same industry, industrial organizations," followed by "business partners."

Among wide-area demand-oriented enterprises, the largest number of companies responded with "business partners," followed by "companies in the same industry, industrial organizations." This shows that both regional demand-oriented enterprises and wide-area demand-oriented enterprises place the highest emphasis on conferring with business partners, organizations in the same industry, and other such businesses that they have business connections to. Moreover, the more companies target wide-area demand, the more they prefer conferring with remote companies in different industries as well as universities and public testing and research institutions. This suggests that wide-area demand-oriented enterprises place importance on conferring with a wide range of organizations.

Fig. 2-1-19 Organizations to confer with as motivation to seek innovation

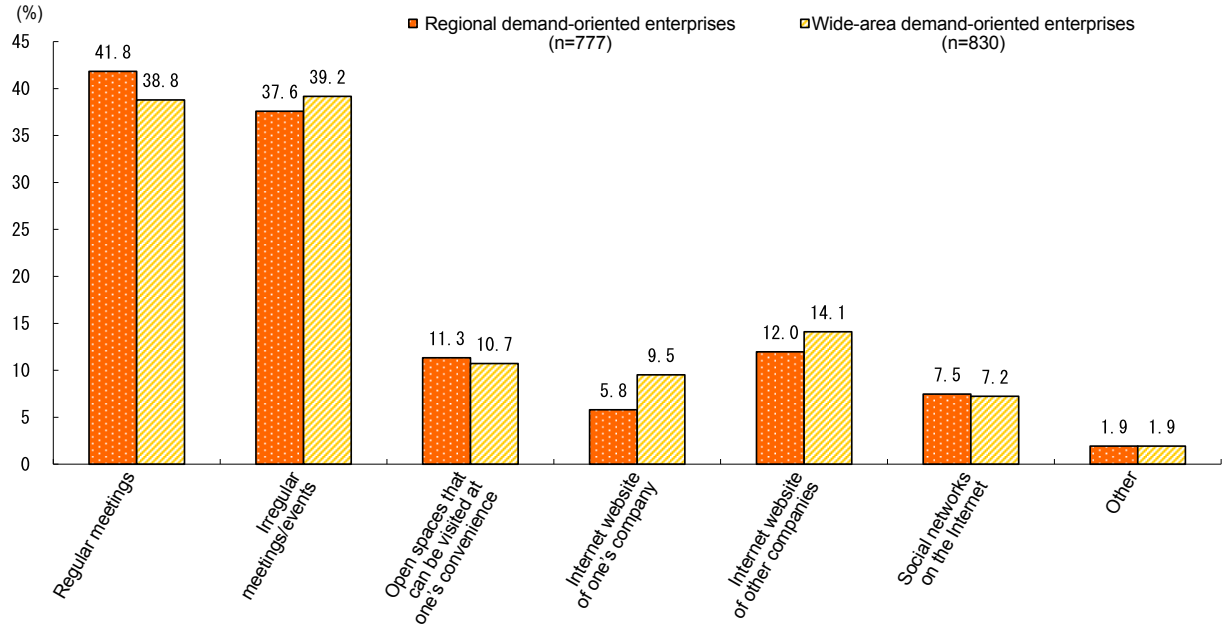


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-1-20 shows—broken down by demand orientation (wide-area or regional demand orientation)—the venues for conferring with others as a critical component of seeking innovation. Regardless of demand orientation, companies most often responded with "regular meetings" or "irregular meetings/events." We can see that companies tend to not emphasize conferring with others over the Internet, including through websites or social media. Although means of communication are changing as information technologies advance, this shows that companies prefer meeting face-to-face when conferring about how to proceed with innovation.

The following discussion will examine case studies of companies carrying out innovation by conferring with other companies in the same region (Case 2-1-4).

Fig. 2-1-20 Venues for conferring with others, a critical motivation to seeking innovation



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-1-4 Murashiki Co., Ltd.

An example of a company that stimulated innovation through cooperation in its local region

Murashiki Co., Ltd. (employees: 16; capital: ¥10 million), based in Kamakura City, Kanagawa Prefecture, offers system development, consultation[8], and other services to assist its clients in website planning and development and to provide marketing support. Within these main areas of business, the company specializes in particular in the development of platforms for e-commerce[9] and crowd funding[10], and operates an e-commerce site in cooperation with a major advertising agency and a crowd funding site that seeks to revitalize its home city of Kamakura.

Yu Sumiyoshi, Murashiki's President, founded the company in Tokyo in 2006 with four other engineers who had joined a major printing company at the same time as him. Two years later, the company moved to Kamakura. At the time of this move, there was little IT industry concentration in Kamakura, and a Tokyo location was overwhelmingly preferable in terms of economy and efficiency. However, the city's history and atmosphere attracted the partners, and, prioritizing their relationships with customers and employees, they ultimately trusted their instincts and made the move.

Seeking to invigorate the city of Kamakura, Mr. Sumiyoshi formed the limited liability partnership Kamacon Valley with the managers of an IT company that had located its head office in the city, and commenced vigorous activities. Kamacon Valley holds scheduled meetings once a month, at which people involved in initiatives to improve Kamakura, including representatives of NPOs and other organizations, business owners, and students, discuss their activities, and conduct brainstorming sessions towards the solution of local problems involving around 100 participants, generating a diverse range of ideas. Each participant sees these activities and the area's problems as a personal responsibility, and offers their support voluntarily. The relationships of trust within the local community and of support between people with a concern for their city that develop and broaden through these activities also expand into work opportunities for the participants. Kamacon Valley is also advancing individual projects, which include operating the crowd funding website "iikuni," to fund people engaged in activities seeking to improve Kamakura, and organizing "ZenHack" events at Kenchoji Temple, which attempt to fuse an experience of Zen with hackathons[11]. The group also holds events at which around 10 local business managers come together for mutual discussion of detailed business plans. They offer each other sincere advice and rigorous criticism, developing relationships that broaden into cooperation. Another outcome is a dramatic increase in the speed with which participants make business decisions.

Mr. Sumiyoshi says "The members of Kamacon Valley may become competitors, but they get along well in the group, and share a worldview that stresses coexistence and the generation of outcomes as a total community. Because of this, we develop relationships in which we mutually share expertise, vision and skills. This becomes the origin of innovation."

Scheduled meeting of Kamacon Valley (November 2014)

Issues specific to different innovation processes

Let us now look at issues faced by companies as they work to achieve innovation. Fig. 2-1-21 and 2-1-22 breakdown the innovation activity processes as "phase for decision-making regarding the commencement of examinations," "phase for decision-making regarding investment," and "phase for decision-making regarding project implementation," and shows issues that exist in

8) Consultation is a process in which multiple individuals with differing specialties mutually consider problems which they seek to ameliorate, and discuss better methods of doing so.
9) e-commerce refers to conducting commercial transactions (forming contracts, making payments, etc.) using networks such as the Internet.
10) Crowd funding refers to the procurement of funds from large numbers of unspecified individuals via the Internet. For more details, see the *2014 White Paper on Small and Medium Enterprises in Japan*, Part III, Chapter 5.
11) Hackathons are events at which software developers come together for a specified period in order to cooperate in developing programs, proposing new services, etc., competitively matching their skills and ideas.

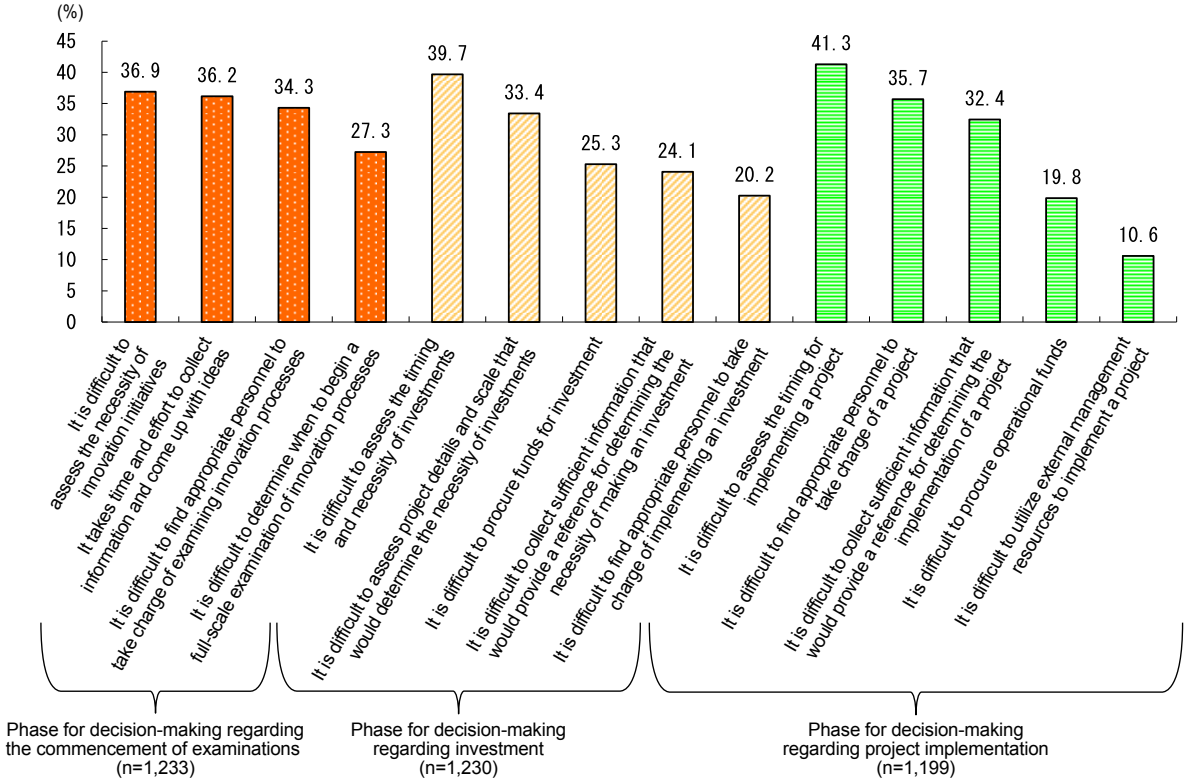
each process, grouped by company size.

For medium enterprises, the most frequent responses were "it is difficult to assess the necessity of innovation initiatives" for the phase for decision-making regarding the commencement of examinations, "it is difficult to assess the timing and necessity of investments" for the phase for decision-making regarding investment, and "it is difficult to assess the timing for implementing a project" for the phase for decision-making regarding project implementation. This shows that, rather than issues concerning corporate resources at one's own company, most problems involve business decision-making based on assessments of market trends. One could infer that the reasons for this are market changes arising from increasing globalization, and the growing difficulty of assessing market trends and economic outlooks after the world went through the Lehman crisis and other such fluctuations in market conditions. For the phase for decision-making regarding project implementation, companies most often responded with "it is difficult to find appropriate personnel to take charge of a project," indicating there are issues involving the assignment of appropriate personnel when pursuing innovation as a business.

The most frequent issues cited by micro businesses were "it is difficult to assess the necessity of innovation initiatives" for the phase for decision-making regarding the commencement of examinations and "it is difficult to assess the timing for implementing a project" for the phase for decision-making regarding project implementation. This suggests that these companies are facing the same significant issues concerning business decision-making that medium enterprises are. "It is difficult to procure funds for investment" was most often cited for the phase for decision-making regarding investment, and "it is difficult to procure operational funds" was the most frequent response for the phase for decision-making regarding project implementation, indicating that there are major issues involving funding as well. Issues concerning human resources were cited infrequently for every phase. This suggests that, even with respect to corporate resources, the reasons for stagnant innovation activities lie with funding—or cash flow—issues.

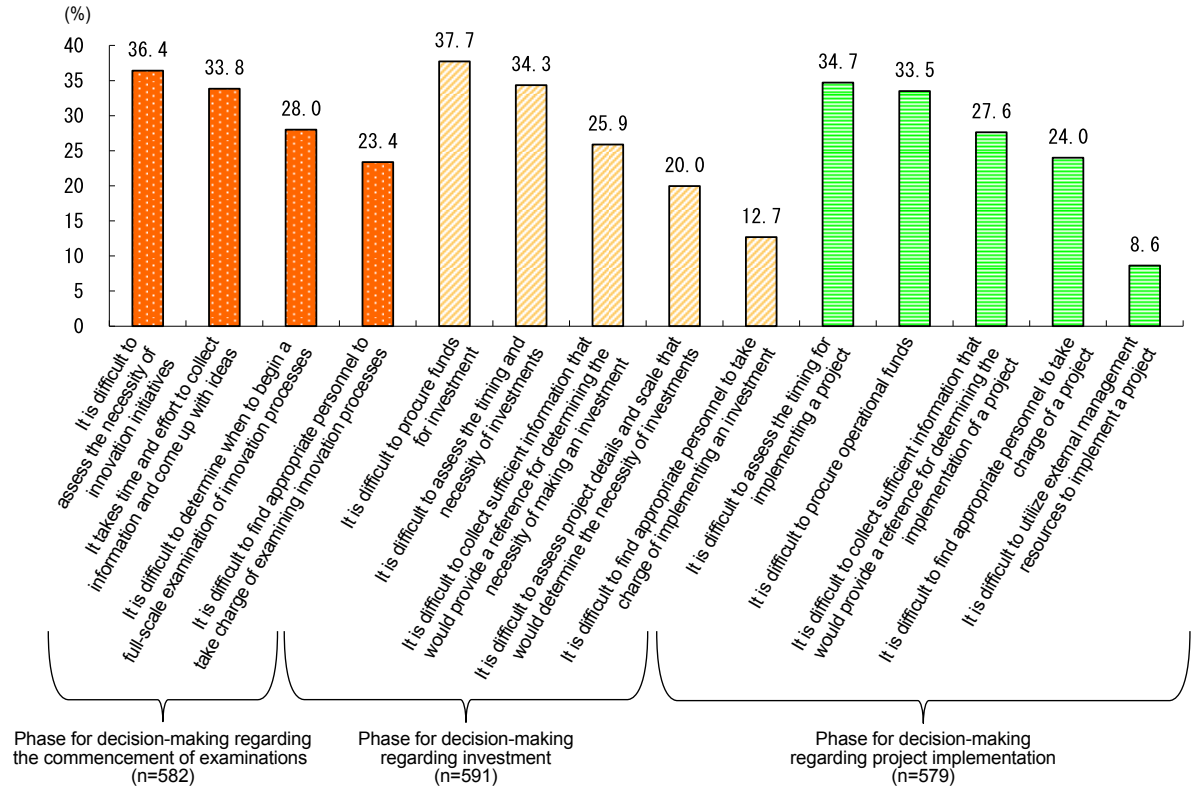
As is now clear, in the process of seeking out innovation, SMEs and micro-businesses tend to face issues concerning business decision-making based on assessments of market trends. As discussed at the beginning of this chapter, SMEs and micro-businesses experience different growth patterns to those of large enterprises, a reason likely attributable to the increasing importance of both doing business with an understanding of the market and the capabilities of one's company. Consequently, focusing on doing business with a knowledge of the market is likely to be a key to the future development of SMEs and micro-businesses.

Fig. 2-1-21 Issues specific to different innovation processes at medium enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-1-22 Issues specific to different innovation processes at micro businesses

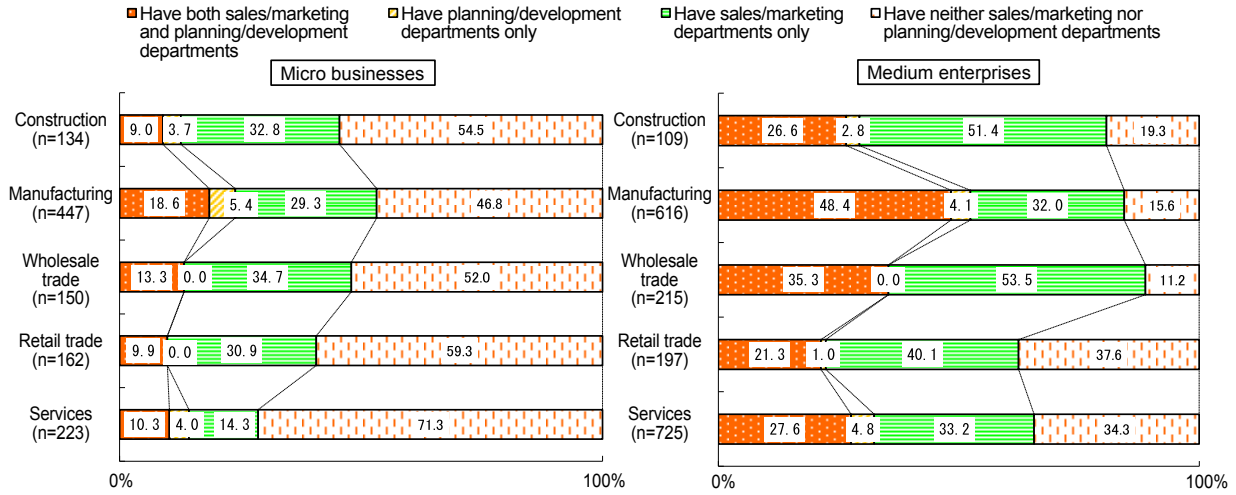


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

State of organizational systems and innovation activities

Developing systems as a company and creating specialized departments seem to be critical steps towards conducting innovation activities. The following discussion looks at the state of organizational systems in place at SMEs and micro-businesses. Fig. 2-1-23 presents the state of "sales/marketing departments" and "planning/development departments" in place at organizations, broken down by company size and industry. That there were few companies that had only a "planning/development department" suggests that, in the process of an organization's growth and development, "sales/marketing departments" are created first, followed by "planning/development departments." Broken down by industry, although there is no significant difference among industries concerning organizational structure at micro businesses, certain industries stand out for medium enterprises. One example is that over 50% of medium enterprises in the manufacturing industry have a planning/development department, which indicates that many companies are committed to product development. In wholesale trade, 88.8% of companies have a sales/marketing department—evidence that efforts are being focused on enhancing sales capabilities. On the other hand, more than 30% of companies in the retail trade and services industries had neither such department. This shows that, compared to other industries, these industries are not as far along in establishing organizational systems or specialized departments.

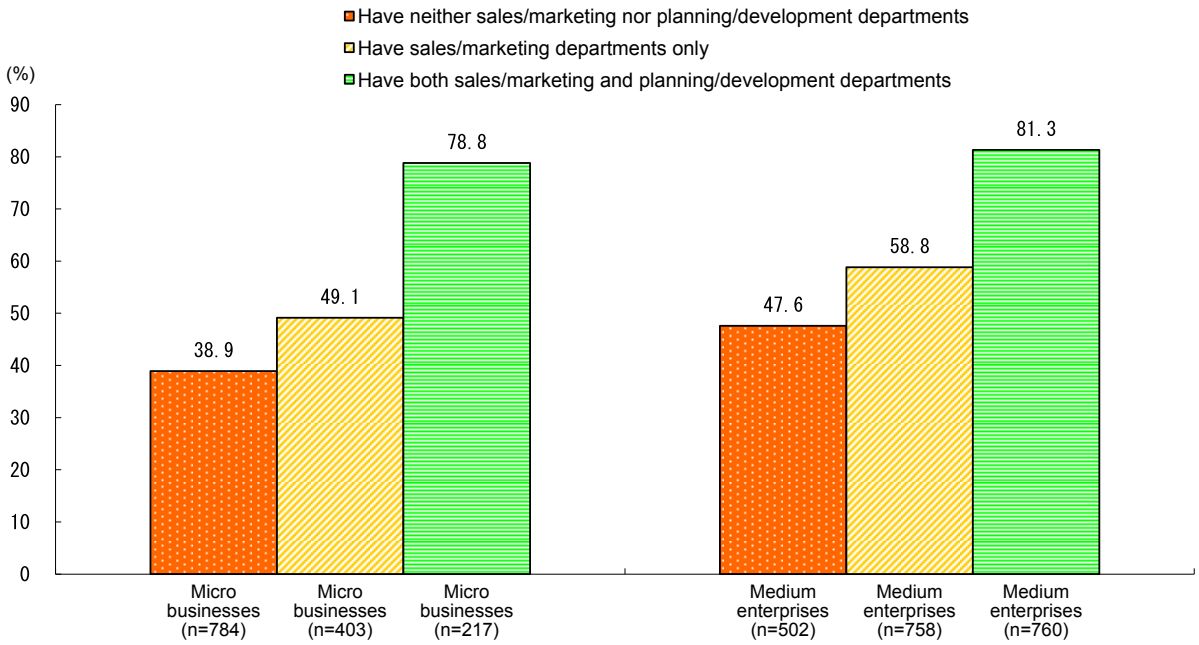
Fig. 2-1-23 State of organizational structures by company size and industry



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Fig. 2-1-24 shows the state of innovation activities specific to organizational structures, broken down by company size. For both medium enterprises and micro businesses, less than 50% of companies who have neither a sales/marketing department nor a planning/development department are conducting innovation activities. Among companies that have both such departments, close to 80% are conducting innovation activities. Innovation activities pick up steam as an organization grows—a trend that is seen regardless of company size. This means that an organization's structures are a critical component for innovation activities. As shown in Fig. 2-1-23, micro businesses have a limited amount of corporate resources and it is difficult for all such companies to have sales/marketing departments, not to mention planning/development departments. Consequently, it is inevitable that differences should arise concerning the state of innovation initiatives. It would appear there is a "micro business wall" concerning innovation activities. However, it also appears to be possible to overcome these issues particular to micro businesses, step up innovation activities, and expand earnings by collaborating with other organizations and using IT to create systems that can take the place of organizational structures.

Fig. 2-1-24 State of innovation activities by company size and organizational form



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

This section has so far focused on changes in the subcontracting structure among SMMs and examined innovation initiatives among SMEs and micro-businesses as a response to these changes. And as we have seen, there are some companies that manage to make use of limited corporate resources to achieve innovation and cultivate new markets by collaborating with other companies who have high-level technical expertise in specialized areas. The following presents a case where a company achieved innovation and began doing business with major companies by working with companies specialized in certain technologies (Case 2-1-5). In this case, the company in question is able to achieve circumstances conducive to receiving business from downstream companies by putting companies with core functions at the center of their collaborative network, thereby enhancing the overall planning functions of its organization. In this way, it would seem that functions that form the pillar of collaborative networks are critical to inter-company collaboration among SMEs and micro-businesses.

Case 2-1-5 Four groups engaged in inter-company cooperation

Realization of increased orders through cooperation between companies with a focus on core companies

In order for cooperation between SMEs and micro businesses to succeed, it is considered necessary for there to be a core company or companies and core functions in place. Core functions form an axis which fulfills the role of coordinating the process of cooperation as a whole, producing conditions which promote orders from downstream companies. Below, we provide examples of cooperation between companies with a focus on core companies and functions.

Seeking to establish a system for the integrated manufacture of complete parts for airplanes, Yura Sansho Co., Ltd, an Osaka-based company, received cooperation from a major precision machinery manufacturer to form a network of high-quality machining SMEs from Tohoku to Kyushu, with Yura Sansho and three companies in Ishikawa Prefecture working towards the same goal as the four core companies. The companies have jointly launched a one-stop service system for the supply of airplane parts.

As one of the core companies in this initiative, Yura Sansho 1) Acts as a liaison for contracts, 2) Coordinates engineering (Breaks down the details of orders into separate processes, formulates work schedules for member companies, etc.), 3) Manages quality, 4) Manages product delivery, and 5) Conducts non-destructive inspections of parts. It also organizes just-in-time (JIT) production and kitted parts assembly (KIT), which are demanded by downstream companies. By fulfilling its role as a core company, Yura Sansho increases competitiveness in tendering for orders by reducing costs through the realization of optimum lot production, the purchase of materials in bulk lots, the reduction of indirect expenses, the reduction of distribution expenses, and the reduction of stock in inventory, and operates a system that enables the machining companies in the group to concentrate exclusively on production. In addition, in ordering from the group, downstream companies enjoy benefits including reduced procurement costs, low-cost and stable procurement, and reduced lead time due to KIT and JIT.

In 2013, in order to maintain an equal partnership between the members of the group, the core four companies established Japan Aero Network Co., Ltd. to offer consulting functions. The company invited former employees of the major precision machinery manufacturer with which it was involved to propose and decide on strategy and guidelines for the group. This initiative increased the technological and organizational capability of the member companies and enhanced procurement functions in relation to downstream manufacturers, with the result that the group won a contract for the supply of complete parts to a major manufacturer in December 2013.

General Production Company (GENEPRO), based in Seika-cho, Kyoto, manufactures and markets parts for precision machinery. The company was established in order to bring together and organize the top small and medium-sized enterprises possessing advanced machining technologies, particularly those specializing in a single process (casting, forging, machining, heat and surface treatment, stamping, forming, molding, etc.), in Japan and the rest of the world. GENEPRO manages each of the production processes handled by the companies under its supervision, producing parts and units of the highest quality for sale throughout the world. The company was formed with Yoshitomo Ishizaki, President of Takako Industries, Inc., at its core. The background to its foundation was the fact that because each of the companies now organized under GENEPRO was specialized in a single process, it was difficult for overseas manufacturers to make orders, and this was recognized as a problem. Based on this recognition, the company was established in order to supervise orders as a core company, accepting orders from downstream companies. Based on the item ordered, the company selects from approximately 150 suppliers, designs processes, and monitors quality and manages production processes from procurement of raw materials through forging and casting, machining, application of heat treatments, grinding, application of surface treatments, and inspection, finally delivering the completed product. This production procedure resulted in GENEPRO being certified as a primary supplier for major automotive manufacturers in 2012, and producing and delivering parts as a Tier 1 company.

Kyoto Shisaku Net is a dedicated site offering specialized prototyping solutions from parts machining to equipment development, organized by 29 SMEs engaged in the areas of machinery and metals based in the south of Kyoto.

Each of the participating companies possesses a core specialty, including cutting, sheet metal stamping, plastic machining, and surface treatment. The formation of a network with other companies has enabled them to realize the ability to employ multiple processes that would have been impossible for each company in isolation, and they are able to accept orders for even highly complex prototypes. The operation of a system able to encompass every process from parts machining to equipment development has resulted in the company receiving around 100 enquiries from throughout the country per month, of which around 20-30% lead to orders, including orders for prototypes involving only single processes.

The organization takes requests for prototypes from customers via its website. It is able to return a quote for the work within two hours. Focusing on increasing the efficiency of product development for its customers, Kyoto Shisaku Net prioritizes speed, the most important element at the development stage, rather than cost. In order to ensure that each of the participating companies maintains and develops its drive to actively seek out business and to promote cooperation among the member companies, each company takes on Head Office functions by rotation. As part of its branding strategy, Kyoto Shisaku Net insists on the use of "Kyoto" in its name, and seeks to create a giant conglomeration of prototype machining industries in the city.

Kyoto-based CAPABLE Co., Ltd. cooperates with around 50 precision die machining businesses throughout Japan which are able to manufacture the dies used in the semiconductor sealing process, and takes orders from semiconductor manufacturers and semiconductor parts manufacturers throughout the world. Following the collapse of the IT bubble, high-quality dies for the semiconductor sealing process became expensive, and their production required extended periods. At the same time, manufacturers of low-priced, rapidly produced copies began to appear, presenting issues of quality. Yoichi Kawahara, President of CAPABLE, who originally went from employment with the IT department of a major trading company to become the president of a semiconductor device manufacturer, sought to create a new business model for the Japanese precision die

industry. In the system that resulted, CAPABLE first focuses on understanding marketing and user needs; when it receives an order, it produces designs and issues instructions for parts machining appropriate to the technical level of the specific cooperating precision die manufacturers, ultimately inspecting and ensuring the quality of the resulting products, delivering them to the customer, and collecting payment. This system realizes the rapid production of high-quality, appropriately-priced products based on market needs. The system enables the participating die manufacturers to focus on manufacturing, in addition to maintaining a balance with existing orders while finding new business. At present, three years after its establishment, CAPABLE is developing its business with a focus on dies for the semiconductor sealing process and realizing sales of around ¥400 million per year. In the future it also intends to expand into the field of die production for research and development in the automotive and industrial machinery industries.

Column 2-1-1 Innovation in Japan as Analyzed through a Nationwide Innovation Survey

This column aims to analyze the state of and trends concerning innovation activities at private enterprises, and compares Japan's innovation to that of other countries based on Japanese National Innovation Survey 2013, issued by the Ministry of Education, Culture, Sports, Science and Technology.

The discussion will also touch on the survey's definition of innovation and the transformation of the meaning of the term overtime.

Innovation has existed as a concept since 1912. It was proposed by Austrian economist Joseph A. Schumpeter, who defined the concept as reform—brought about by things such as new technologies, materials, and production methods, as well as industrial and organizational restructuring—that overturns established concepts. As we can see from this definition, the scope of innovation as a concept is broad. Many mistakenly believe the term generally refers to the invention of new technologies, but it also refers to creating value from new ideas and demonstrating initiative in broad-based personal, organizational, and social reform that brings change to society. The Oslo Manual, put organized primarily by the Organisation for Economic Co-operation and Development (OECD)[12], was created in recognition of the importance of exploring the concept of innovation, a concept essential to economic growth, and the importance of surveying innovation around the world. When the first version of the Oslo Manual was published in 1992, there was debate concerning innovation as it related to technology primarily in the manufacturing. The current manual recognizes the importance of innovation in non-manufacturing industries, including the service industry, and provides for four kinds of innovation—product innovation, process innovation, organizational innovation, and marketing innovation—that account for non-technological innovation.

Product innovation relates to the introduction of new products or services to the market; process innovation is the implementation of a new method of producing or delivering a good or service; organizational innovation implies implementing new methods concerning business practices, workplace organizations, and relationships with outside parties; and marketing innovation refers to creating a new look for a product and implementing new methods concerning product placement, promotion, or pricing (see Fig. Column 2-1-1 (1) for more information).

12) Headquartered in Paris, France, the OECD (Organisation for Economic Co-operation and Development) seeks to 1) promote economic development, 2) promote free trade, and 3) support developing nations through a free exchange of views and information among developed nations.

Fig. Column 2-1-1 (1) Four types of innovation as defined based on the Oslo Manual

Innovation Type	Definition for Innovation Type
Product innovation	➢ Refers to launching a product or service that is new to one's own company. ➢ New products or services refer to both new products and services as well as significant improvements to existing products and services. This includes something new or significantly improved with respect to functions, performance, technical specifications, user-friendliness, raw materials, components, software or subsystems, or method of delivery (in the case of services). ➢ Innovations can be based on a combination of existing knowledge or technologies or on new uses for a good or service. ➢ Reselling new products, simply changing their appearance, and regular changes to or upgrades of products do not constitute innovation. ➢ It represents something new to one's company, but not necessarily new to that company's market. Products or services that are already implemented by competitors but that are new to one's own company are also considered product innovation. ➢ Products include not only tangibles such as smart phones, furniture, and packaged software, but also things such as downloadable software, music, and movies. Services refer to intangibles such as retail sales, insurance, education, Passenger transport, and consulting.
Process innovation	➢ This concerns production processes or shipping methods that are significantly improved or new to one's company, as well as the activities (process) that support these things. It applies to changes concerning things such as techniques, equipment, and software. ➢ It represents something new to one's company, but not necessarily new to that company's market. Production processes, shipping methods, or the activities that support these things can be process innovations even if they are already implemented by competitors, as long as they are new to one's own company.
Organizational innovation	➢ Organizational innovation is the implementation of a management method that is new to one's company and that involves business practices (including knowledge management), workplace reorganization, and relations with competitors and other organizations. ➢ The implementation of such methods must be based on strategic decision-making by a company's management. ➢ A merger or acquisition does not, itself, constitute an organizational innovation, even if the company's first such endeavor.
Marketing innovation	➢ A marketing innovation is the implementation of a marketing concept or strategy that is new to one's company and that is a significant change from that company's existing marketing methods. ➢ This specifically refers to significant changes to a product or service with respect to appearance, method of promotion, sales channels, or pricing. ➢ Regular changes to a company's existing marketing methods are not considered marketing innovation.

Source: Compiled by the SME Agency from the Japanese National Innovation Survey 2013, issued by the National Institute of Science and Technology Policy.
Note: The definitions of innovation presented here were compiled in accordance with the Oslo Manual.

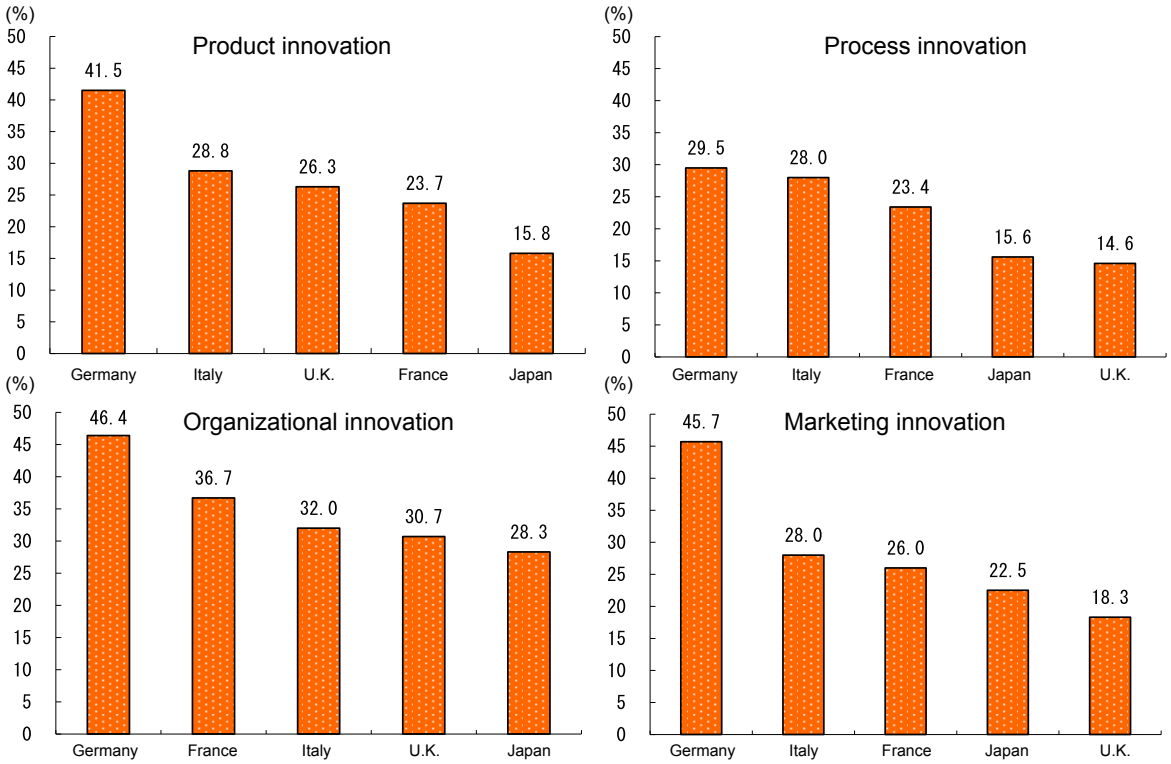
Based on these definitions of innovation, roughly 80 countries and regions around the world are currently gathering data on innovation in accordance with the Oslo Manual. These efforts in Japan take the form of the Japanese National Innovation Survey.

The following provides an overview of the state of innovation in Japan based on the results of the Japanese National Innovation Survey 2013, which was conducted in 2013.

Fig. Column 2-1-1 (2) presents a comparison of the percentages of companies in Japan and Europe that achieved innovation based on the above four innovation types. It shows that Japan has relatively low levels of innovation and achievement, whether in product innovation, process innovation, organizational innovation, or marketing innovation[13)].

13) Innovation achievement here refers to the introduction of a new product or service to the market, or a revolutionary improvement to a production process, organizational form, or marketing method, as shown in Fig. Column 2-1-1 (1).

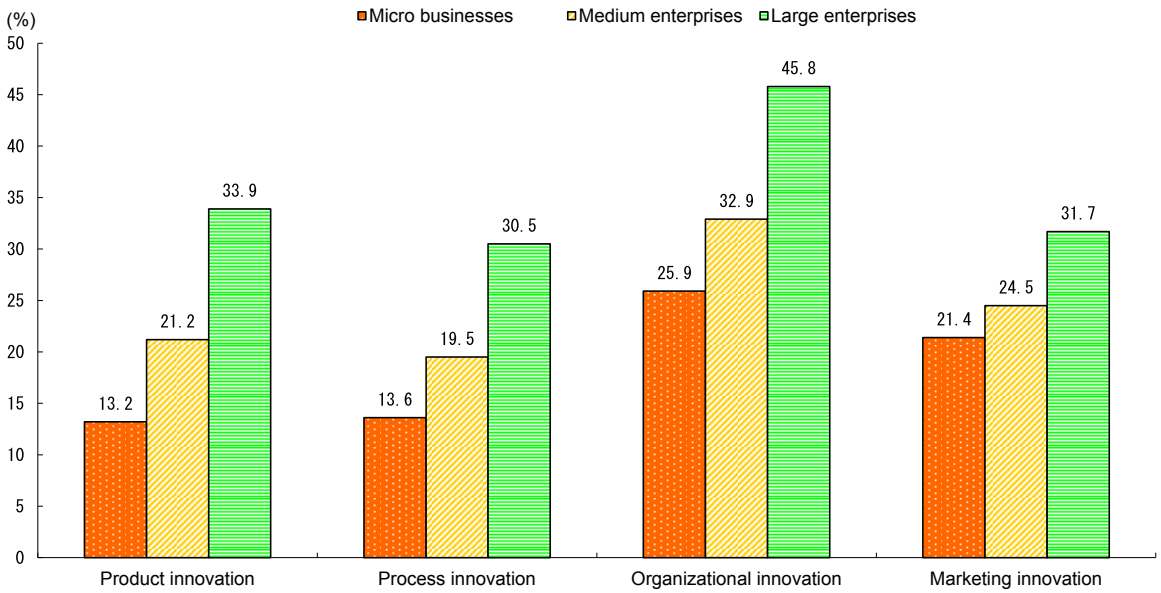
Fig. Column 2-1-1 (2) Percentages of companies achieving product, process, organizational, or marketing innovations



Source: National Institute of Science and Technology Policy, *Japanese National Innovation Survey 2013*.
Note: Achievement here refers to the introduction of a new product or service to the market, or a revolutionary improvement to a production process, organizational form, or marketing method, as shown in Fig. Column 2-1-1 (1).

Fig. Column 2-1-1 (3) presents innovation achievement in Japan based on company size. There are marked differences among companies that achieved innovation in each category of company size, and achievement rate decreases as company size grows smaller. This trend can be seen among all four types of innovation.

Fig. Column 2-1-1 (3) Percentages of companies that achieved innovation, by company size

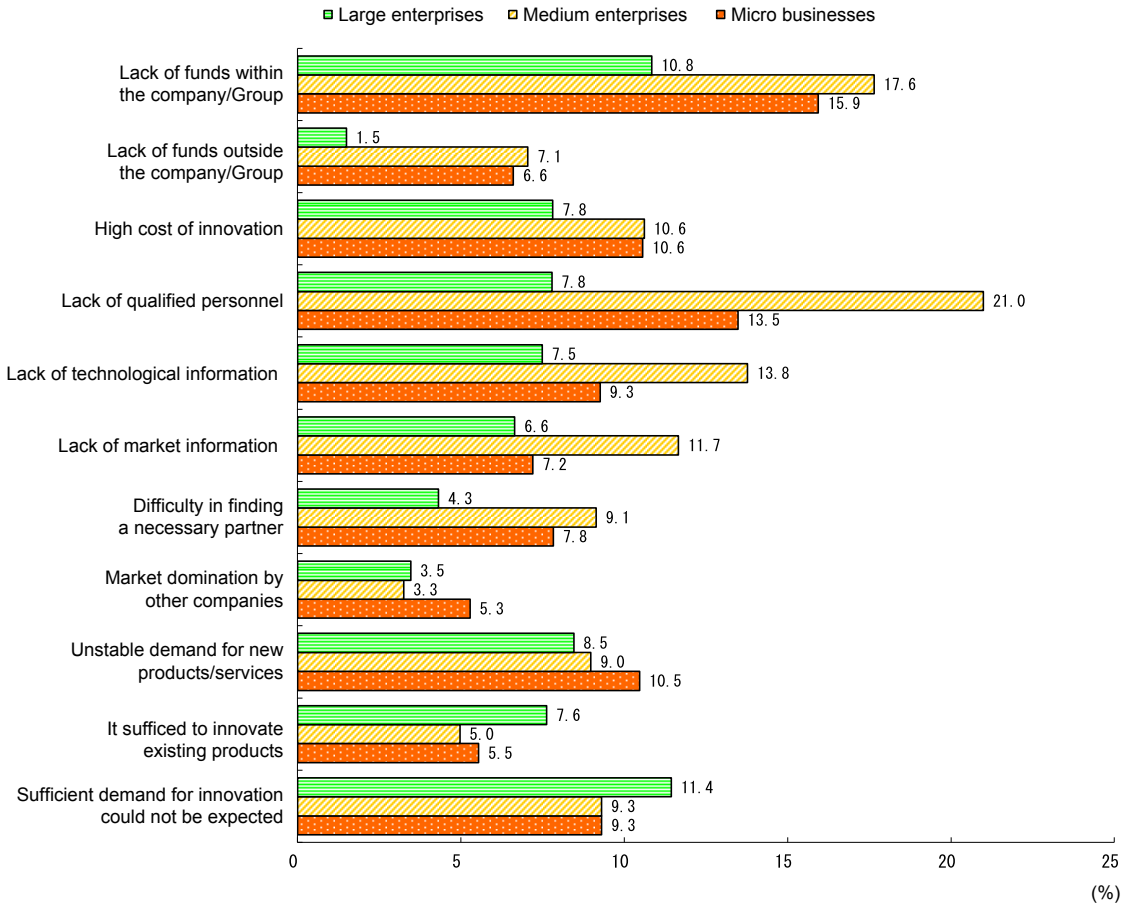


Source: National Institute of Science and Technology Policy, *Japanese National Innovation Survey 2013*.
Note: Micro businesses are businesses that have between 10 and 49 full-time employees (domestic and overseas), medium enterprises have between 50 and 249 such employees, and large enterprises have 250 or more such employees.

Based on this outcome, we will look at factors hindering innovation achievement in terms of two phases—"the phase in which activities aimed at achieving innovation are conducted" and the "phase in which innovation is achieved after conducting innovation activities"—segmented by company size.

First, let us look at Fig. Column 2-1-1 (4) regarding hindering factors experienced by companies that do not conduct innovation activities. Among large enterprises, the top reason for not conducting innovation was "sufficient demand for innovation could not be expected," which suggests the cause lies in top level decisions made based on market environments, followed by "lack of funds within the company/Group." A large number of medium enterprises and micro businesses overall cited hindering factors, with "lack of qualified personnel" being the top response from medium enterprises and "lack of funds within the company/Group" the top response from micro businesses. Both of these hindering factors concern a lack of corporate resources.

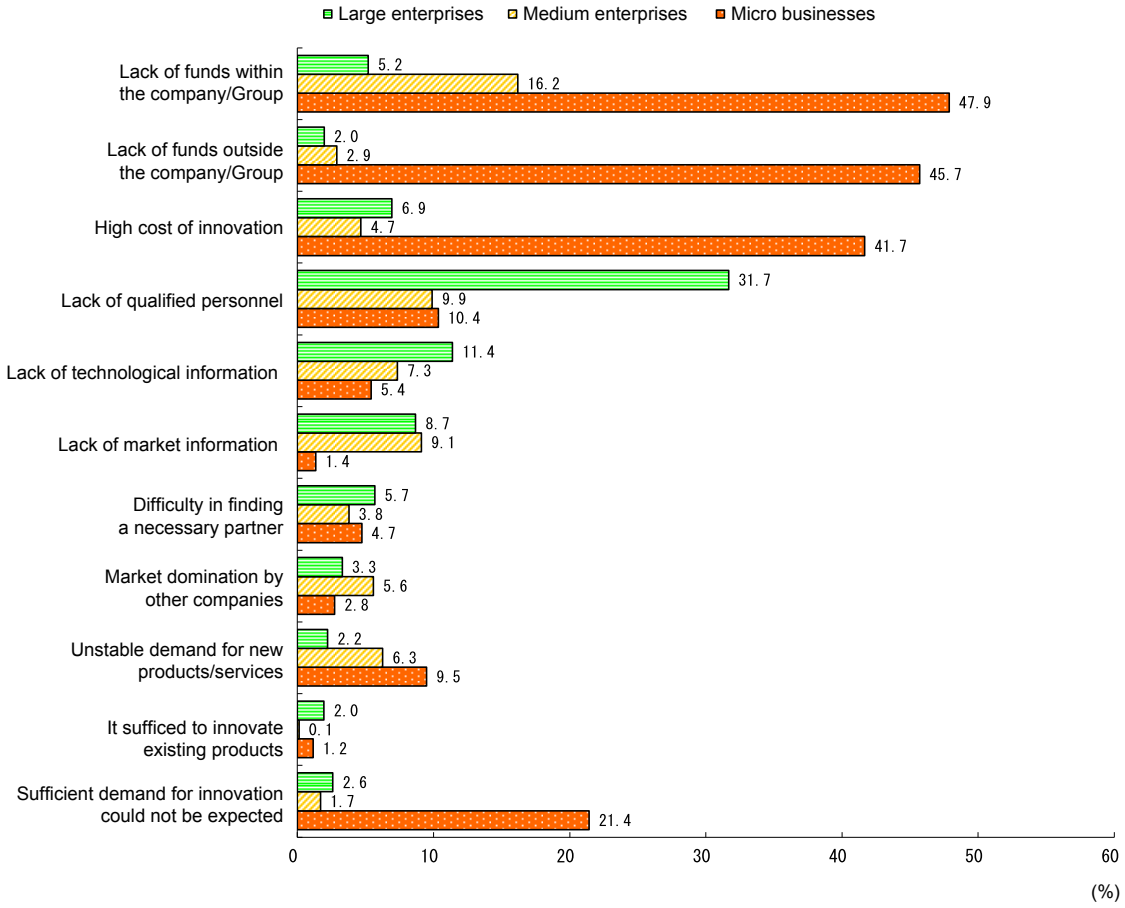
Fig. Column 2-1-1 (4) Factors hindering innovation as cited by companies that did not conduct innovation activities



Source: National Institute of Science and Technology Policy, *Japanese National Innovation Survey 2013*.
Note: Micro businesses are businesses that have between 10 and 49 full-time employees (domestic and overseas), medium enterprises have between 50 and 249 such employees, and large enterprises have 250 or more such employees.

The following discussion will focus on hindering factors on the path to innovation achievement at companies that conducted innovation activities (Fig. Column 2-1-1 (5)). Among large enterprises, "lack of qualified personnel" was a standout response. This indicates that, despite a general perception that large enterprises are recruiting and developing highly-capable people, they in fact face difficulties in finding the kind of people that can use current state-of-the-art technologies to achieve innovation. In contrast, medium enterprises most often cited "lack of funds within the company/Group," followed by "lack of qualified personnel." Last, the most conspicuous hindering factors among micro businesses were "lack of funds within the company/Group," "lack of funds outside the company/Group," and "high cost of innovation." The Oslo Manual states that "finances" are a major issue concerning innovation at SMEs. Accordingly, these responses illuminate the importance of securing funds for intensifying efforts towards innovation at SMEs and micro businesses, in particular.

Fig. Column 2-1-1 (5) Factors hindering innovation as cited by companies that conducted innovation activities

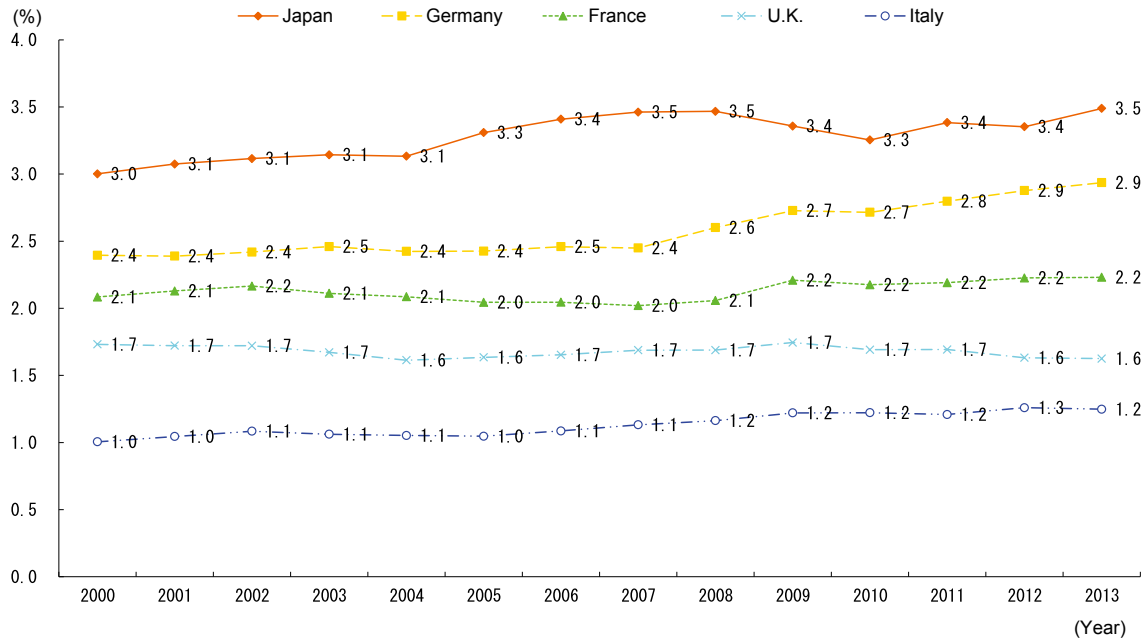


Source: National Institute of Science and Technology Policy, *Japanese National Innovation Survey 2013*.
Note: Micro businesses are businesses that have between 10 and 49 full-time employees (domestic and overseas), medium enterprises have between 50 and 249 such employees, and large enterprises have 250 or more such employees.

Now let us look at the state of R&D expenditure in Japan as the funding that supports R&D, which is strongly associated with innovation.

Fig. Column 2-1-1 (6) shows that, when conducting an international comparison, historical Japanese R&D expenditure as a percentage of GDP is higher compared to Europe.

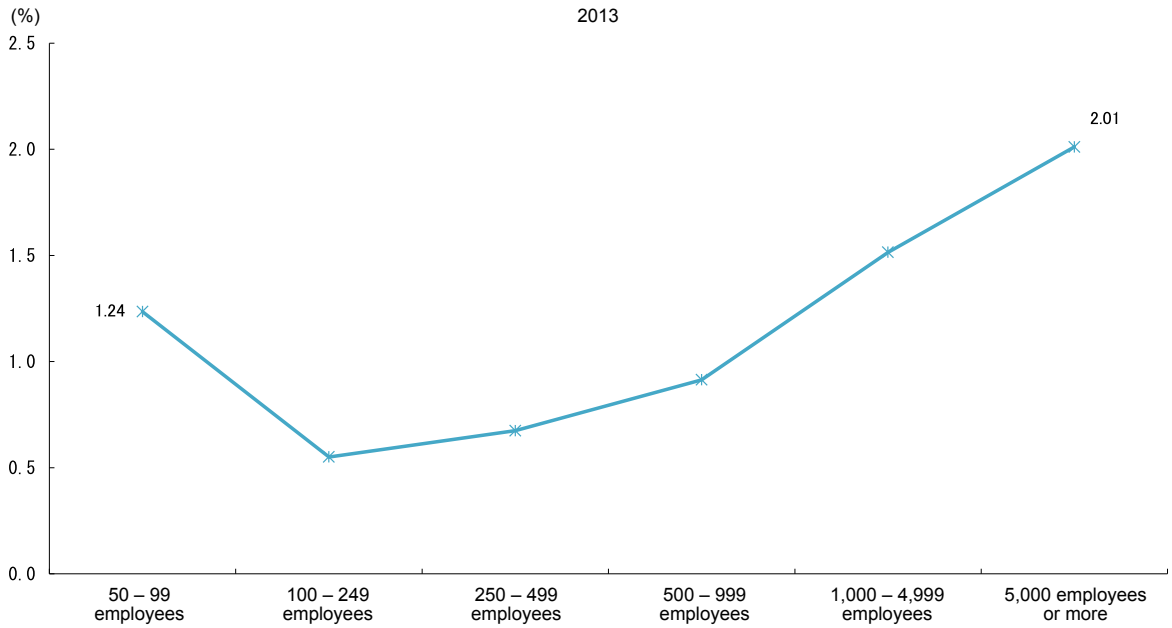
Fig. Column 2-1-1 (6) Historical R&D expenditure as a percentage of GDP



Source: OECD, *Main Science and Technology Indicators*

However, an analysis of R&D expenditure as a percentage of sales broken down by number of employees shows that the ratio of R&D expenditure to sales grows along with company size, as shown in Fig. Column 2-1-1 (7). This suggests that it is the large companies in Japan that are the primary conductors of research and development.

Fig. Column 2-1-1 (7) R&D expenditure as a percentage of sales, by number of employees

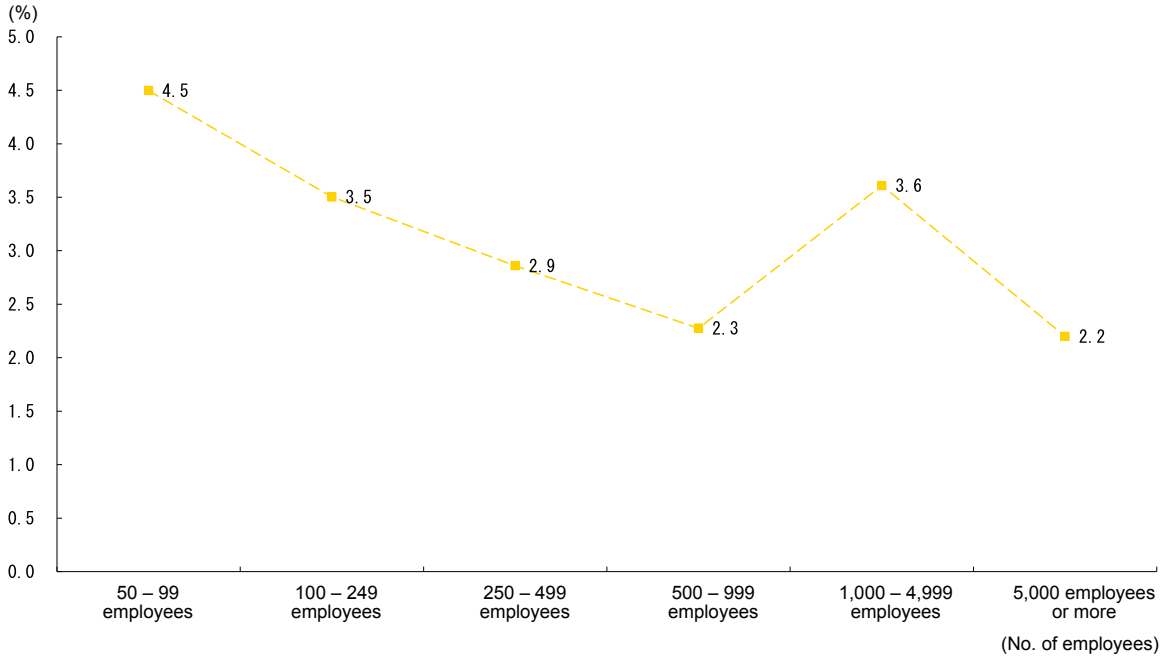


Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Simple averages were tabulated for the manufacturing industry.
2. R&D expenditure includes commissioned R&D expenditures and excludes contract R&D expenditures.

The situation in the U.S., meanwhile, appears to be the reverse of Japan. Looking at R&D expenditure as a percentage of sales by company size for the U.S. (Fig. Column 2-1-1 (8)) shows R&D expenditure as a percentage of sales rises the smaller a company is and, conversely, decreases the larger a company. In contrast to Japan, small U.S. companies are actively engaged in research and development.

R&D has traditionally been conducted in Japan by large enterprises, and what has been shown here is that SMEs, especially micro businesses, are beset by problems involving corporate resources—funding, in particular—and are not adequately achieving innovation. As discussed at the beginning of this chapter, recent years have seen the industrial structure of SMEs and micro-businesses in the manufacturing industry—but other industries as well—change in such a way that they now function by receiving a steady supply of business from large enterprises. The need is now emerging for SMEs and micro-businesses who once received this kind of protection to stand on their own legs and get proactive about R&D. To support this development and galvanize innovation in Japan, it will be important to create an environment that allows ambitious SMEs and micro-businesses (including venture companies) to have access to the corporate resources they need.

Fig. Column 2-1-1 (8) U.S. R&D expenditure as a percentage of sales, by company size



Source: U. S. Census, *Business R&D and Innovation Survey*
Note: R&D expenditure comprises only costs shouldered by the company itself.

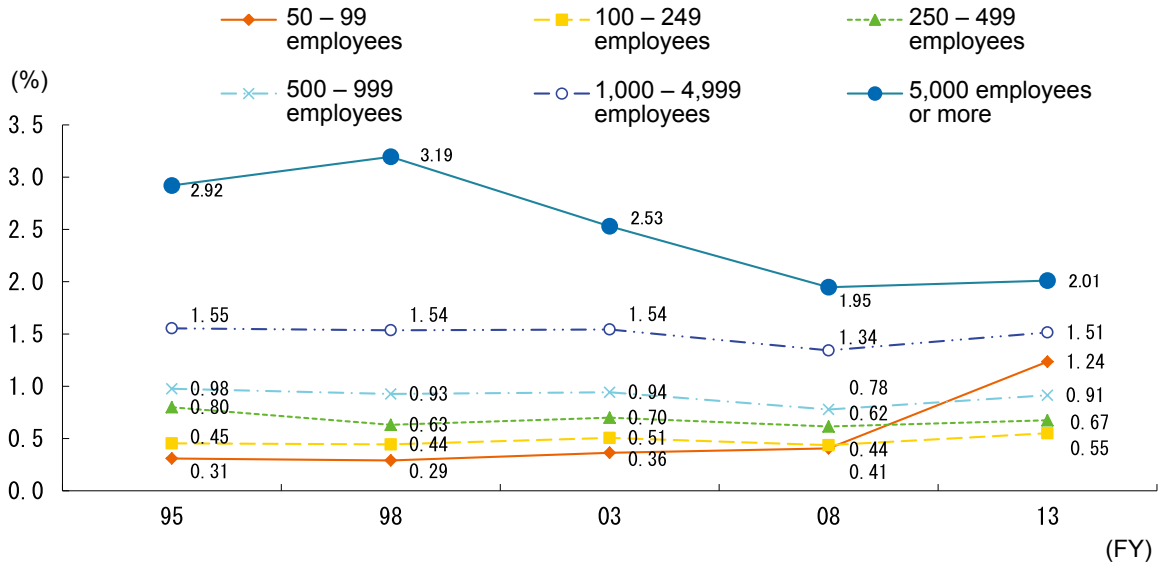
Fig. Column 2-1-1 (9) (1) shows manufacturing industry R&D expenditure as a percentage of sales, broken down by number of employees. It shows that, as company size increases, so does the ratio of R&D expenditure to sales.

Looking at changes over time, we can also see that the ratio of R&D expenditure to sales is dropping among companies with 5,000 or more employees but is slowly rising among smaller companies with between 50 and 99 employees. It is clear from this that, as the industrial structure changes in Japan, SMEs and micro-businesses are investing more effort and funding into R&D.

Fig. Column 2-1-1 (9) (2) shows historical ratios of operating profit and R&D expenditure to sales at SMMs. While the span of time around the Lehman crisis is anomalous, the overall trend is that operating profit ratios increase the higher that companys R&D expenditure to sales ratio is. This indicates that these companies' R&D activities are having a positive effect on improving their operating profit ratios.

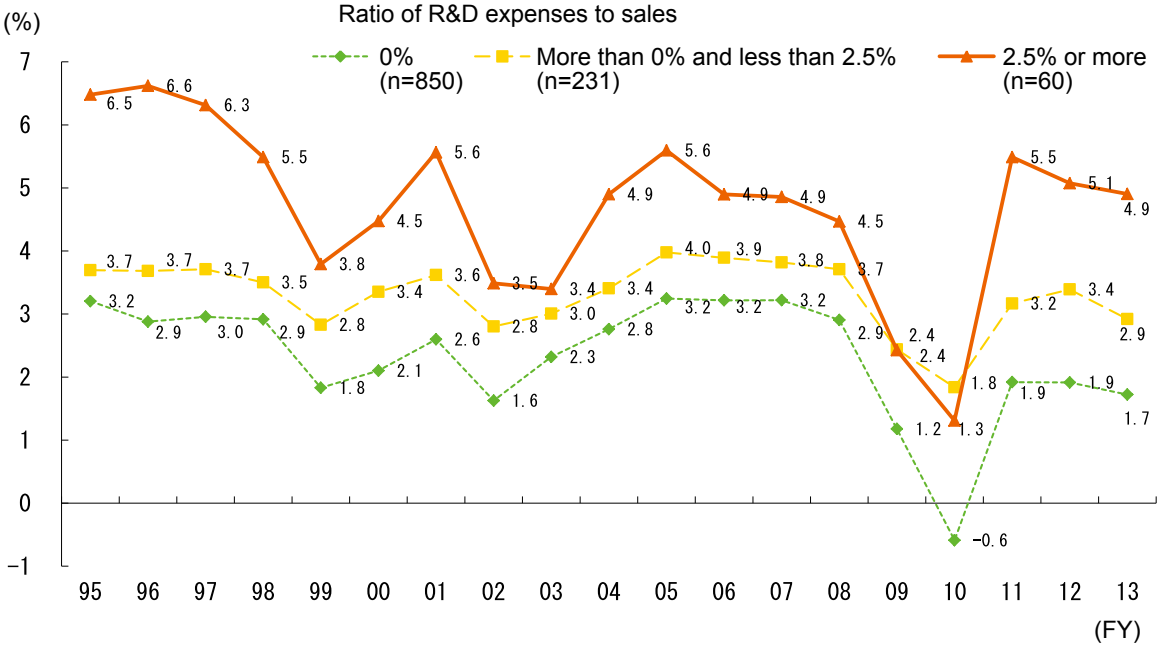
Fig. Column 2-1-1 (9) Manufacturing industry R&D expenditure trends

(1) Historical ratios of manufacturing industry R&D expenditure to sales, by company size



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Simple averages were tabulated for the manufacturing industry.
2. R&D expenditure includes commissioned R&D expenditures and excludes contract R&D expenditures.

(2) Historical operating profit ratios by ratio of R&D expenditure to sales among SMMs



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Note: Data is tabulated for companies belonging to the same legend classifications for all fiscal years from 1995 to 2013 and fulfill definitions for SMEs of Small and Medium-sized Enterprise Basic Act in fiscal 1995 and 2013.

Section 3 Efforts by SMEs and micro-businesses to cultivate markets

The previous chapter discussed how SMEs and micro-businesses are conducting innovation with a focus on profitability, and how innovation efforts that emphasize data gathering and analysis with an eye to cultivating markets helps improve profitability at these organizations. Part I, Chapter 3 also discussed cultivating new markets as an endeavor essential to improving profitability. In this section, we will look at efforts among SMEs and micro-businesses to gather and analyze market data considered critical to innovation efforts, as well as efforts towards cultivating markets, the biggest challenge for SMEs and micro-businesses looking to improve profitability.

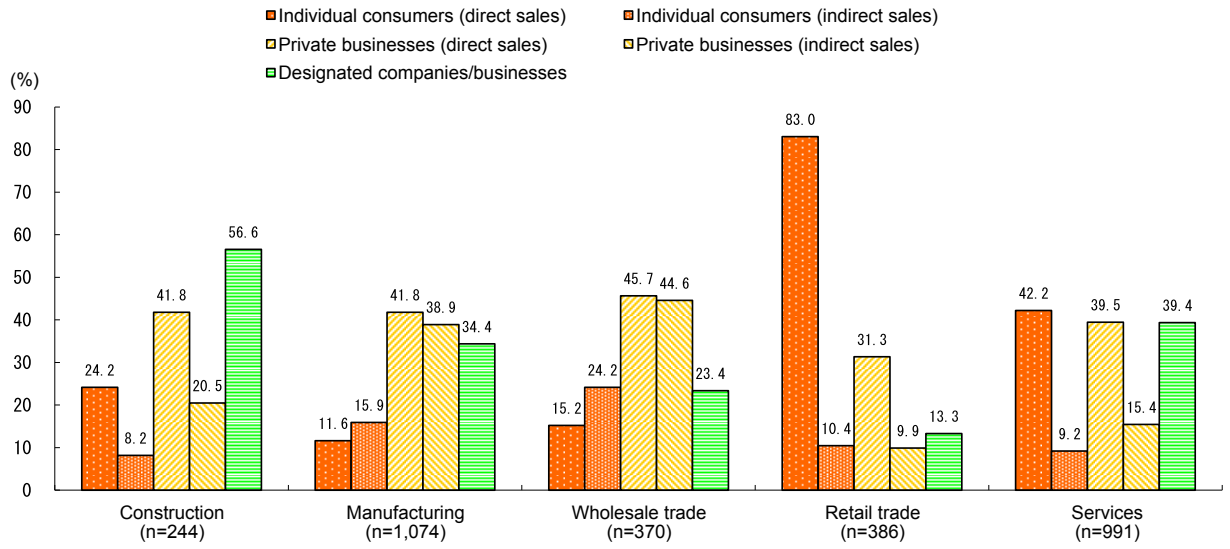
[1] SMEs and micro-businesses' sales channels

Target for sales, and prioritized markets

Let us first look at efforts by SMEs and micro-businesses to cultivate markets[14]. Fig. 2-1-25 shows the target for sales of a company's product and services, broken down by business type. Sales targets here are categorized into (1) individual consumers, (2) private businesses, and (3) designated companies/businesses. Categories (1) and (2) are classified into "direct sales," which denotes direct sales or provision of a company's goods or services to a user or business that receives those goods or services, and "indirect sales," which refers to selling or providing that company's products or services through a distribution structure such as wholesale or retail channels. There are five categories in total. Designated companies/businesses account for 56.6% of all businesses in the construction industry. For the manufacturing and wholesale trade industries, direct sales to private businesses is the largest group, but indirect sales to private businesses is also higher than in other industries. In the retail trade industry, sales to individual consumers constitutes an overwhelming majority at 83.0%. Looking at services, there was a large percentage of direct sales to individual consumers and private businesses, as well as sales to designated companies/businesses. Indirect sales accounted for only a small percentage. This appears to be the result of the "simultaneity of production and consumption" that is characteristic of the services industry.

14) Efforts to cultivate markets as referred to here denote activities aimed at acquiring new customers.

Fig. 2-1-25 Target for the sale of a company's products and services



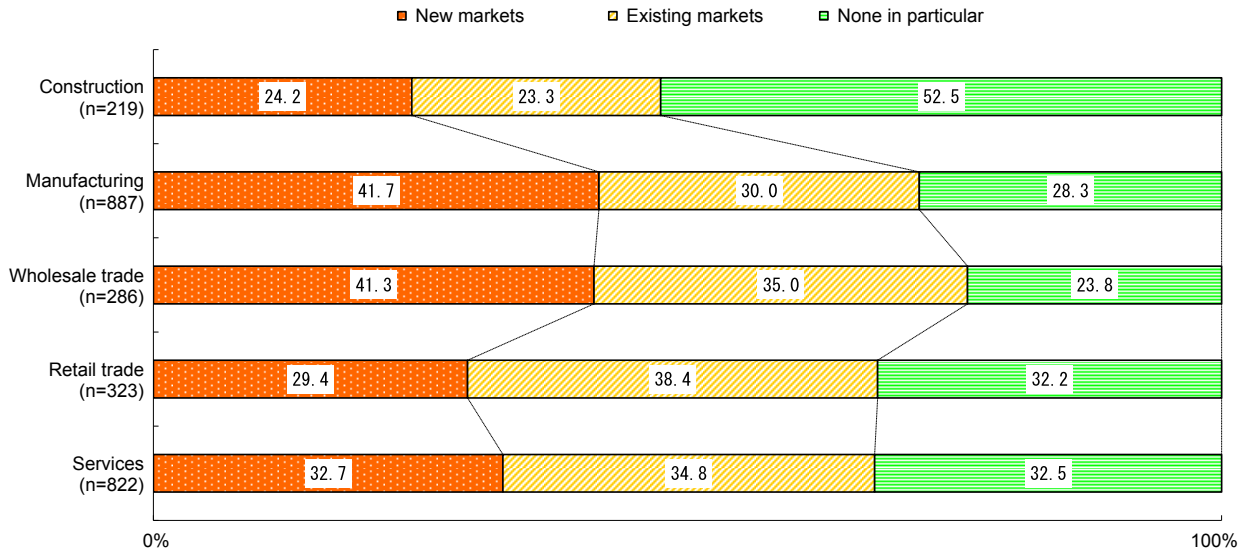
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Notes: 1. "Direct sales" here refers to direct sales or provision of a company's goods or services to a user or business that receives those goods or services.
Also, "indirect sales" refers to sales or provision of a company's goods or services through a distribution structure such as wholesale or resale channels.
2. Total does not equal 100% as multiple responses were possible.

Fig. 2-1-26 shows the most highly valued markets among those being cultivated. Markets being cultivated are categorized into new markets and existing markets. New markets refer to those that a business had never considered itself involved with, and existing markets are those that a business considers itself to be currently involved with.

More than 40% of companies in the manufacturing and wholesale trade industries value the cultivation of new markets most highly. Meanwhile, although nearly 30% of companies in the retail trade and services industries value new market cultivation, many companies are regional demand-oriented enterprises and many value existing market cultivation. With respect to the construction industry, more than 50% of SMEs and micro-businesses responded that they were not pursuing market cultivation, an outcome that may be attributable to the fact that much business is conducted between these enterprises and designated companies and businesses, and there is less motivation for activities aimed at acquiring new customers.

Fig. 2-1-26 Markets most highly valued for cultivation

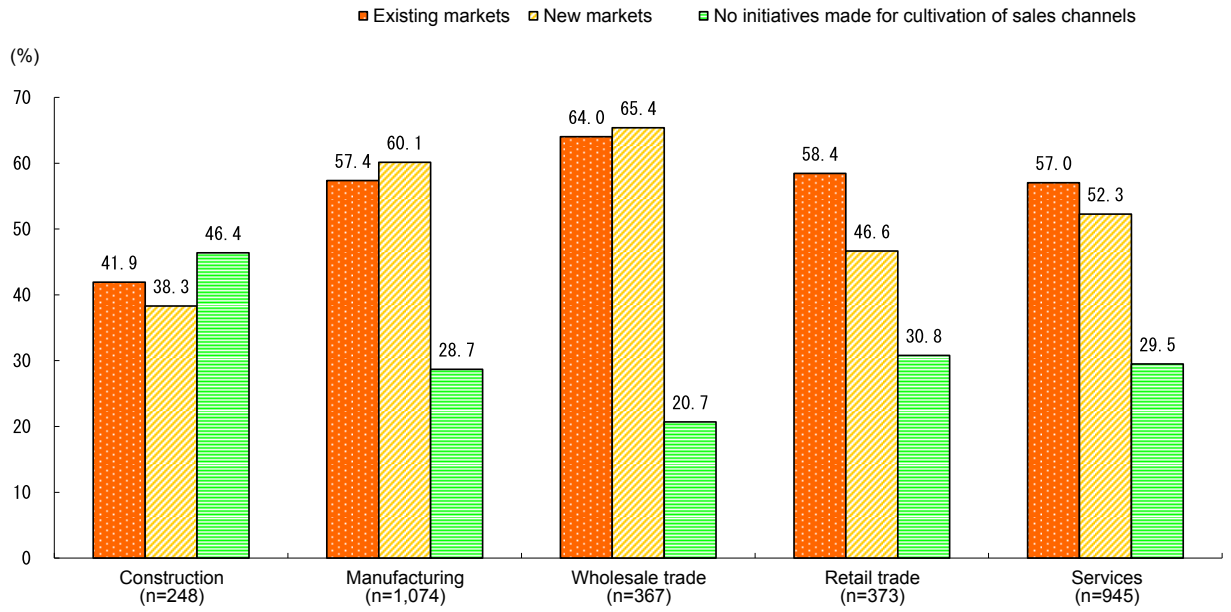


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Efforts to cultivate markets, by market and by product/service

Let us first look at specific efforts by SMEs and micro-businesses to cultivate markets. Fig. 2-1-27 shows efforts to cultivate markets in order to acquire new customers based on the market being targeted. In the manufacturing and wholesale trade industries, more than 60% of companies were engaged in cultivating new markets, indicating companies are focusing more on finding customers in new markets than in existing markets. Nearly 60% of companies in the retail trade and services industries are finding customers in existing markets, indicating these companies' efforts are directed more towards existing market cultivation rather than new market cultivation. In the construction industry, although there are some businesses finding customers in existing and new markets, the largest group of companies is not cultivating markets.

Fig. 2-1-27 Efforts to cultivate markets, by business type and market



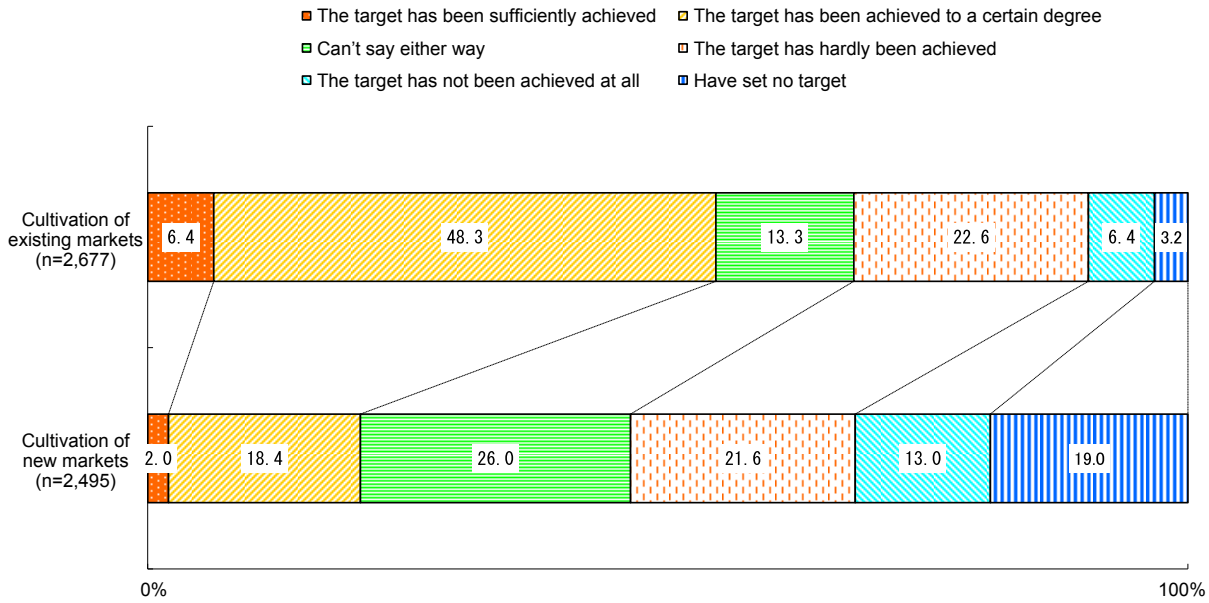
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

State of sales target achievement in cultivating markets

We will now look at the state of sales and profit target achievement as a result of efforts to cultivate markets. Fig. 2-1-28 shows the state of sales and profit target achievement based on the market being targeted. While over 50% of companies targeting existing markets hit their sales targets, nearly 20% of companies targeting new markets hit their targets.

Furthermore, almost 20% of companies targeting new markets did not even set sales targets. Setting sales targets is an important element of managing business progress and understanding where problems lie in operations, the fact that companies are not setting targets likely means that they have no information about new markets and therefore cannot establish sales forecasts. Thus, researching and having a grasp of markets seem to be important steps on the way to setting sales targets.

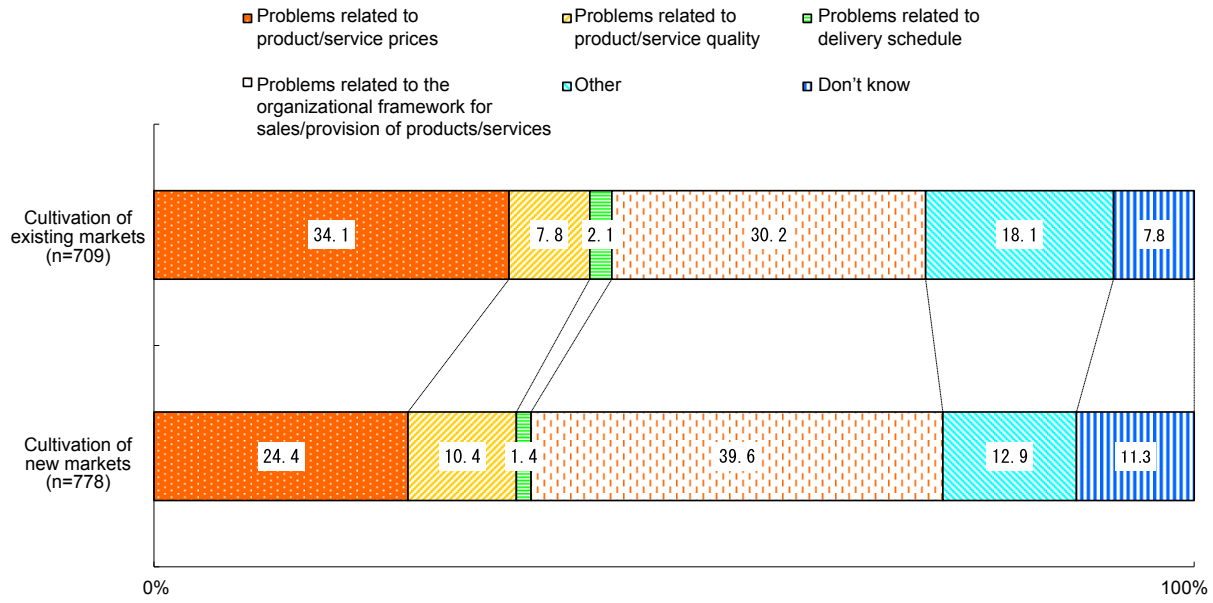
Fig. 2-1-28 State of sales target achievement, by market being targeted



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

The reasons for not achieving sales targets, broken down by market being targeted, are shown in Fig. 2-1-29. Among companies targeting existing markets, "problems related to product/service prices" was the most frequent response, followed by "problems related to the organizational framework for sales/provision of products/services." Companies targeting new markets most frequently cited "problems related to the organizational framework for sales/provision of products/services," followed by "problems related to product/service prices." These results show that, while sales targets are easy to achieve when targeting existing markets, there is a tendency for companies not to achieve sales targets due to problems related to product/service prices, i.e. competition with competitors in the market. Companies targeting new markets have a hard time achieving sales targets due primarily to a lack of human resources and other problems concerning organizational setup.

Fig. 2-1-29 Reasons of not to achieve sales target, by market being targeted



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

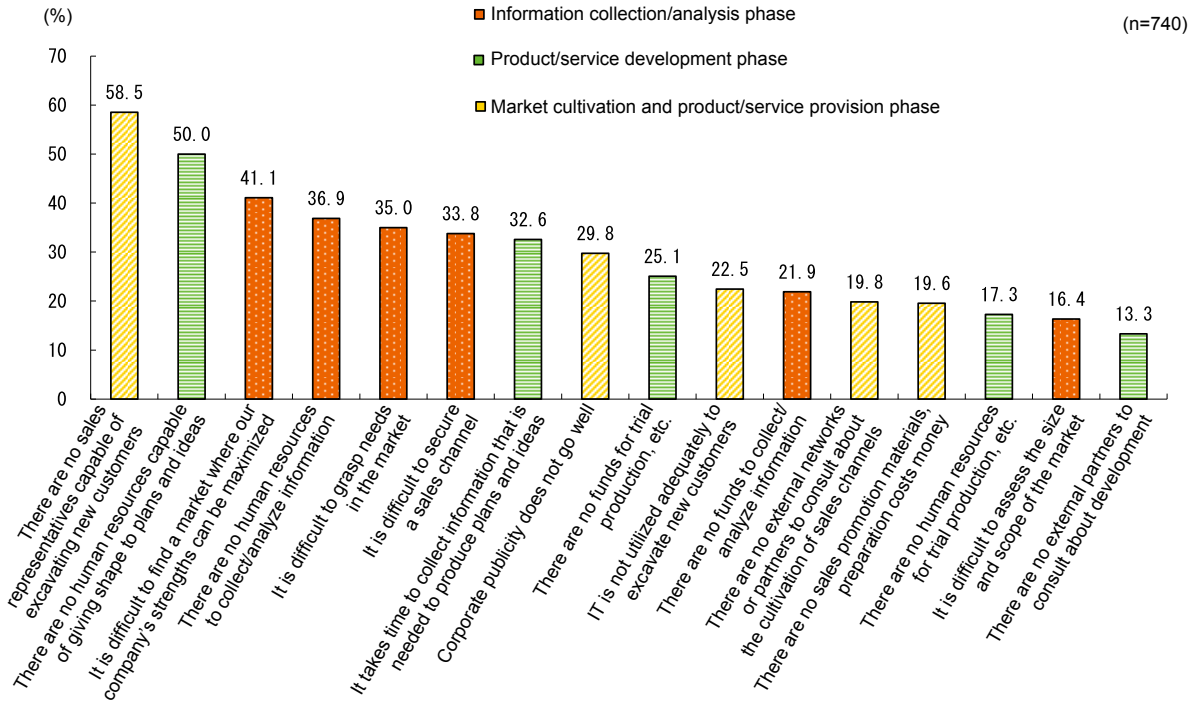
Issues involving market cultivation

Market cultivation can be considered in terms of three phases, the "information collection/analysis phase," the "product/service development phase," and the "market cultivation and product/service provision phase." Fig. 2-1-30 shows issues faced at each phase of market cultivation by companies that did not achieve sales targets for existing market cultivation. Problems concerning human resources at the "market cultivation and product/service provision phase" and "product/service development phase" ranked top and second and constituted over 50% of responses, indicating that a lack of human resources is the biggest problem being faced. Responses pertaining to "information collection/analysis phase" ranked third through sixth. This suggests many companies are facing problems concerning things such as researching markets in which they can leverage their strengths, having a grasp of markets, and choosing sales channels.

Fig. 2-1-31 shows issues faced at each phase of sales channel development by companies that did not achieve sales targets for new market cultivation. The same pattern is seen for problems faced when cultivating existing markets, but the most frequent responses here was "it takes time to collect information that is needed to produce plans and ideas." This is evidence that companies are facing problems generating new ideas that satisfy customer needs when cultivating new markets.

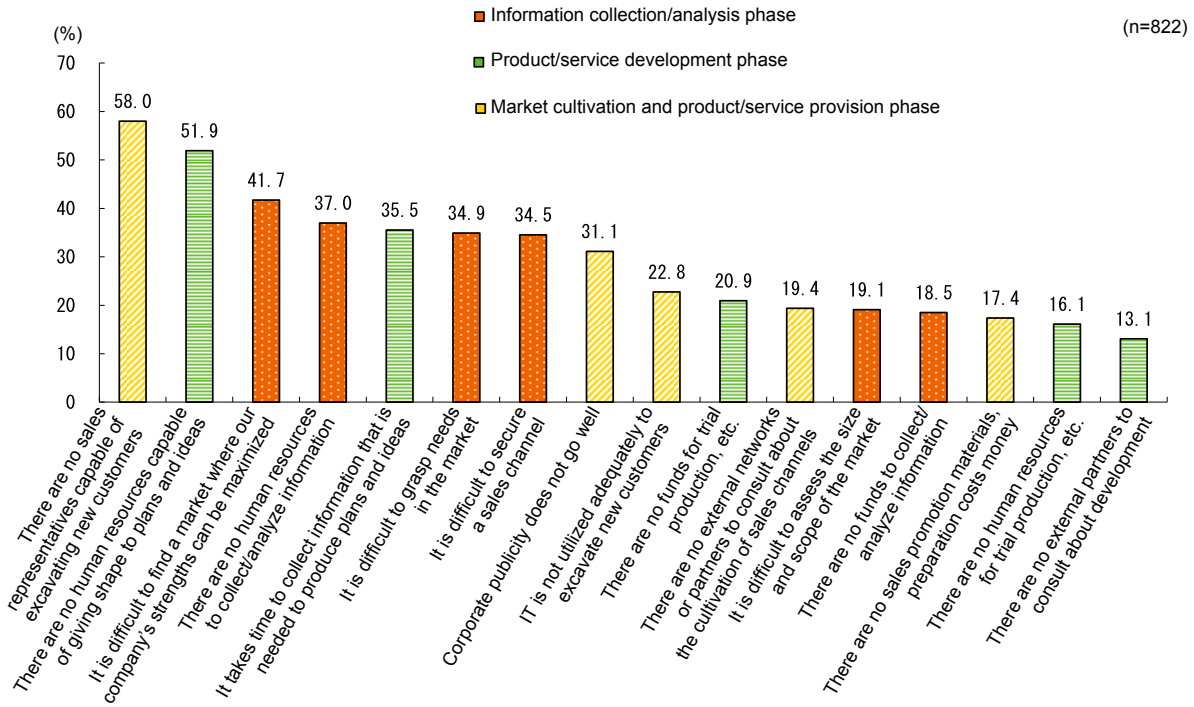
As is now clear, there is an increasing need for SMEs and micro-businesses to confront markets directly as the industrial structure surrounding them changes and, in order to acquire the human resources needed to get a grasp of these markets, these businesses are facing issues they never experienced before.

Fig. 2-1-30 Issues faced by companies that did not achieve sales targets when pursuing cultivation of existing markets



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-1-31 Issues faced by companies that did not achieve sales targets when pursuing cultivation of new markets



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

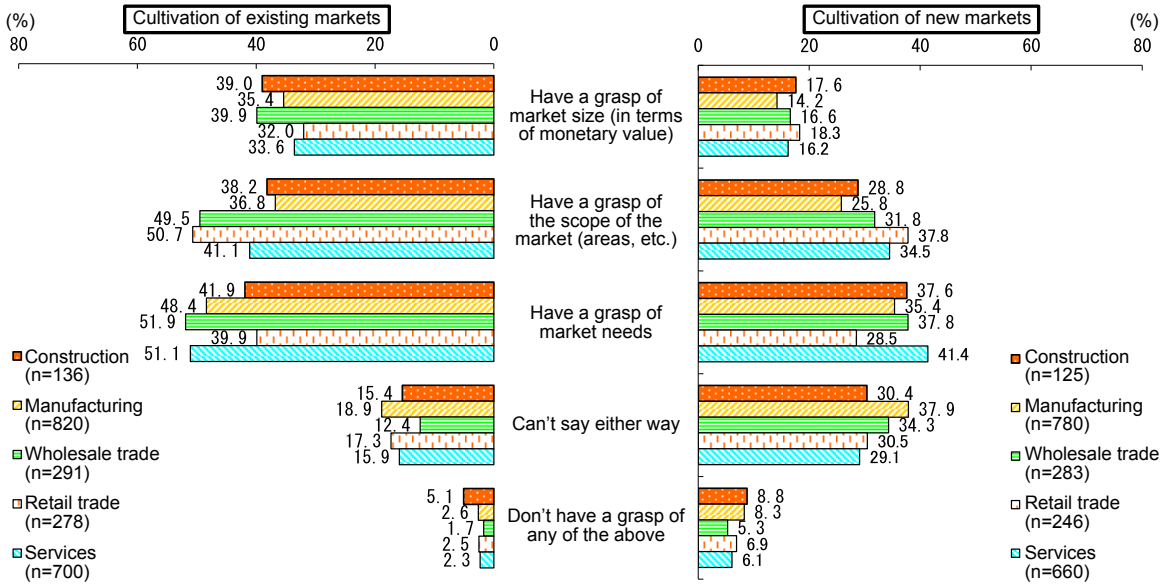
[2] Issues faced by SMEs and micro-businesses in cultivating markets

Market research and analysis

Let us first look at the extent to which companies have a grasp of their markets. As previously discussed, companies must have a grasp of the market when attempting to cultivate it. To explore this issue, market elements are divided into three categories: "market size (monetary value), "scope of market (areas, target customers, etc.)," and "customer needs." Fig. 2-1-32 categorizes markets to be cultivated into existing markets and new markets, and shows the extent to which businesses have a grasp the markets they are attempting to cultivate. Compared to other business types, the wholesale and retail trade businesses had the highest number of companies state that they knew the scope of their market, and characteristically emphasized knowing this information more than did other business types. The percentage of retail trade businesses who responded that they knew the needs of their markets was lower than every other business type with respect to both existing and new market cultivation.

Comparing the degree to which businesses have a grasp of their markets when engaging in existing market cultivation and new market cultivation finds that there is a lower level of knowledge overall for businesses cultivating new markets than for those cultivating existing markets. This is likely due to businesses being able to get a grasp of existing markets by, for example, being able to obtain information from partners in the course of regular business activities, while understanding new markets requires having a certain level of manpower and incurring costs, which creates circumstances that make it difficult to understand a market.

Fig. 2-1-32 State of market knowledge by business type, based on market being targeted

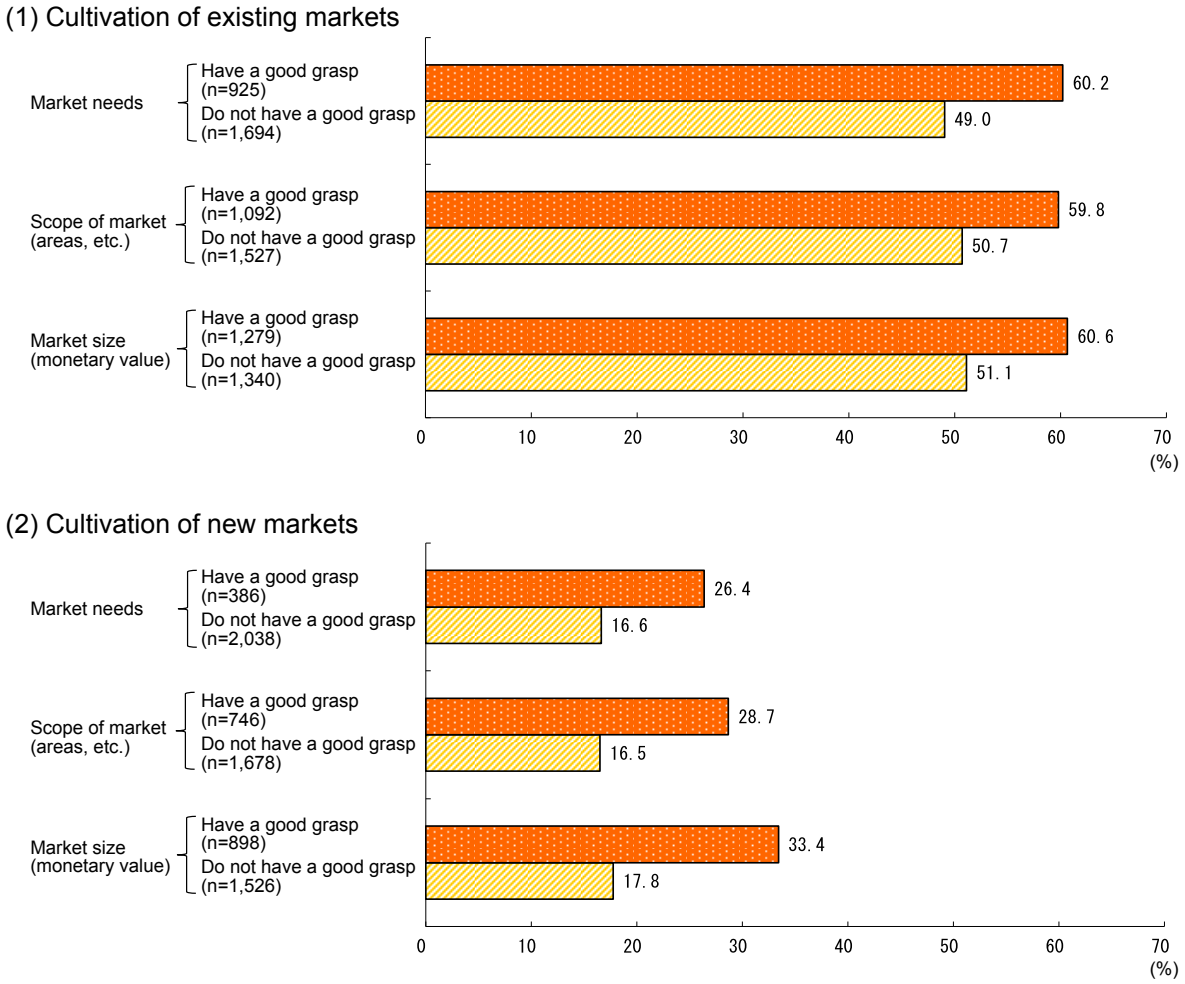


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Let us now look at how different levels of market knowledge contribute to achieving sales targets. Fig. 2-1-33 shows the percentages of companies that achieved their sales targets, broken down by level of market knowledge. Concerning the cultivation of existing markets, among companies that achieved their sales targets, nearly 60% of companies who stated that they grasped their market in terms of "grasp of market needs," "Scope of market (areas, etc.)," and "market size (monetary value)" achieved their sales targets. This rate was higher than for companies who responded that they did not have a grasp of these areas.

Among companies cultivating new markets, although fewer companies achieved sales targets when compared to cultivating existing markets, the companies that had a grasp of their market had a higher rate of sales target achievement than did companies without a grasp of their market. From this, we can see that companies tend to have a higher rate of sales target achievement the more they have a grasp of things such as market needs, scope, and size.

Fig. 2-1-33 State of sales target achievement, by level of market knowledge



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-1-6 Clean Brothers Co., Ltd.

An example of success in opening up new sales channels by evaluating the strengths and weaknesses of your company's business

Clean Brothers Co., Ltd. (employees: 26; capital: ¥10 million), based in Osaka, is a company involved in a diverse range of businesses, including the planning and management of eating and drinking establishments, the planning and organization of art exhibitions, and design services.

The company's origins go back to 1998, when a group of artists commenced a project involving the cleaning of empty buildings and facilities in order to support themselves. This project has since brought together a diverse range of people and spaces, and has produced a large number of businesses based on that diversity.

In 2002, the company opened a space called mr.kanso, a "canned goods bar" at which customers could enjoy canned foods and drink, in Minami Horie in Osaka's Nishi Ward. A major warehousing company had indicated that an empty lot was temporarily available prior to development. The company could offer the use of this land, and wondered whether some business might be opened on it. Clean Brothers proposed a range of ideas. Deciding that normal eating and drinking establishments made a loss on the ingredients used in their dishes, and that the necessity of cooking would increase staff costs, the company eventually decided on a "canned goods bar," eliminating the need for cooking. In addition, the labels and designs of cans possess value as art, and when cans from around the world were lined up, it would produce considerable impact.

When the first bar was opened, it did not even have a roof, and metal drums were used for the seats. However, it was such a unique initiative that it was taken up by the mass media and also created a stir by word of mouth, with the result that customers gradually increased. Following a calm appraisal of the strengths and weaknesses of its business, Clean Brothers were successful in a marketing program that made effective use of word of mouth, and as of the end of March 2015, the company was directly involved in the operation of eight mr.kanso bars throughout the country, and had concluded franchise contracts for 35 more. Because a canned goods bar entails no loss on ingredient inventory and can be opened by one person in a small space, initial investment is minimal and they can easily be started as franchises. These advantages mean that bar openings can be expected to continue, both in Japan and overseas.

Keiji Kawabata, President of Clean Brothers, says "The role played by connections between people in opening up a new sales channel is a big one. We want to go on contributing to revitalizing local communities with our bars as the starting point. A lot of different people visit our bars, and this produces a diverse range of connections, which play a part in invigorating communities. And because cans can be stored, I believe that we can also play a role in regional disaster preparedness measures."

The mr.kanso bars operated by Clean Brothers offer an example of using the strengths of an art-related company to succeed in marketing and open up new sales channels.

A mr.kanso canned goods bar

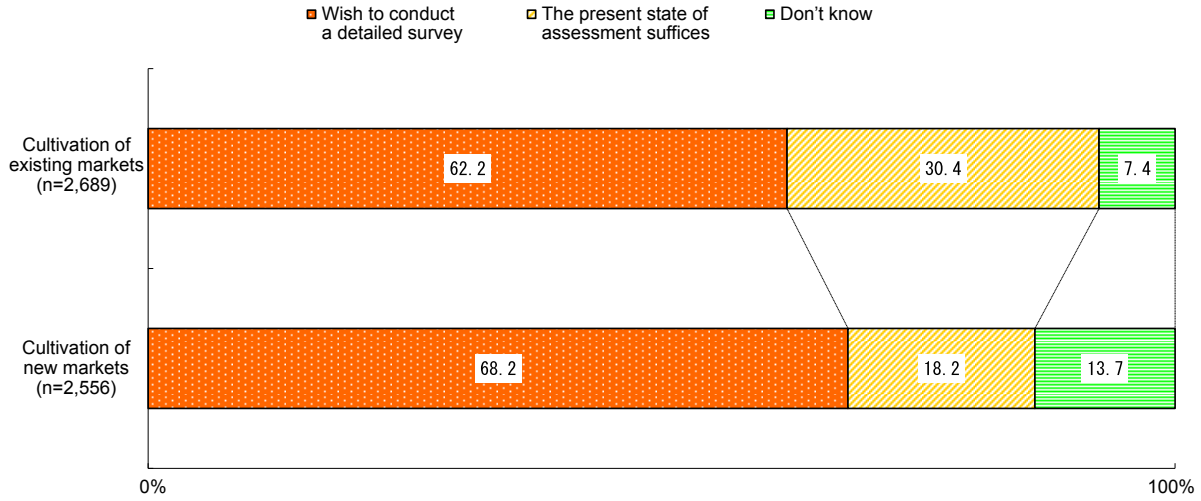
Intent to conduct market research

Next we will examine companies' intent to conduct market surveys in the future. Fig. 2-1-34 asks companies about their intent to conduct market surveys, broken down by market being targeted.

For both those targeting existing markets and those targeting new markets, over 60% of companies intended to conduct further market surveys. 30.4% of companies cultivating existing markets felt that their current grasp of the market was sufficient, while 18.2% of those cultivating new markets felt the same. As we saw in Fig. 2-1-32, although companies have a poor grasp of new markets, there are relatively few companies who are content with this situation.

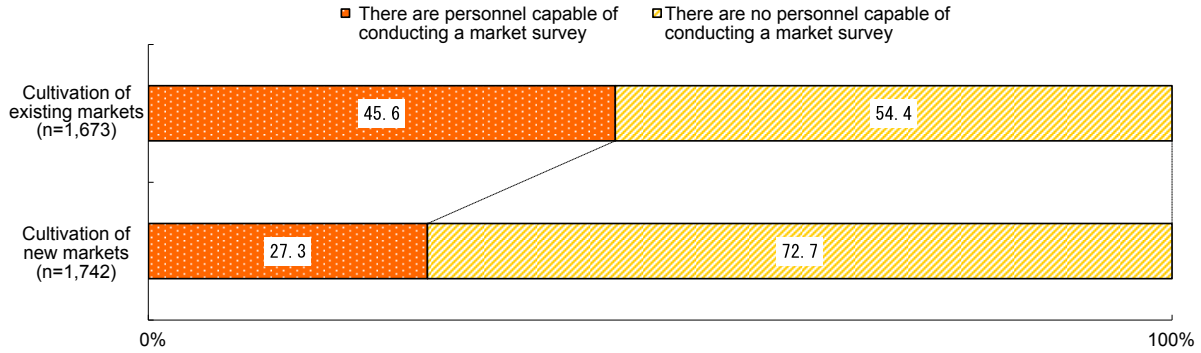
Fig. 2-1-35 shows whether companies that intend to conduct market surveys have the human resources needed to do so. 40% of companies cultivating existing markets said that they had sufficient human resources, compared to below 30% for companies cultivating new markets. This would suggest that, while SMEs and micro-businesses intend to conduct market surveys—including surveys of new markets—in order to find new customers, a lack of human resources is preventing surveys from being done sufficiently.

Fig. 2-1-34 Intent to conduct market surveys, by market being targeted



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Fig. 2-1-35 State of human resources capable of conducting market surveys, by market being targeted



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Issues faced by companies lacking the human resources needed to cultivate markets

Fig. 2-1-30 and 2-1-31 shows that the highest response concerning issues faced in cultivating markets was "there are no sales representatives capable of excavating new customers," indicating that the problem of insufficient human resources is a serious one for companies that must deal directly with the market. Fig. 2-1-36 presents the extent to which companies facing issues concerning human resources when developing markets have acquired human resources externally[15], as well as the reasons for not having acquired sufficient human resources. 11.0% of companies responded with "have already acquired external human resources," 50.8% said "wish to acquire external human resources, but have not yet been able to," and 38.2% said "have no intention of acquiring external human resources."

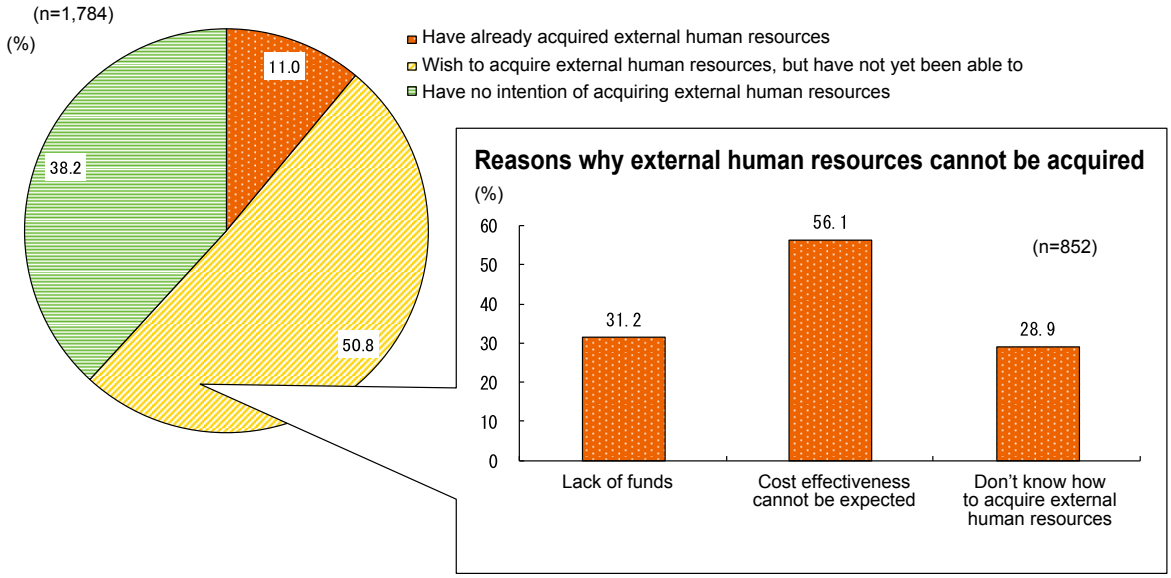
Concerning the reasons given for not having acquired external resources, 56.1% responded with "cost effectiveness cannot be expected," which suggests that many companies feel the costs of acquiring the people they want are too high. Also of note is that 28.9% of

15) "Acquire human resources externally" here includes midcareer hiring of people to cultivate markets as well as using external human resources temporarily through outsourcing, etc.

companies said they "don't know how to acquire external human resources."

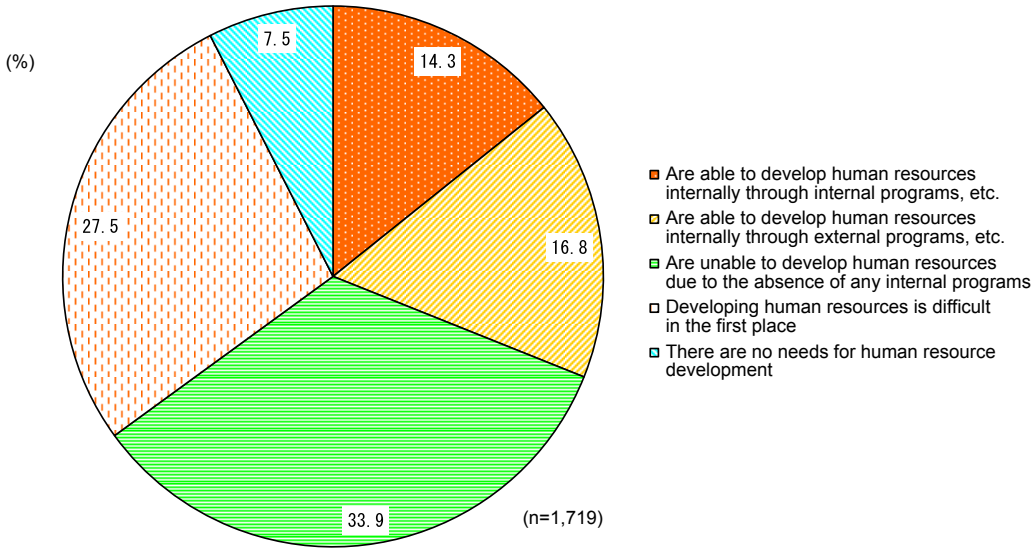
Fig. 2-1-37 looks at companies facing issues concerning human resources and the state of developing those resources. 30.1% of respondents said either "are able to develop human resources internally through internal programs, etc." or "are able to develop human resources internally through external programs, etc.," whereas 33.9% of companies chose "are unable to develop human resources due to the absence of any internal programs" and 27.5% chose "developing human resources is difficult in the first place." Nearly 30% of companies had no solution for training their people, and such companies will likely require some form of support. Chapter 2 provides an in-depth analysis of the state of companies' acquisition and development of human resources. Many SMEs and micro-businesses lack sufficient corporate resources and are unable to shoulder the costs of hiring and educating their workers. The state of efforts to seek innovation and cultivate markets among these companies is explored in detail in the next section.

Fig. 2-1-36 Intend to acquire external human resources among companies facing human resource issues



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Tabulated here are companies with issues concerning human resources as one of the issues faced in cultivating markets.

Fig. 2-1-37 State of human resource development at companies facing issues concerning human resources when cultivating markets



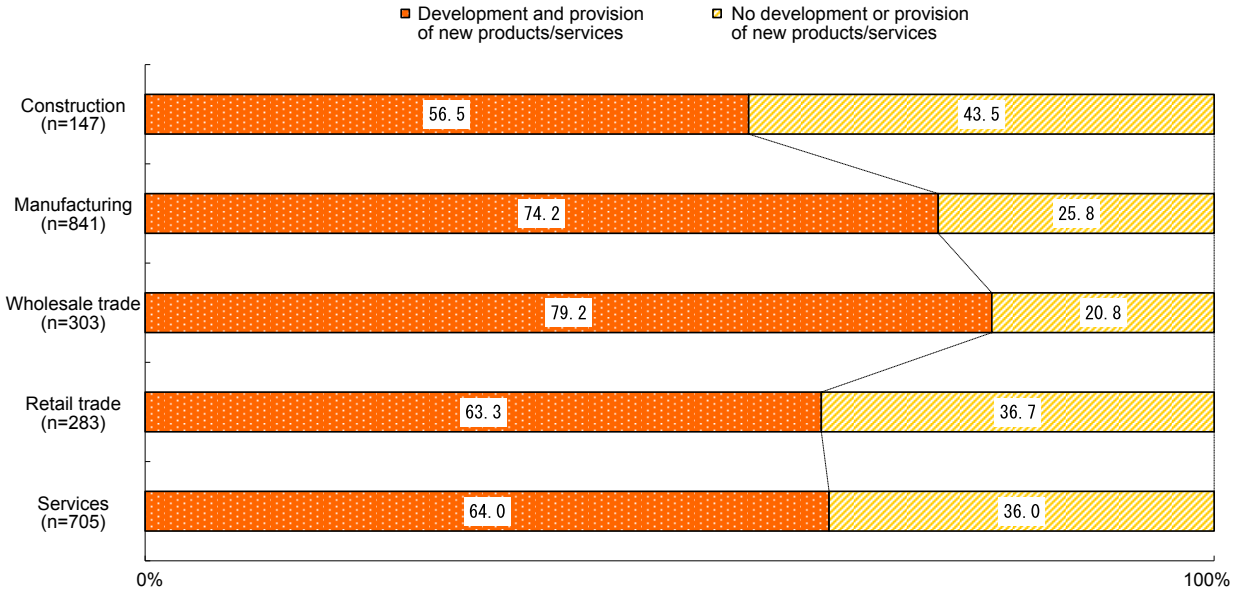
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Tabulated here are companies with issues concerning human resources as one of the issues faced in cultivating markets.

[3] SMEs and micro-businesses' development of products and services and their pricing power

State of new product and service development

Let us now look at the state of companies' efforts to develop new products as part of market cultivation. Fig. 2-1-38 shows the state of companies' efforts to develop and provide new products and services over the last 3 years, broken down by business type. Over 70% of companies in the manufacturing and retail trade industries are developing new products and services, indicating that these industries have a relatively stronger interest in new things.

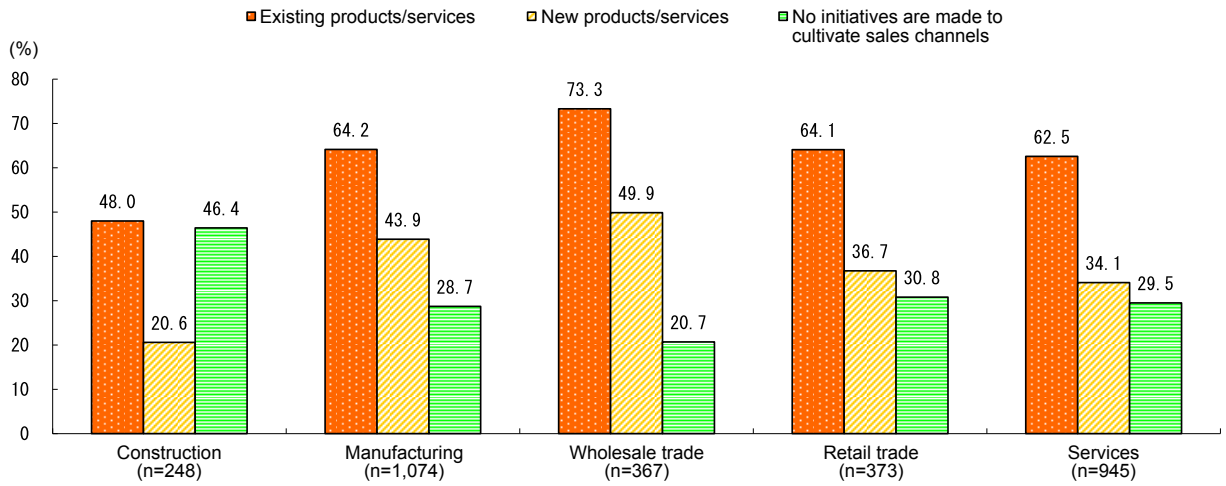
Fig. 2-1-38 State of new product and service development and provision, by business type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Now, let us look at whether the state of companies' efforts to develop new products and services impact market cultivation. Fig. 2-1-39 categorizes goods and services that businesses sell or provide into "existing products/services" and "new products/services" and examines market cultivation efforts based on these categories. Across all business types, the highest percentage of companies conducted market cultivation using existing products and services. The manufacturing and wholesale trade industries, however, were at the top in terms of using new products and services to cultivate markets. As we saw in Fig. 2-1-38, it was the companies in the manufacturing and wholesale trade industries that approach their markets with new products and services. This suggests that these companies are also actively seeking new customers using new products and services.

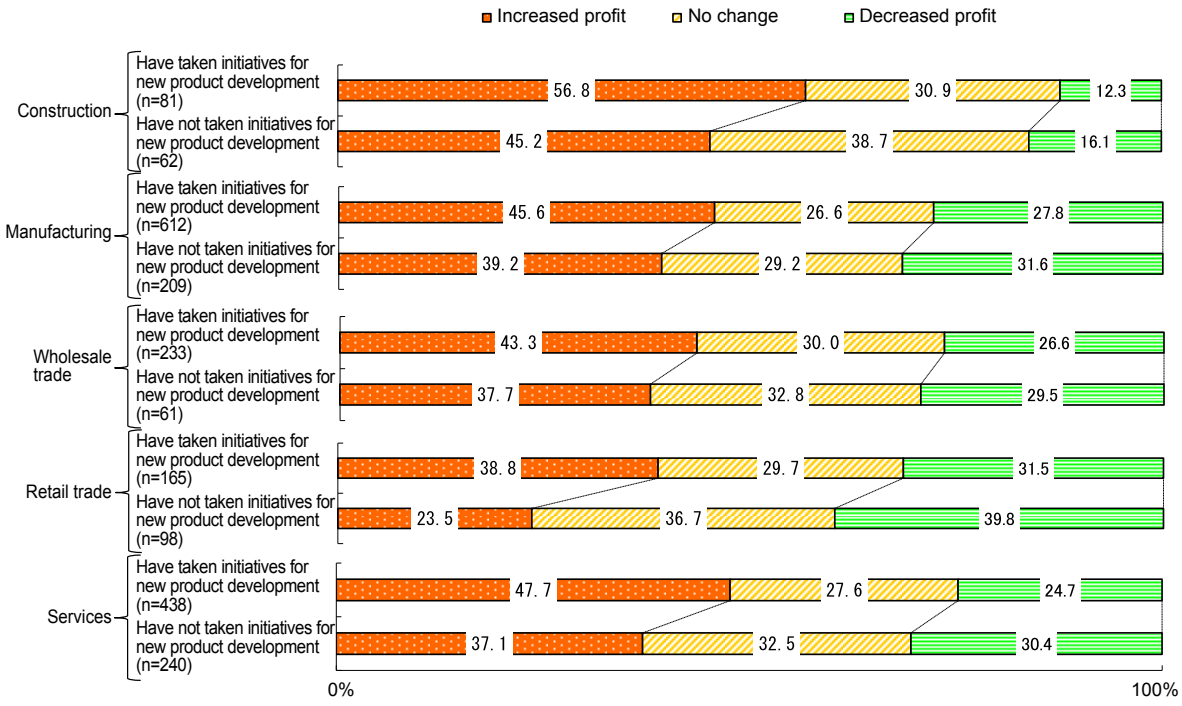
Fig. 2-1-39 Efforts to cultivate markets, by business type and by product/service



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-1-40 shows trends concerning ordinary income, broken down by the state of development or provision of new products or services. Across all business types, it was the companies that developed or provided new products or services that showed the greatest increases in ordinary income. This may indicate that providing new products and services allows companies to meet the changing needs of its customers and increase profitability.

Fig. 2-1-40 Ordinary income trends, by business type and by efforts to develop new products



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Pricing power

In finding new customers, whether or not a company has pricing power is an important factor behind it achieving strong earnings. Fig. 2-1-41 shows who holds pricing power, broken down by business type. Over 70% of companies in the retail trade industry said they had pricing power, putting them at the top. They were followed by wholesale trade, services, construction, and manufacturing. As seen in the manufacturing, wholesale trade, and retail trade industries, the closer customers are to being end-users, the more companies in that industry have pricing power.

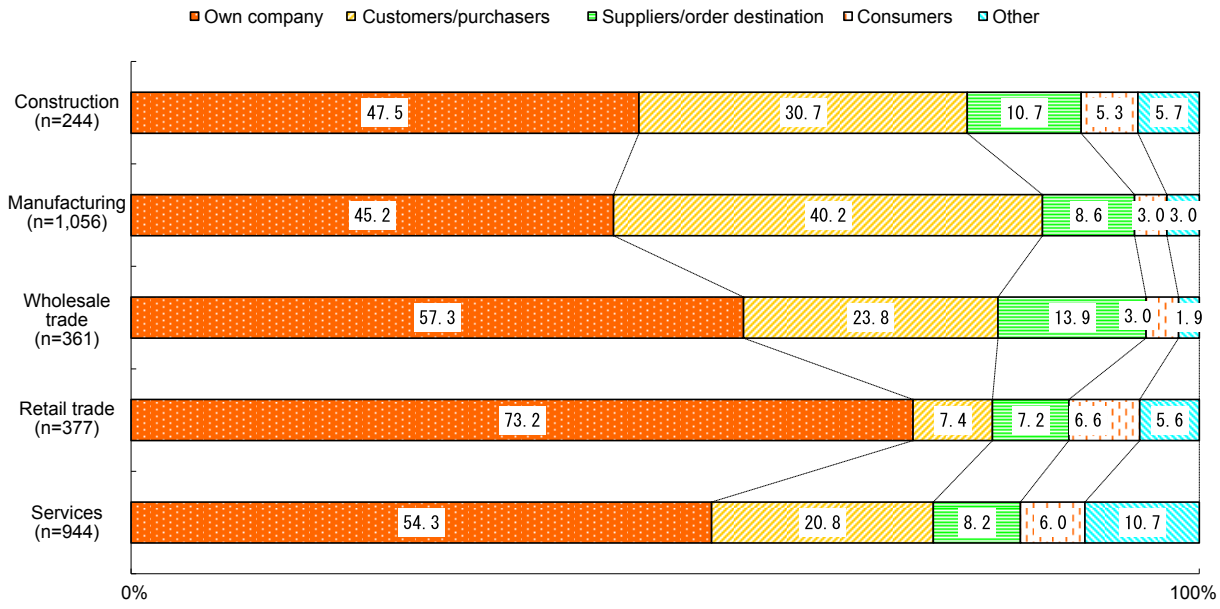
Fig. 2-1-42 presents the results of asking companies without pricing power the reasons for such. "Because competition is intense in the product/services market" was the top response by a wide margin among wholesale and retail trade industry companies.

While it could be said that companies are losing their pricing power by being embroiled in excessive market competition, pricing power can be maintained by companies able to continuously provide goods and services that are without peer.

Close to 50% of construction and manufacturing companies responded with "because we are a subcontractor." This suggests that these companies are forced to accept prices offered by buyers or submit to demands for lower prices due to price competition with competitors as well as to the nature of the transaction structure inherent to subcontracting work.

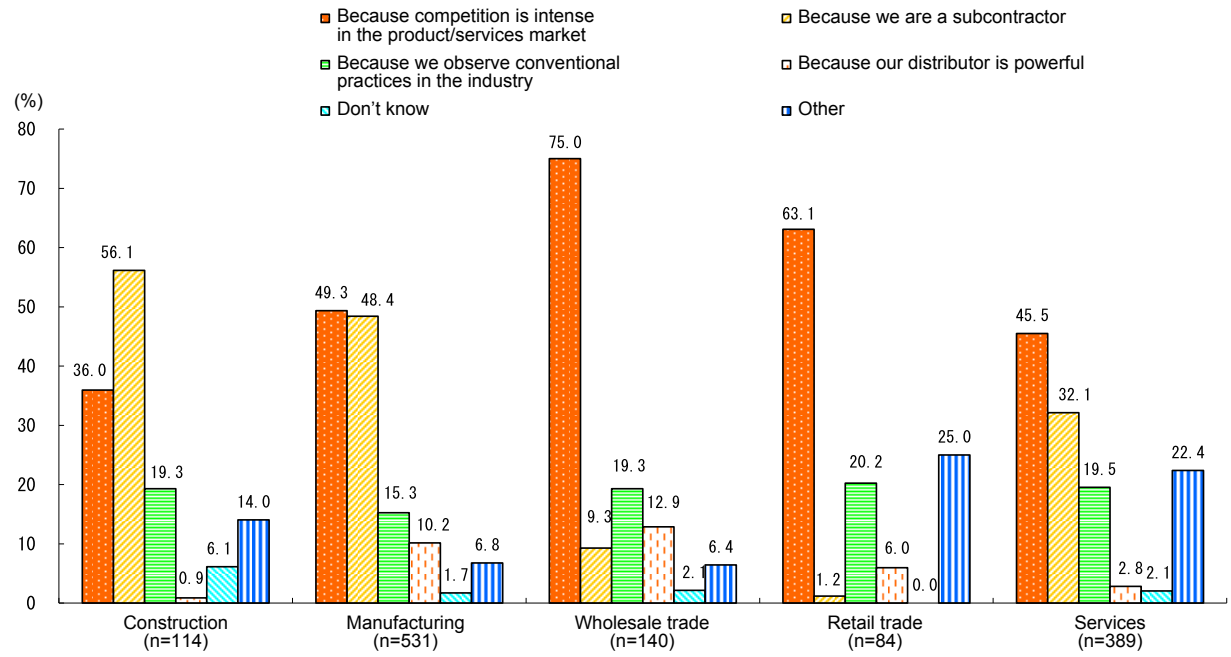
Although it depends the transaction structure and industry, because companies can improve their profitability by having pricing power, it is critical to bolster this pricing power through the continuous development of new products and services.

Fig. 2-1-41 Possessors of pricing power, by business type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.

Fig. 2-1-42 Reasons for not having pricing power, by business type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

[4] Issues faced by SMEs and micro-businesses in the market cultivation process

Measures to support market cultivation

Fig. 2-1-43 shows the kinds of sales channel development support SMEs and micro-businesses are looking for. "Provision of market information" received the most responses, followed by "introduction of potential business partners" and "subsidies/grants, etc." Over 40% of SMEs and micro-businesses wish they had information useful to getting a grasp of a market. It appears that, while many companies have the desire to get a grasp of a market, they are unable to gather or analyze market data by themselves.

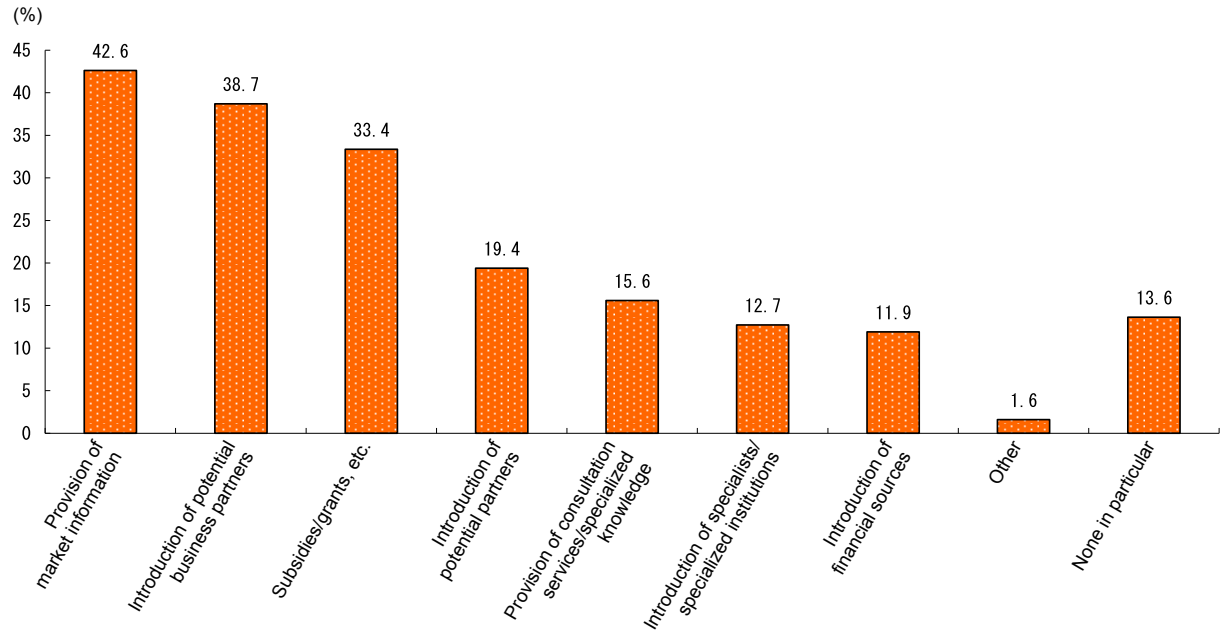
When it comes to cultivating sales channels, many companies are coming up against problems concerning getting a grasp of market trends and need help. But what do these companies need to get a grasp of a market? The first step is for companies to revisit the concepts behind their products and services and clarify what they are selling to whom and how. Identifying the "to whom" requires having a grasp of market needs as, if there are no market needs, nothing will sell no matter how many products or services a company provides. The Organization for Small & Medium Enterprises and Regional Innovation (SMRJ) provides support for developing sales channels, including providing information on market needs, through Market Cultivation Coordination Projects (see Column 2-1-2). As further effort to support market cultivation, SMRJ has launched J-GoodTech[16], a website for matching SMEs and micro-businesses with new customers.

By utilizing these kinds of support initiatives, SMEs and micro-businesses should be able to bolster their ability to collect information about markets, provide products and services that meet market needs, and develop sales channels.

16) https://jgoodtech.smrj.go.jp/

Fig. 2-1-43 Sales channel development support sought by companies

(n=2,764)



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey on "Market Cultivation" and "New Initiatives"* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Column 2-1-2 Market Cultivation Coordination Projects

SMRJ conducts Market Cultivation Coordination Projects aimed at providing SMEs and micro-businesses with support in developing sales channels.

These projects target SMEs and micro-businesses that may have outstanding new products, technologies, or services but that are not able to develop sales channels themselves for reasons that include a company's goods or services being so new that the company is unsure which market to target, or not knowing how to begin wide-area sales channel cultivation. The projects help businesses targeting markets in the Tokyo and Kinki regions.

Businesses targeted for support are (1) SMEs that have received approval for their business innovation plans based on the Act for the Promotion of New Business Activities by Small and Medium-Size Enterprises and (2) SMEs seeking to develop sales channels by using stand-out new products, technologies, or services in Tokyo and Kinki region markets.

Projects involve assigning former members of enterprises including trading companies and manufacturing firms who are experts in developing sales channels. Dubbed market cultivation coordinators, these individuals conduct everything from marketing planning to test marketing[17].

At the marketing planning stage, market cultivation coordinators narrow down target customers and sales markets, research competitors' products, and give advice on establishing competitive advantages. At the test marketing stage, they handle a range of preparations that includes determining the viability of putting a product or service on the market, determining products' final specifications, examining product briefing materials, and conducting assessments leading up to commercialization. Also at the test marketing stage, these coordinators match companies to the markets they are targeting for sales and provide accompaniment on sales visits. This market development coordinator support may be provided by multiple people and may involve approaching multiple companies.

17) Test marketing is a marketing strategy whereby a small sample is targeted within a limited area for the sale of a new product or service.

126 such projects were conducted in fiscal 2013 and 72.1% of companies that received support conducted concrete business negotiations with a target company within one year. Over the last five years, more than 100 companies have received such support every year, and a high number—more than 70%—of companies have been matched with others, suggesting that such initiatives are proving effective for SMEs and micro-businesses.

It is difficult for SMEs and micro-businesses to develop sales channels to a satisfactory level due to a lack of corporate resources and restrictions concerning the costs and personnel they are capable of using towards market development. Accordingly, these projects allow SMEs and micro-businesses to develop sales channels and work alongside market development experts, allowing them to enhance their marketing capabilities and achieve further independence.

Column 2-1-3 The state of overseas market development and related support measures

This section focuses on sales channel development among SMEs and micro-businesses, and overseas markets are one significant target available for such development. Japan is currently suffering a decline in demand due to changes in its social structure as a result of an aging society and falling birth rates. At the same time, markets in emerging nations such as those in Asia are on the rise due to growing populations and income levels. Amid these circumstances, this column looks at the present state of recent overseas expansion by SMEs and micro-businesses based on the *Survey of Corporate Attitudes towards Overseas Expansion*[18] released in October, 2014, and summarizes the measures for SMEs and micro-businesses looking to develop markets overseas.

1. State of overseas business expansion

Let us first look at the countries and regions being considered by SMEs for overseas expansion. Column 2-1-3 (1) presents the countries and regions being considered by SMEs as potential targets for sales operations and production sites. Among the countries and regions being considered for production sites, Viet Nam was at the top with 11.0%, followed by China, Thailand, Indonesia, and Myanmar. At 11.7%, China led the U.S., Thailand, Viet Nam, and Indonesia for countries being considered for sales operation expansion. With the exception of the U.S., every country or region in the top 10 was in Asia in terms of both targets for sales operations and production sites. This shows that even SMEs are looking to the growing markets of Asia when it comes to overseas expansion, and it will be worth looking at the areas in which countries being considered for production sites differ from those being considered for sales operations.

18) A questionnaire administered by Teikoku Databank to 23,561 companies in September, 2014. The response rate was 46.6%.

Fig. Column 2-1-3 (1) Countries and regions most valued by SMEs for production sites and sales expansion

(n=10, 085)

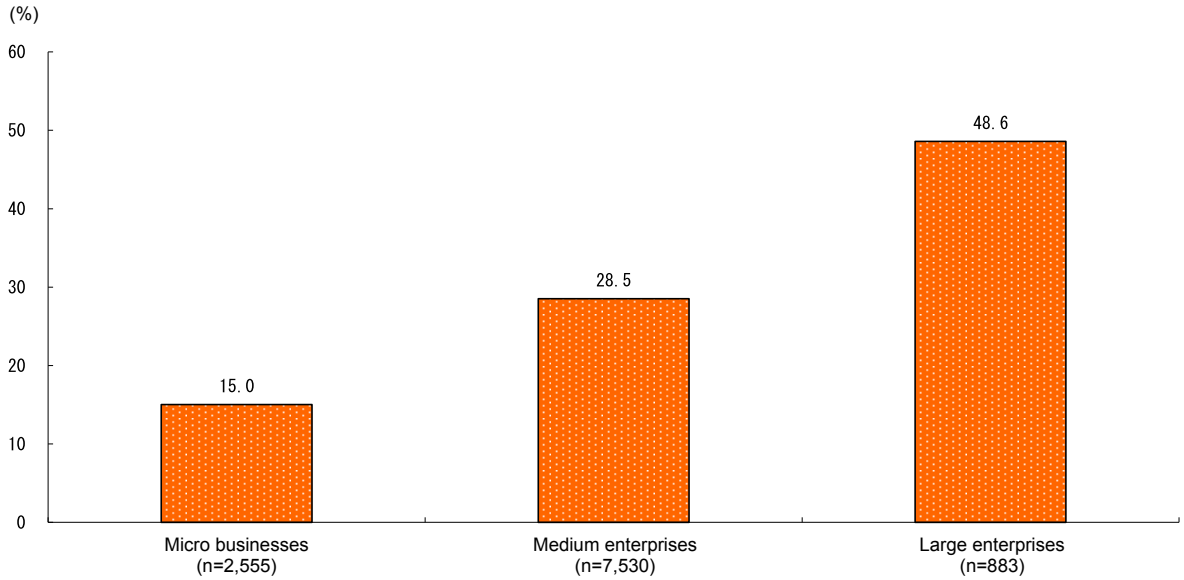
Countries valued as production bases			Countries valued as sales bases		
Ranking	Country	Percentage	Ranking	Country	Percentage
1	Viet Nam	11.9	1	China	11.7
2	China	6.6	2	U.S.	4.1
3	Thailand	4.7	3	Thailand	3.8
4	Indonesia	2.7	4	Viet Nam	3.6
5	Myanmar	1.9	5	Indonesia	3.4
6	Taiwan	1.9	6	India	3.1
7	Other countries in Asia	1.5	7	Taiwan	2.3
8	India	1.1	8	Singapore	2.0
9	South Korea	0.6	9	Other countries in Asia	1.5
10	U.S.	0.6	10	South Korea	1.1
11	Singapore	0.6	11	Hong Kong	1.0
12	Other countries in Central/South America	0.2	12	Myanmar	0.6
13	Hong Kong	0.1	13	Middle East (including Turkey)	0.5
14	Africa (including Egypt)	0.1	14	Other countries in Europe	0.5
15	Germany	0.1	15	Germany	0.4
16	Other countries in Europe	0.1	16	France	0.3
17	Brazil	0.1	17	Russia	0.2
18	France	0.1	18	Brazil	0.2
19	Middle East (including Turkey)	0.0	19	Other countries in Central/South America	0.2
20	Italy	0.0	20	Africa (including Egypt)	0.2
21	Russia	0.0	21	Australia	0.1
22	Australia	0.0	22	Other countries in Oceania	0.1
23	Other countries in Oceania	0.0	23	U.K.	0.1
24	U.K.	0.0	24	Italy	0.1
25	Canada	0.0	25	Canada	0
	Companies not interested in overseas expansion	52.2		Companies not interested in overseas expansion	48.4
	No response	13.6		No response	10.6

Source: Teikoku Databank, *Survey of Corporate Attitudes towards Overseas Expansion*.
Note: "Other countries in Asia," "Other countries in Central/South America," "Other countries in Europe," and "Other countries in Oceania" refer to those countries or regions not indicated above for each.

Now let us look at the proportions of companies that actually expanded overseas[19], broken down by company size (Fig. Column 2-1-3 (2)). 15.0% of micro businesses have taken their business overseas, compared to 28.5% of medium enterprises and 48.6% of large enterprises. This indicates that as companies grow in size, they more often take their business overseas.

19) "Overseas expansion" here is a concept that includes direct overseas expansion involving means such as establishing overseas affiliated companies and production or sales sites as well as indirect overseas expansion entailing activities that include indirect exporting and business partnerships.

Fig. Column 2-1-3 (2) Percentages of companies expanding overseas, by company size



Source: Prepared by SME Agency based on Teikoku Databank, *Survey of Corporate Attitudes*.

Next, we look at overseas expansion classified into direct and indirect expansion. Direct overseas expansion as discussed here refers to creating overseas affiliated companies, establishing facilities such as production or sales sites, entering into capital alliances through M&As, and direct export business without going through trading companies, etc. Indirect overseas expansion refers to indirect export business going through trading companies, vendors, etc., outsourcing operations such as production activities, and business partnerships such as technical cooperation.

Fig. Column 2-1-3 (3) examines specific efforts to expand overseas, broken down by company size. "Establishment of overseas affiliated companies" was the form of direct overseas expansion most common among large and medium enterprises, while "direct export (excl. export via trade firms, etc.)" was most often cited by micro businesses.

For indirect overseas expansion, the largest proportion of companies of all sizes were engaged in "indirect export (export via trade firms, business partners, etc.)" activities.

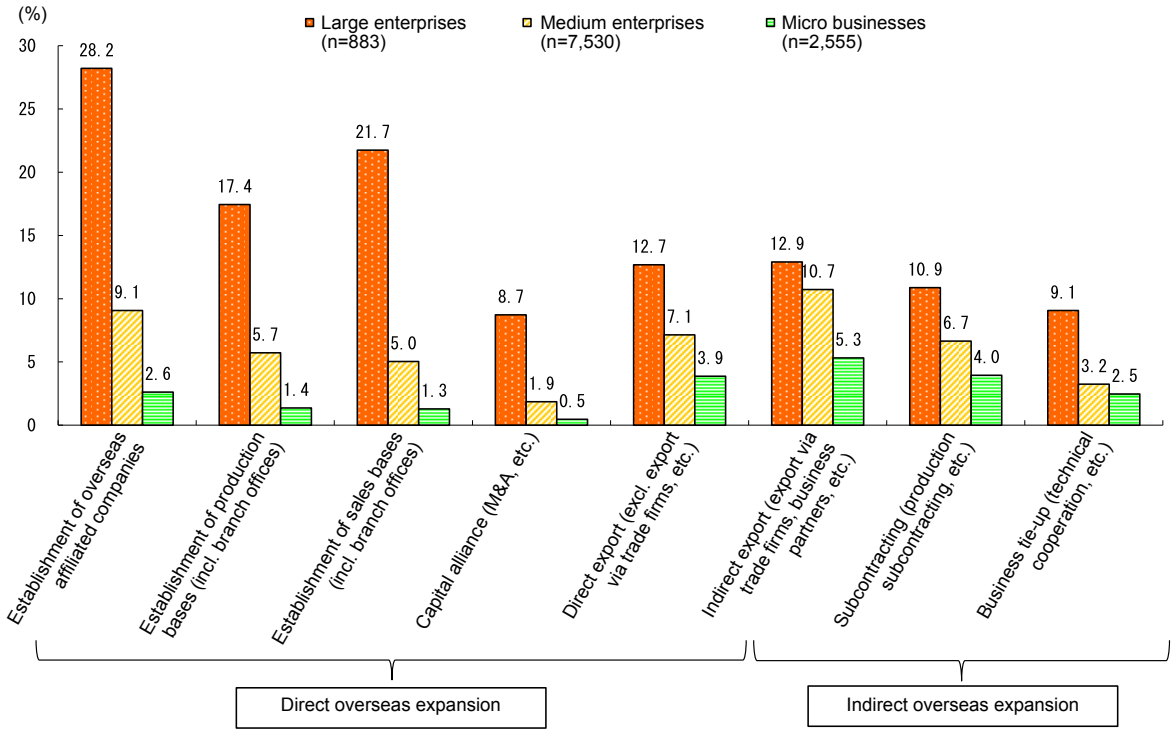
Broken down by company size, we see that large enterprises are conducting the most expansion activities across every category, followed by medium enterprises and micro enterprises. Looking at the difference between large and medium enterprises, there is a 19.1% gap concerning "establishment of overseas affiliated companies," an 11.7% gap for "establishment of production bases," and a 16.7% gap for "establishment of sales bases," with a gap of over 10% for many categories. However, the gap is rather small between large and medium enterprises with respect to indirect expansion activities, with gaps at 2.2% for "indirect export," 4.2% for "subcontracting," and 5.9% for "business tie-up."

One can infer from this that larger companies more frequently engage in overseas expansion consisting of mostly indirect expansion activities, but also that companies, upon achieving a certain size, begin focusing also on direct overseas expansion in search of greater profitability.

"Indirect export" was the most common response among medium enterprises and micro businesses, suggesting that these businesses engage in indirect export activities via trading companies or vendors as the first step in conducting overseas expansion. In order to secure higher profitability, however, it appears that it is important to conduct direct investment, including engaging in direct exporting, establishing overseas affiliated companies, and setting up production or sales bases.

In order to further this kind of overseas expansion, it would seem that support for these kinds of companies will become more important.

Fig. Column 2-1-3 (3) State of overseas expansion, by company size



Source: Prepared by SME Agency based on Teikoku Databank, *Survey of Corporate Attitudes*.
Note: Total does not always equal 100% as multiple responses were possible.

2. Measures to support overseas expansion

The following discussion will look at measures to support overseas expansion by SMEs. There are a number of organizations that provide support for overseas business expansion, including the Organization for Small & Medium Enterprises and Regional Innovation (SMRJ), the Japan External Trade Organization (JETRO), and chambers of commerce and industry. In addition to examining the processes leading up to expanding sales channels overseas and establishing local facilities, we will look at an overview of support measures for each process.

We will look at the process leading up to overseas business expansion in four stages: (1) the Stage for Data Gathering, wherein companies clarify their objectives in expanding overseas; (2) the Stage for Creating a Plan for Expanding Business Overseas, wherein companies prepare and create plans in Japan; (3) the Stage for Making Specific Preparations towards Overseas Expansion, wherein companies find overseas suppliers and business partners; and (4) the Stage for Stabilizing and Expanding Cultivated Business, wherein companies expand sales channels and set up facilities overseas. The following discussion will examine the issues that arise at each of the four stages of this process and measures to support their resolution.

(1) The Stage for Data Gathering

When considering overseas business expansion, enterprises must gather information about their objectives in doing international business and about methods for doing so. This involves looking at things such as countries' general conditions, the political and economic climate, business trends, foreign trade and exchange systems, investment mechanisms, statistical data, and survey reports. Measures aimed at supporting data gathering include JETRO-FILE (administered by JETRO) and the Small and Medium Company Internationalization Support Navigator (Japan Chamber of Commerce and Industry).

(2) Stage for Creating a Plan for Expanding Business Overseas

In the stage after gathering the necessary data, enterprises must create plans for expanding business overseas.

Enterprises need to develop plans that account for differences that may exist between Japan and foreign countries in terms of procedures and laws that apply when conducting import and export activities or establishing overseas affiliate companies. It is also beneficial to conduct preliminary assessments of feasibility of plans based on advice from experts.

Among the support policies available are trade investment consulting (JETRO), feasibility study support (SMRJ), and the Program for Referring Lawyers in Support of Overseas Business Expansion for Small and Medium Enterprises (Japan Federation of Bar Associations).

(3) Stage for Making Specific Preparations towards Overseas Expansion

Enterprises that finish creating plans for overseas business expansion move into the stage for making concrete preparations. At this stage, enterprises will likely be conducting marketing in order to develop sales channels, participating in trade shows, and providing education and training for the personnel involved in the expansion.

Specific support measures include the CEO Network Enhancing Project (SMRJ), the Customized Export Project Support Program (JETRO), and the METI Global Internship Program (Overseas Human Resources and Industry Development Association / JETRO).

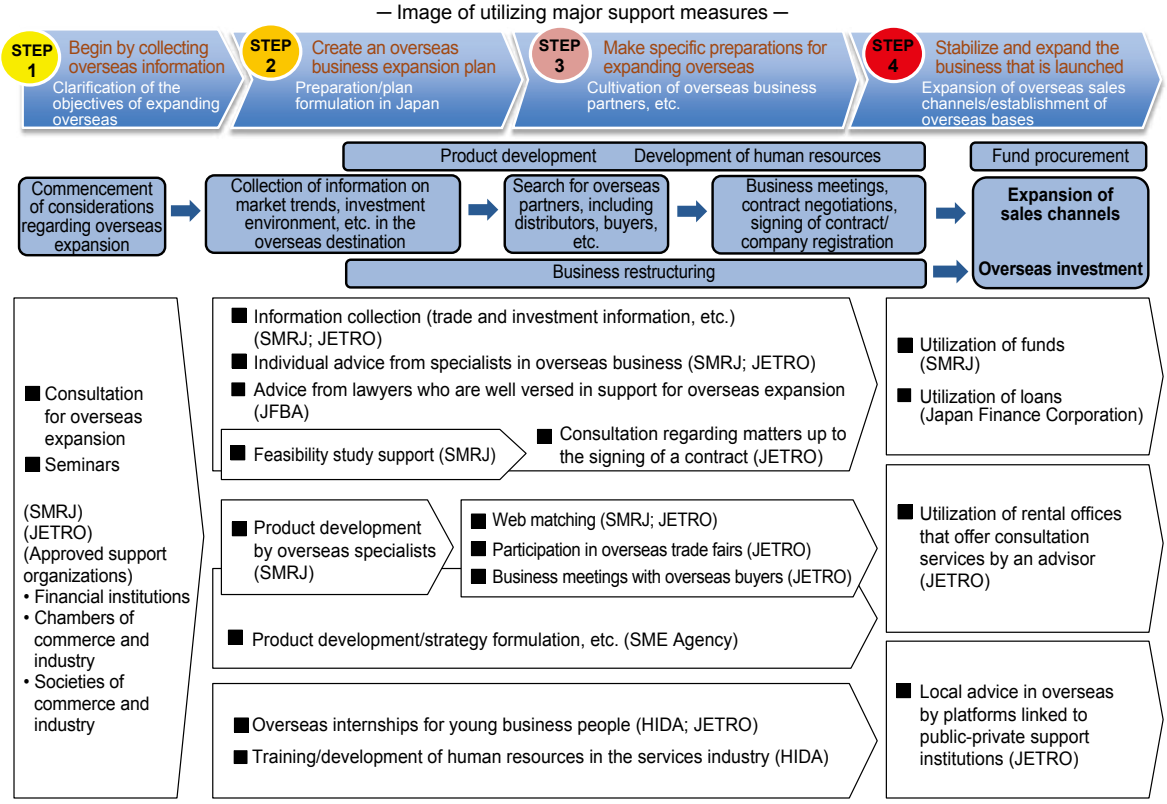
(4) Stage for Stabilizing and Expanding Cultivated Business

Even after beginning overseas business expansion, enterprises need to stabilize and expand their business. At this stage, enterprises often procure funds for business expansion, acquire relevant insurance, attend to issues concerning intellectual property rights and laws, and recruit local staff, among other activities.

Some of the support measures available are the SME Overseas Expansion Platform (JETRO), the Export Credit Insurance for SMEs (Nippon Export and Investment Insurance), and funding for overseas expansion and business restructuring (Japan Finance Corporation).

The discussion so far has touched on some of the support measures available at each step of the process leading up to overseas business expansion by SMEs and micro-businesses. Further information can be found at Mirasapo[20], a portal operated by the SME Agency, as well as the "Database of Support Measures for SME Overseas Expansion." If filtered by objective, these databases of support measures can show measures related to overseas expansion, allowing SMEs and micro-businesses to search for support measures that match their needs.

Fig. Column 2-1-3 (4) Roadmap to successful overseas expansion



Section 4 Innovation and sales channel cultivation using IT, external resources, and design

As has been discussed in previous sections, enterprises can improve their profitability by enhancing productivity through innovation achievement, developing products and services that meet market needs, and developing

20) https://www.mirasapo.jp/

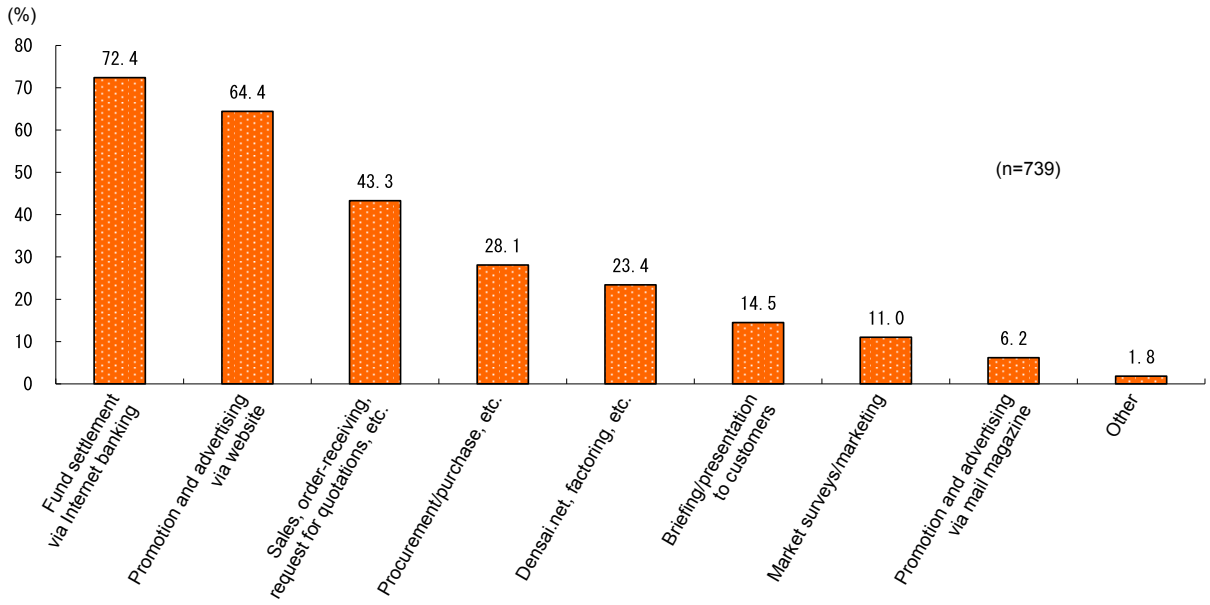
sales channels. However, SMEs and micro-businesses often run into the problem of not having sufficient human resources or expertise to achieve this. With a shrinking labor pool caused by a declining birthrate, it is not easy to recruit human resources. Effectively deploying IT—a development that has picked up speed in recent years—appears to play a key role in SMEs and micro-businesses achieving innovation under these corporate resource constraints. This section will use case studies to explore efforts to innovate and develop sales channels by using IT.

[1] Developing sales channels by using IT

Internet and website usage

Let us first look at Internet usage among SMEs. The following will mainly focus on the *Survey of Relationships Between SMEs and their Communities*[21]. Fig. 2-1-44 shows the kinds of business operations that use the Internet. The largest proportion of businesses—72.4%—use the Internet in "fund settlement via Internet banking." This is followed by 64.4% of businesses for "promotion and advertising via website," then "sales, order-receiving, request for quotations, etc." and "procurement/purchase, etc." It should be noted, however, that this survey targeted SMEs with sales of at least ¥1 billion. Although these are relatively large companies, we can see that they routinely use the Internet in their operations. On the other hand, for "market surveys/marketing" and other such operations that involve having a grasp of the market, Internet usage is low.

Fig. 2-1-44 Internet usage among SMEs

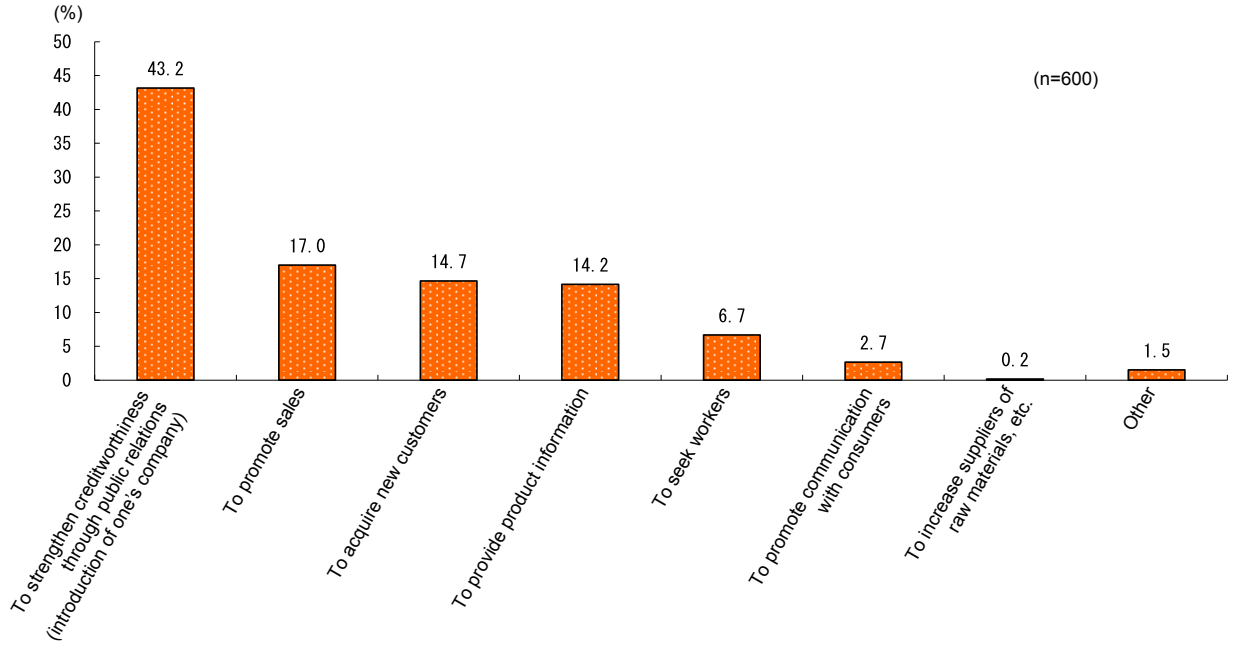


Source: Landbrains Corporation, *Survey of Relationships Between SMEs and their Communities* (December 2014), commissioned by the SME Agency.
Note: This survey targets companies with sales of at least ¥1 billion.

21) Commissioned by the SME Agency and conducted by the Landbrains Corporation in December of 2014, this questionnaire targeted 5,000 SMEs throughout Japan with annual sales of 1 billion or more. The response rate was 15.5%.

Fig. 2-1-45 shows enterprises' purpose in launching websites and what they use them for. The most common purposes given for launching a website among the over 60% of SMEs that have one are "to strengthen creditworthiness through public relations (introduction of one's company)," followed by "to promote sales," "to acquire new customers," and "to provide product information." If we total the responses concerning advertising one's company and products and expanding sales channels, almost 90% of companies use their websites to transmit information or develop sales channels.

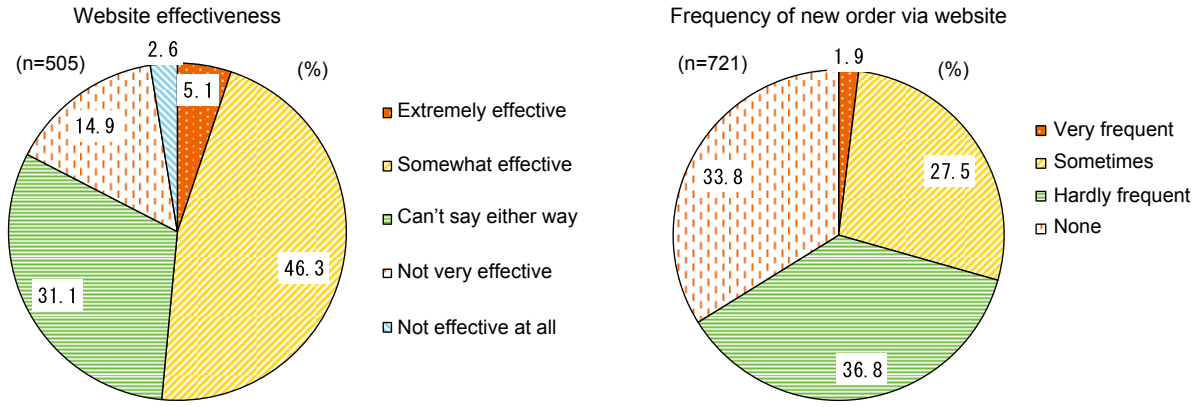
Fig. 2-1-45 Purpose for launching websites



Source: Landbrains Corporation, *Survey of Relationships Between SMEs and their Communities* (December 2014), commissioned by the SME Agency.
Note: This survey targets companies with sales of at least ¥1 billion.

Let us now look at the impact of launching websites. Fig. 2-1-46 looks at the degree to which companies who have launched websites have achieved their purpose in launching their websites. 51.4% of companies responded with either "extremely effective" or "somewhat effective." 48.6% of companies said "can't say either way," "not very effective," or "not effective at all," indicating that half of the companies did not feel they achieved the desired results. Regarding the frequency with which their website resulted in new business, 29.4% of companies responded with either "very frequent" or "sometimes," which shows that at least some enterprises are seeing a connection between websites and new customers. Although it is important to use websites to disseminate information, taking steps to attract visitors' attention is also critical to making these users into new customers. The following discussion presents case studies where enterprises used websites to develop new customers (Case 2-1-7).

Fig. 2-1-46 Website effectiveness and new customer acquisition



Source: Landbrains Corporation, *Survey of Relationships Between SMEs and their Communities* (December 2014), commissioned by the SME Agency.
Note: This survey targets companies with sales of at least ¥1 billion.

Case 2-1-7 Sango Metal Industrial Co., Ltd.

An SME that made the move away from dependence on a larger company through sales initiatives using IT

Moriguchi City and Kadoma City in Osaka Prefecture are known as Panasonic company towns. Sango Metal Industrial Co., Ltd. (employees: 120; capital: ¥26 million) was founded in 1946, and focused on battery-related secondary processing for Panasonic. Up to five or six years ago, the company received repeated orders from Panasonic, but work gradually dried up, and Sango Metal Industrial was left to make its way with its employees pulling together.

Shifting its focus from products (the batteries that it formerly worked on) to technological capability (the ability to realize 0.2mm welds), the company transformed its business model. As a result, it was able to expand the scope of its business to incorporate welding for the automotive industry and for social infrastructure projects. At present, Sango Metal Industrial is aiming towards the second establishment as a welding enterprise. It views welding as a way of connecting products with people.

As part of its transformation, the company commenced new sales activities using a website and social media. Today, sales efforts have shifted from a "push" approach to a "pull" approach. Takahito Kojima, Sango Metal Industrial's President, says "Manufacturing companies can become over-confident regarding their technology and the quality of their products, believing that as long as they offer a good product, it will sell, but appropriate communication is essential." The company therefore attempts to lead the users of search portal sites, social media sites, specialist manufacturing sites, overseas magazine sites and other Internet media to its website. The website features "static content" and "dynamic content." Static content refers to unchanging content, such as company information, while dynamic content refers to blogs and similar content. Every month the company holds a meeting with its external partner, a Web specialist, in order to improve its website. They analyze factors such as the type of content that attracts the most hits and the type of search terms that will generate hits, and constant improvement of the site is resulting in an increasing number of visitors.

As a result of these efforts, despite the fact that Sango Metal Industrial is a B to B company, 50% of inquiries from clients are made through the company's website. In fiscal 2014, the company acquired 48 new clients.

The top page of Sango Metal Industrial's website

Company President Takahito Kojima

This case focuses on an enterprise that, faced with the need to develop sales channels amid declining orders from a major business partner, uses its website to improve its ability to disseminate information as part of organizational reform. The enterprise considers its website content as either static or dynamic content, and improves its ability to disseminate information through its website by analyzing things such as access numbers and conducting monthly reviews. These efforts appear to be effective when it comes to using a website to develop sales channels.

Usage of cloud computing

IT can be beneficial to improving productivity, but corporate resources are limited among SMEs and micro-businesses and the costs of procuring all needed servers

and software may be prohibitive for some enterprises. Cloud computing[22] overcomes these corporate resource limitations. In the case below, regional demand-oriented micro businesses deploy cloud computing, which allows them to achieve innovation while improving profitability by making operations more efficient (Case 2-1-8).

Case 2-1-8 3oak Co., Ltd.

The use of cloud computing made it possible for this company to share information and increase the efficiency of its procedures

3oak Co., Ltd. (employees: 8; capital ¥3 million), based in Tokyo's Ota City, is a real estate and housing transaction company. Established in 2000, 3oak is a real estate company which has formed strong connections to its local area. Staff members make the rounds of the company's area of operation collecting property information, enabling them to offer its customers detailed advice.

In the past, most local real estate companies would print out property information on paper and send out information by FAX. Today, however, the number of real estate portal sites being operated by major companies is increasing, and people are able to freely search for properties. Previously, it was advantageous for a real estate company to hold property information itself, but now the structure of supply and demand in real estate has been reversed, and the market environment is also undergoing considerable change.

Against this background, 3oaks began to use a cloud computing service offered by a major IT company in 2009. The company still manages important information (property information, business information, etc.) on its in-house information system, but the use of functions including data management and calendar functions via the cloud has enabled it to share information within the company and to increase the efficiency of its procedures.

Seeking to build relationships of trust with property owners, clients, and other stakeholders, the company also focuses effort on accurate and rapid sharing of information by updating information including rental information in real time. 3oak says that this type of information sharing using IT was not necessary when it was operated by only a few employees, but when the number of staff increased, it became essential. As a result of the use of cloud computing, 3oak has increased the efficiency of its business procedures and boosted its profitability.

Speaking about the use of cloud computing and other IT functions by SMEs, Masanori Shiozawa, 3oak's President, says "The Real Estate Agents' Cooperative of Tokyo, to which we belong, works with a major IT company, and offers its members cloud computing – the environment is being set up to make it easy even for SMEs to use IT. It is difficult for SMEs to match up against major companies by themselves, but if around 20 dynamic companies get together, a range of possibilities become available, including the use of IT."

Making use of cloud computing

The enterprise in the case is recruiting more workers, resulting in an increased need to share information internally. By using cloud computing, they are able to share information with speed and precision. Improved operational efficiency bolsters their profitability, and IT allows them to achieve innovation while improving productivity.

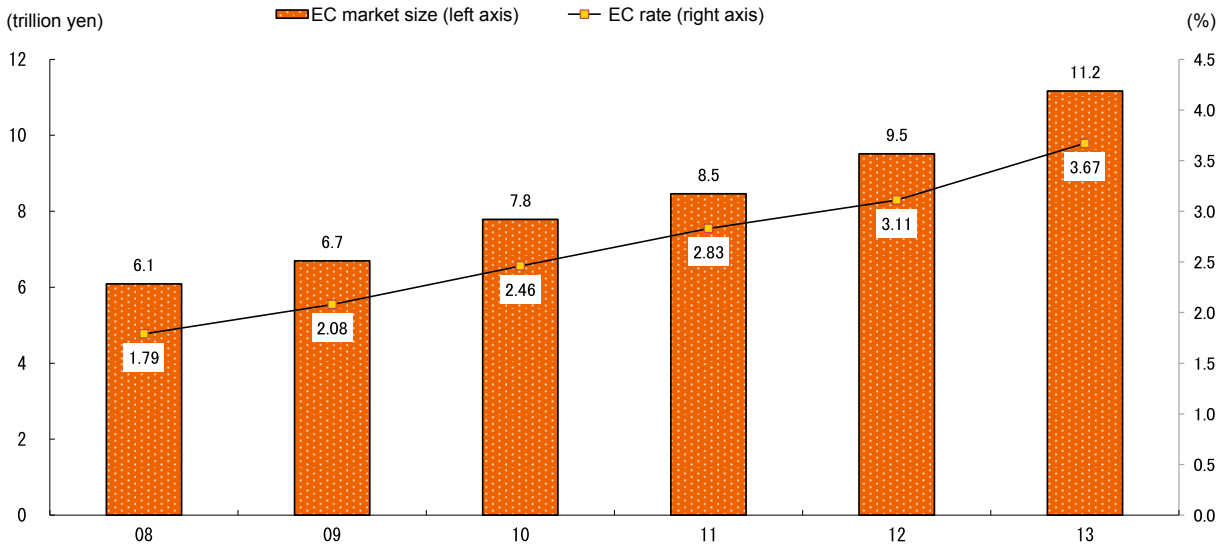
Developing sales channels by using the e-commerce market

The advance of computerization has seen the e-commerce market expand as the role of IT grows in business among companies as well as business between companies and consumers. Fig. 2-1-47 shows changes over time in the size of the e-commerce market targeting individual consumers.

22) Cloud computing refers to shared computer resources (servers, storage, applications, etc.) made available as needed and as appropriate according to users' needs, and is a method of information processing that allows data to be provided over a network.

E-commerce targeting individual consumers was a ¥6.1 trillion market in 2008 and had grown to 11.2 trillion by 2013—nearly 100% growth over five years. Japan is seeing increasing e-commerce ratios and further market growth of the e-commerce market is expected. To further examine the growing e-commerce market, Case 2-1-9 looks at an enterprise that developed sales channels by launching an e-commerce site for foreign consumers, while Case 2-1-10 focuses on a business providing support for SMEs and micro-businesses looking to get into e-commerce.

Fig. 2-1-47 Historical size of the e-commerce market for individual consumers



Source: METI, *2013 Survey of Basic Infrastructure for the Digitization and Creation of Services in the Japanese Economy (E-commerce Market Survey)*.
Notes: 1. EC ratio refers to the proportion of all commerce accounted for by electronic commerce.
2. Market size and EC ratio figures are for the retail trade and service industries.

Case 2-1-9 Navibird, Inc.

An online shop specializing in overseas markets that controls shipping costs by grouping products including Japanese clothes, general goods, and craftworks together for shipping

Every day, large quantities of EMS[23] parcels are carried to Semba Post Office in the center of Osaka from a distribution center located across the street. This is the headquarters of Navibird, Inc., a venture company that is Japan's most intensive annual user of EMS, sending Japanese products to 700,000 users in 120 countries.

Having established an Internet shopping site for the overseas market as an in-house venture business while he was an employee of a major mail order company, Kazuya Yamanaka became independent and carried over the functions of the original site to JSHOPPERS.com, in order to sell fashion items and general goods to women overseas in 2004. Bringing together a number of mail order catalogue companies which sought to enter the overseas mail order market, JSHOPPERS.com offered a one-stop shopping service for the companies' products. The site was available in languages including Japanese, English and Chinese, and marketed popular Japanese items to overseas consumers. At the time, Internet shopping was in its infancy, and online credit card payment was not widespread. When the company first became independent, it experienced difficult periods when it was necessary to expend a great deal of funds on promotions, but a capital and business alliance with a major mail order company made its operations smoother, and the company's sales steadily increased.

However, in 2011, JSHOPPERS.com parted ways with its investor, and relaunched itself as an independent Internet shopping site. Because the EC site business which had previously represented 70% of its total sales was split up, the company's previous sales figure of ¥900 million shrank to ¥300 million.

Mr. Yamanaka focused his efforts on new initiatives to enable the company to overcome its difficulties. First, based on a personal interest in traditional Japanese craft products, he launched JCRAFTS.com as a separate site in 2012. In 2013, he launched Tenso JAPAN, a site which forwards products to overseas destinations from Japanese shopping sites that do not offer overseas shipping. Sales gradually increased, and profits recovered. The company also entered into partnerships with companies in different industries. In 2014, for example, Navibird entered into a collaboration with JR West Japan, and opened JAPAN SQUARE, a business that sends foodstuffs and craft products, mainly originating in West Japan, to customers throughout the world, together with information on the West Japan region. These efforts bore fruit, and today the company handles a wide-ranging product lineup that spans fashion, foodstuffs and craft products.

80% of the customers using the fashion-focused site JSHOPPERS.com were women in their 20s to 30s, and the most active regions were Asia, North America and Australia. With the opening of JCRAFTS.com and JAPAN SQUARE, the company expanded its sales zone and acquired new customers; the customer age range expanded to five years old and upwards, an equal ratio of male and female shoppers used the sites, and European sales increased. In addition to using Facebook and other SNS services, the company has also been successful in promotions using local newspapers and magazines and portal sites. In fiscal 2014, it realized sales of ¥1.2 billion, and ordinary profits are tending to increase in tandem with sales.

Navibird's strength lies in its ability to control shipping costs by grouping diverse products together in shipments. In addition, manufacturers and sales companies are able to sell their products overseas by simply wholesaling to the company, without the need for troublesome export procedures. The operation of a business model that offers merits to both sellers and buyers is one secret of Navibird's success in opening up new sales channels.

One of the company's sites targeting overseas customers

23) EMS is a rapid international mail service.

Case 2-1-10 OPENLOGI Inc.

A company which supports outsourcing of logistics procedures for SMEs and sole-proprietor businesses

OPENLOGI Inc. (employees: 5; capital: ¥65 million), based in Tokyo's Toshima City, is a company which supports other companies in outsourcing logistics procedures. Against the background of continuing growth in the market in electronic transactions, the company is developing its business with SMEs and micro businesses as its main business targets.

Most SMEs and micro businesses conduct all procedures from wrapping to dispatching products themselves; OPENLOGI takes over these procedures for such companies. When using the services of large logistics companies, the process from receiving an estimate to establishing a contract takes time, and the fee structure is complex. OPENLOGI offers an easy-to-understand fee structure. By making use of the company's services, SMEs and micro businesses can reduce the burden of logistics procedures, enabling them to focus on product and service development, marketing, purchasing, and sales.

OPENLOGI's development of a warehouse management system (WMS) enabling it to centrally manage all procedures from delivery of products to the warehouse through storage to dispatch from the warehouse played a significant part in the company's ability to offer this service. The creation of this system relied on company President Hidetsugu Ito's experience in logistics procedures and expertise in system operation, gained from his previous role in facilitating electronic transactions in the publishing industry. OPENLOGI does not possess its own warehouse, but rather uses IT systems to match its customers' needs with unused spaces such as empty warehouses belonging to other companies. This enables OPENLOGI to realize a highly reliable service with low fees.

At present, OPENLOGI mainly uses standard warehouses, and focuses on articles such as catalogues, apparel, and accessories, but it is examining the potential for provision of services using refrigerated warehouses in the future. Businesses in Japan are also conducting more individual shipments overseas these days, and the company is therefore strengthening its role in acting as an agent for the associated procedures.

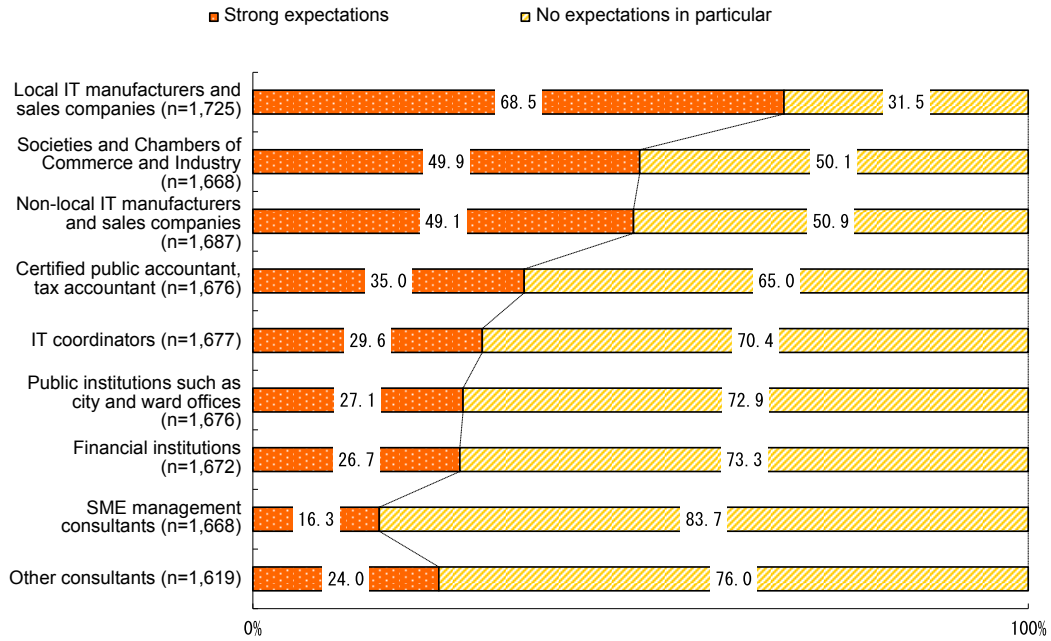
Mr. Ito says emphatically "As the name of our company indicates, our mission is to open logistics up, creating a society in which the flow of goods is optimized to the distribution channels of a new era. We are challenging ourselves to change the opaque image of logistics and resolve problems that no-one else has been able to resolve."

Image of flow of OPENLOGI's services

In the Navibird Inc. case, the company discovered business opportunities in the worldwide e-commerce market and succeeded in developing sales channels by building a platform that brings benefits to both the seller and buyer of a product. In the OPENLOGI Inc. case, the company solves its problems by subcontracting everything from packing—a bottleneck to e-commerce market entry for SMEs and micro-businesses—to shipping. By using these services, companies can develop sales channels in other regions for high added-value products currently only marketed to specific regions. These cases illustrate the likelihood that support to allow SMEs and micro-businesses to use IT will become increasingly important.

Fig. 2-1-48 focuses on the outside specialists and specialized organizations that SMEs and micro-businesses look to when deploying IT, showing that the highest percentage of companies look to "local IT manufacturers and sales companies." This suggests that companies with a dearth of expertise or human resources needed to deploy IT are looking for robust support from local IT vendors.

Fig. 2-1-48 Specialists and specialized organizations enterprises look to when deploying IT



Source: Information-technology Promotion Agency (IPA), *Survey of Actual Conditions Concerning IT Usage among SMEs, 2012*.

Ventures into new markets using IT

The discussion so far has focused on cases involving enterprises developing sales channels for existing products using IT, and we have seen that there are SMEs and micro-businesses using IT to create new services and achieve innovation. The following discussion will examine cases where enterprises have succeeded in creating new markets largely due to their use of IT (Case 2-1-11 and Case 2-1-12).

Case 2-1-11 Space Market, Inc.

With a focus on C to C services that link the demand side and the supply side, this company has been successful in establishing a business using empty rental spaces

Space Market, Inc. (employees: 12; capital: ¥63,826,900), based in Tokyo's Shinjuku City, is a company which provides a service that matches the needs of customers who wish to make temporary use of a rental space (the demand side), and the owners of empty spaces, who wish to use those spaces effectively (the supply side). The company's website offers all the information that potential renters require, from the fitting and facilities offered by rental spaces to permitted activities, and also offers online messaging between the owners of spaces and users and online payment. The convenience offered by this ability to complete all procedures via the website is one of the company's strengths.

The sharing of property between users by means of the type of C to C[24] service offered by Space Market is known as a sharing economy. Looking at cases of success overseas, Daisuke Shigematsu, the company's President, had confidence that the trend towards the sharing economy would also reach Japan. In a previous job, Mr. Shigematsu had handled PR duties for a major electronic communications business; in the job he held immediately before founding his company, he had conducted sales visits to facilities such as wedding centers. These experiences made him realize that there were diverse spaces that were not being used effectively at specific times of the day, and also that employees attempting to organize spaces for PR events and meetings experienced considerable difficulties, convincing him to launch his business.

24) C to C is short for "Consumer to Consumer."

Today, Space Market's website features many spaces that differ from conventional conference rooms, including eating and drinking establishments, houses and temples. The users of these spaces post photographs on social media sites, presenting information with a strong visual impact in various forums, which has a significant effect on increasing use of the service. In addition, the accumulation of information on the Internet increases the visibility of the service, and viewing this information increases users' desire to make use of the spaces. This creates a virtuous cycle, giving the owners of spaces an incentive to improve the services that they offer.

With regard to the fact that his company offers unconventional spaces, Mr. Shigematsu says "When someone is organizing an event, just making the space or the food different to the usual will change the mood of the participants, produce good reactions in the media, and generate excitement. By providing unique rental spaces, we are trying to create new connections between people."

Market creation based on a sharing economy of the type that we have discussed in this example is something that has been enabled by the widespread use of the Internet, and we can expect to see similar examples of the opening up of new markets into the future.

An application development brainstorming session, with participants staying in a traditional Japanese-style house in Kamakura

Case 2-1-12 Jimoty, Inc.

A venture company facilitating C to C business in a new way

Jimoty, Inc., based in Tokyo's Shibuya City, is an IT venture company established in 2011. Jimoty was responsible for launching Japan's first classified site, and is attracting attention as a company which is demonstrating new possibilities for businesses that facilitate C to C transactions.

Classified sites are websites which function as message boards, gathering together messages classified by region and purpose. The main users of these sites are individuals, and anyone can easily place an advertisement on them. Because of this, they are widely used throughout the world, particularly in the U.S. Craigslist, the biggest classified site in the U.S., is said to receive three billion views per month, and with constant sales of goods between individuals, offers the feeling of a flea market or a garage sale.

However, when Jimoty first started its business, there was very little awareness of classified sites in Japan, and the company experienced considerable difficulty in launching its website. There was a period during which the site's founder was forced to visit flea markets and explain his new project to stall holders individually in order to secure users for the site. Happily, numerous investors saw the future potential of the project, and the company did not have to face the difficulty in procuring funding that so readily besets venture companies. Jimoty's classified site now receives more than four million visits per month.

The website has begun to be actively used as a local noticeboard, and offers of furniture, household appliances and other unwanted items for free or at very low prices to people in the local area when residents move house are becoming a staple. Because face-to-face transaction is the basic transaction type on Jimoty, its users experience a feeling of security. In facilitating the flow of goods from person to person, Jimoty is contributing to the reduction of waste and of the social cost of recycling, and this is another aspect of the website's effect that is attracting attention.

In addition, Jimoty does not focus exclusively on the exchange of goods, but is also used to provide notification of local events or to enable people to get opinions on matters that are troubling them, and therefore has the potential to grow as a form of infrastructure facilitating all types of communication between people in its local area.

Jimoty's website

In these two cases, matching the product and service suppliers to the receivers is the crux of the business. These illustrate that, in order to satisfy increasingly diverse consumer needs, it is important to conduct this kind of matching by using IT to collect information. Moreover, as these markets are developing rapidly as a result of increased computerization, business management that emphasizes speed in responding to these markets is key. Being able to nimbly decide on matters is a strength of SMEs and micro-businesses and places these enterprises in the position of being able to lead the market.

[2] Achieving innovation and developing sales channels by collaborating with other enterprises

In the paragraphs above, we discussed methods among SMEs and micro-businesses for using IT to improve productivity and expand sales channels as an element that complements limited corporate resources. Section 1 examines the importance of creating planning and development departments, generating ideas for innovation, and establishing organizational functions that give shape to these ideas as steps important to achieving successful innovation activities. However, not all SMEs and micro-businesses are able to use such functions to compensate for a lack of resources. Such enterprises must therefore work with other enterprises to make up for a lack of these functions. The following discussion will look at enterprises' efforts to achieve innovation and develop sales channels by collaborating with others.

Collaboration that leverage the respective strengths of the manufacturing and non-manufacturing industries

Through collaboration among enterprises in the manufacturing and non-manufacturing industries and by leveraging the respective strengths of their manufacturing and sales functions, enterprises can achieve innovation and develop sales channels. Below, we look at a case involving collaboration between an SMM and a medium-sized trading company (Case 2-1-13).

Case 2-1-13 Uchimura Co., Ltd.

A medium-sized enterprise which opened up markets in Southeast Asia based on strong teamwork with a local SME

Uchimura Co., Ltd. (employees: 90; capital: ¥96 million), based in Itachibori, in Osaka's Nishi Ward, is a medium-sized company established 70 years ago. Since its foundation in 1939 as a trading company specializing in rubbers for industrial applications, seeking to offer products meeting the demands of its customers, the company has actively pursued overseas expansion[25] and at the same time has made efforts to strengthen its technical divisions, branching out into areas including the manufacture of metal fittings for high-pressure hoses. Today, Uchimura's business covers a broad range of areas, from various types of industrial manufacturing (parts for construction machinery and industrial machinery, including high-pressure hoses), through the proposal of international logistics solutions, to marketing in the areas of environmental protection and resource recycling.

One of the company's ventures in the environmental field which has recently attracted attention is its opening up of markets in Southeast Asia for wedge wire screens, a wastewater treatment product manufactured by Toyo Screen Kogyo Co., Ltd. (employees: 70; capital: ¥20 million), a company based in Ikaruga-machi in Nara Prefecture.

Toyo Screen Kogyo manufactures screens used in sorting processes, and is able to produce screens with slit widths of five micrometers and upwards. The company can manufacture products of superb quality individually in response to factors including the size of the solids being separated and water quality. However, the company had not previously conducted direct sales activities in Southeast Asia. Similar products are already being marketed throughout the world, but in many cases it is necessary to modify specifications in response to users' needs, making this a niche market in which it can be difficult for major companies to realize profits.

Uchimura already possessed subsidiaries in Southeast Asia acting as bases for sales of parts to major construction machinery manufacturers, and the company began to make efforts to open up sales channels for Toyo Screen Kogyo's products using these bases. Uchimura engaged in strong teamwork with Toyo

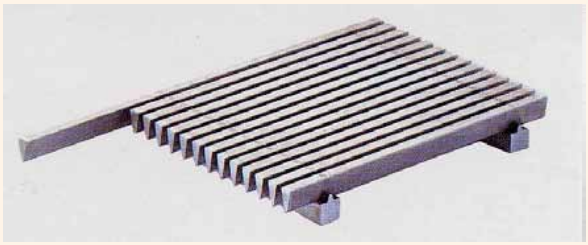
25) As of the end of February 2015, the company had nine bases in seven countries, chiefly in the Asian region.

Screen, making optimal use of its Southeast Asian subsidiaries while succeeding in reducing costs by having the frame sections of the products manufactured in the region, enabling it to compete with other manufacturers in terms of price, and opening up sales channels in countries including Thailand, Indonesia and Viet Nam.

The company also made active use of support measures implemented by the Ministry of Economy, Trade and Industry and the Japan External Trade Organization (JETRO), increasing its name recognition in Asian countries by exhibiting for several years in environment-related trade fairs. Increased sales also brought attention from major engineering firms, and this resulted in later expansion of sales.

As we have seen, behind Toyo Screen Kogyo's success in opening up new overseas sales channels lies carefully considered support, based on a policy of offering the customer the products they need. Building solid relationships of trust with customers, Uchimura engaged in rapid follow-up via exhibitions and other forms of publicity, screened business opportunities appropriately, and pursued on-target negotiations with an understanding of the business practices of the specific country concerned.

This example of strong teamwork between an SME possessing technological capability and a medium-sized company in order to open up overseas markets is well-known where the two companies come from as the "Uchimura-Toyo Model." As environmental awareness increases in Southeast Asia, we can expect further success stories involving the use of teamwork in order to reach out from West Japan to the rest of Asia.



A wedge wire screen manufactured by Toyo Screen Kogyo

Uchimura (Thailand) Co., Ltd., Uchimura's Thai subsidiary

Toyo Screen Kogyo's Ultra-TN Screen
(A diagonally-positioned apparatus using a wedge wire screen for the separation of solids and liquids)

This case illustrates how a medium-sized trading company focused on a niche market that would be unprofitable for a large company is able to succeed in developing sales channels by working with a technologically-capable SMM to make the necessary changes to the production process for its products. Rather than improving the products themselves, the enterprise transfers a portion of its production process overseas—something unachievable if not for the enterprise's collaboration with a trading company that had an overseas production site. Cases like this, where a medium-sized trading company with expertise in developing overseas sales channels collaborates with a technologically-proficient SMM to leverage their respective strengths, illustrates the viability of even SMEs and micro-businesses developing sales channels on the level of large enterprises.

Strengthened coordination through the sharing of SMEs' and micro-businesses' most significant characteristics

This paper has so far looked at instances of collaboration among SMEs and micro-businesses. Given the importance of deepening mutual understanding among enterprises looking to collaborate, the following discussion looks at an enterprise that achieves innovation by strengthening collaboration with others, developing new products, and cultivating human resources by creating a video that makes a story out of its company's ideals (Case 2-1-14).

Case 2-1-14 Osakachaos Co., Ltd.

Communicating companies' stories through film and promoting inter-company cooperation

Osakachaos Co., Ltd. (employees: 6; capital: ¥1.9 million), based in Osaka, works to facilitate cooperation between SMEs and micro businesses in Higashi-Osaka City. Feeling that "Manufacturing (*monozukuri*) companies only ever talk about their manufacturing performance," but that it would be better for them to make an impression on their customers by turning their stories (*monogatari*) into films and communicating the feelings of the people doing the manufacturing, Yasuo Izumi, the President of Shin-Nihon Tech Inc. (an Osaka-based company), reached out to the managers of SMEs in Higashi Osaka, and founded Osakachaos in 2010. The use of the word "chaos" in the company's name offers an image of the vital energy of the participating companies, and indicates the intention of each individual involved to create something new.

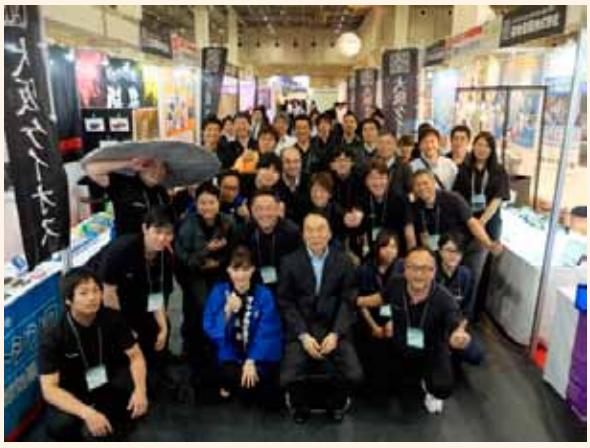
The films that the company creates are produced by Ryuji Enokida, a Representative Partner in the limited liability company Earth Voice Project (based in Kamakura, Kanagawa Prefecture). These films do not only introduce the products of the companies that they deal with, but also create a story from individual aspects of the company – the President's thoughts, the atmosphere of the workplace, etc. – generating an impact on their viewers.

Having commenced its activities with the production of these filmed "stories," Osakachaos has developed as a forum for the promotion of inter-company cooperation in areas including the hiring and training of human resources, the joint acceptance of orders, and the development of products. For example, the companies participating in Osakachaos each hire between one and five new graduates per year, but at this scale it is difficult to conduct effective training of personnel. The participating companies therefore all join together in conducting training for prospective employees and new hires. Training based on cooperation between companies not only allows efficient cultivation of personnel, but also creates bonds between the trainees that transcend company boundaries, and these horizontal bonds lead to connections between the companies. This initiative has also increased recognition of the companies, attracting more applicants at the hiring stage, which is increasing diversity.

The project is also proceeding with joint product development between participants. In one project, a software developer based in Hyogo Prefecture was engaged in the development of a device that would scan bread and read its price, and the design of the product was handled by companies participating in Osakachaos. Normally, it takes a great deal of time to move from design to the manufacture of a prototype, but in this case cooperative efforts enabled the prototype to be created extremely quickly. The increased recognition generated by the films that each participating company has placed on the Osakachaos website and the fact that they have pushed ahead with inter-company cooperation via the company's initiatives played a significant role in attracting this type of opportunity for the joint development of new products to the group.

Mr. Izumi says "When a group of companies each brings its particular specialty to the table and forms a team, the team is able to take on new jobs that are outside the strike zones of the individual companies. Contributing to new jobs is our way of life."

The rendering of companies' thoughts in film and the sharing of these stories between companies has been an essential factor in promoting cooperation between the companies.



Osakachaos participating in a trade exhibition

Examples of films telling the stories of participating companies

This case illustrates the efforts of an enterprise to convey through video the qualitative elements of its business, including its president's ambitions and workplace atmosphere, some of the most significant characteristics of SMEs and micro-businesses. Through these efforts, the enterprise enhances its name awareness and, by sharing these ideals among its partners, strengthens inter-enterprise solidarity and succeeds with new initiatives such as developing human resources and jointly developing products. Cases such as this suggest that an important part of collaborating with other enterprises is sharing corporate values and other qualitative elements while deepening personal relations.

[3] Utilizing design and brand

Utilizing design

To achieve innovation, while it is important to improve the added value of products and services, it is critical that enterprises take strategic approaches to the design and brand of their products and services. A product or service's design and brand constitute that product or service's image and help determine how that product or service is received by the customer. However, it is difficult for an SME or micro-business to create such a design or brand on its own with limited corporate resources. For SMEs and micro-businesses to enhance design or brand appeal, they need to work with others.

The below looks at two cases: Case 2-1-15 involves a project focused on design and run by Higashi-Osaka City, and Case 2-1-16 looks at an enterprise developing products with a strong dedication to design and brand concept.

Case 2-1-15 Higashi-Osaka City

Increasing the value of design resources through global industrial design

Higashi-Osaka City, located in the east of Osaka Prefecture, is known throughout Japan as a manufacturing town. It boasts Japan's highest concentration of factories[26], and is a major area of concentration of SMEs. 90% of the manufacturing businesses in Higashi-Osaka City are micro businesses with no more than 20 employees, and companies that possess a specific technical specialty that represents part of the bedrock for product manufacture are clustered in the area. Because there are very few major corporations in Higashi-Osaka City and around 90% of the companies based there are not affiliated companies, the companies link up their specialized technical capabilities in order to manufacture products. Horizontal business alliances are so common in the area that new terms have been coined to describe them.

Today, the rise of the emerging nations is increasing the stringency of the environment for Japan's manufacturing industry, and it is becoming difficult for SMEs, the companies which support manufacturing in Japan, to compete based on their technological capacity. The companies in Higashi-Osaka City took this situation into consideration, and decided to make the transition away from the subcontracting model. Seeking to make the maximum use of their technological capacity, the companies focused on their resources in terms of design, and created the Higashi-Osaka Design Project in order to develop highly unique, high value-added products. To ensure a fusion of design and technological capacity, Toshiyuki Kita, a global industrial designer, was appointed Higashi-Osaka City's Creative Advisor, with his roles including instructing companies in the city regarding the importance of design.

One concrete effort of the Higashi-Osaka Design Project has been the holding of seminars. At these seminars, Mr. Kita discusses subjects including trends in design in countries around the world and the effect of increasing the focus on design. Companies also bring actual products to the seminars in order to receive advice from Mr. Kita. The advice offered is published, making it possible for other companies to share its details. By means of this initiative, Higashi-Osaka City is advancing a process of preparing the ground to provide opportunities for companies in the area to develop designs. Some of the products developed in the project have enabled companies to open markets overseas.

The range of cookpots developed by Ohshin Co., Ltd. (employees: 15; capital: ¥8 million) can be used for either gas or IH cooking, incorporate a new concept in which the heat-conducting plate and the pot

26) According to the 2012 Economic Census for Business Activity conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry. Number of manufacturing companies per square kilometer of usable land. Aggregate of city districts, towns and villages in which there are 4,000 or more factories.

are separated, and feature a functional design that suits the contemporary table. To enable the pots to be used throughout the world, they enable steaming, boiling, stewing and frying. The pots were featured in Mr. Kita's booth in an exhibition in Paris in 2010. Their sale in France commenced in February 2011, and the market is steadily expanding. With the development of these products providing a hint, the company has now commenced the development of new products.

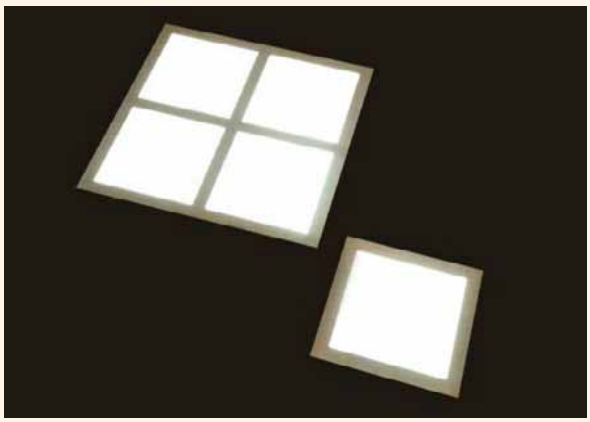
UCON Co., Ltd. (employees: 4; capital: ¥10 million) developed flat lighting that exploited the characteristics of LEDs. These lights were used in surface-emitting panels. Following Mr. Kita's advice, the light sources were sandwiched between sheets of Japanese paper, creating a sophisticated design feeling in the spaces in which they are used. The lights can also be used on the ceiling to illuminate entire spaces or as wall illumination, and have now found use in major department stores and similar applications.

The bendable lock and bendable hook developed by Nihon Kasen Co., Ltd. (employees: 20; capital: ¥10 million) were not changed, but value was added to the products via their packaging. The packaging design highlighted an application that had previously not been given attention to, the fact that the ability to bend the products in any direction enables them to be used as emergency supplies. The products were picked up by the media and sales channels through major general goods and other stores have increased, boosting the company's profits.

Part of the project also involves matching design firms with manufacturing companies. Designers and companies are not working together one on one, but rather design companies within Higashi-Osaka City are cooperating with multiple SMEs in the area in activities to launch a new Higashi-Osaka brand. By means of this project, Higashi-Osaka City is working to further increase its leading standing as a manufacturing area.

The cookpots developed by Ohshin

IH heating units



LED panel lighting developed by UCON

The bendable lock and bendable hook developed by Nihon Kasen

Case 2-1-16 VELDT Inc.

An example of the development of beautifully designed products based on well-defined concepts through collaboration with design engineers

VELDT Inc. (employees: 1; capital: ¥76.5 million), based in Tokyo's Setagaya City, is a company that develops, manufactures and markets wearable products in the form of watches. Established in 2012, the company develops wearable products that fuse Japan's most advanced manufacturing technologies and highly developed skills, and it has attracted attention as a company representing Japan to the world.

Wearable products are digital products that take a variety of forms, including wristbands, glasses and rings, but VELDT has focused on watch-shaped devices as offering a more natural way for users to check the information they desire. The company has respected its users and given due consideration to ensuring that its products do not result in any invasion of privacy, for example by incorporating camera functions. While it would be technologically possible for the devices to function as cameras, the company takes the choice not to do so seriously. This strict limitation of functions to the absolutely necessary means that the designs of VELDT's products are simpler and more refined than those of other wearable products.

To enable it to develop well-designed products based on unique concepts with a clear brand identity, VELDT collaborates with design engineers[27]. The companies that it selects as collaborators are collectives of engineers which consider the realization of a balance between design and technology, fashion and function, and are able to go beyond the frameworks of existing concepts. By means of strategic collaborations, VELDT is able to solidify the product concept and also make the concrete shape and design of the product coherent. For example, the company's logo is a hexagonal arabesque design intended to symbolize its nature as a company which connects past and future, person and person, and object and idea. In order to reflect this concept, the dials of the company's products are also hexagonal. VELDT believes that the use of design engineers, who have a detailed knowledge of both engineering and design, is extremely important in embodying this type of abstract concept in a product.

Jin Nonogami, the company's CEO, casually picks up one of his company's watch-shaped wearable devices, and expresses misgivings concerning our mode of interacting with technology in modern society: "My company is not focused on technology in itself, but considers how we interact with technology. As we become saturated with technology, what we need are products that make us aware. Mobile telephones and smartphones offer tremendous convenience, but these days everywhere you go, everyone is staring at a screen. On the trains, people don't even realize that they are sitting while elderly people are standing. In losing fortuity and new realizations, I think that we are forgetting something important." The desire to improve this situation is incorporated in the products that VELDT develops.

A watch-shaped wearable device

Establishing a brand

As enterprises focus on design and sustainably hammer out concepts, such concepts become the foundation of the company and brands are established. Below, we look at Case 2-1-17, where an enterprise with low name awareness creates a brand in the long-established cutlery manufacturing industry. We will also look at Case 2-1-18 and an enterprise which, upon seeing the potential for new business by way of a new product using Japanese paper, succeeds at expanding overseas by establishing a brand through collaboration with an industrial designer.

In order to give added value to these kinds of products and services that utilize design and brand power, the Ministry of Economy, Trade and Industry is adding technologies concerning design development to its specific core manufacturing technologies while revising the content of its Guideline for Enhancing Specific Core Manufacturing Technologies. These initiatives allow enterprises that engage in technology development related to improving design or creating a brand to receive authorization for their specified research and development plans. This allows them to receive a range of support, including designation as a Strategic Core Technology Enhancement Project and low interest loans from government-affiliated financial institutions.

By utilizing such support, SMEs and micro-businesses with strengths in a particular domain can develop the capacity to comprehensively engage in product design,

27) Design engineer here refers to a design professional with skills as both a designer and an engineer.

including conducting market analyses and acquiring intellectual property rights, and establish a presence in the market[28].

Case 2-1-17 Ono Kanamono Associaton (Banshu Hamono)

Young designers create a brand to bring a 250-year tradition of blade manufacture to the world

The south-western part of Hyogo Prefecture, where Ono City is located, is known as Banshu. This area commenced the manufacture of blades and sharp tools around 250 years ago. However, despite being home to a craft and a history worthy of pride, awareness of the kitchen knives produced in Ono City was low, and it faced competition from cheap overseas products and the aging of its craftspeople. As a result, the value of product shipments from the city had dropped to around half of their level of 50 years previously.

Recognizing that the regional industry could not survive in this situation, and desiring to increase awareness of the quality of its traditional handicrafts, the young members of the Ono Kanamono Associaton led an initiative to bring together previously dispersed cutler's forges, and create the Banshu Hamono brand. In June 2013, the brand's products were exhibited in the international trade fair Interior Lifestyle. The products attracted the attention of domestic and international media outlets, in addition to a company that acts as an intermediary for distribution in France, and the products were exhibited during Paris Design Week in September 2013.

Markets for Banshu Hamono continued to expand following this. Traditional tools such as bonsai scissors were prized as embodying Japaneseness, and began to be sold in select shops in Paris and Berlin. Internet shopping sites in Singapore and general goods and stationery stores in New York also began to carry the products. Purchasers prized the cutting ability and ease of sharpening that is only available from hand-worked tools produced by craftspeople.

In addition to the fact that the region came together to work towards overseas expansion of the market for its products, a focus on design and branding was indispensable to the success enjoyed by Banshu Hamono. Shinya Kobayashi, a Representative Member of Design Studio Coelacanth Shokudo, a limited liability company which operates a local design business, was responsible for the brand design. A central figure in the Banshu Hamono project, Mr. Kobayashi designed leaflets that effectively communicated the brand image and the quality of the products, and promoted the expansion of overseas markets by means of flying visits around the world. Then, in February 2014, Mr. Kobayashi joined with the Tokyo-based designer Shizuka Tatsuno to create the beautifully-designed Banshu Hamono 101 Series, which added color to the traditional products. "101" meant that the new colors were an addition of 1% to a perfected tradition, and would be the beginning of a new history.

Mr. Kobayashi also held discussions with professionals in industries that use scissors, including dressmakers, hair stylists and landscape gardeners, and paid attention to the needs of users. New designs were created based on these needs, which were then produced in the local forges, resulting in improved products. This type of close communication and low-key work towards product improvement was possible precisely because the company was an SME. In this case these initiatives resulted in the evolution of blades and tools possessing a long tradition into attractive products that meet the needs of the modern market. At the same time, discussions with professional in various industries also effectively functioned as PR for Banshu Hamono in those industries.

The motive force for these initiatives was provided by Mr. Kobayashi's strong desire to use what he had learned in his university art studies to invigorate local industry and resolve the problems of the region for the next generation. This presents an excellent example of the passion and energy of a young designer creating a previously unknown sense of cohesion in a manufacturing region, resulting in the creation of new markets overseas.

Products of Banshu Hamono

The Banshu Hamono booth at a trade exhibition

28) For more information about Specific Core Manufacturing Technologies, please see Column 2-1-4 below.

Case 2-1-18 Onao Co., Ltd. (SIWA)

A maker of Japanese paper that has created a globally popular brand through the development of new materials and collaboration with external designers

Ichikawamisato-cho, a town located in the southwest of Kofu Bonchi in Yamanashi Prefecture, is known as a paper-manufacturing area with a tradition of more than 1,000 years. Onao Co., Ltd. (employees: 50; capital ¥10 million), based in the region, has a long history of the manufacture and marketing of paper for shoji screens, and has more recently attracted attention as a Japanese paper manufacturer which has created new possibilities for the material.

In 2008, the company launched SIWA as a brand to market a variety of goods including bag and wallets manufactured from Naoron, a tear-resistant shoji screen paper developed by the company that can be stitched like cloth or leather. In addition to their elegant designs, these products were extremely well-received due to the characteristics of the material, which has the fine texture only available from paper, is tough but light, and is water-resistant. The products sell well in 18 countries around the world, including Japan.

SIWA's business is very interesting as an example of the promotion of innovation in a traditional industry (in this case Japanese paper manufacture) through the development of a groundbreaking new material; another noteworthy point is the fact that the company has introduced a focus on design and branding via collaboration with an external product designer, thereby generating significant outcomes.

Prominent Yamanashi-born product designer Naoto Fukasawa was responsible for SIWA's brand name and concept, and also handles product design duties for the brand. Focusing on a defect of the material Naoron, the fact that when it became wrinkled it would not return to its pristine state, Mr. Fukasawa re-envisioned this characteristic as an attractive aspect of the material, and the concept of the SIWA brand was born. It is difficult for this type of reversal of perception, which turns a defect into an attractive feature, to originate inside a company, and this can be considered an innovation of a kind that can only be realized through external collaboration.

Mr. Fukasawa also played an important role in fusing SIWA's concept and the related products into a brand identity. Onao exhibited SIWA products in the 2008 Interior Lifestyle Exhibition, and Mr. Fukasawa was deeply involved, down to the smallest details, from designing the booth and organizing the arrangement of the products on display to designing the explanatory materials and handouts. As a result, SIWA's booth possessed a level of professional finish unusual for an SME which was exhibiting a brand for the first time, and attracted a great deal of attention at the exhibition. For SMEs, which do not expend large sums on advertising, securing markets when bringing out a new product can be a difficult issue, but with this exhibition, SIWA not only increased its name recognition, but also acquired a large number of customers in its initial phase of marketing.

As we have seen, the success of Onao and SIWA is the result of the company's development of a new material and its collaboration with an external designer, in addition to the tireless efforts of its staff members to make the most of these opportunities, and as such presents an excellent example of the development of new business and the promotion of innovation by an SME.

SIWA products

Column 2-1-4 About Specific Core Manufacturing Technologies

The Ministry of Economy, Trade and Industry defines Specific Core Manufacturing Technologies as core manufacturing technologies under the Basic Act on the Promotion of Core Manufacturing Technology that are used for a significant portion of an SME and micro-business's business activities. The enhancement of these technologies by SMEs and micro-businesses make considerable contributions to improving Japan's manufacturing industry and international competitiveness, and to creating new businesses.

In connection with revisions to the Japan Revitalization Strategy in June, 2014, the government called for a review of support programs for regional SMEs and micro-businesses, including adding support for design in Specific Core Manufacturing Technologies. In response, "technologies concerning design development" were added to the Specific Core Manufacturing Technologies in February, 2015, and the content of the Guideline for Enhancing Specific Core Manufacturing Technologies was revised.

This guideline defines design development technologies as "comprehensive design technologies that contribute to creating value by achieving new or materially improving existing experiences with a product through that product's aesthetics, value demanded by the user, or the product's use. This includes technologies that not only enhance the product's superiority, but that create an interaction between product and people, and between product and society." Specifically, it refers to (1) the development of technologies to improve aesthetics, including improving a product's form, color, texture, or wearability, achieve optimal structural design, or create aesthetic value or a brand, or (2) the development of technology that account for the user experience and ergonomics and seek to improve usability, achieve safe design, and otherwise contribute to user value and the user experience.

The Minister of Economy, Trade and Industry authorizes specific research and development plans in accordance with the Guideline for Enhancing Specific Core Manufacturing Technologies. SMEs and micro-businesses that receive such authorization are eligible for a range of support measures. Such measures include (1) designation as a strategic core technology enhancement project, (2) reduced patent fees and patent examination fees, (3) low-interest loans from government-affiliated financial institutions, (4) special exemptions to the Small and Medium-Sized Enterprise Credit Insurance Act, and (5) special exemptions to the Small and Medium Business Investment and Consultation Companies Act.

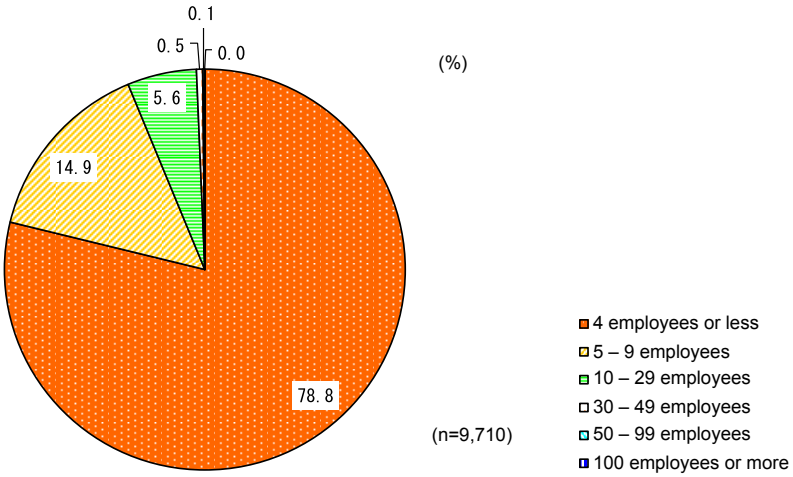
With these support measures, SMEs and micro-businesses with a strength in a single domain such as processing or forming technologies, or the pursuit of aesthetics, can be expected to develop the capacity to comprehensively engage in product design. This includes everything from conducting market research to surveying peripheral technologies and identifying relevant issues, conducting the necessary R&D in various fields, creating prototypes, and acquiring and handling intellectual property rights (patent rights, utility model rights, design rights, trademark rights, copyrights, etc.). Such SMEs and micro businesses should also be able to develop the planning and proposal skills needed to sell the appeal of their products to consumers and downstream businesses, while at the same time establishing a presence in the market and strengthening competitiveness.

Column 2-1-5 Design industry trends

In Japan, the design industry consists of design businesses that are categorized as being engaged in either academic research or specialized technologies and services. According to the *Survey of Selected Service Industries* published by the Ministry of Economy, Trade and Industry, 9,710 business offices are categorized as design businesses. Of these, 9,707 business offices have fewer than 100 workers, meaning that very nearly 100% of such businesses are SMEs and micro-businesses (Fig. Column 2-1-5 (1)). The historical number of workers saw a rapid rise of more than 200% from 11,113 workers in 2003 to 36,220 workers in 2013. Annual sales of ¥332.2 billion represents a more than two-fold increase over 10 years compared to 2003's ¥139.6 billion, indicating that the market is growing (Fig. Column 2-1-5 (2)).

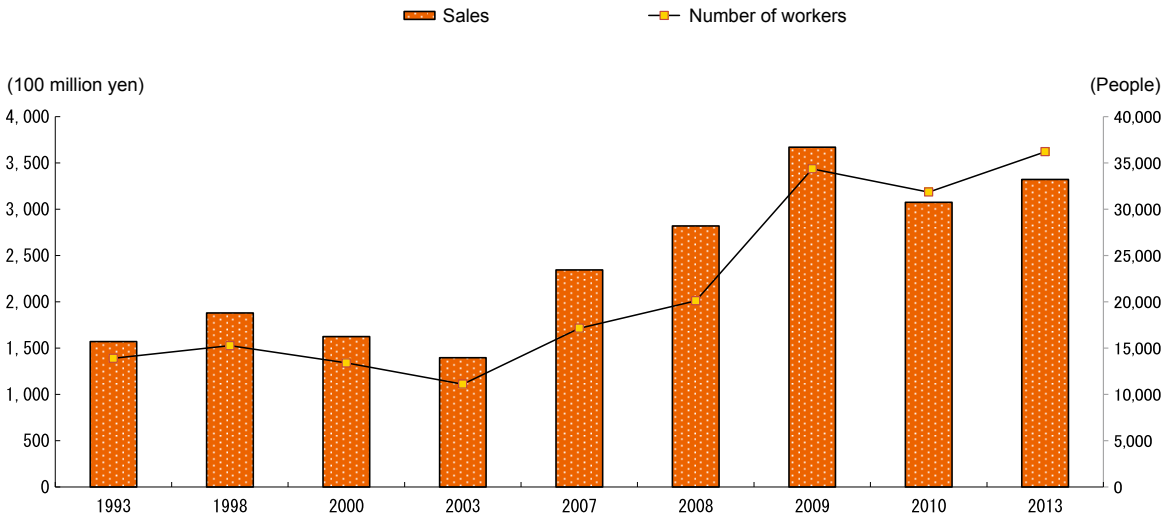
Looking at annual sales broken down by business type, the graphics sector accounted for 46.0% of sales in 2003 but 59.3% in 2013, which shows that needs concerning graphics are on the rise (Fig. Column 2-1-5 (3)). This data would suggest that, among design businesses, graphics-related demand spurred by increasing computerization is driving growth and expanding the market. Of note here is that the *Survey of Selected Service Industries* targets businesses whose main operations involve design business and does not look at in-house designers in the manufacturing industry. If workers engaged in design work as part of in-house operations were included, the design industry would likely show an even larger growth trend.

Fig. Column 2-1-5 (1) Percentage of business offices engaged in design business, by number of workers



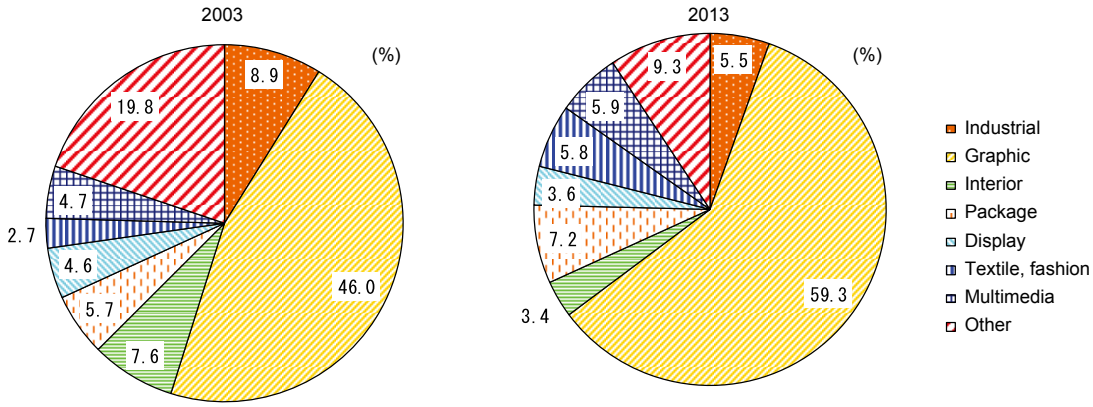
Source: METI, *Survey of Selected Service Industries*.

Fig. Column 2-1-5 (2) Design business sales and worker numbers



Source: METI, *Survey of Selected Service Industries*.
Note: Number of workers here refers to design business workers engaged in design operations

Fig. Column 2-1-5 (3) Design operation percentages, by operation type



Source: METI, *Survey of Selected Service Industries*.
Note: The 2013 breakdown includes calculations of annual sales for businesses with 5 or more workers, segmented by business type.

Summary

This chapter has examined the state of initiatives aimed at achieving innovation and developing sales channels among SMEs and micro-businesses, as well as the problems encountered in the process. Concerning innovation, analyses looked at situations in terms of innovation type and demand orientation (wide-area or regional demand orientation), and touched on the potential for innovation to expand profitability among regional demand-oriented enterprises.

We have also seen that efforts focused on satisfying market needs are important to promote innovation at SMEs and micro-businesses. Moreover, in looking at organizational forms, we now know that it is useful to have planning, development, and other such specialized departments, and micro businesses have to contend with a "micro business wall" regarding establishing such departments.

Regarding developing sales channels, we divided targets of market cultivation into existing markets and new markets and analyzed the status of market research efforts and degree to which sales targets are achieved. As for problems encountered in cultivating markets, it became clear that, regardless of whether enterprises are targeting new or existing markets, businesses are dealing with data collection and other marketing problems and do not have sufficient human resources for market cultivation.

In light of these analyses, we examined case studies to explore initiatives to achieve innovation and develop sales channels through the use of IT as well as through inter-enterprise collaboration and by leveraging design and brands. Even SMEs and micro-businesses with limited corporate resources have ample opportunity for boosting profitability by following through on these initiatives while achieving innovation and developing sales channels. Changes to the socioeconomic structure of Japan are continuing to create business challenges for the country's SMEs and micro-businesses. As such, achieving innovation and developing sales channels in light of market needs will no doubt be a key to these enterprises' further growth. This chapter raised the issue of insufficient human resources at SMEs and micro-businesses, and successive chapters will take a closer look at human resource-related issues and policies for solving them.

Chapter 2

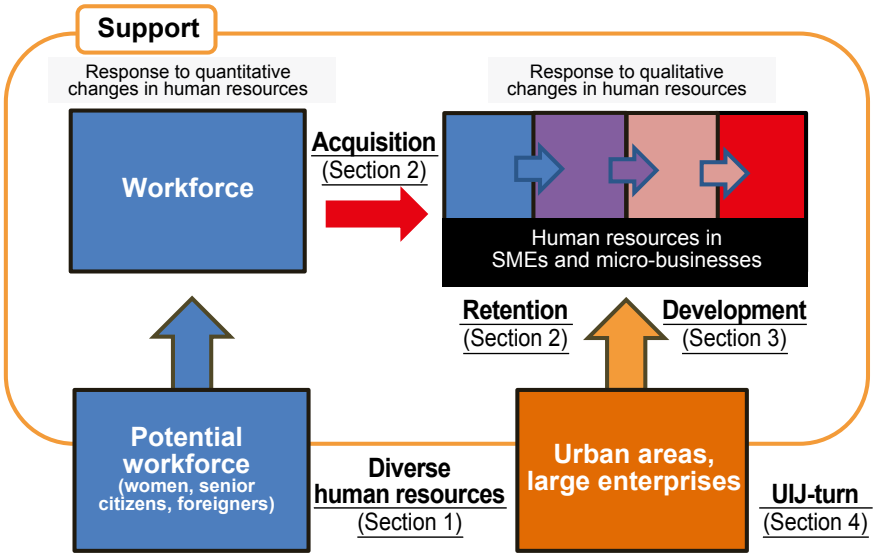
Acquiring and developing human resources at SMEs and micro-businesses

Part I discussed how the working age population in Japan is declining due to changes in Japan's economic and social structures, especially the growing number of elderly and declining birth rate. Owing to increasing demand for labor as the economy recovers, as well as employment mismatches and other such factors, the feeling among SMEs and micro-businesses that human resources are insufficient has intensified in recent years. As we saw in Part II, Chapter 1, changes that include those concerning the industrial structure surrounding SMEs and micro-businesses are to seek out a wider range of human resources to handle the need to manage and operate their businesses with more independence. Nevertheless, there are many SMEs and micro-businesses that are limited in terms of recruiting methods and expertise, as well as skill in transmitting information. As this feeling that human resources are insufficient intensifies, such enterprises are unable to satisfy human resource needs in terms of both quality and quantity.

Furthermore, while it is just as important for enterprises to acquire human resources as it is to develop these resources to ensure corporate health into the future, enterprises are struggling under limited corporate resources as they face numerous problems concerning human resource development.

This chapter examines these problems and analyzes the current situation concerning the acquisition and development of human resources in Japan in order to elucidate efforts to promote corporate growth and reinvigorate the communities to which these companies belong. Section 1 will focus on human resource excesses and insufficiencies and analyze the employment structure and recent trends concerning human resources at SMEs and micro-businesses. Section 2 will look at the state of securing and retaining human resources at SMEs and micro-businesses, Section 3 will focus on the development of human resources that will play a core role in achieving future success for SMEs and micro-businesses (hereafter referred to as "core human resources"), and Section 4 examines efforts to relocate people from urban to regional communities with a focus on the UIJ-turn (Fig. 2-2-1).

Fig. 2-2-1 Concept concerning human resources at SMEs and micro-businesses



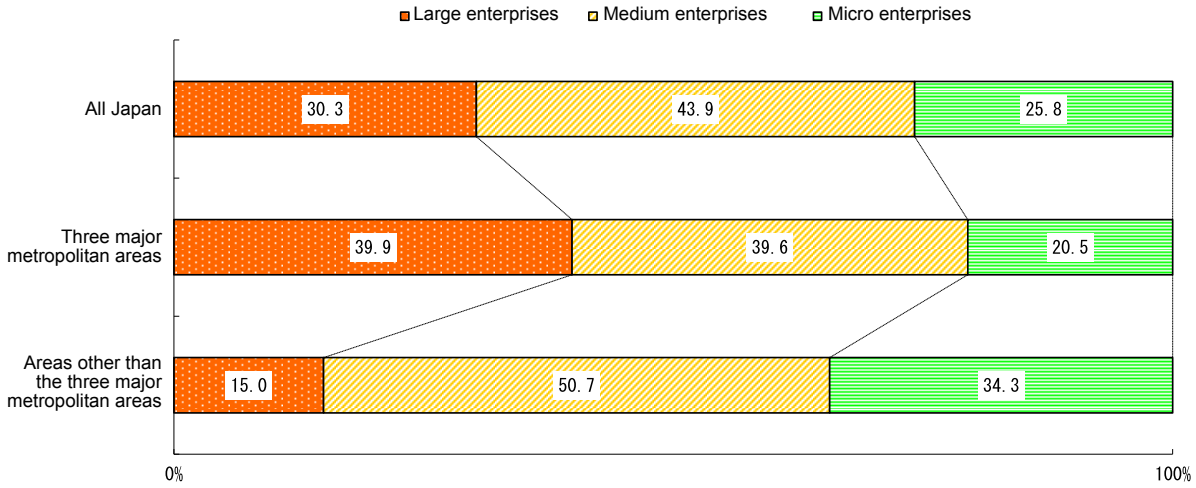
Section 1 Situation concerning human resources at SMEs and micro-businesses

This section presents an overview of the situation concerning human resources at SMEs and micro-businesses in Japan, followed by a look at these enterprises' recruiting efforts through a focus on the role of diverse human resources, which includes women and seniors. We will also explore feelings of human resource excesses or insufficiencies as a recent trend among SMEs and micro-businesses. Lastly, we will explain the relationship between cyclical factors such as Japan's market condition fluctuations and structural factors such as employment mismatches as the foundation for these feelings.

[1] The role of SMEs and micro-businesses in employment in Japan

Fig. 2-2-2 looks at the number of workers by company size in Japan and shows that 69.7% of all workers are employed at SMEs, which indicates that SMEs play a major role in overall employment. Comparing the three major metropolitan areas to areas other than the three major metropolitan areas, we see that, in the three major metropolitan areas, large enterprises employ the biggest proportion of workers (39.9%). As for areas other than the three major metropolitan areas, medium enterprises employ a majority at 50.7%, followed by micro enterprises and large enterprises, which employ 34.3% and 15.0% of all workers, respectively. This shows that, especially in areas other than the three major metropolitan areas, SMEs and micro-businesses play a major role in overall employment.

Fig. 2-2-2 Proportion of workers, by company size for each region



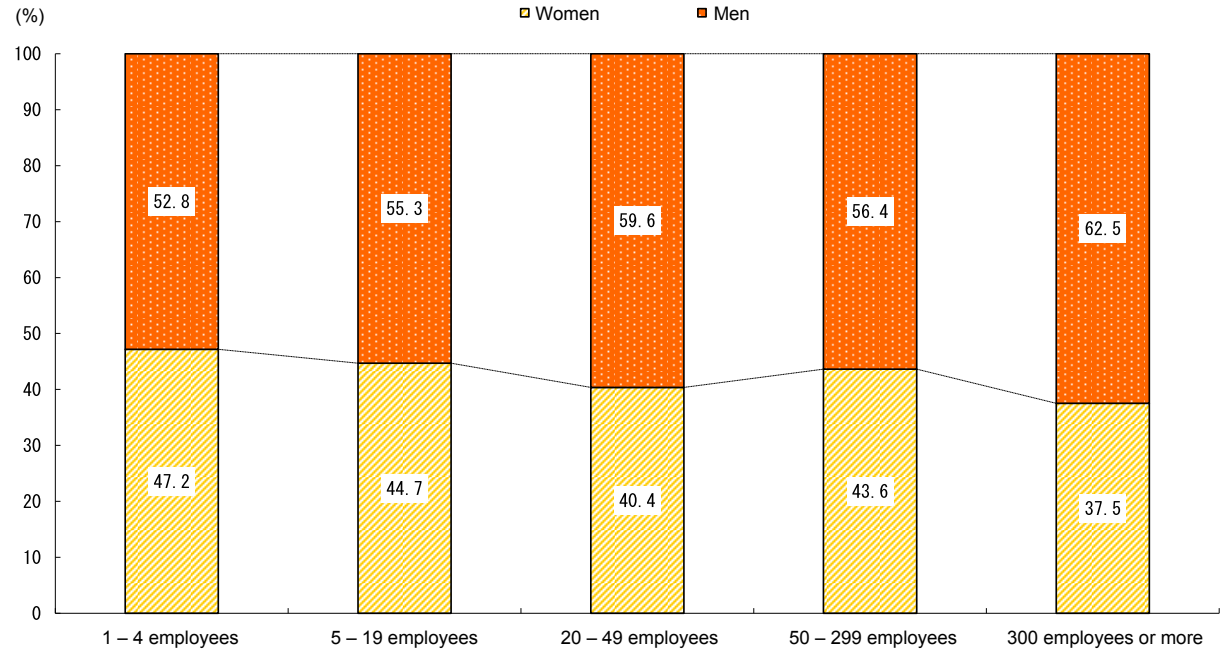
Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. Three major metropolitan areas: Tokyo, Nagoya, Osaka metropolitan areas
   Tokyo metropolitan area: Saitama, Chiba, Tokyo, Kanagawa Prefectures
   Nagoya metropolitan area: Gifu, Aichi, Mie Prefectures
   Osaka metropolitan area: Kyoto, Osaka, Hyogo, Nara Prefectures
   Regional areas: areas other than the three major metropolitan areas
2. Worker numbers are stated in terms of the prefecture to which that business belongs.
3. SMEs (middle enterprises and micro enterprises) are defined as enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) 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 (excluding software, information processing and service providing)).
4. Micro enterprises are defined as enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places and services (excluding accommodations and entertainment and recreation services)).

Let us now look at how Japan's SMEs and micro-businesses contribute to the employment of women and seniors. Fig. 2-2-3 shows employee gender based on the number of employees. Smaller companies employ a higher percentage of women, and women account for 47.2% of the workforce at companies with 1–4 employees. Fig. 2-2-4 shows employee age based on the number of employees. Smaller companies have a higher

percentage of employees aged 55 or over, and SMEs—especially micro businesses—have a particularly high number of elderly employees. High numbers of elderly employees suggests a high average age of employees within a company and may be a sign that human resource restructuring is not being conducted.

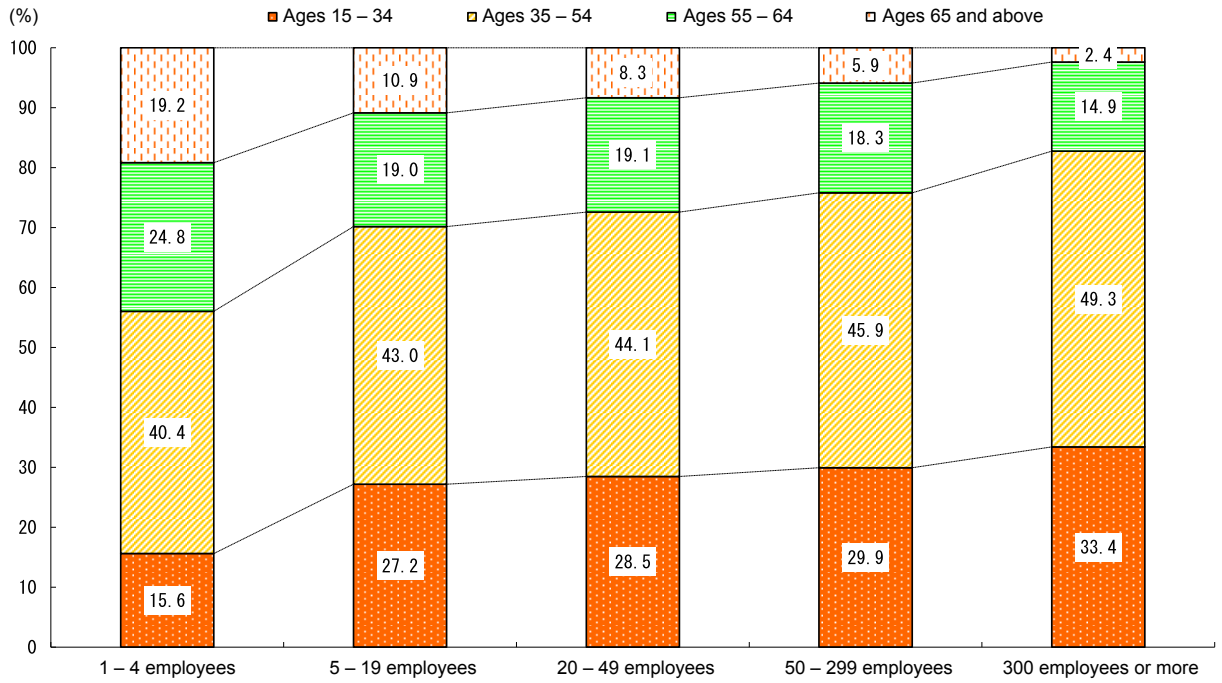
From these results, we can see that SMEs and micro-businesses play an important role in employment in Japan and, in particular, employment at enterprises in regional areas. Also clear is that women and seniors comprise a significant proportion of diversified workforces.

Fig. 2-2-3 Employee gender, by number of employees



Source: MIC, *2012 Basic Survey on Employment Structure*.
Note: Excludes persons employed at public offices or other legal entities.

Fig. 2-2-4 Employee age, by number of employees

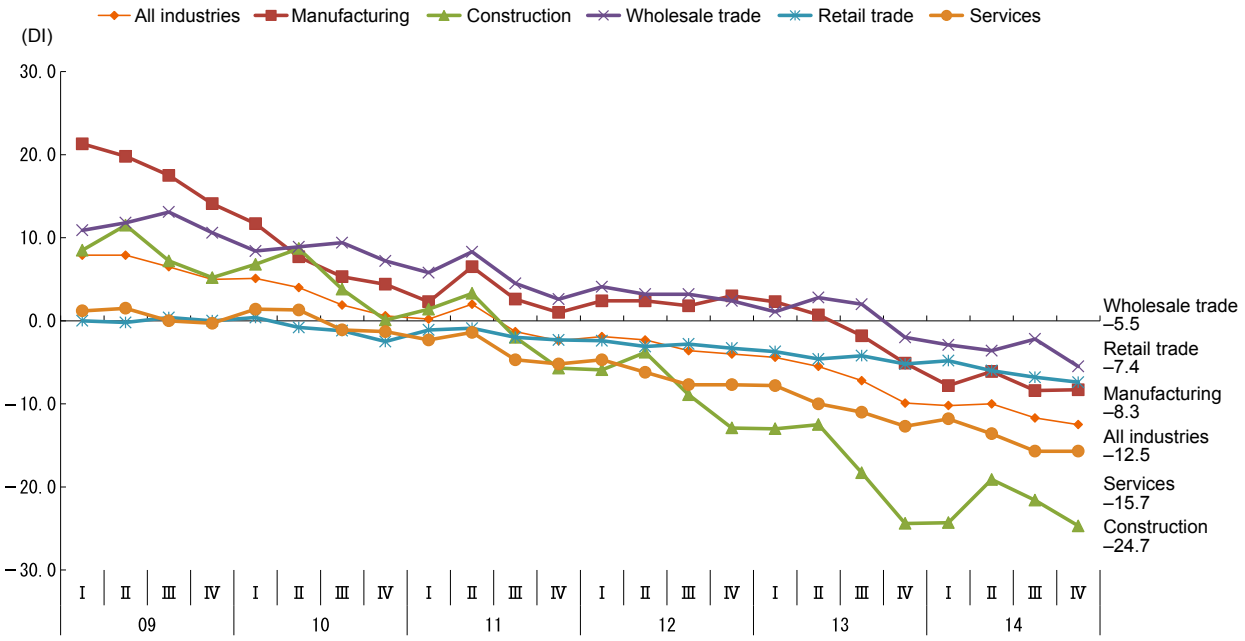


Source: MIC, *2012 Basic Survey on Employment Structure*.
Note: Excludes persons employed at public offices or other legal entities.

[2] Human resource trends pertaining to SMEs and micro-businesses

This paper expresses employee excesses or inadequacies at SMEs and micro-businesses with DI (the percentage (%) of companies which responded with "insufficient" subtracted from the percentage (%) of companies which responded with "excessive" with respect to the number of employees for that fiscal period) over time (Fig. 2-2-5; see the aforementioned Fig. 1-2-10 for percentages before and after the Lehman crisis). Since 2009, the feeling that employee numbers were excessive has gradually diminished, and 2011 saw the DI become negative, after which feelings that human resources were insufficient intensified. Feelings that human resources are insufficient now greatly outweigh feelings that they are excessive. Furthermore, broken down by industry, the services and construction industries have a high percentage of companies that feel employee numbers are insufficient. This may owe to greater demand in recent years for labor in the healthcare and welfare fields as the elderly population grows, as well as to heightened labor demand concerning construction connected to recovery efforts and the upcoming Olympic games. These kinds of human resource insufficiencies could hinder healthy growth among SMEs and micro-businesses as the economy attempts to recover.

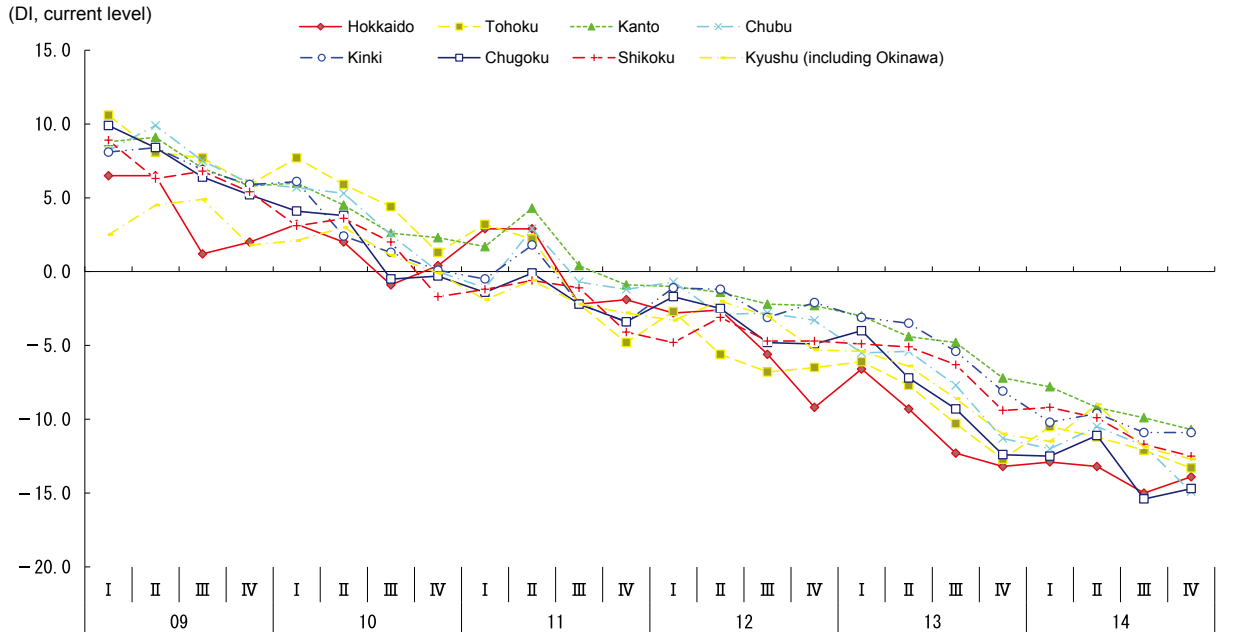
Fig. 2-2-5 Employee excess/insufficiency DI among SMEs and micro-businesses, by industry



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

Note: The employee excess/insufficiency DI represents the percentage of companies which responded with "insufficient" subtracted from the percentage of companies which responded with "excessive" with respect to the number of employees for that fiscal period.

Fig. 2-2-6 Employee excess/insufficiency DI among SMEs and micro-businesses, by region



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

Note: The employee excess/insufficiency DI represents the percentage of companies which responded with "insufficient" subtracted from the percentage of companies which responded with "excessive" with respect to the number of employees for that fiscal period.

Furthermore, the Chugoku region and Hokkaido ranked at the top in terms of enterprises' feeling that human resources are insufficient, a feeling strongly shared throughout the country (Fig. 2-2-6).

Fig. 2-2-7 Employee excess/insufficiency DI among SMEs and micro-businesses (2014)

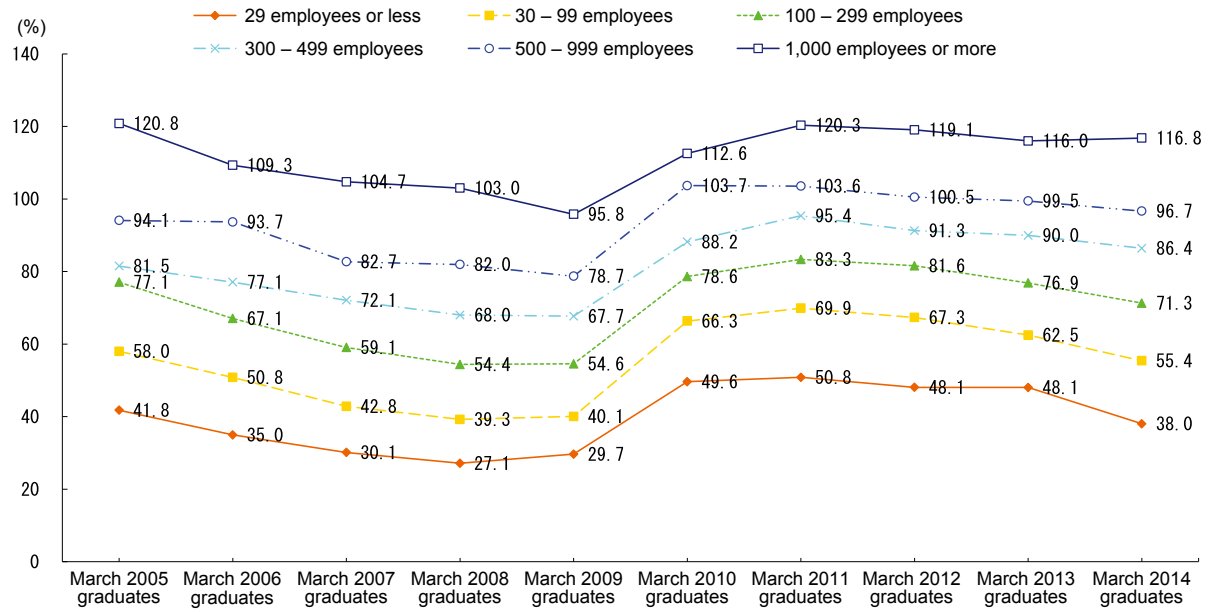
(DI)

	Hokkaido	Tohoku	Kanto	Chubu	Kinki	Chugoku	Shikoku	Kyushu
All industries	-13.8	-11.8	-9.4	-12.3	-10.4	-13.4	-10.8	-11.3
Manufacturing	-8.7	-8.3	-4.8	-8.6	-8.6	-9.4	-9.8	-8.5
Construction	-28.5	-25.4	-22.7	-22.4	-16.0	-28.9	-21.4	-19.9
Wholesale trade	-8.8	-6.4	-3.5	-4.9	-2.4	2.9	-3.2	-3.8
Retail trade	-7.0	-4.3	-3.4	-7.9	-8.0	-8.9	-4.6	-8.4
Services	-15.4	-15.0	-13.0	-16.3	-14.1	-16.3	-13.7	-13.2

Source: SME Agency, Organization for Small & Medium Enterprises and Regional Innovation, Japan, *Survey on SME Business Conditions*.
Notes: 1. Red: -25 or below, Orange: Above -25 and at or below -20, Brown: Above -20 and at or below -15, Peach: Above -15 and at or below -10, Gray: Above -10 and at or below -5, Light blue: Above -5
2. Presented here are the average annual DI for 2014.

Let us also look at feelings of employee excessiveness or insufficiency for the current year—2014—based on industry and region (Fig. 2-2-7). Looking at the Y-axis, which represents industries, the feeling that human resources are insufficient is most conspicuous in the construction and services industries. In the manufacturing, retail trade, and wholesale trade industries, although a feeling of insufficiency remains, the level is low. The X-axis shows that, while feelings of human resource insufficiency are strong in Hokkaido and the Chugoku region, such feelings are relatively minor in the Kanto and Kinki regions.

Fig. 2-2-8 High school graduate employment rate, by number of employees



Source: MHLW, *Employment Referrals for New Junior High and High School Students*.
Notes: 1. Presented here are statistics concerning job offers and employment at public employment security offices and schools for new school graduates for that year.
2. Employment rate = employed persons ÷ jobs offered × 100

Let us now look at the feeling that human resources are insufficient using a different index. Fig. 2-2-8 shows the high school graduate employment rate[1)] at SMEs and micro-businesses. Although the rate improved overall following the Lehman crisis, it has declined slightly in subsequent years. Broken down by company size, employment rate experiences a significant decrease as company size drops. The employment rate is currently 38.0% among companies with 29 employees or less, indicating that SMEs and micro-businesses are not acquiring the human resources they need.

1) Employment rate is an index that indicates the percentage of jobs fulfilled to the number of jobs offered.

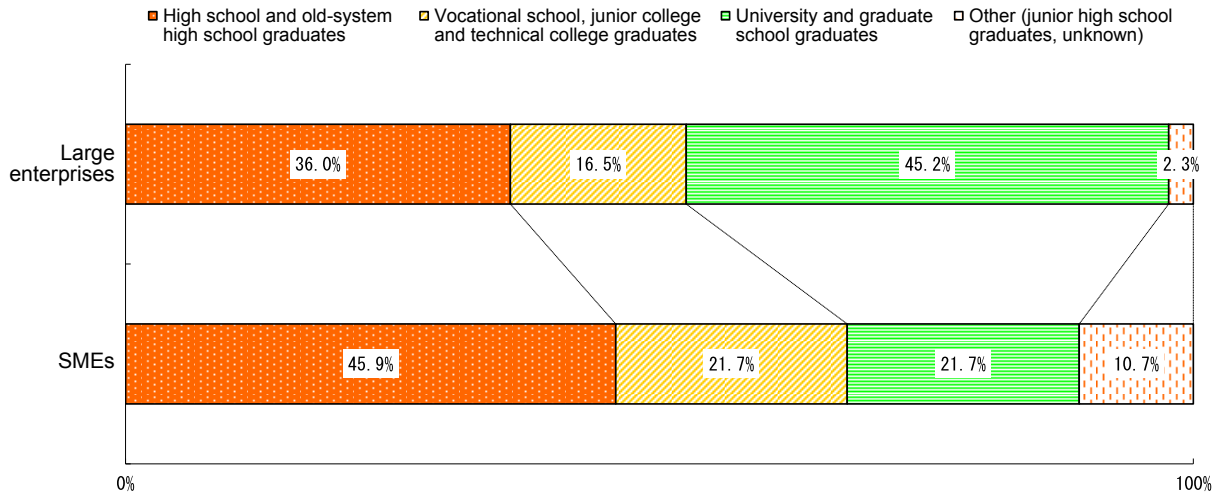
Fig. 2-2-9 Job offers to job seekers ratio for university graduates, by number of employees

Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey (2015 Graduates).*
Note: University graduate job offers to job seekers ratio = total job offers ÷ job applicants at private enterprises

Fig. 2-2-9 shows historical job offers to job seekers ratios (ratios of job openings to job seekers) for university graduates based on company size for the last five years. Ratios at companies with 300 employees or more have been around 1.0, indicating an equal number of job openings and job applicants. However, at companies with less than 300 employees, ratios have ranged between 3.0 and 4.0, and have risen to the current level of 4.5.

Thus, while many job seekers are attracted to large companies, the ratio of job openings to job seekers is markedly higher at companies with fewer employees. At SMEs and micro-businesses, there is fierce competition among jobseekers—both for high school and college graduates.

Fig. 2-2-10 Educational attainment of regular employees, by company size

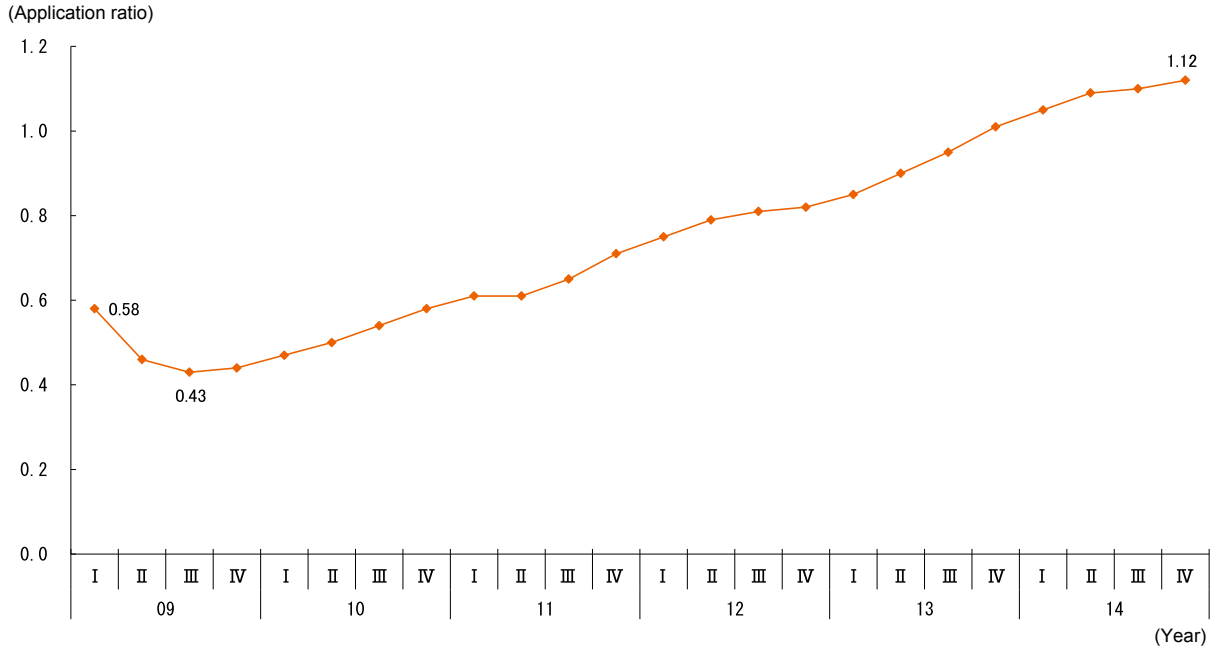


Source: Recompiled from MIC, *2012 Basic Survey on Employment Structure*.
Notes:
1. Regular employees refer to regular staff or workers as per the above survey.
2. Only non-primary industries were tabulated ("public offices" and "other legal entities and organizations" were excluded).
3. SMEs are defined as companies with 299 or fewer workers (99 or fewer workers for the wholesale trade and services industries, and 49 or fewer workers for the retail trade and food services industries), and large enterprises as companies with 300 or more workers (100 or more for the wholesale trade and services industries, and 50 or more workers for the retail trade and food services industries).
4 Academic background denotes academic institutions graduated from.

Continuing on, Fig. 2-2-10 looks at the educational attainment of regular employees working at SMEs and micro-businesses. Whereas university and graduate school graduates accounted for the largest percentage (36.0%) of workers at large enterprises, the largest group of workers at SMEs and micro-businesses was high school graduates (45.9%), indicating that high school graduates are an important element in human resource acquisition among SMEs and micro-businesses. As we saw in Fig. 2-2-9, however, SMEs and micro-businesses are struggling to acquire sufficient high school graduates, which comprise nearly half their workforce, and are not getting enough university graduates either. This situation could be a factor in the increasing feeling among SMEs and micro-businesses that human resources are insufficient.

Now that we have looked at the increasing seriousness of human resource insufficiencies at SMEs and micro-businesses, let us get an overview of the factors behind this situation.

Fig. 2-2-11 Ratios of job offers to job seekers



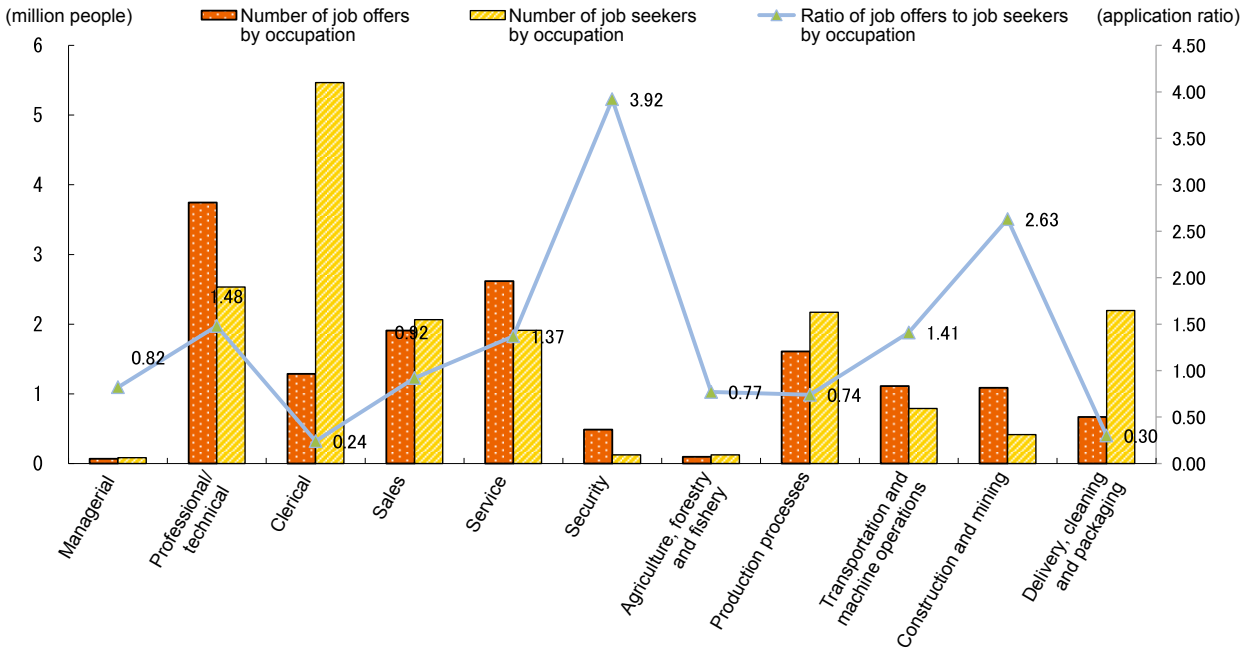
Source: MHLW, *Employment Referrals for General Workers*.
Notes: 1. Calculations of ratios of job offers to job seekers exclude new graduates and include part-time workers.
2. Monthly figures reflect seasonal adjustments. Figures prior to December 2014 have been revised according to seasonal indices at the time of publication in January, 2015.

First looking at economic trends, Part I discussed Japan as being on a recovery path. Examining the ratio of job offers to job seekers[2)] finds that, while the ratio dropped to 0.43 in the third quarter of 2009, it has since been on an upswing. The current ratio is around 1.1, indicating that there are more job offers than job seekers (Fig. 2-2-11; see Fig. 1-1-12 above for ratios before and after the Lehman crisis). From this we can see that, in order to ensure that local SMEs and micro-businesses are making a true recovery, it will be important to resolve the undersupply of human resources, a critical corporate resource.

We will now look at employment mismatches from two perspectives: by occupation and by type of employment. Looking first at ratios of job offers to job seekers by occupation, we see significant differences among the occupations (Fig. 2-2-12). Ratios of job offers to job seekers for those in security and those in construction and mining are 3.92 and 2.63, respectively, with low ratios of 0.24 for those in clerical work and 0.30 for those in delivery, cleaning, and packaging. Ratio differences among the occupations indicate occupational mismatches between the number of job offers and number of job seekers.

2) The ratio of job offers to job seekers is an economic indicator that expresses the proportion of job offers to job seekers.

Fig. 2-2-12 New job offers and job seekers, and ratios of job offers to job seekers

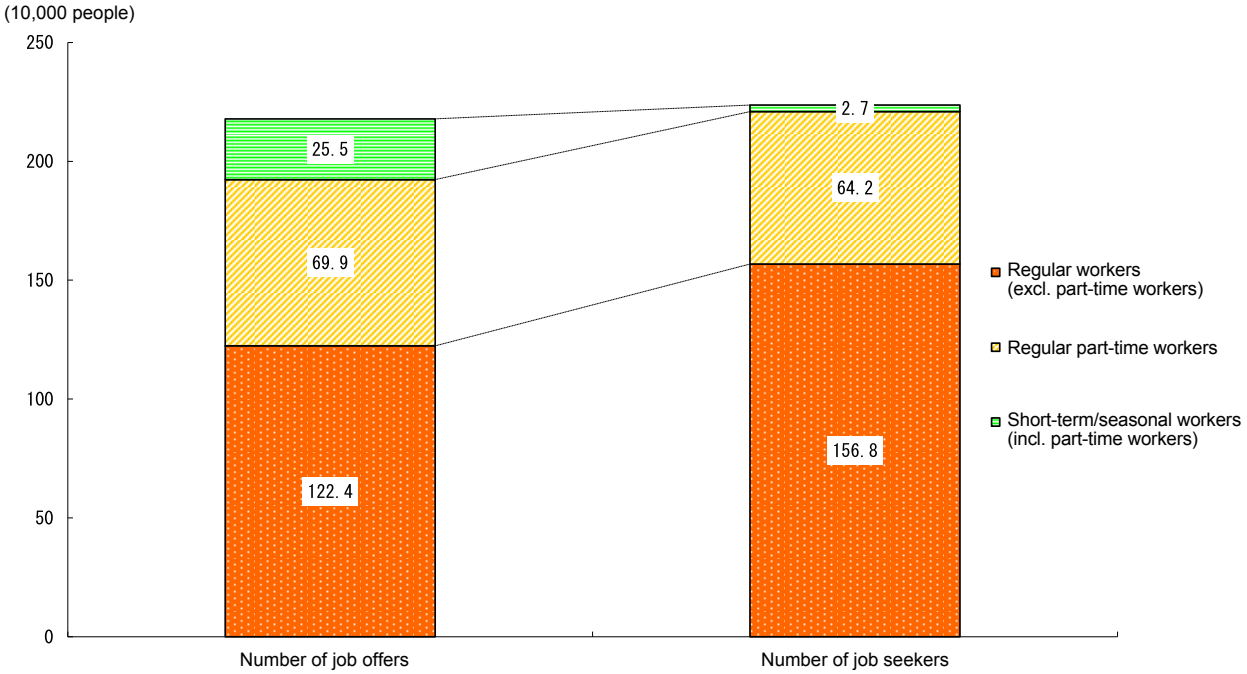


Source: MHLW, *Report on Employment Service*.
Notes: 1. Figures given for new job offers, new job seekers, and ratios of job offers to job seekers are for regular workers (excluding part-time workers).
2. Figures are for fiscal 2013.

The second employment mismatch seems to be the type of employment (Fig. 2-2-13). Overall, the number of job offers (2.179 million people) is about the same as the number of job seekers (2.237 million people). Broken down by type of employment, however, we see that there are fewer job offers (1.224 million people) than job seekers (1.568 million people) for regular workers (excluding part-time workers), and that job offers outnumber job seekers for regular part-time workers and short-term/ seasonal workers (including part-time workers). Thus, there is an employment mismatch regarding even the type of employment.

This presents the possibility that, mismatches concerning occupation and type of employment when it comes to employing workers could be a factor behind the growing feeling that human resources are insufficient.

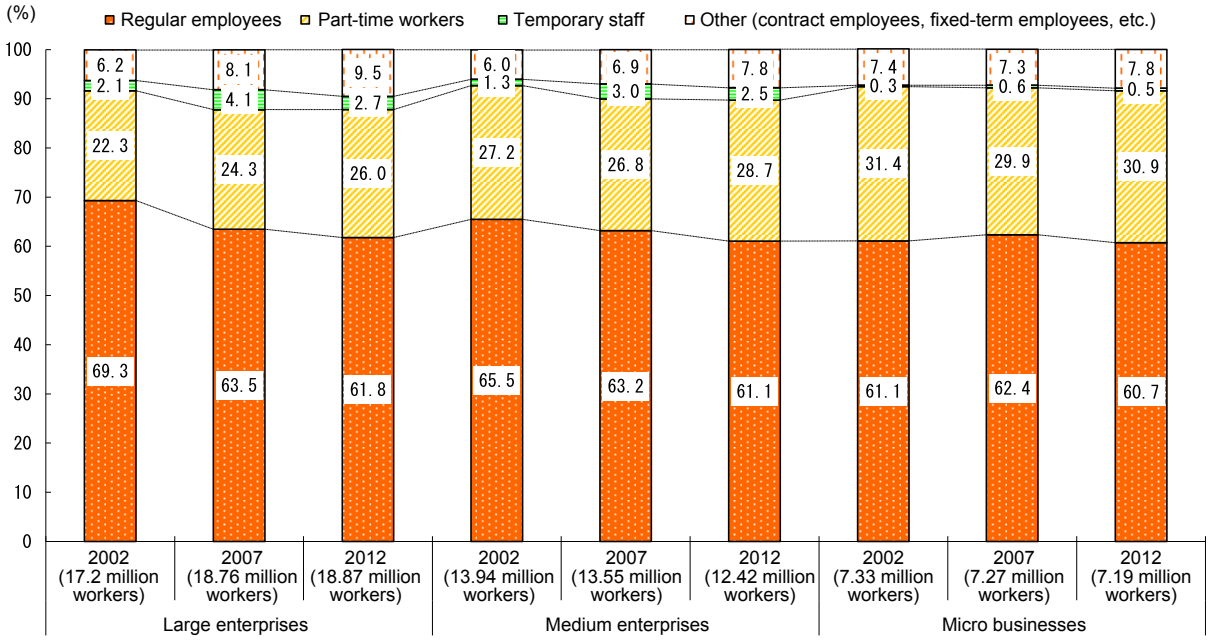
Fig. 2-2-13 Job offers and job seekers by type of employment



Source: MHLW, *Report on Employment Service*.
Note: Fiscal 2013 averages are presented.

Fig. 2-2-14 shows types of employment based on company size. Looking at the ratio of regular employees to non-regular employees, we see that regular employees made up 61.1% of workers at medium enterprises in 2012 and 60.7% at micro businesses. There was, however, a slightly higher ratio at large enterprises: 61.8%. From 2002 to 2012, we see that large and medium enterprises experienced a greater drop in the proportion of regular employees than did micro businesses. On the other hand, part-time workers and other workers (contract employees, fixed term employees, etc.) show an increasing trend, indicating overall trends concerning types of employment are changing.

Fig. 2-2-14 Types of employment, by company size

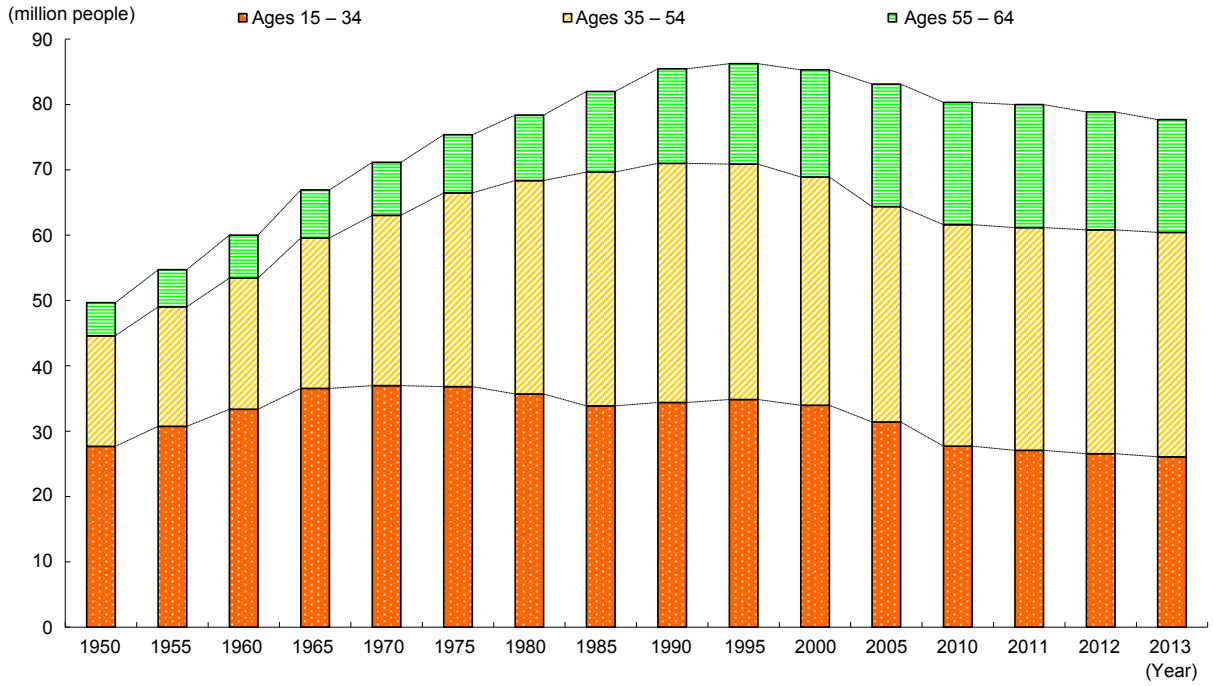


Source: Recompiled from MIC, *Basic Survey on Employment Structure*.

Notes:
1. "Regular employees" refers to "permanent, full-time employees" and "regular personnel/workers" as per the above survey.
2. "Part-time workers" refers to non-director employees working part-time at companies.
3. "Temporary staff" refers to non-director employees working at companies as temporary staff assigned by a staffing agency.
4. "Other" refers to non-director employees that are working at companies and that are not included in any of the above.
5. Includes non-primary industries only (excludes "public offices, etc." and "other legal entities and organizations").
6. SMEs are defined as companies with 299 or fewer workers (99 or fewer workers for the wholesale trade and services industries, and 49 or fewer workers for the retail trade and food services industries), and large enterprises as companies with 300 or more workers (100 or more for the wholesale trade and services industries, and 50 or more workers for the retail trade and food services industries). Micro businesses are defined as companies with 19 or fewer workers (4 or fewer workers in the case of the wholesale trade, services, retail trade and food services industries).

Next we examine the decline in the working age population (those aged 15 to 64) as a factor behind medium- and long-term human resource insufficiency. From Fig. 2-2-15, which shows changes in the working age population over time, we see that this population has been decreasing since the mid-1990s. Broken down by age group, the drop has been most significant in the 15-34 set while there has been an increase in the 55-64 set, indicating that the working age population is dropping as the overall population ages.

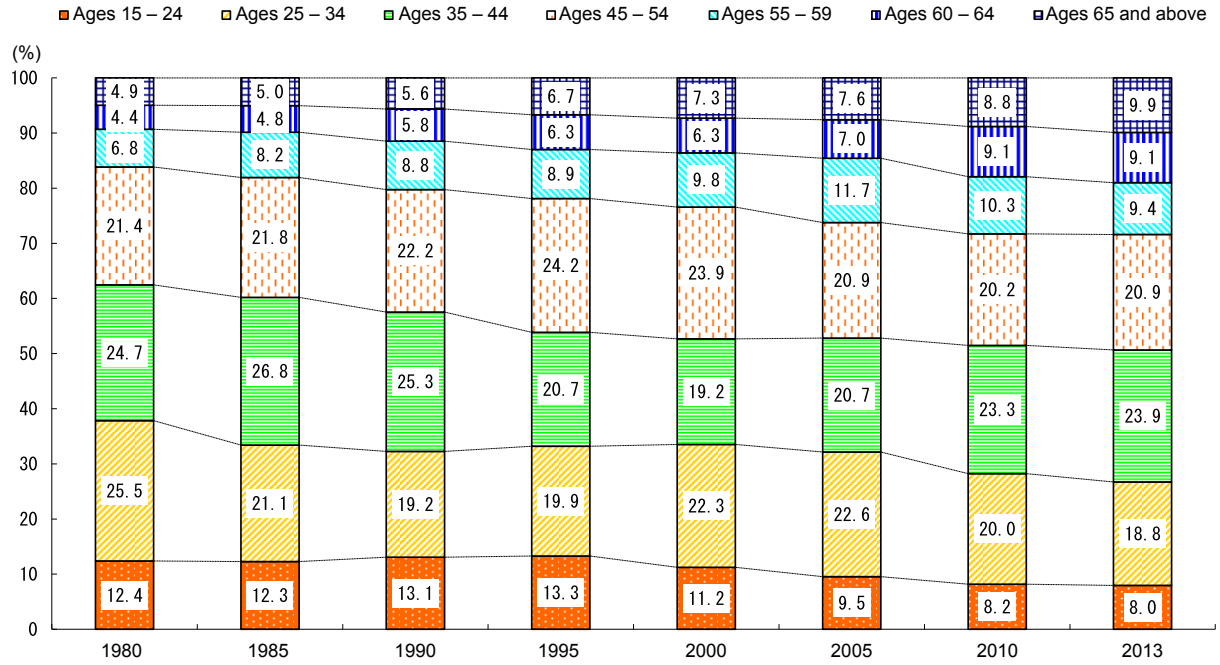
Fig. 2-2-15 Long-term trends concerning the working age population



Sources: MIC, *Population Census*; *Population Estimates*.

Looking at age distribution among the overall workforce, from 1980 to the present, the number of young people has decreased while the number of seniors has risen, providing another perspective showing that the overall age of working age people is increasing (Fig. 2-2-16).

Fig. 2-2-16 Age distribution among the working age population



Source: MIC, *Labor Force Survey*.

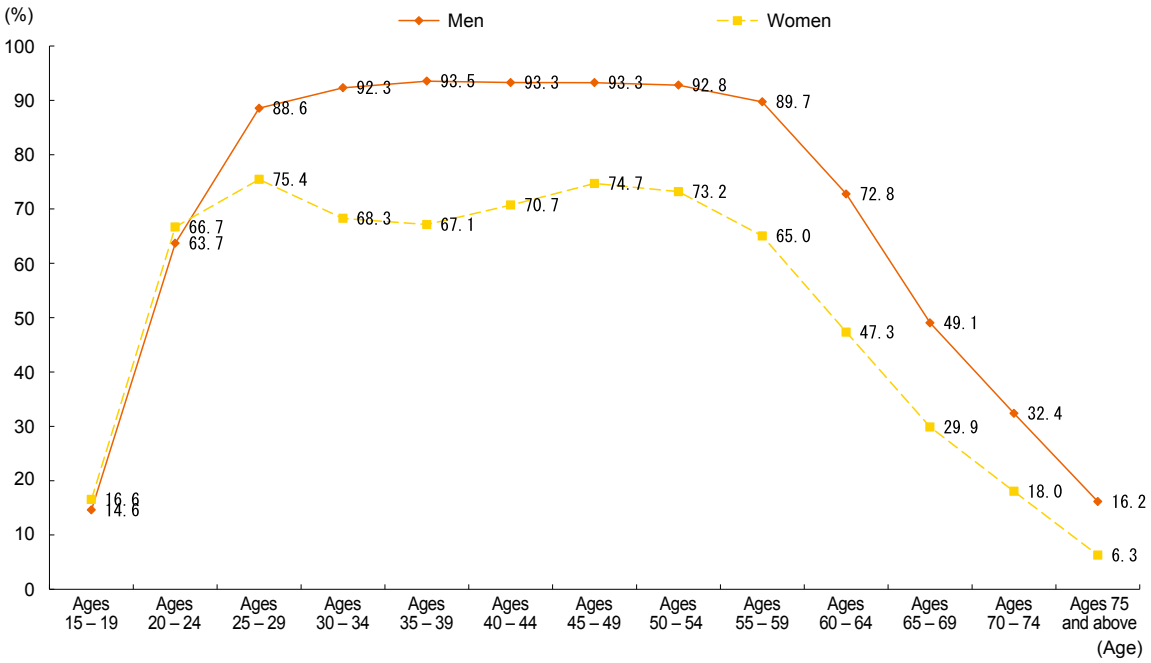
According to the National Institute of Population and Social Security Research's *Population Projections for Japan*, this trend will continue and the effect of a declining working age population and overall workforce population aging on human resource insufficiency will intensify rather than diminish. If, amid these circumstances, human resource insufficiencies are to be resolved, stopgap measures aimed at resolving short term human resource insufficiencies will not be enough; taking a mid- to long-term approach and promoting the utilization of diverse human resources is likely to be essential.

Column 2-2-1 Efforts Concerning Women in the Workplace

As the working age population decreases and the overall population grow older, society is looking to women as a latent workforce contributor for the Japanese economy, and there is an increasing need for a social structure conducive to working women.

Fig. Column 2-2-1 (1) shows employment rates by gender and age. Of note concerning women's employment rates is that rates are nearly on par with men up until the mid-20s, after which rates taper off. Rates also fall as women age into their 30s. The employment rate drop among women in their late 20s through their 30s generally follows an "M curve." Thus, in order to promote female workforce participation, one aim must be to rectify this M curve.

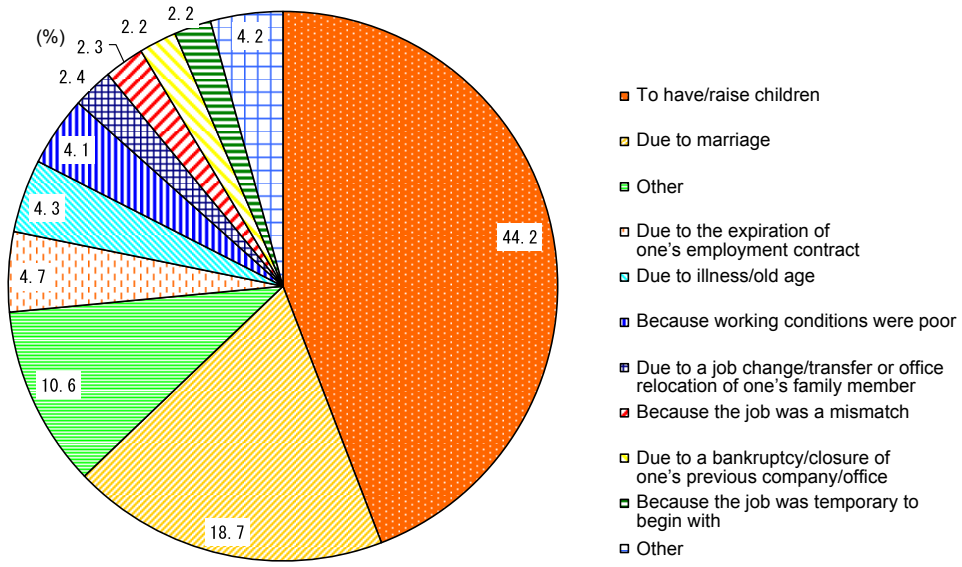
Fig. Column 2-2-1 (1) Employment rates by gender and age



Source: MIC, *Basic Survey on Employment Structure*.

To clarify the reasons for the existence of this M curve, let us look at the reasons for women quitting jobs in their late 20s to early 30s (Fig. Column 2-2-1 (2)). The most common reasons given for quitting were "to have/raise children" at 44.2% and "due to marriage" at 18.7%. Marriage, childbirth, and child-rearing are major life events for women, and many women faced with the choice to continue working or quit choose to quit. This is a major contributor to the existence of the M curve.

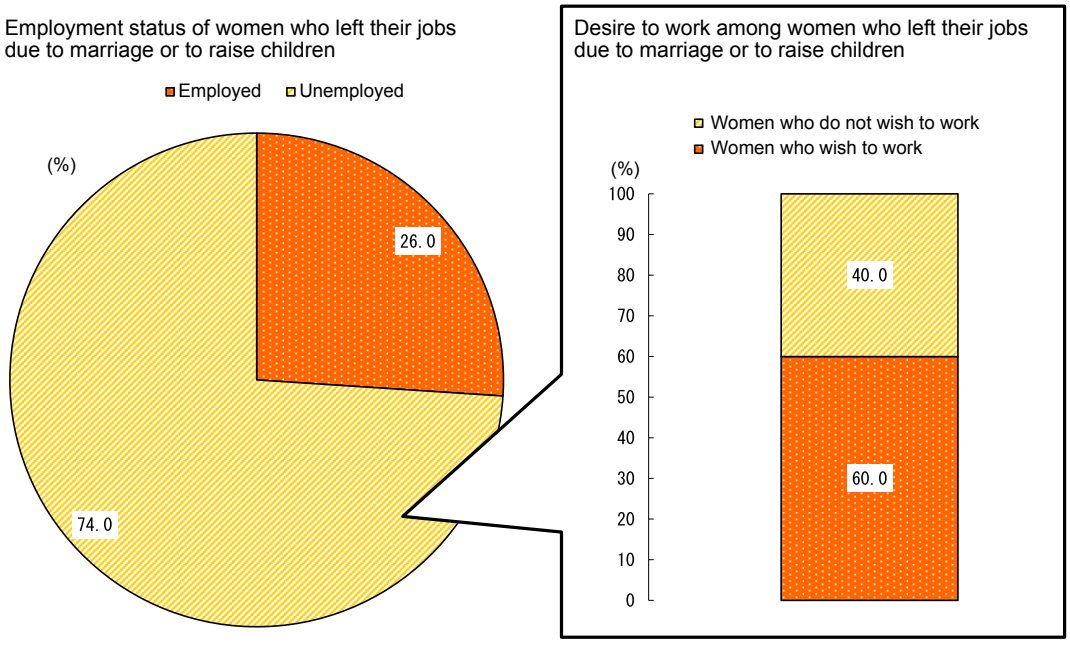
Fig. Column 2-2-1 (2) Reasons for women quitting their jobs



Source: MIC, *2012 Basic Survey on Employment Structure*.
Notes: 1. Based on responses from unemployed women aged 25 to 34 who quit a job after October, 2007.
2. Responses for which the response rate was 2% or less are included in the "Other" category.

Let us next look at the percentage of women who left a previous job due to marriage or to raise children and who are either currently employed or are not employed but would like to be. While the data shows that only 26.0% have returned to work, 60.0% are not employed but would like to find employment. This suggests that women have a strong desire to find a job (Fig. Column 2-2-1 (3)).

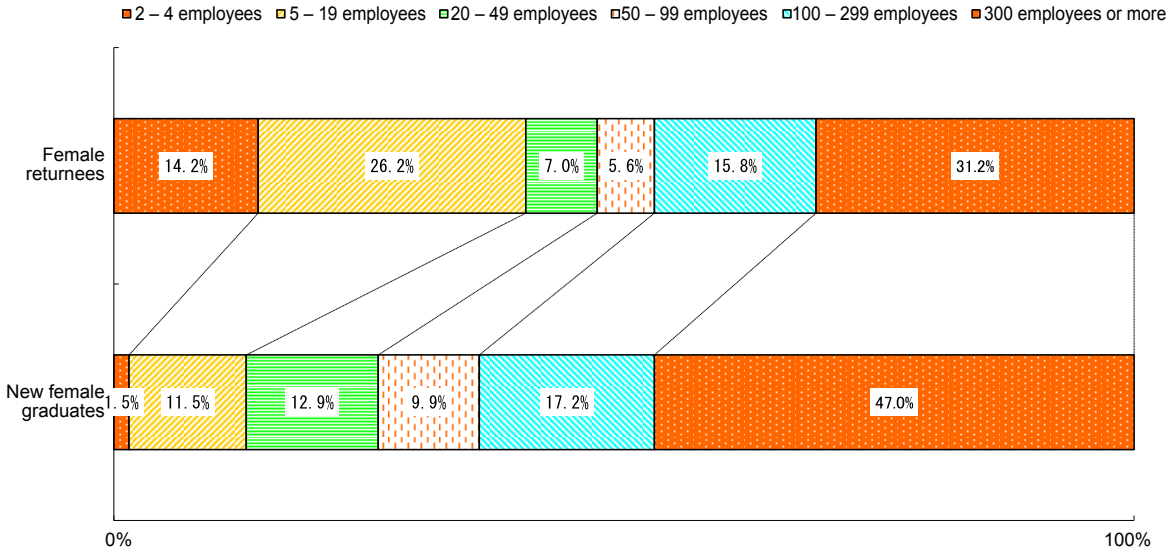
Fig. Column 2-2-1 (3) Employment status of women who left their jobs due to marriage or to raise children



Source: MIC, *2012 Basic Survey on Employment Structure*.
Note: Based on unemployed women who left a job after October 2007 and who cited marriage or child-rearing as a reason.

Fig. Column 2-2-1 (4) shows the sizes of companies where women went back to work after quitting a job due to childbirth or child-rearing. A majority of these new employers are companies with 99 or fewer workers, and among the employers of new female graduates, 64.2% of companies have 100 or more workers. From this it is clear that women are choosing SMEs and micro-businesses when they return to work.

Fig. Column 2-2-1 (4) Employers of new female graduates and women returning from leave for childbirth or child-rearing

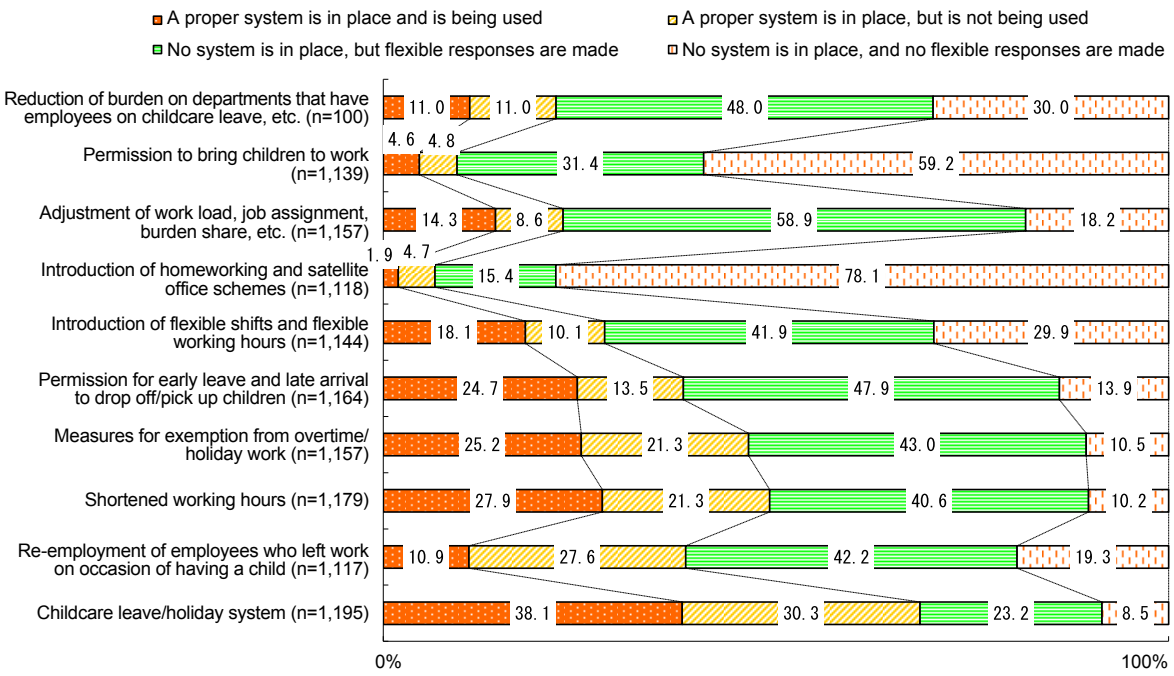


Source: MIC, *2012 Basic Survey on Employment Structure*.
Notes:
1. Based on new female graduates currently working as regular employees that responded with "I was going to school" when asked "what were you doing one year prior."
2. Based on women who were working as regular employees, had worked elsewhere previously, responded with "To have/raise children" concerning the reason for leaving a prior job, and who took up current employment after October, 2011.

We have seen that SMEs and micro-businesses play an important role as employers of women returning to work from a period of leave. The following discussion changes to the employer's perspective and examines their hiring of female workers.

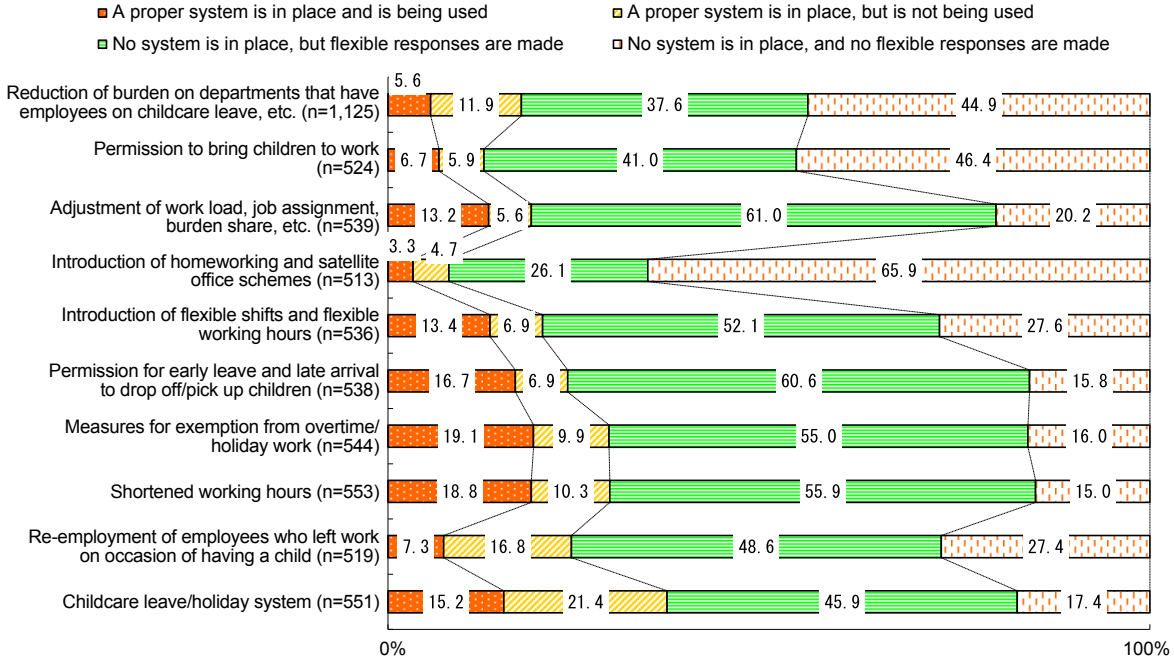
Fig. Column 2-2-1 (5) and (6) looks at efforts being taken by companies to effect an environment conducive to female workers. It shows that while neither medium enterprises nor micro businesses have programs for women in the workplace, they are responding flexibly to the nature of their workforce. In terms of individual initiatives, "childcare leave/holiday system," "shortened working hours," "measures for exemption from overtime/holiday work," and "permission for early leave and late arrival to drop off/pick up children" were among the common responses and indicate these enterprises do have some measure of systems in place. However, few responded with "introduction of homeworking and satellite office schemes" or "permission to bring children to work," suggesting a lack of such systems. Comparing enterprise sizes, "no system is in place, and no flexible responses are made" was a response more often given for micro businesses than for medium enterprises. However, giving employees "permission to bring children to work" was the only initiative that was more common among micro businesses then among medium businesses. This suggests that the workplace environment of micro businesses encourages strong interpersonal relationships, including with employees' families.

Fig. Column 2-2-1 (5) Women in the workplace initiatives (medium enterprises)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

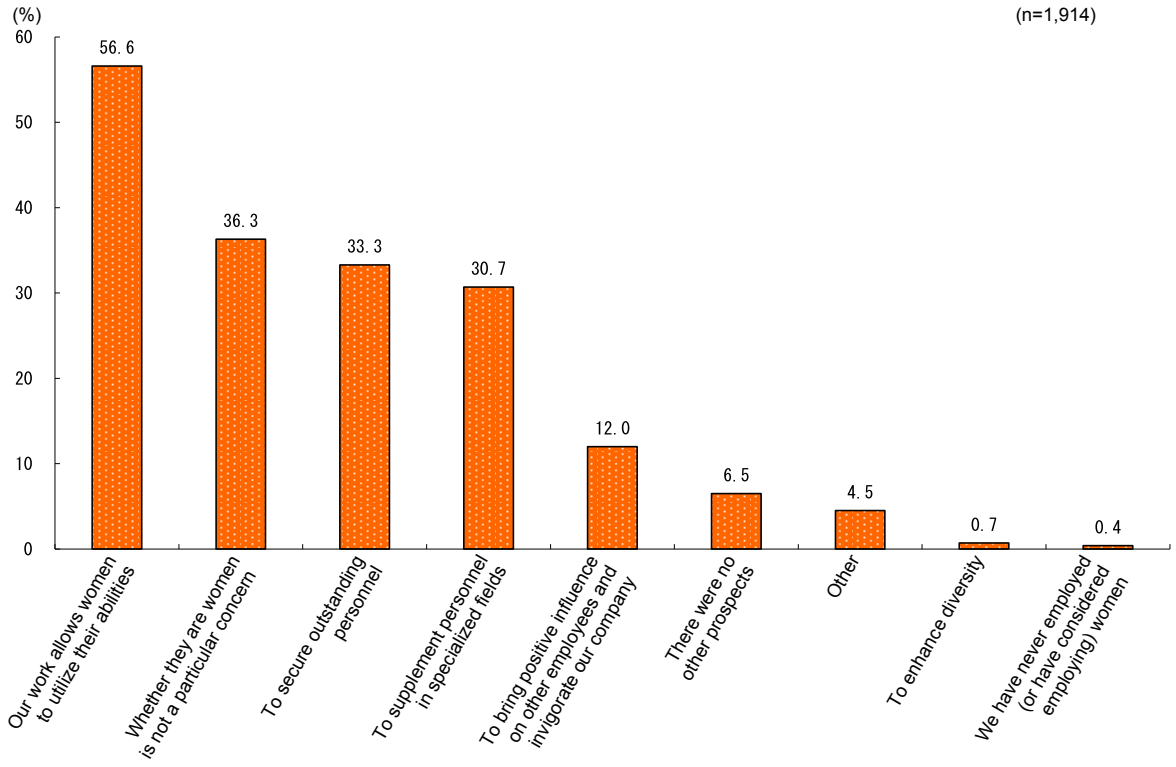
Fig. Column 2-2-1 (6) Women in the workplace initiatives (micro businesses)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Lastly, let us look at Fig. Column 2-2-1 (7) and the reasons for SMEs and micro-businesses choosing to hire women. "Our work allows women to utilize their abilities" was the top response at 56.6%, indicating that employers are acknowledging women's abilities. This was followed by "whether they are women is not a particular concern" at 36.3% and "to secure outstanding personnel" at 33.3%. These results show that there are many companies hiring women as a result of choosing human resources using the same standards applied to men.

Fig. Column 2-2-1 (7) Reasons for employers hiring women

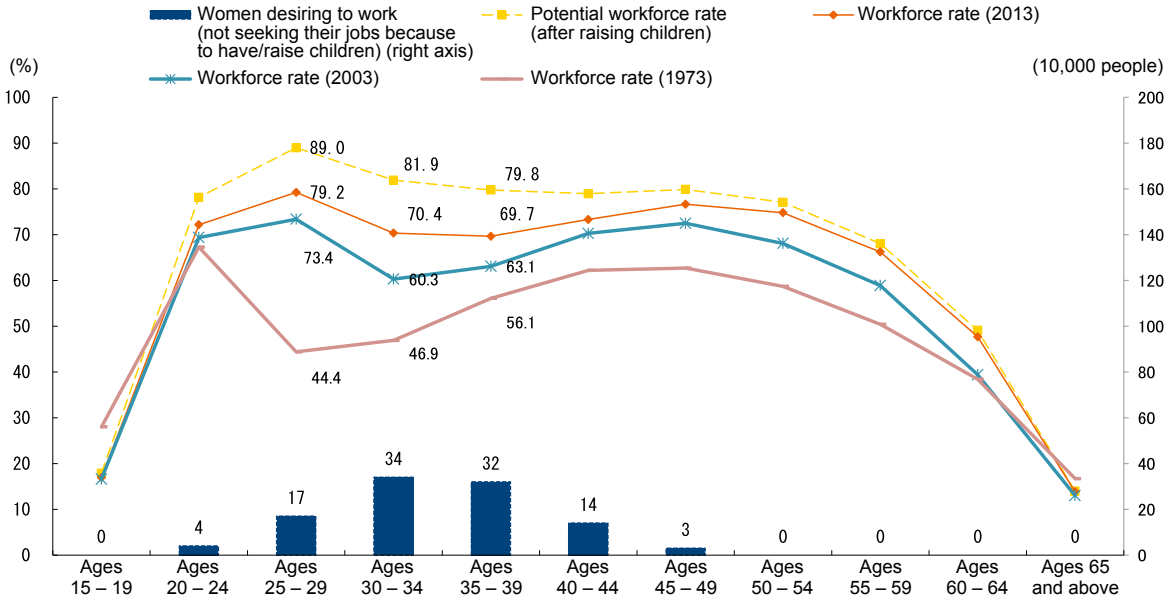


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100 as multiple responses were possible.

From this it is clear that, as enterprises step up efforts in recent years to promote "women in the workplace," SMEs and micro-businesses are a major source of workplaces where women can contribute—especially women returning from a period of leave taken for child-birth or child-rearing. In essence, the patterns shown by SMEs and micro-businesses in hiring female workers indicates that they acknowledge that women offer a perspective unique to their gender and that women are capable human resources, and these enterprises are undertaking a variety of initiatives aimed at retaining female employees. Fig. Column 2-2-1 (8) shows that efforts being made by companies and human resources towards promoting women in the workplace are bearing fruit, and that the M curve illustrating the female employment rate problem is gradually improving. With efforts to promote women in the workplace and improve childbirth and childcare support, if enterprises are able to create work places conducive to women returning to work, the workforce rate[3)] may approach the level of the "potential workforce rate (after raising children)" index. This is another reason why it is critical to acknowledge the essential nature of women in the workplace when considering Japan's economic future, and to begin by changing corporate culture.

3) This index represents the percentage of working age people among those 15 years of age or older (employed + wholly unemployed persons).

Fig. Column 2-2-1 (8) Female workforce rate and potential workforce rate, by age



Source: MIC, *Labor Force Survey*.
Notes:
1. The workforce rate is calculated as working population ÷ working age population.
2. The potential workforce rate is calculated as (working population + job seekers (currently on leave for childbirth or childcare)) ÷ working age population.
3. Women desiring to work (not seeking their jobs because to have/raise children) are people who want to work but chose "to have/raise children" as the reason for not seeking employment.

This column has looked at the existence of the M curve in connection with women in the workplace and provided analyses focused on the role of SMEs and micro-businesses in improving the curve. SMEs and micro-businesses are engaged in various initiatives to make workplaces easier for women to work in, and we have seen that many women are choosing these types of enterprises after returning from child-related leave. In light of the diminishing working-age population, there is a need to increase opportunities to utilize the potential female workforce that is looking for employment. SMEs and micro-businesses are expected to continue to be powerful supporters behind the employment of women.

Case 2-2-1 Nihon Press Kogyo Co., Ltd.

A manufacturer of stamped parts in which female employees are flourishing

Nihon Press Kogyo Co., Ltd. (employees: 74; capital: ¥22.45 million), based in Chigasaki City, Kanagawa Prefecture, is a manufacturer of bearings and other small stamped parts.

"Stamping" carries a strong impression of being a "male" job, involving the use of huge machines to work heavy pieces of metal. Nihon Press Kogyo's workplace, however, boasts 22 female employees. Mr. Wada, Executive Vice Manager of the company's factory, says that the presence of women in the workplace has not only increased the work efficiency of the company overall, but the workplace is now tidier, and the atmosphere is generally brighter.

While the company now actively recruits female employees, until around 2000 it focused on male candidates when hiring new high school leavers, due to the nature of stamping work. However, in March one year, the company found itself entirely unable to hire any male school leavers. It was at this time that the employment counsellor of a nearby high school suggested that it might consider hiring female students. There was considerable resistance from within the company to introducing women to an all-male workplace, but the decision was finally made on condition that Mr. Wada, who supervised the company's hiring procedures, took responsibility for the outcome.

When female employees actually did begin to work for the company, attitudes in the workplace changed, and

even those who had resisted the hiring of women had to recognize the new employees' conscientious attitude to the job. Mr. Wada says that there are two merits in hiring female employees.

First, female employees display higher productivity than male employees. Their attitude to work is good and their ability to concentrate on the job is high, and as a result women generate higher output per unit time than men.

Second, the hiring of female employees improves both the workplace environment and relationships in the workplace. Female employees have a strong inclination to beautify the workplace, and they notice small details. Since Nihon Press Kogyo began hiring women, the workplace has been cleaned up. Not only this, but the previously somewhat rough atmosphere has become bright and friendly, and relationships between employees have improved.

At the same time, it is necessary to prepare the environment from both the "hard" and "soft" perspectives in order to hire female employees. Nihon Press Kogyo also modified its workplace environment when it began to hire women.

On the "hard" side, the company installed female toilets, and enhanced its safety measures. Safety management had previously been aimed at avoiding major incidents, but after it began hiring female employees the company enhanced its measures in order to prevent even minor accidents, for example by installing safety fences around stamping machines.

On the "soft" side, in addition to offering measures such as childcare leave and half-day work to enable female employees to continue working when they have children, the company gave consideration to the creation of an environment that would make it easy for women to talk about problems and concerns when necessary. The company offers one and a half years of maternity leave, and is also flexible in allowing employees to arrive late and leave early to enable them to prioritize their families if a child is sick or there is a call from their child's school. When it hires female employees, it hires a number of women rather than a single individual, and requests not only full-time female employees but also part-time female employees who have been with the company longer to act as advisors to the new employees, enabling it to respond to concerns that are specific to women.

Mr. Wada says "It's pointless to say that just because they are women, they can't do a particular job, or you shouldn't ask them to." He continues, "All people have things to which they are suited and things to which they are unsuited. Specific women have particular abilities, and other things that they are not good at. If you fully recognize that and assign them to the right job, they have every chance of performing better than male employees." Nihon Press Kogyo has put a wide range of measures in place to make the most of the abilities of its female employees. Some of its female workers have taken national qualifications in stamping procedures, and in the future the company is considering introducing women to management positions.

A scene from Nihon Press Kogyo's workplace

Case 2-2-2 Zm'ken Service Co., Ltd.

Drawing out women's abilities and creating spaces from a female perspective

Zm'ken Service Co., Ltd. (employees: 9 capital: ¥20 million), based in Kita-Kyushu City, Fukuoka Prefecture, is a first-class registered architects' office established in 1993. It is involved in the design of buildings and interiors, including homes and commercial facilities. Of the office's nine employees, six are women. The architecture and construction industry is one in which it can be difficult for women to find employment. Zm'ken Service has developed its business by positioning design incorporating female sensitivity and a female perspective as a strength.

The company first began to actively hire female members of staff in 2006, when it received multiple applications from female architects currently raising children in response to its advertisement of a position. Recognizing that their applicants would need to care for their children while working, and that it would be necessary to restrict their working hours, the company introduced a work-sharing arrangement, and hired a first-class architect and an interior designer, both of whom were at the time looking after small children. Having done so, it discovered that despite shorter working hours, the women produced excellent results, and realized that being exposed to a mother who works had a beneficial effect on children's development. With this, Zm'ken Service began to actively hire female employees, a stance that it has maintained up to the present.

The company also pays close attention to women's abilities. Junko Komorita, the President of the company, who has started her own design classes in order to foster talent and has put together a female architecture and design

team, is working to "create prosperity and build communities through branding based on a female perspective." In addition to its main business of designing residences and commercial facilities, the company is serious about making a contribution to its city. One of these projects is the organization of town management for Uomachi Ginten shopping street in Kita-Kyushu City. A variety of women, including mothers bringing up children, mothers raising disabled children, and single designers, are participating in the project, which encompasses a range of activities. For example, in order to help ensure town planning based on each of their perspectives, the women publicize information about stores in the street and point out things that they notice about the local stores, hold events such as "Uomachi Ginten by Wheelchair!," and work to create a local identity based around the concept "Uomachi Ginten, a street for everyone."

Ms. Komorita says "Women have lagged behind in the architecture industry, and the industry offers them numerous opportunities to flourish. We intend to continue to expand our business by using the strengths that women possess, such as taking the user's perspective and seeing the finer details."

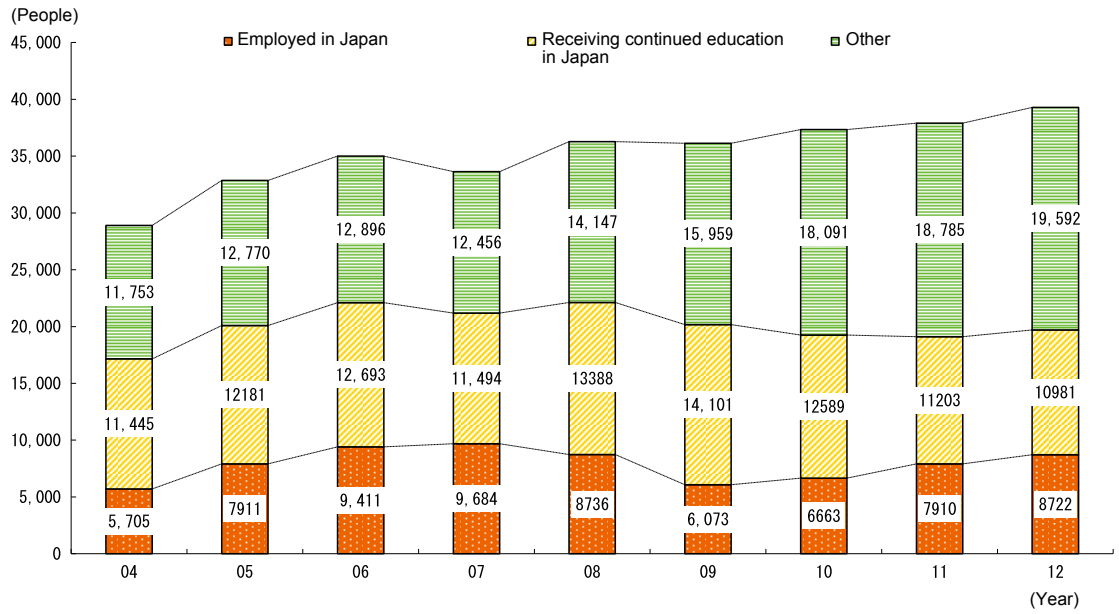
One of Zm'ken Service's worksites

Column 2-2-2 Foreign students in the workplace

In addition to looking towards potential sources of labor within Japan in order to combat Japan's continuing domestic depopulation, bringing in foreign workers to supplement the domestic labor force stands as another option worth considering. The following discussion looks at employment in Japan of foreign workers and especially foreign students, who have studied in Japan, are familiar with the culture, and have considerable language skills.

Let us first look at the paths being taken by foreign students after graduation (Fig. Column 2-2-2 (1)). The number of foreign students in Japan is on the rise, standing at 39,295 people in 2012. However, only a small fraction of this number—8,722 students—is looking for work in Japan.

Fig. Column 2-2-2 (1) Paths being taken by foreign students after graduation

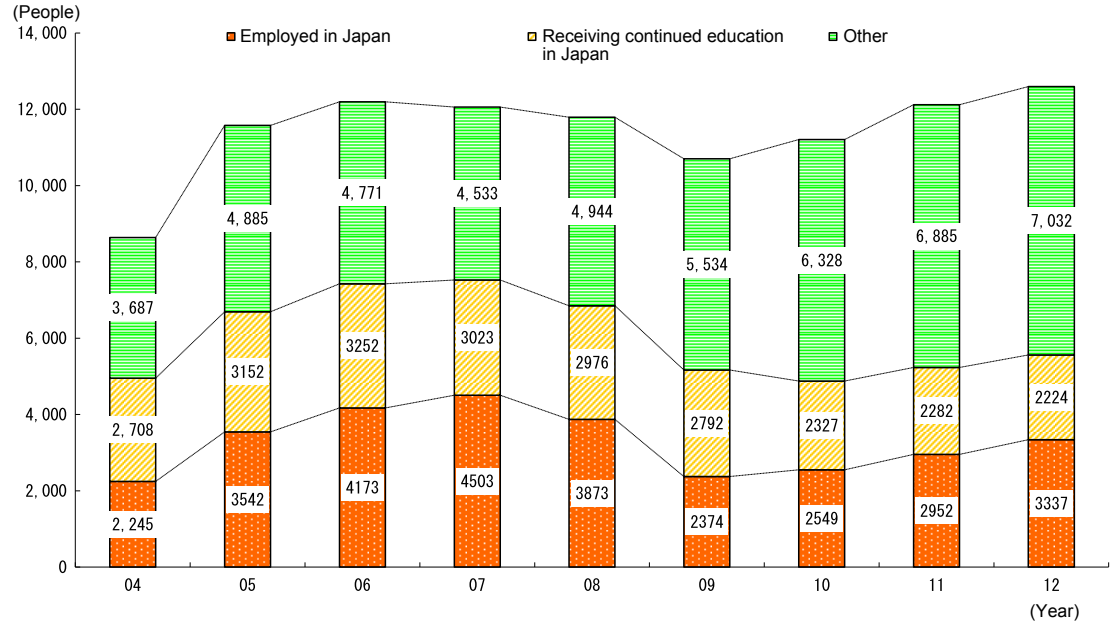


Source: Japan Student Services Organization, *Results of Survey on Foreign Student Post-Graduation Paths and Degree Conferment*.

Note: The "foreign students" in the survey included students enrolled at universities, two-year colleges, vocational high schools, and special training schools.

Fig. Column 2-2-2 (2) looks at foreign students attending a university. Although this student number has risen since 2004, decreases were seen in 2008 and 2009 due to the effect of Lehman crisis and other circumstances. There has been a gradual recovery since then, with the number of foreign students attending a university at 12,593 in 2012. 3,337 of these students—less than 30%—are looking for employment in Japan.

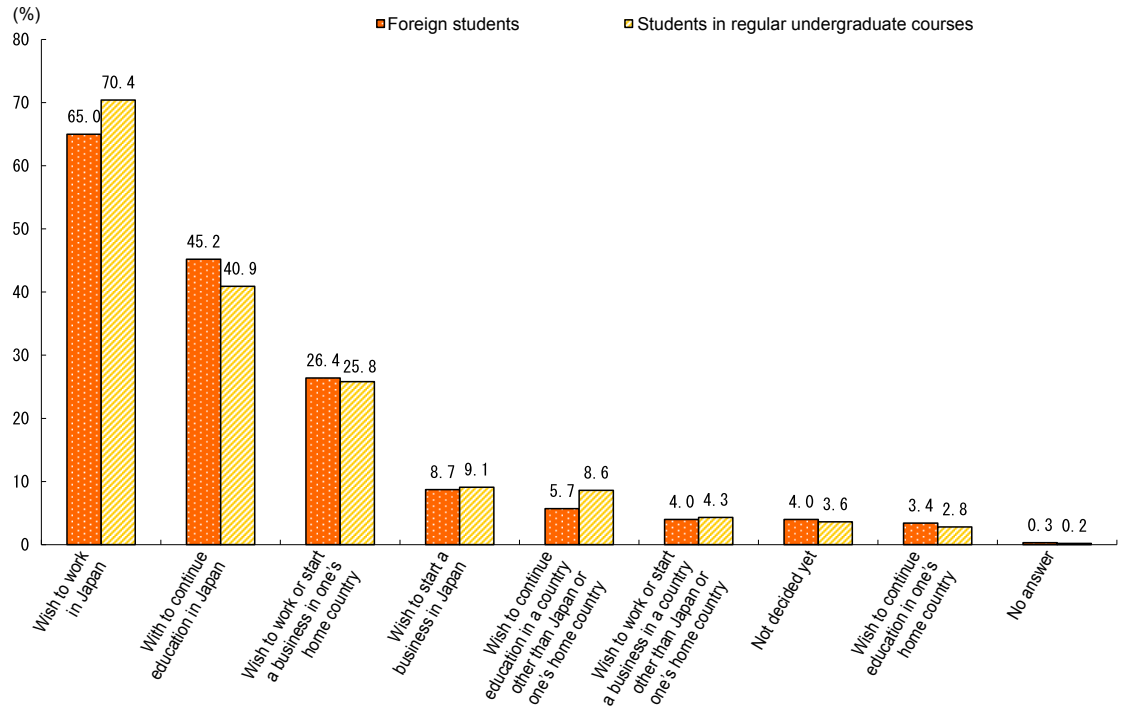
Fig. Column 2-2-2 (2) Paths taken by foreign students after graduation (university students)



Source: Japan Student Services Organization, *Results of Survey on Foreign Student Post-Graduation Paths and Degree Conferment*.

Now let us look at Fig. Column 2-2-2 (3) and the paths foreign students are looking to take after graduation. "Wish to work in Japan" was the most common response, suggesting that there is a strong desire among foreign students to work in Japan.

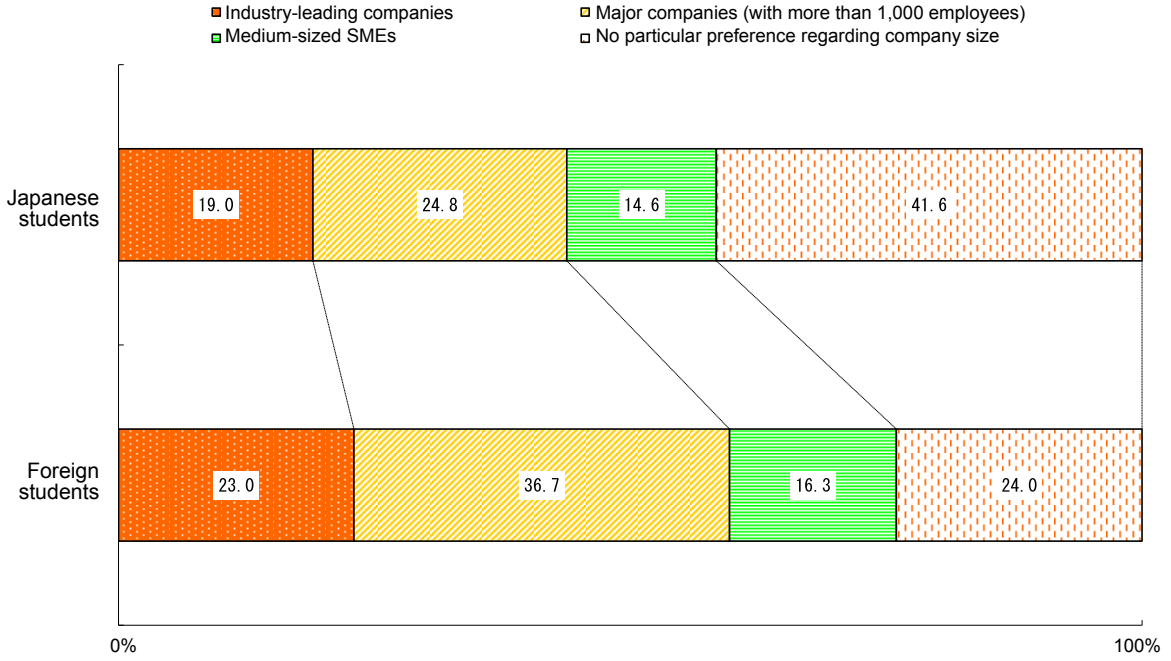
Fig. Column 2-2-2 (3) Paths foreign students wish to take after graduation



Source: Japan Student Services Organization, *Fiscal 2013 Lifestyle Survey of Privately-financed International Students*.
Note: Total does not always equal 100 as multiple responses were possible.

However, when students were asked about the size of company they were targeting for employment, 59.7% of foreign students—versus 43.8% of Japanese students—said they wanted to work for a large enterprise. If SMEs and micro-businesses proactively advertised to foreign students that businesses are a good choice for employment, it could help them secure high-quality human resources (Fig. Column 2-2-2 (4)).

Fig. Column 2-2-2 (4) Company sizes targeted by job hunters

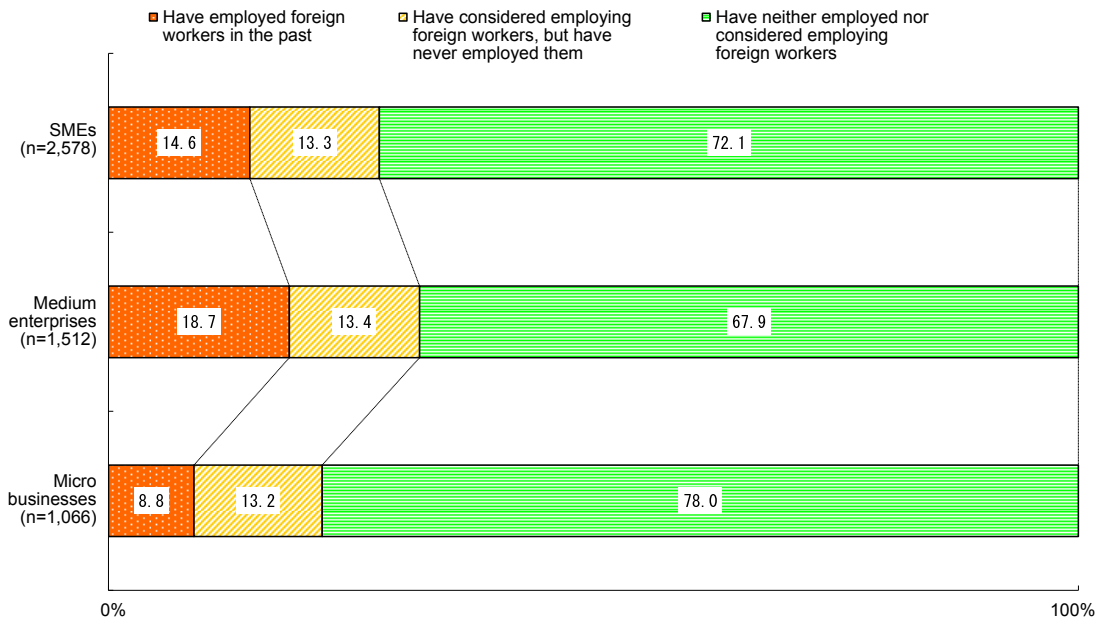


Source: DISCO Corporation, *Results of Fiscal 2015 Survey on Job-Hunting Activities by International Students*.

We have so far examined the employment of foreign workers from their perspective (the supply side). The following pages will look at the employment of foreign workers from companies' perspectives (the demand side).

We will first look at the actual or considered hiring of foreign workers at SMEs and micro-businesses. 14.6% of companies responded that they "have employed foreign workers in the past," 13.3% said they "have considered employing foreign workers, but have never employed them." Thus, about 30% of SMEs and micro-businesses have an interest in hiring foreign workers (Fig. Column 2-2-2 (5)).

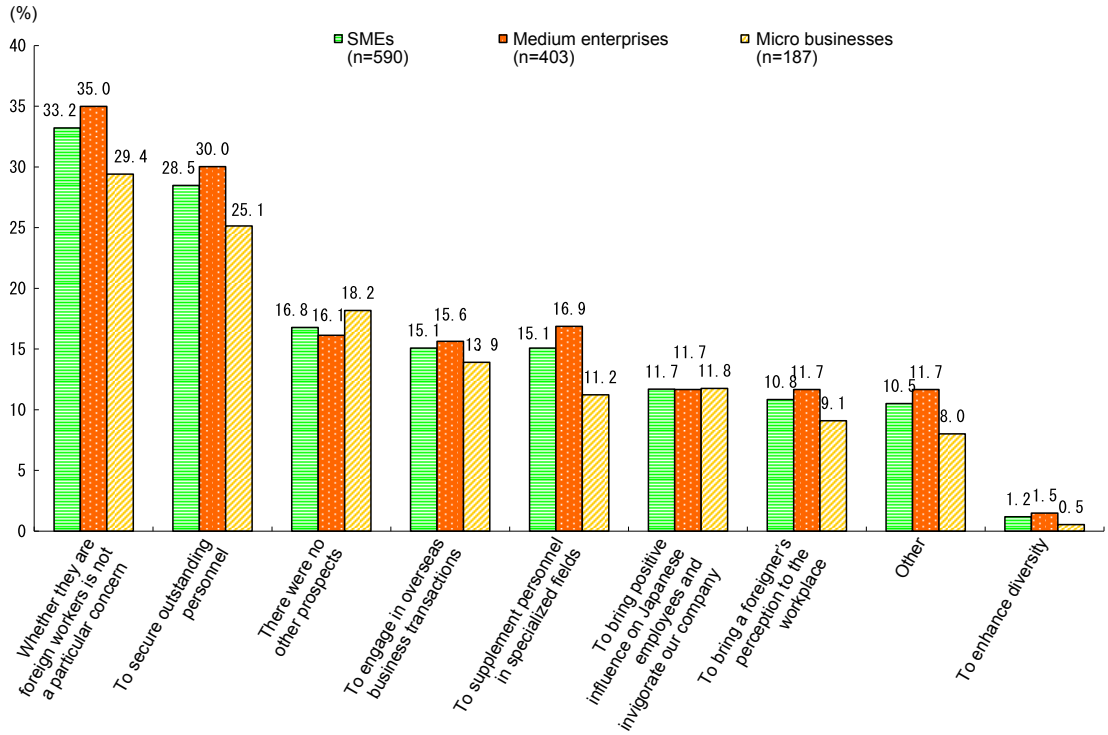
Fig. Column 2-2-2 (5) Hiring of foreign workers



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. Column 2-2-2 (6) shows the reasons for considering the hiring of foreign workers cited by SMEs and micro-businesses who have hired or have considered hiring foreign workers. Many respondents said either "whether they are foreign workers is not a particular concern" or "to secure outstanding personnel," suggesting that consideration is being given to hiring foreign workers for the sake of secure outstanding personnel, with no concern for whether or not the worker is Japanese. More than a few respondents also said "To engage in overseas business transactions," indicating that companies are looking to utilize foreign workers in expanding overseas.

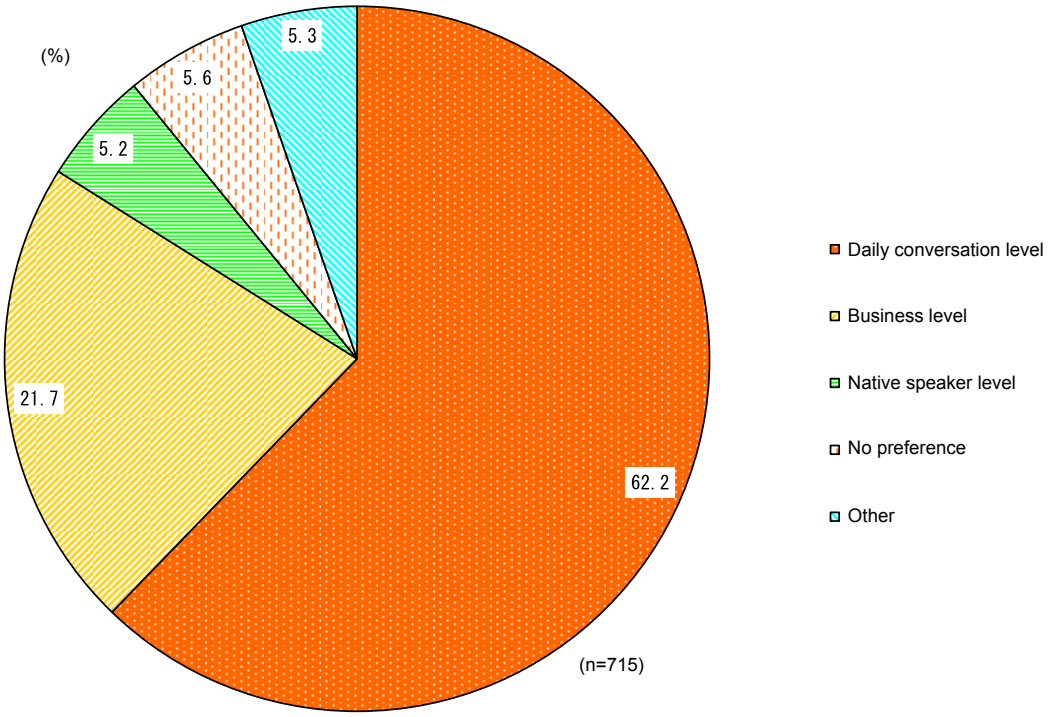
Fig. Column 2-2-2 (6) Reasons for considering the hiring of foreign workers



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100 as multiple responses were possible.

We have so far seen that there are a good number of SMEs and micro-businesses that are thinking about hiring foreign workers, but what level of Japanese ability do these companies look for in such workers? As shown in Fig. Column 2-2-2 (7), the largest group of respondents—at 62.2%—said "daily conversation level," followed by 21.7% who responded with "business level." From this we can see that even foreign workers are required to have a certain degree of Japanese ability—being able to communicate at a basic level but also, in many cases, able to converse smoothly at work.

Fig. Column 2-2-2 (7) Japanese ability required of foreign workers



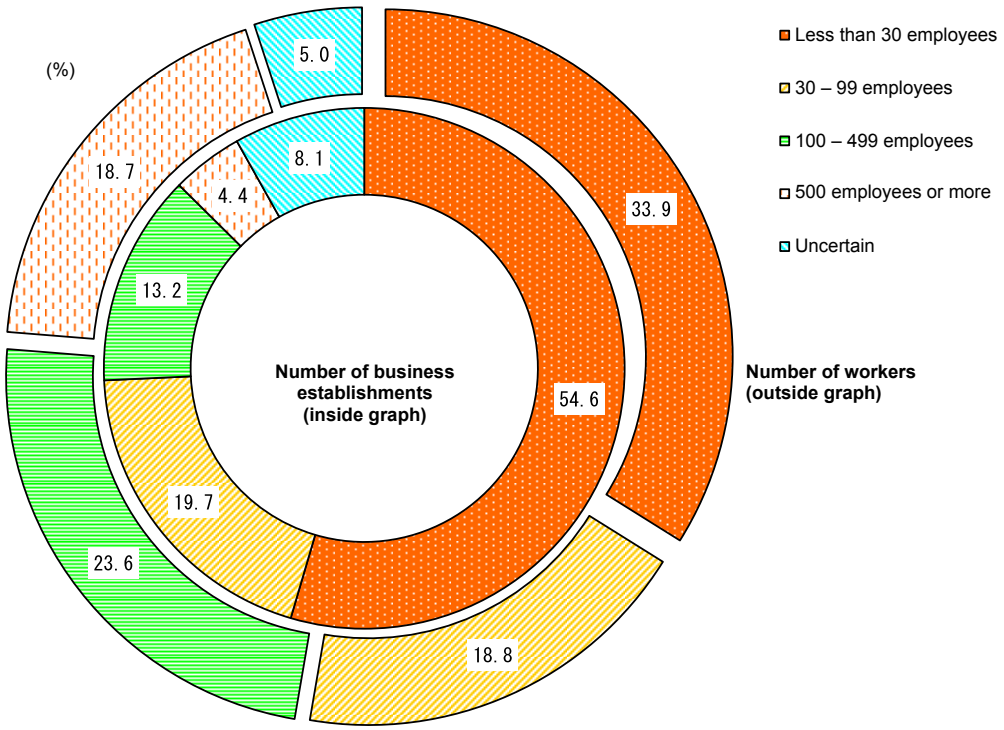
Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Lastly, we examine numbers of foreign workers employed and business establishments that employ foreign workers, based on establishment size (Fig. Column 2-2-2 (8)). 33.9% of workers responded with "less than 30 employees" and 18.8% said "30 – 99 employees," which combined amounts to over half the respondents asked. As for responses from establishments with foreign workers, 54.6% said their total workforce was "less than 30 employees" and 19.7% said "30 – 99 employees." Put alongside with the responses from workers, we can see that SMEs and micro-businesses play a key role in providing jobs to foreign workers in Japan.

This column has looked at the hiring of foreign students from the perspective of SMEs and micro-businesses. We have seen that although there is interest among foreign students to work in Japan, especially at large enterprises, there is not always a large number of foreign students who actually do. On the other hand, nearly 30% of SMEs and micro-businesses are considering hiring foreign workers, indicating that the demand among such enterprises for foreign workers is not inconsiderable. What has become clear is that SMEs and micro-businesses, constrained by limited corporate resources, have a strong interest in hiring as many competent workers as they can and are not bound by the concept of Japanese or non-Japanese—they hire foreign workers simply because they need capable people. In light of such circumstances, there is a need for more programs that allow these enterprises and foreign workers to meet each other's needs.

Below, we will look at an enterprise that is actively hiring foreign workers.

Fig. Column 2-2-2 (8) Foreign workers hired, by establishment size



Source: MHLW, *Situation of Notified Foreign National Employment Status* (End of October, 2014).

Case 2-2-3 Tobata Turret Co., Ltd.

Implementing diversity management in order to secure superior human resources

Tobata Turret Co., Ltd. (employees: 130; capital: ¥22 million), based in Kita-Kyushu City, Fukuoka Prefecture, is a company that designs and manufactures dies for household fittings, electrical parts, and automotive parts, and conducts manufacturing processes including forging, casting, and cutting.

At present (January 2015), the company does not possess any overseas bases, and is not focusing on transactions in overseas markets. However, of its 130 employees, including part-time and casual employees, 21 are non-Japanese (three full-time employees, four trainees and 14 part-time workers). In June 2015, the company intends to take on a further six non-Japanese trainees, bringing its ratio of non-Japanese employees to 20%.

The company began hiring non-Japanese workers when it found itself short-staffed and took on a foreign student from China as a casual employee. According to Mr. Ikeda, a department manager, "At first, quite a number of people within the company were concerned about language and cultural differences, but when he actually started working for us, those concerns proved to be groundless." He continues "With regard to language, most foreigners who have been foreign students in Japan don't have a problem with everyday conversation. Business conversation might be difficult for them, but Japanese students don't necessarily learn business conversation either, and so there is no difference between Japanese and non-Japanese employees from the perspective of the need to offer instruction after they are hired. Regarding cultural differences, as long as workers respect each other, most cultural differences disappear."

With regard to employment procedures, however, companies need to be aware that when they hire a non-Japanese employee, they must satisfy the conditions of employment set for each specific visa status, and then request permission from the Immigration Department.

When Tobata Turret began employing foreign students, not only did resistance to the hiring of non-Japanese workers within the company disappear, but the industriousness of the new workers and their zealous attitude to

work won high praise. In addition to casual employees and trainees, the company also now has full-time non-Japanese employees.

Mr. Ikeda recommends the hiring of non-Japanese employees as a method for SMEs and micro-businesses to secure excellent personnel. He says "There is a strong tendency for superior Japanese students to seek employment with major companies. It will be important for SMEs and micro-businesses to broaden their perspectives and consider non-Japanese employees in order to enable them to find really excellent human resources." Concerning the significance of employing non-Japanese workers for his company, Mr. Ikeda says "At present, we do not have any overseas bases, but we don't know when the chance to advance into overseas markets might open up. Pursuing diversity management is also essential to ensuring that we don't miss any business opportunities."

Trainees and foreign students taking part in an employee trip

Column 2-2-3 Technical Intern Training Program

The Technical Intern Training Program seeks to allow Japan to fulfill its role as an advanced nation and develop in harmony with the international community by bringing skills, techniques, and knowledge to emerging nations and helping develop the people that will grow the economies of these nations.

Created in 1993, this program seeks to give technical skills and other expertise to foreign nationals residing in Japan on "technical intern training" visas under the Immigration Control and Refugee Recognition Act[4].

The Bill on Ensuring Proper Technical Intern Training and Protecting Technical Intern Trainees was jointly submitted by the Ministry of Justice and Ministry of Health, Labour and Welfare on March 6, 2015 with the purpose of improving and expanding the Technical Intern Training Program while ensuring it is properly conducted. As to its purport, the bill seeks to ensure the proper acquisition of technical skills and other expertise through technical intern training for foreign nationals and to protect technical intern trainees, to be accomplished by 1) establishing a system to grant approval for people conducting technical intern training and people supervising these activities, as well as for technical intern training plans, and 2) enacting necessary measures such as forming the Technical Intern Training Organization to be in charge of related administrative duties.

Overview of the Bill on Ensuring Proper Technical Intern Training and Protecting Technical Intern Trainees

1. Ensuring proper administration of the Technical Intern Training Program

(1) Establish a basic philosophy concerning technical intern training and provide for the obligations of related personnel, in addition to establishing basic policy concerning technical intern training.
(2) Create a system for approving technical intern training plans created for individual technical intern trainees, set forth certification standards governing evaluations pertaining to technical intern trainees' acquisition of technical skills and other expertise, establish reasons for denying certification, and draw up provisions concerning the collection of reports, improvement orders, and certification nullification.
(3) Establish a notification system for training administrators.
(4) Establish an approval system for supervising organizations, establish approval standards and reasons for denying approval, and draw up provisions concerning conditions, the collection of reports, improvement orders, and certification nullification.
(5) Establish provisions prohibiting human rights violations against technical intern trainees, as well as punishment for infringers, and take measures to protect technical intern trainees that include providing trainees with information and consultation, and providing liaison functions for trainees transferring to other organizations.
(6) Establish provisions pertaining to making requests for support to parties including the minister having jurisdiction over the business, and establish local councils comprising related administrative bodies.
(7) Establish the Technical Intern Training Organization as a government-sanctioned entity
Conduct the following as examples of some the initiatives aimed at providing consultation and support to technical intern trainees:
- Certify technical intern training plans, as pertains to (2)
- Request reports from training administrators and supervising organizations and inspect operations, as pertains to (2)
- Receive notifications from training administrators, as pertains to (3)
- Survey supervising organization approval, as pertains to (4)

2. Improve and expand the Technical Intern Training Program

Allow for the receiving of third-generation technical intern trainees (conduct 4th and 5th year technical intern training), limited to exemplary training administrators and supervising organizations.

3. Other actions

Make necessary amendments, including revising the Immigration Control and Refugee Recognition Act, which sets forth provisions concerning technical intern training status of residence.

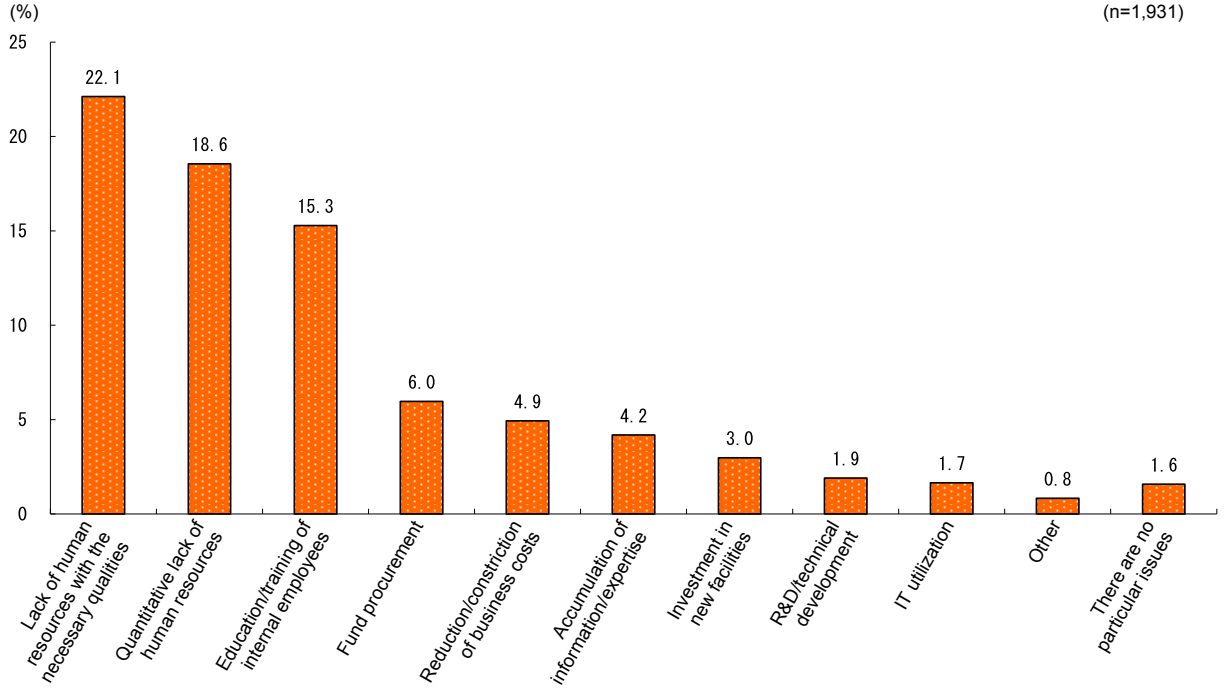
4) According to statistics compiled by the Japan International Training Cooperation Organization (JITCO), there were 40,410 JITCO immigration support technical trainees (1st generation) in fiscal 2013.

[3] Human resource securement and business management

The discussion hitherto has looked at the factors behind the lack of human resources at SMEs and micro-businesses. The following pages will explore the impact that this lack is having on business management.

Fig. 2-2-17 shows management issues concerning overall business activities at companies looking to maintain and expand their business. With 22.1% and 18.6% of respondents citing a "lack of human resources with the necessary qualities" and "quantitative lack of human resources," respectively, we can see that many companies are facing issues related to securing human resources. 15.3% said "education/training of internal employees," indicating that human resource development, as well as their securement, is a major management issue. These results suggest that, of the labor, material, money, information that constitute corporate resources, labor (human resources) is a particularly important issue to SMEs and micro-businesses.

Fig. 2-2-17 Management issues at companies focused on maintaining and expanding their business

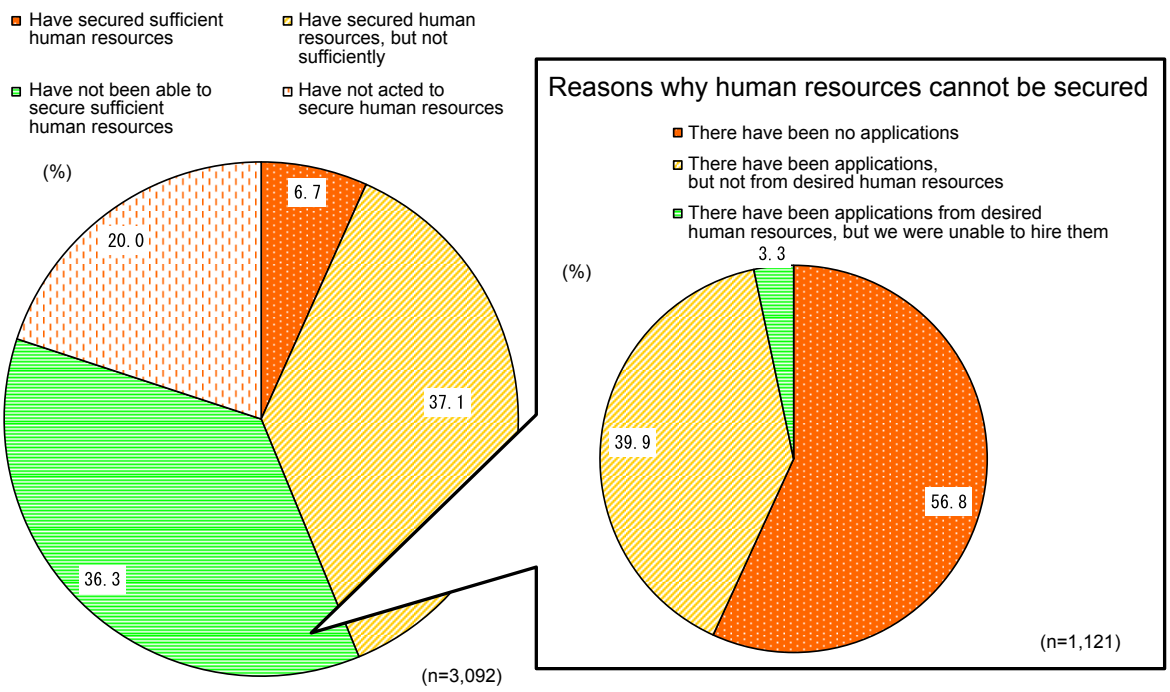


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Notes:
1. Although respondents were asked to give their top three responses concerning management issues, only the top responses are reflected here.
2. "Other" includes "transfers or dismissal of current employees," "disposal of equipment that has become unneeded or inefficient," and "utilization of external resources."
3. "Lack of human resources with the necessary qualities" and "quantitative lack of human resources" refer to responses received for both general personnel and core personnel.

Next, in connection with the human resource problems that account for so many corporate resource issues, Fig. 2-2-18 looks at whether SMEs and micro-businesses are sufficiently securing human resources. Less than 10% of respondents said they "have secured sufficient human resources" and under 40% said they "have secured human resources, but not sufficiently" indicating that SMEs and micro-businesses are not securing as many human resources as they need. 36.3% of companies chose "have not been able to secure sufficient human resources," with the majority of reasons for such being either "there have been no applications" or "there have been applications, but not from desired human resources." This would imply that these enterprises' human resource shortages are serious in both qualitative and quantitative terms.

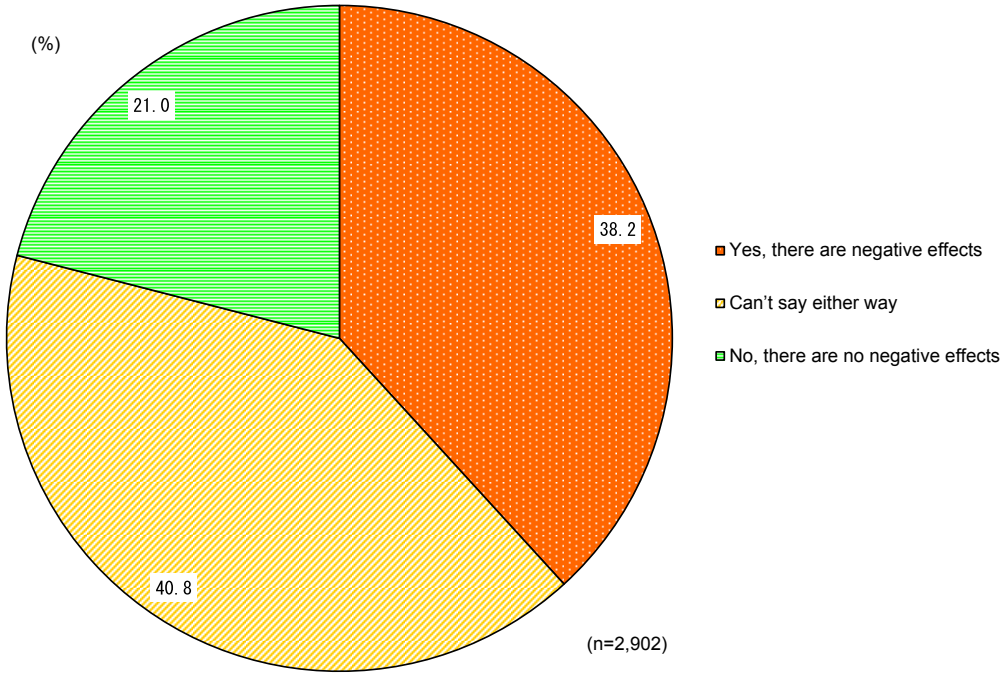
Fig. 2-2-18 Human resource securement



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: "Have not acted to secure human resources" refers to those who answered with "we do not have the need or the resources to secure them."

Looking at Fig. 2-2-19 and whether or not human resource insufficiencies at SMEs and micro-businesses were negatively impacting their efforts to maintain and expand business, just under 40% of enterprises said that human resource insufficiencies were hindering efforts to maintain and grow their business, while only about 20% answered "No, there are no negative effects." As we can see, securing human resources and developing them into capable workers is a problem directly connected to business management. As such, putting in place the business environments conducive to SMEs and micro-businesses securing the human resources they need will be essential if these enterprises are to reliably maintain and expand their businesses. To this end, we will need to take a closer look at conditions related to human resources securement and development among SMEs and micro-businesses. Section 2 will therefore closely examine the results of a questionnaire asking SMEs and micro-businesses about human resource securement and retention.

Fig. 2-2-19 Harmful effects of human resource insufficiencies on business



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Section 2 Human resource securement and retention at SMEs and micro-businesses

Alongside focusing on the employment structure to understand the state of human resources at SMEs and micro-businesses in Japan, Section 1 looked at human resource trends, namely these enterprises' increasing feelings that human resources are insufficient and how such inefficiencies impact business management. This section will take a deeper look at efforts to secure human resources and the problem of retaining personnel—a problem inextricably linked to securing human resources. Based on results gleaned from the *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses*[5], the discussion will explore human resource securement, a major issue that has been brought into relief concerning human resources.

[1] Characteristics of companies that succeed in securing human resources

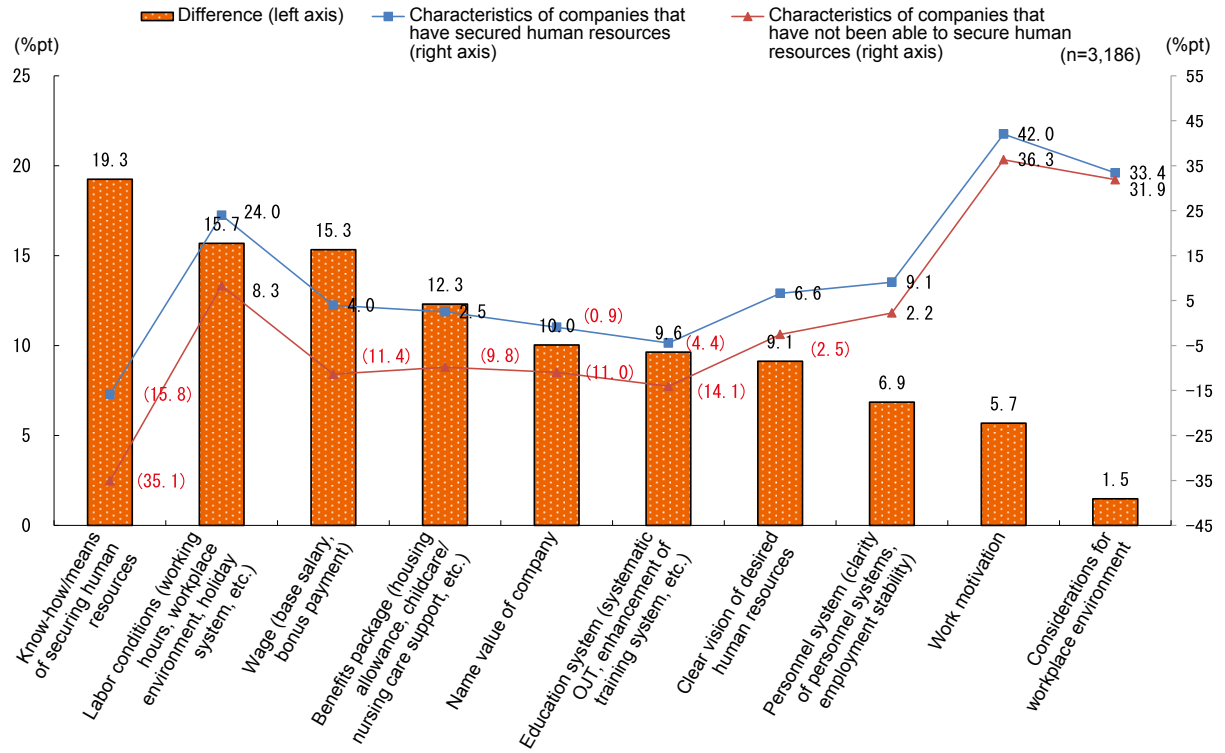
Let us first look at the characteristics of SMEs and micro-businesses that are successful in securing human resources and those that are not. Fig. 2-2-20 examines the characteristics[6] of "companies that have secured human resources" and "companies that have not been able to secure human resources." Looking at the line graph (right axis), we see that large numbers of enterprises—both those that have secured human resources and those that have not—chose such responses as "work motivation" or "considerations for workplace environment," suggesting that such points are seen as corporate strengths. On these points, no major differences are seen between "companies that have secured human resources" and "companies that have not been able to secure human resources."

Looking at the differences in characteristics between "companies that have secured human resources" and "companies that have not been able to secure human resources" as shown by the bar graph (left axis), big differences are seen in the areas of "know-how/means of securing human resources" (19.3 percentage points), "labor conditions" (15.7 percentage points), and "wage" (15.3 percentage points). These results suggest that the differences between "companies that have secured human resources" and "companies that have not been able to secure human resources" lie not just in working conditions and wages, as is often cited, but also in having strengths in methods and expertise concerning human

5) Commissioned by the SME Agency and conducted by the Nomura Research Institute in December, 2014, the questionnaire targeted 23,000 companies (with a 15.2% response rate) and 5,144 Internet monitors.
6) For each point, the percentage of companies who indicated that point was a "weakness" was subtracted from the percentage who indicated that point was a "strength."

resource securement—what might be called companies' employment ability. As not all SMEs— especially micro businesses— regularly hire people, there is a strong possibility that such enterprises do not have sufficient basic know-how concerning hiring, that is, know-how involving what methods to use and what kind of human resources to hire. Consequently, it appears that companies with issues securing human resources need to first acquire a fundamental knowledge concerning hiring.

Fig. 2-2-20 Characteristics of companies that have and have not been able to secure human resources



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Notes:
1. For companies that "have secured" human resources, figures represent the sum of companies that said "have secured sufficient human resources" and those that said "have secured human resources, but not sufficiently."
2. Characteristics pertaining to human resource employment were calculated as the percentage of companies that said "weakness" subtracted from the percentage that said "strength."
3. Differences were calculated by subtracting "characteristics of companies that have not been able to secure human resources" from "characteristics of companies that have secured human resources."

Human resource securement, based on recruiting method, recruiter, and skill in transmitting information

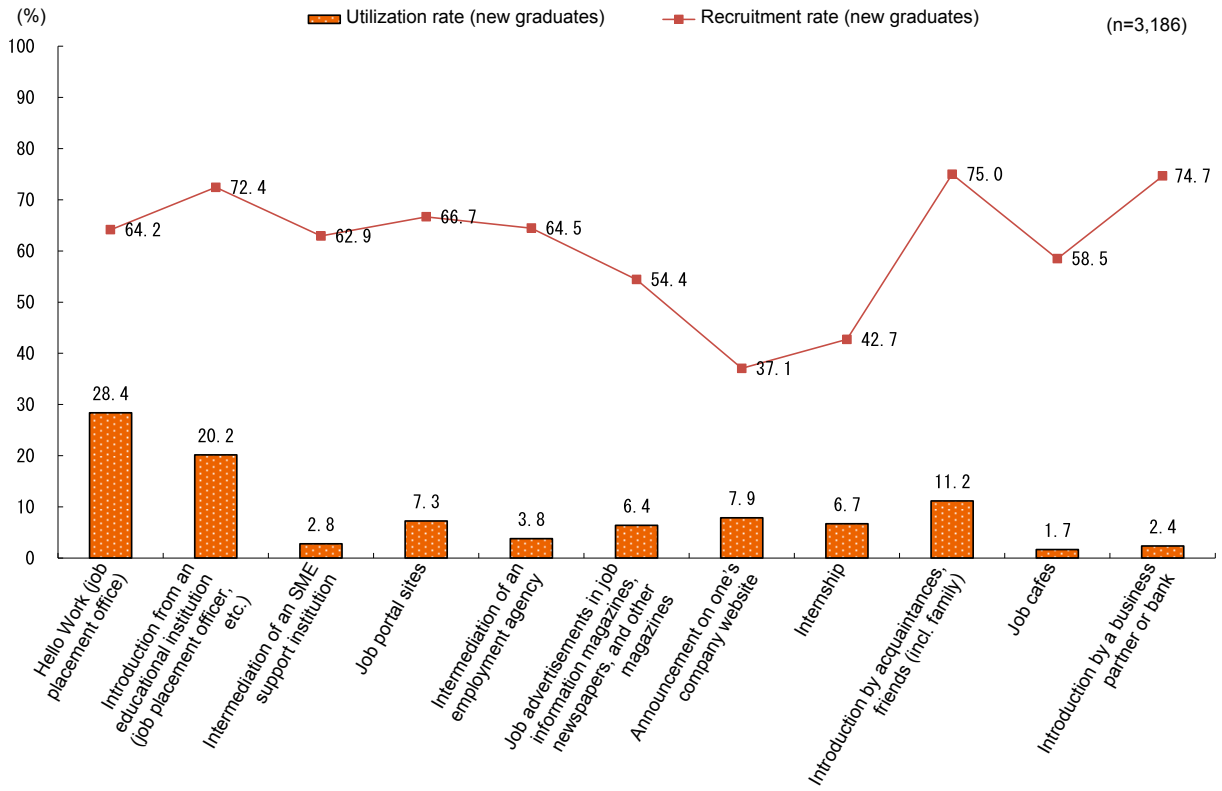
To further explore the significant difference seen between "companies that have secured human resources" and "companies that have not been able to secure human resources" in terms of "know-how/means of securing human resources" among SMEs and micro-businesses, we will take a closer look at the hiring of human resources from the three perspectives of recruiting method, recruiter, and skill in transmitting information.

The first point of focus is the methods that SMEs and micro-businesses used to secure human resources. Fig. 2-2-21 shows the state of new graduate employment and Fig. 2-2-22 shows methods used for midcareer hiring at SMEs and micro-businesses. The largest group

of companies (28.4%) use Hello Work to hire new graduates. This is followed by the 20.2% who hire based on introductions from educational institutions.

In terms of recruitment rate (companies that chose "have recruited" or "have utilized") for each recruiting method, Hello Work was not always towards the top; recruitment rates were high for "introduction from an educational institution," "introduction by acquaintances, friends," and "introduction by a business partner or bank."

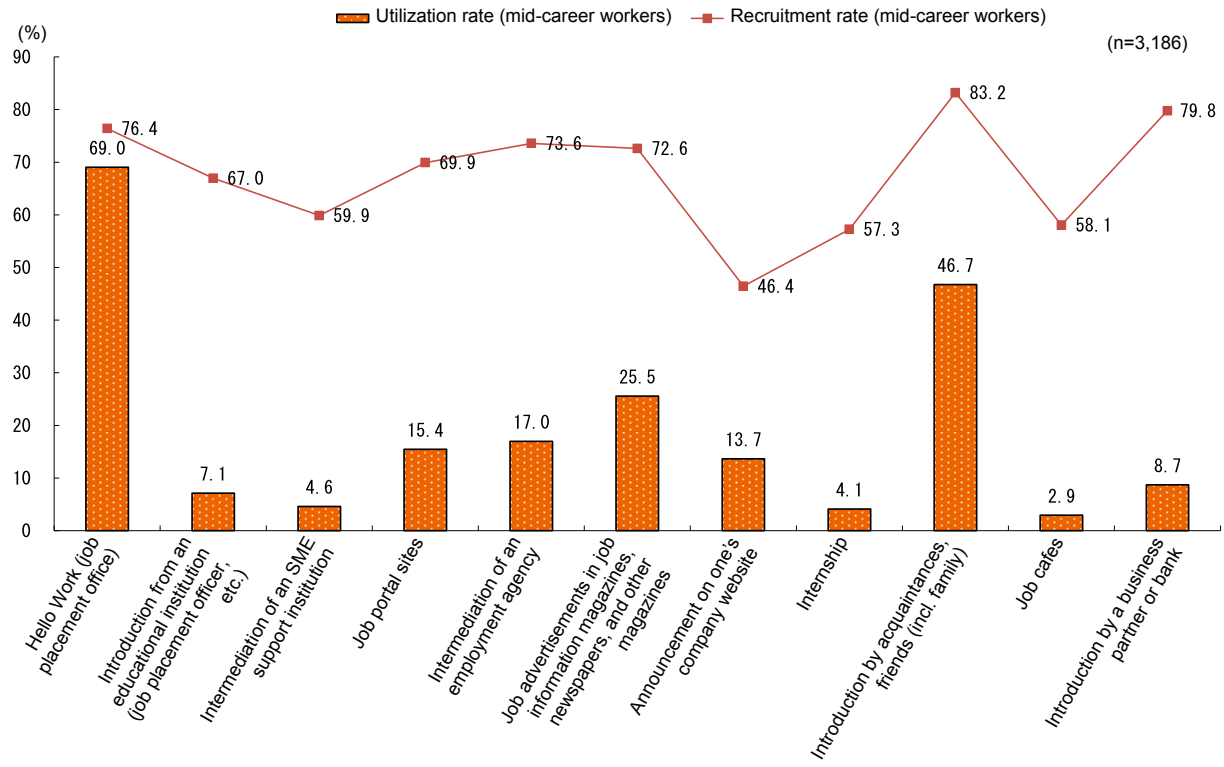
Fig. 2-2-21 Utilization and recruitment rate of each recruiting method (new graduates)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Recruitment rates were calculated for each recruiting method using the formula "'have recruited' ÷ 'have utilized'."

Let us next look at mid-career recruiting methods, shown in Fig. 2-2-22. Here we see that mid-career hiring is overall more common than new graduate employment, illustrating that SMEs and micro-businesses are very active in employing people mid-career. In terms of individual recruiting methods, Hello Work was the top choice at 69.0%. Other common responses were "introduction by acquaintances, friends (incl. family)" at 46.7% and "job advertisements in job information magazines, newspapers, and other magazines" at 25.5%. Recruitment rates were highest for "introduction by acquaintances, friends" and "introduction by a business partner or bank," indicating a trend is similar to that for new graduate employment. Concerning human resource recruiting methods at SMEs and micro-businesses, we can see that the most effective recruiting methods are those involving face-to-face interaction with the potential employee, such as through individual contacts with recruiters or workers at partner companies or education institutions (see Appended notes 2-2-1, 2, and 3 concerning analyses of employment methods based on company size).

Fig. 2-2-22 Utilization and recruitment rate of each recruiting method (mid-career)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Recruitment rates were calculated for each recruiting method using the formula "'have recruited' ÷ 'have utilized'."

Fig. 2-2-23 shows the kinds of issues that exist with each of these methods of human resource securement. From this we can see that even Hello Work, which SMEs and micro-businesses use as a recruiting method, is not as successful as other methods in terms of human resource numbers, quality, and retention rates. With respect to "introduction by acquaintances, friends (incl. family)," although a good number of companies see problems with the quality and retention rate of human resources recruited in this way, the most commonly cited problems here are "there are few human resources" and "poor usability" as a recruitment method. The same trend is seen for "introduction from an educational institution (job placement officer, etc.)," with the same problems cited. On the other hand, while the problem of "too few human resources" is less severe with "job advertisements in job information magazines, newspapers, and other magazines," "intermediation of an employment agency," and "job portal sites (Rikunavi and Mynavi, etc.)" methods, the high costs pose a problem. As for "announcement on one's company website," while many companies who have their own website also have a recruiting page, that they do not receive applications regularly makes this a recruiting method that is not always effective.

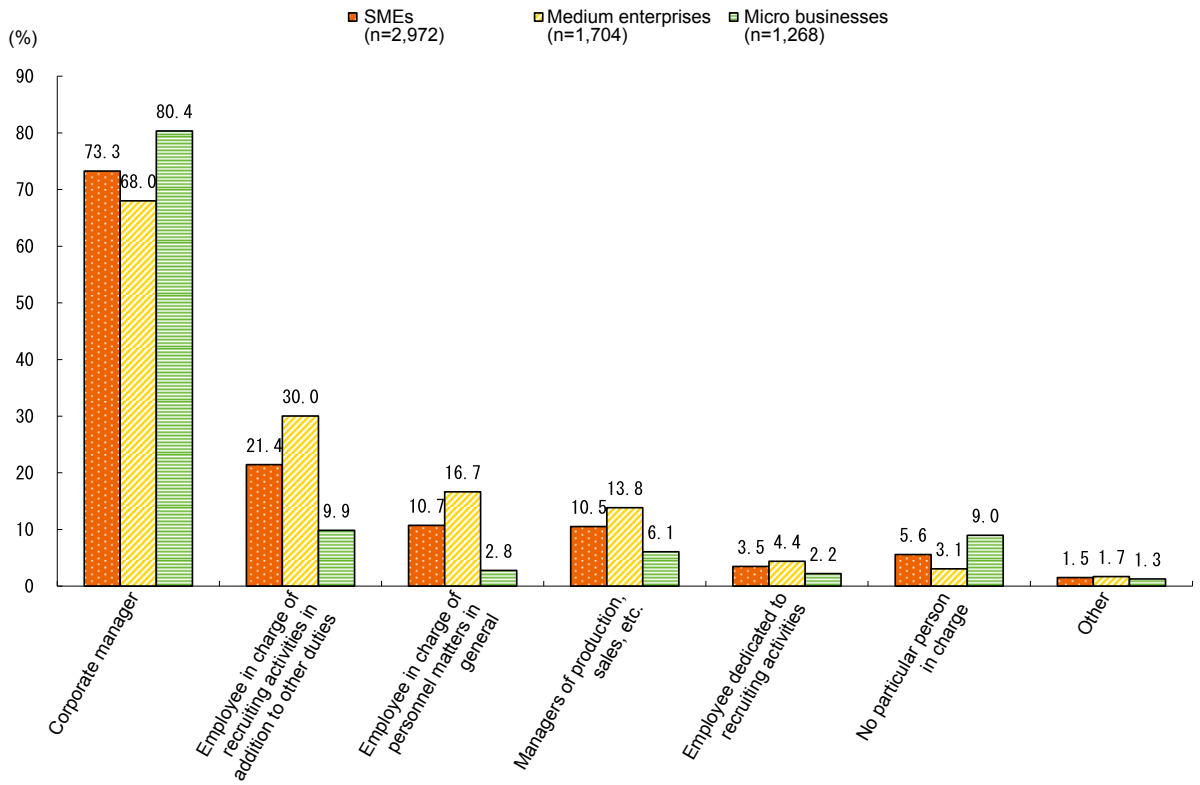
Fig. 2-2-23 Problems with different methods of securing human resources

(%)

	Issues						
	High cost	There are few human resources	The quality of human resources is poor	Official offers are frequently declined by prospects	Personnel retention rate is low	Poor usability	Other
Hello Work (job placement office) (n=2,505)	1.0	27.7	33.9	5.7	19.9	5.8	5.9
Introduction by acquaintances, friends (incl. family) (n=971)	3.5	40.1	9.6	1.0	7.3	20.7	17.8
Job advertisements in job information magazines, newspapers, and other magazines (n=978)	33.4	21.5	18.7	3.5	13.7	2.5	6.7
Introduction from an educational institution (job placement officer, etc.) (n=618)	2.6	40.8	9.4	5.3	15.9	11.7	14.4
Intermediation of an employment agency (n=702)	51.3	14.8	12.4	2.1	8.1	6.1	5.1
Job portal sites (n=697)	46.1	12.1	10.2	9.5	10.0	4.6	7.6
Announcement on one's company website (n=387)	1.0	50.9	9.3	2.3	4.7	4.7	27.1
Introduction by a business partner or bank (n=274)	9.1	28.5	5.5	0.7	3.6	20.1	32.5
Internship (n=236)	3.4	27.1	8.1	4.2	6.4	14.8	36.0
Intermediation of an SME support institution (n=226)	6.6	25.2	11.1	1.3	5.8	18.6	31.4
Job cafes (n=147)	2.7	21.1	8.2	4.1	4.1	15.0	44.9

Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Notes: 1. Red: 40% or above, Orange: 20% or above and less than 40%, Light blue: 10% or above and less than 20%, Blue: less than 10%
2. No "Other" category is presented here.

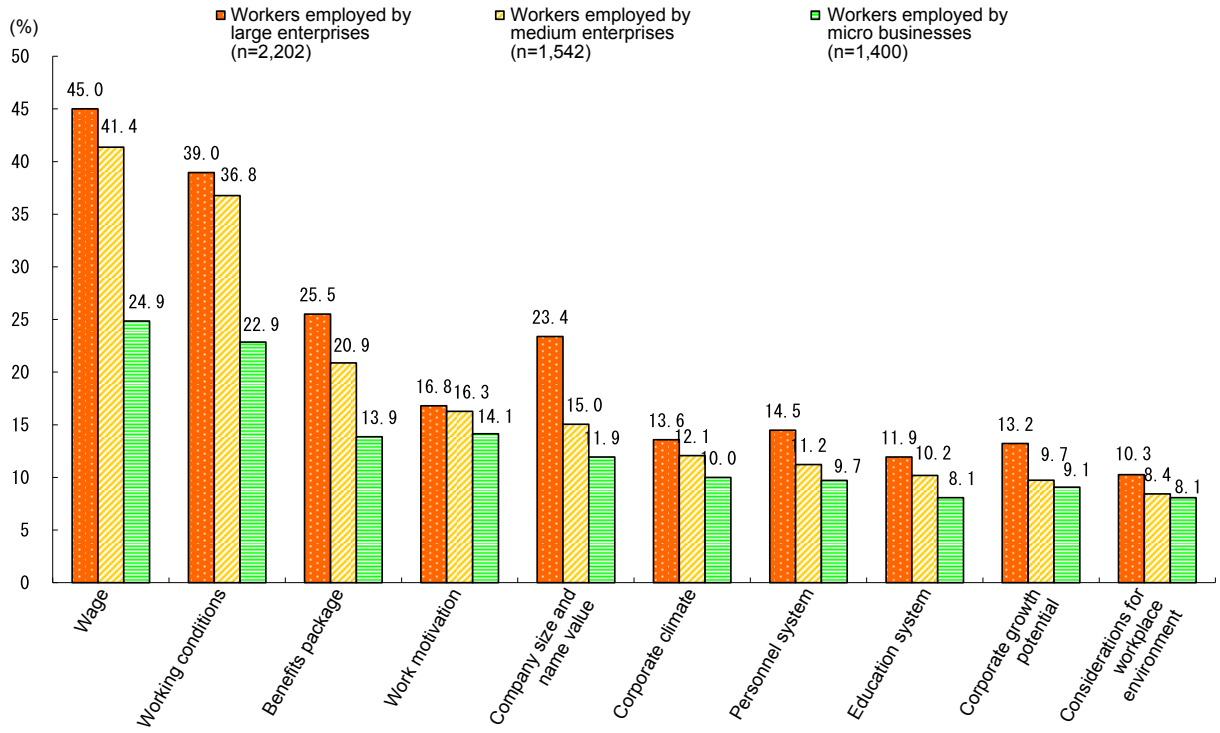
Fig. 2-2-24 Human resource recruiters



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100 as multiple responses were possible.

Let us next look at Fig. 2-2-24 and the recruiters of human resources. When SMEs and micro-businesses were asked who did the recruiting at their companies, a high percentage—73.3%—said "corporate manager," followed by "employee in charge of recruiting activities in addition to other duties" at 21.4% and "employee in charge of personnel matters in general" at 10.7%. This shows that corporate managers themselves often handle the recruiting of human resources at SMEs and micro-businesses in order to acquire the people that will best benefit the company. Broken down by company size, although relatively few medium enterprises said "corporate manager," they more often said "employee in charge of recruiting activities in addition to other duties" or "employee in charge of personnel matters in general," indicating that companies divide up recruiting responsibilities as they grow larger. As for micro businesses, the "corporate manager" percentage grows along with "no particular person in charge," reflecting that human resource recruiting is often not systematic at organizations.

Fig. 2-2-25 Matters applicants clearly understood about an employer when beginning employment



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100 as multiple responses were possible.
2. Based on matters clear to the employee when beginning employment.

Lastly, let us change gears and look from the employee's perspective at the skill SMEs and micro-businesses demonstrate in transmitting information concerning recruiting. Fig. 2-2-25 shows matters that were well understood by the employee when beginning employment, and responses were universally high for "wage," "working conditions," and "benefits package." In terms of company size, those beginning work at large enterprises more often get sufficient information about every aspect of the job. An area where large enterprises differed significantly from other enterprises was information about "company size and name value," chosen by 23.4% of respondents. People beginning employment at medium enterprises get clear information about their job less often than at large enterprises, and even less still at micro businesses. Among micro business employees, the percentages of "wage" and "working conditions" responses were particularly low. This shows that the quality of information provided at the start of employment differs significantly depending on enterprise size, with SMEs and especially micro businesses not providing good information about working conditions

and job responsibilities. Such enterprises are not always providing the information sought by applicants. Looking at the information enterprises provide to applicants concerning their employment, that applicants are not getting the information they need to decide whether to accept employment could be a factor hindering efforts by SMEs and micro-businesses to secure human resources.

Furthermore, insufficient information given at the time of employment could be creating mismatches between actual working conditions and job responsibilities and employees' expectations of such after beginning work, contributing to worsen human resource retention rates.

The above has looked at human resource recruiting from the perspectives of "recruiting methods," "recruiters," and "skill in transmitting information." We have seen that different company sizes have different capabilities concerning the usage of suitable recruiting methods, systematic recruitment of human resources, and provision of information about the company, and that this may be a factor behind the reason for SMEs and especially micro businesses for being unable to secure sufficient human resources.

It is important to note that companies achieving success with human resource recruiting characteristically not only offer desirable working environments and motivate their employees, they have recruiting expertise, employ effective recruiting methods, and excel at clarifying the kind of people they are looking for. For SMEs and especially micro businesses with small workforces, which often do not regularly hire people, it would appear that a useful means of support could be providing basic know-how concerning human resource recruiting.

The below presents a case of a company that is successful in securing human resources.

Case 2-2-4 IBS Co., Ltd.

Recruiting efforts that communicate the nature of the company without exaggeration

IBS Co., Ltd. (employees: 30; capital: ¥280 million), based in Kawasaki City, Kanagawa Prefecture, operated a building maintenance business for 30 years following its establishment, but in 2009 it transformed its business, and today operates an "environmental hygiene" business ("environmental hygiene" is the term that the company uses for its cleaning business).

Prior to the transformation of its business, the company hired experienced workers, but following its change of business it began to hire new graduates, deciding that they would more easily absorb the principles of the new business. Environmental hygiene has an image of being dirty, dangerous and difficult, but IBS is able to hire between five and ten new graduates per year, mainly university students.

Broadly speaking, there are three reasons for the company's success in hiring. The first is the fact that it presents a clear image of the type of staff members it requires. When hiring new graduates, the company seeks applicants who are able to pay attention to small details in a way that only women can, who possess a high level of aesthetic awareness, and who are also interested in the nature of the company's business. The second is that the company communicates the details of its business just as it is. As part of its hiring activities, to create interest among students IBS produces movies to introduce its business, and has employees demonstrate the nature of its work in booths at job exhibitions. By these means, the company presents the good and bad points of its work without adornment, enabling it to hire staff to whom it genuinely appeals.

And third, IBS supports to make a kind of atmosphere that their employees are able to work actively.

The company organizes clean-ups of its local area and visits to elementary schools to offer lessons as volunteer activities. In these activities there is little attention to the participants' normal status in the company, and they allow an opportunity for natural conversation between staff members who would ordinarily have little contact with each other, promoting good communication among employees.

IBS also establishes project teams in order to resolve a variety of issues within the company. Front-line staff rather than management are the central members of these teams, and each member has a free hand in the team's operation, resulting in increased work motivation among the company's employees.

By means of initiatives like its volunteer activities, IBS ensures an open atmosphere within the company, and through its project teams, employees are able to actively address problems in the company, creating a workplace environment in which each individual is able to use their abilities to the greatest possible extent. This environment is part of the company's appeal, and represents a strength that helps it to attract the next generation of staff members.

As we have seen above, IBS has worked to increase its corporate appeal by clearly indicating the type of staff members that it is looking for, by utilizing measures that clearly communicate the nature of its business to students who may apply for positions, and, in addition, by creating a workplace environment which encourages employees to work independently. Tomoyuki Yano, the company's President, says "We have had new employees telling us that the decision to join the company was made for them when they first opened our door and heard our employees laughing. I think that this is proof that our company advertises itself just as it is."

Eight new graduates hired by IBS in the same intake

[2] Retaining human resources

Following on the discussion so far focused on securing human resources, we will now look at a problem related to human resource insufficiencies that is as critical as securing people: retaining people. The discussion looks at the state of human resource retention from the perspective of both employers (SMEs and micro-businesses) and employees.

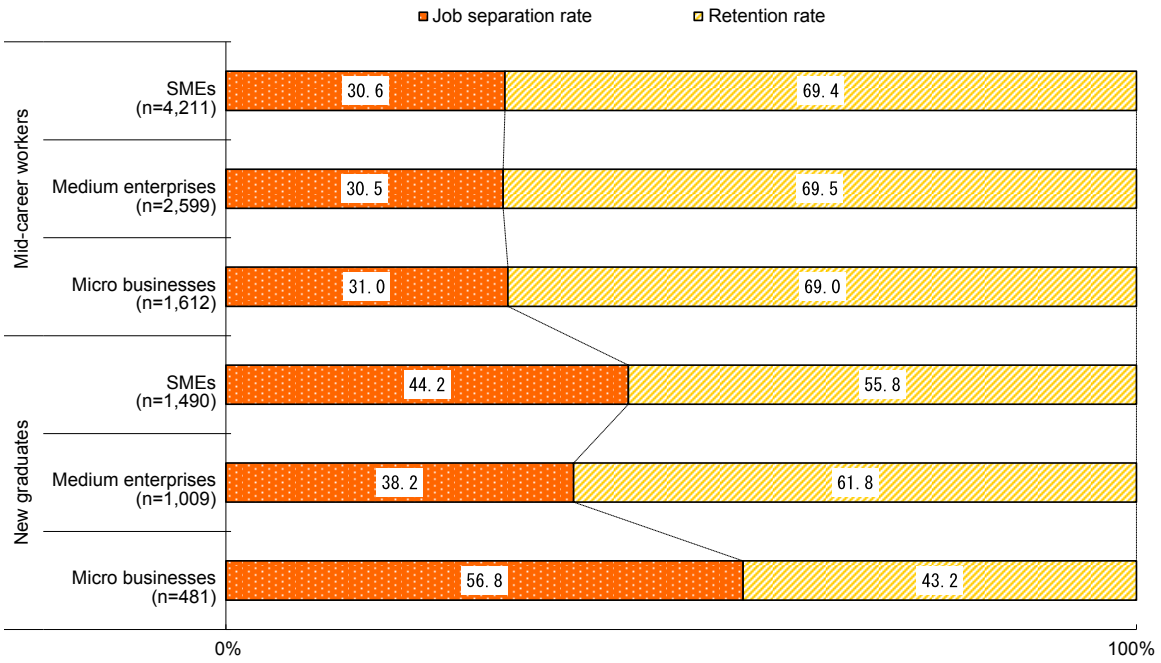
Fig. 2-2-26 examines job separation rates for full-time employees and shows that while rates have seeing a slow decline at both large enterprises and SMEs, rates among SMEs are consistently higher than at large enterprises. The job separation rate at SMEs was 12.3% in 2012.

Fig. 2-2-26 Job separation rates for full-time employees, by company size

Source: MHLW, *Survey on Employment Trends*.
Notes: 1. "Job retention rate" = "people leaving their jobs" ÷ "full-time employees as of January 1 of the survey year (excludes part-time workers)"
2. SMEs are considered to have between 5 and 99 full-time employees throughout the company, and large enterprises 100 or more. Presented job retention rates were reported by the offices of the respective companies.

Fig. 2-2-27 looks at the results of a questionnaire focusing on job separation rates at SMEs and micro-businesses. From this we can see that about 30% of mid-career hires quit within three years after beginning employment and over 40% of new graduates—close to half—leave their jobs within the same timeframe. Looking at company size, job separation rate differences are minor with mid-career hires. With new graduate hires, however, the micro business job separation rate far exceeds that for medium enterprises: more than 50% quit their first job within three years of starting. These results suggest that there is an urgent need to retain these workers, people recruited at the expense of the limited corporate resources of SMEs and micro-businesses and responsible for these companies' futures.

Fig. 2-2-27 Job separation rates of workers at SMEs (third year of employment)

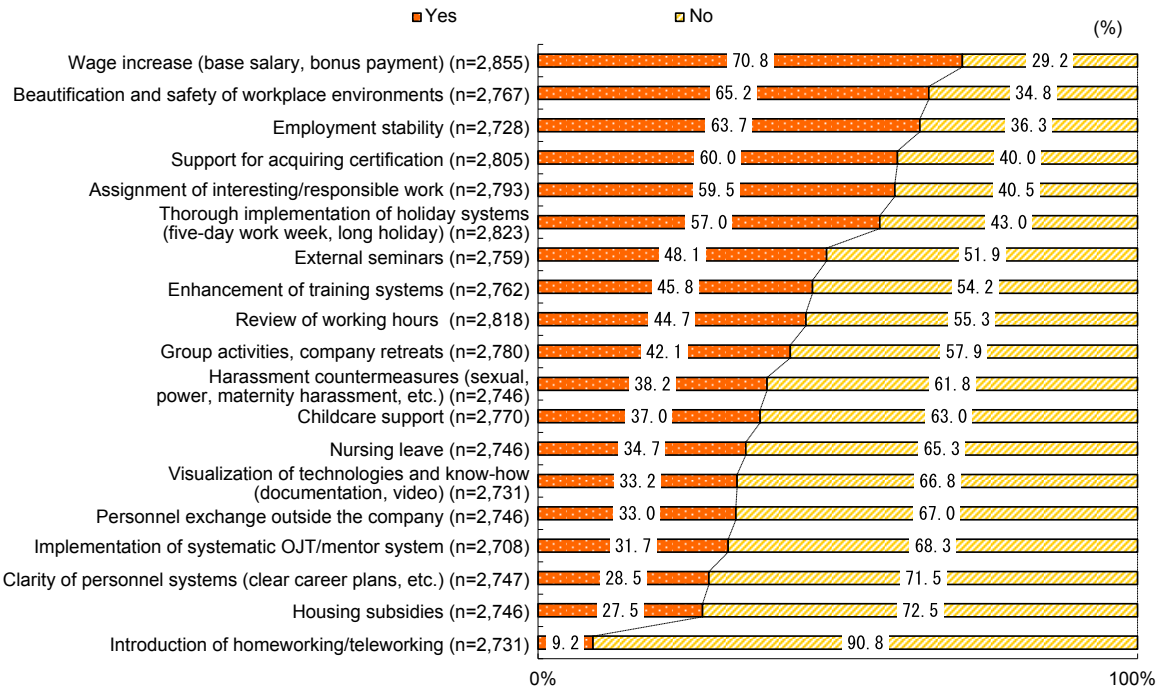


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

We will now explore the initiatives SMEs and micro-businesses are taking to retain human resources. In Fig. 2-2-28, which shows initiatives taken by SMEs and micro-businesses to retain human resources, we see that 70.8% are engaged in "wage increase" and 63.7% are working on "employment stability." These results suggest that, as we saw in Section 1, SMEs and micro-businesses are creating jobs with a strong awareness of the importance of their role as job creators.

However, few companies cited involvement with "introduction of homeworking/teleworking" (9.2%) or "housing subsidies" (27.5%).

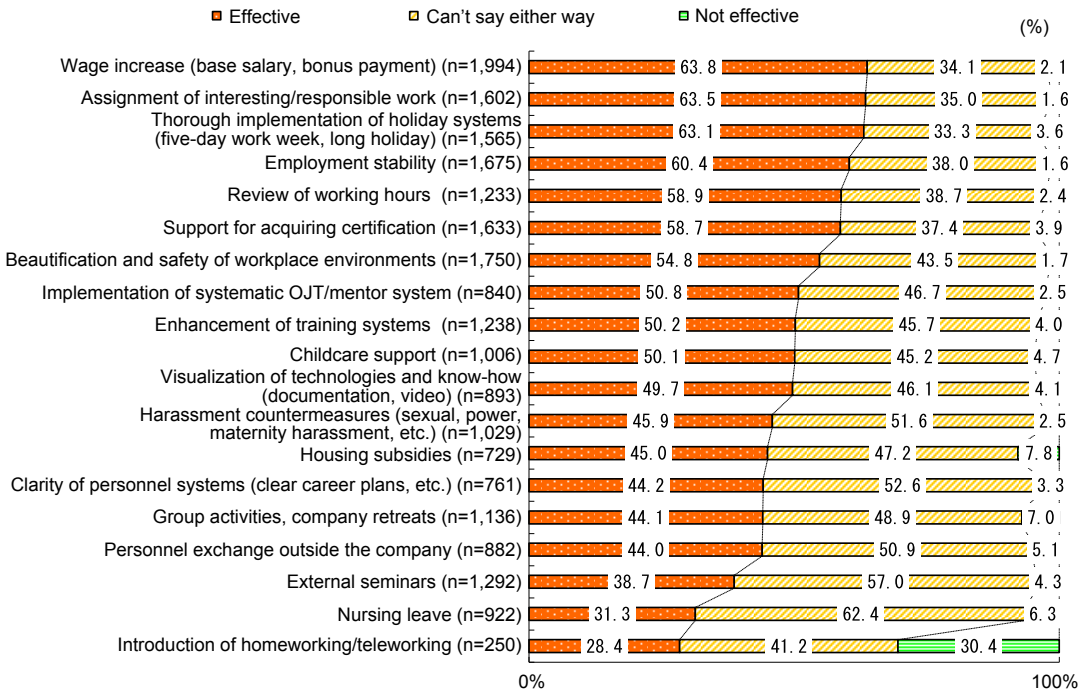
Fig. 2-2-28 Initiatives targeting human resource retention



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. 2-2-29 shows the effectiveness of initiatives taken to retain human resources. High percentages of respondents stated the following initiatives were effective: "wage increase" (63.8%), "assignment of interesting/responsible work" (63.5%), and "thorough implementation of holiday systems" (63.1%). Less effective were "introduction of homeworking/teleworking" (28.4%), "nursing leave" (31.3%), and "external seminars" (38.7%). 30% of respondents said that the introduction of homeworking/teleworking was ineffective at retaining workers. While working from home is effective at achieving a work-life balance for those who have a child to care for or who have a long commute, a problem with such initiatives from the point of view of retaining human resources is that it may actually weaken the worker's relationship with the company.

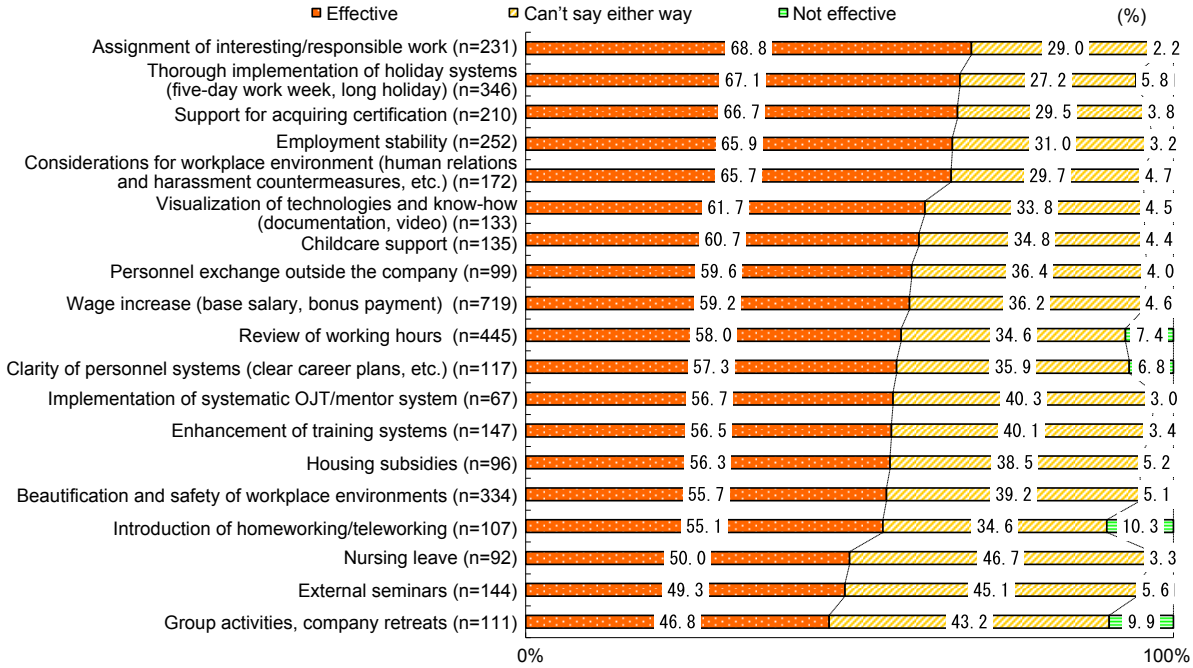
Fig. 2-2-29 Human resource retention initiatives seen as effective by companies



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

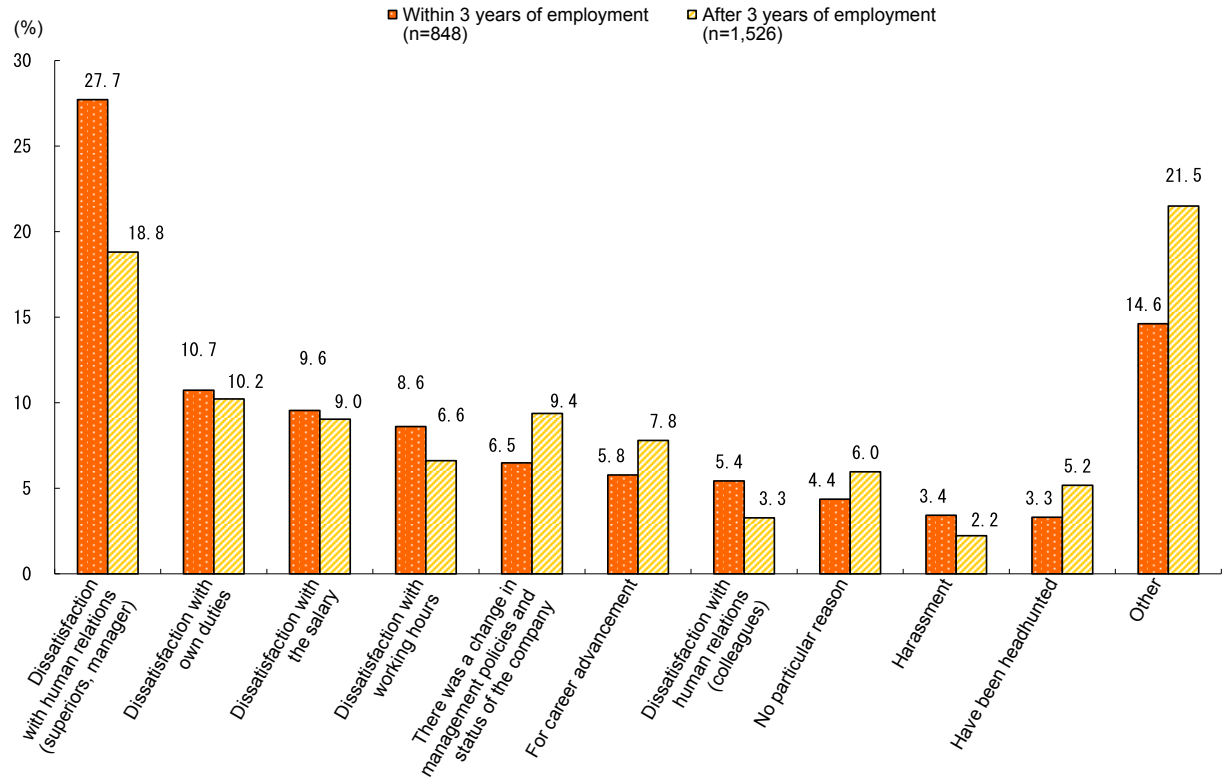
Fig. 2-2-30 looks from the employee's perspective concerning initiatives taken by SMEs and micro-businesses to retain human resources. Initiatives deemed most effective were "assignment of interesting/responsible work" at 68.8%, "thorough implementation of holiday systems" at 67.1%, and "support for acquiring certification" at 66.7%. 60.7% of respondents also said that "childcare support" is effective. More than companies did, workers found "personnel exchange outside the company" to be effective. It would seem that young workers, in particular, often feel a mental burden when there are no other employees of the same age in the office, and that an effective method of retaining them would be to create opportunities for them to interact with others of the same age at the offices of other companies relatively close by. Furthermore, more companies saw "wage increase" and "beautification and safety of workplace environments" initiatives as effective in retaining human resources than did employees.

Fig. 2-2-30 Human resource retention initiatives seen as effective by workers



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. 2-2-31 Reasons for leaving jobs



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Notes: 1. Only the top 10 responses are shown.
2. Although respondents were asked to give their top three responses concerning reasons for leaving jobs, only the top responses are reflected here.

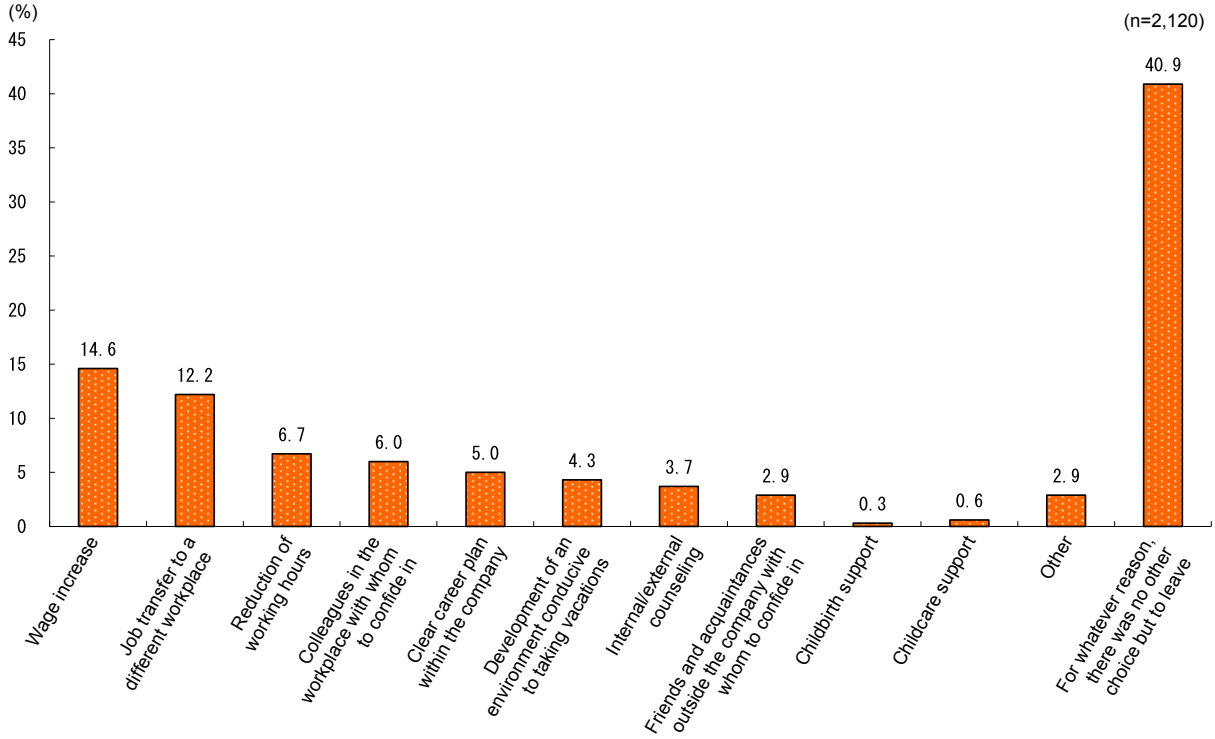
As we can see, SMEs and micro-businesses are taking a number of steps to retain human resources. However, as Fig. 2-2-27 shows, job separation rates remain high.

Fig. 2-2-31 shows the results of asking people who

left a job the reasons for doing so, and the top response was "dissatisfaction with human relations (superiors, manager)." This was followed by "dissatisfaction with own duties" and "dissatisfaction with the salary," each chosen by 10% of respondents. Looking at the differences between job separation timing, those who left within three years of employment due to "dissatisfaction with human relations (superiors, manager)" were by far the biggest group, but for those left after three years, response rates for "there was a change in management policies and status of the company" and "for career advancement" were relatively high.

Fig. 2-2-32 shows the results of asking workers to which initiatives are critical to preventing workers from leaving their job. 14.6% said "wage increase" and 12.2% said "job transfer to a different workplace," but certain companies are unable to easily offer wage increases and it may not be possible for smaller companies to allow their employees job transfers, making such initiatives less than ideal for decreasing job separation rates. 40.9% of respondents said "for whatever reason, there was no other choice but to leave." As it is difficult to prevent workers from quitting once they have thought about doing so, it is important to make workplaces amenable to long-term employment and communicate with workers, building relationships so as to be able to quickly tell when they are considering quitting.

Fig. 2-2-32 Initiatives seen as necessary by workers to prevent them from quitting



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

As we can see, although there are no initiatives that are immediately or universally effective at lowering job separation rates at SMEs and micro-businesses, what appears to be important is communicating with workers on a regular basis in the office, picking up on their dissatisfactions beforehand, and continually improving employee-related programs through trial and error.

The below case looks at companies taking distinctive measures to retain human resources.

Case 2-2-5 Takushin Sangyo Co., Ltd.

A company in which all the employees worked together to create "the ideal working environment: Two-day weekends, 90% of staff members taking paid holidays, and two hours of overtime per person per year"

Takushin Sangyo Co., Ltd. (employees: 75; capital: ¥45 million), based in Fukuoka City, Fukuoka Prefecture, operates a construction machinery rental business. In an industry in which it can be difficult to secure staff, Takushin Sangyo has worked hard to create an appealing working environment (two-day weekends, a 90% rate of employees taking paid leave, two hours of overtime per person per year, and more), and in doing so has attracted a large team and realized a ratio of 100 applicants to a single position.

It was 25 years ago that the company first sought to improve its working environment. While the company is popular with job applicants today, at that time it was attempting to hire new university graduates, and failed to recruit a single employee. Because the company was being operated by a limited staff, weekend work and long hours were the norm. Company officials were made keenly aware of the need to create a better working environment to enable them to attract desirable employees, and set about making far-reaching improvements.

The first thing Tsugihiro Fujikawa, the President of the company, did was to encourage employees to take the time off that was due to them. He introduced a system of two days off per week, with employees no longer working on Saturdays or Sundays. In addition, he recommended employees to take their paid holidays in a planned fashion. At first, few employees did so, but Mr. Fujikawa began to announce the names of employees who had not taken their paid holidays, and specified dates for holidays for employees who had not yet scheduled their vacations. These measures saw the taking of paid holidays become standard practice in the company over the course of about four years, and at present, 90% of employees take their paid vacations.

Next, Mr. Fujikawa made efforts to reduce overtime. At first, only Wednesday was designated as a "no overtime" day, but as measures to cut down overtime took root among employees, the scope expanded, and after around two years, no overtime was the norm in the company. At present, the average number of hours of overtime work per employee per year is two.

These improvements to the working environment were not only in-house reforms, but also entailed a duty of explanation outside the company. This sometimes involved expressions of dissatisfaction from clients with regard to the fact that the company could not respond on its days off, and some companies even terminated their business. However, as a company Takushin Sangyo did not only seek to increase its immediate profits, but also prioritized the creation of a working environment that would increase the wellbeing of its employees as a management principle. In addition, in order to ensure that work did not back up because employees were on holiday, the company began to periodically transfer employees to different jobs, enabling each employee to become able to work at multiple jobs. This resulted in a system in which other employees could take over a job while a specific employee was on vacation.

At the same time, to enable it to ensure profitability despite the restrictions on working hours, the company also made efforts to comprehensively reduce costs. The creation of the company's homepage, training of personnel, and other necessities are handled by company staff members, employees have been assigned to manage the status of fluorescent lighting and air conditioning and entertainment expenses, and employees are encouraged to be independently aware of costs, and put in place mechanisms to reduce costs. As a result, the company not only offers employees a comfortable working environment, but has also realized a high level of profitability.

Mr. Fujikawa says "More than the expansion of our business, our company emphasizes the creation of an environment in which our employees feel secure. We aim to maintain our profitability through cost reductions while putting the improvement of the working environment first and remaining at our present size. We will continue to be an SME in the future, but we will be a first-rank SME."

This example demonstrates that a comfortable working environment is not necessarily something that the company provides, but is something that is realized as a result of every employee taking independent action.

A group photograph of Takushin Sangyo employees on a company trip

Case 2-2-6 Sanshin Chemical Industry Co., Ltd.

A company that has realized a high staff retention rate through planned personnel hiring and training

Sanshin Chemical Industry Co., Ltd. (employees: 135; capital: ¥150 million), which has its head office in Yanai City, Yamaguchi Prefecture, operates a chemical product manufacturing business. Its main activities are the manufacture of petroleum-based products and the research and development of new materials.

Sanshin Chemical has made efforts to increase its staff retention rate, and since 2009 has had a 0% attrition rate for new employees. The company has implemented a variety of measures to achieve this result, but conducting matching procedures when hiring and focusing on the training of new staff members are particular features of its approach.

First, the company conducts comprehensive matching procedures when hiring in order to prevent new staff members from leaving due to a mismatch with their position. Sanshin Chemical has job applicants visit the company when they apply for a position. On the day of the visit, the applicant is able to freely look around the company and ask employees questions, giving them the opportunity to determine whether the work is a good fit for them and they get along with the people working in the company. The company's employees also have the opportunity to decide what type of person they would like to join the company. The company then issues job offers based on a series of interviews, including interviews with executive staff. However, the better the applicant, the more companies will offer that applicant positions. When a job seeker who has received a job offer is having difficulty in deciding whether to join the company, Mr. Matsumoto, who is responsible for the company's recruiting, visits the applicant and discusses the situation sympathetically until he and the applicant are each convinced as to the best choice. In more than a few cases, applicants have been so impressed by the sincerity of this attitude that they have turned down offers from major companies and joined Sanshin Chemical instead.

Training of new employees is conducted on an island in Tokuyama, and seeks to create the mental attitude of a company employee in the trainees and foster bonds between them. On the first day the trainees cook outdoors using camping utensils, and are expected to clean all the utensils within a set period of time. However, it is not easy to clean the utensils as instructed, and in most cases, the trainees fail to complete the task within the set time. Converting this situation into a business scenario, it teaches the necessity of not becoming flustered when the deadline for a rush order has been missed, but rather obtaining an accurate grasp of the situation and reporting to colleagues and superiors. This communicates the importance of "reporting, contacting and consulting," which are basic responses for a company employee. On the second day of training, all the participants, including Mr. Matsumoto, row a boat for 20kms in around six hours. When a large group of people rows a boat, they have to fall into rhythm and all pull together. If one person slacks off, the speed of the boat will drop. This exercise teaches the trainees the importance of the solidarity forged by working together as a team. On the third day, the final day of training, the trainees go hiking, which also involves looking back on their camping experience. While hiking, the new employees open up to each other about what they learned on the camp, what was difficult for them, and also about themselves. The new recruits experience a feeling of unity at having gone through a testing camping experience together, and the bonds between them become deeper on the hike.

When the camp is over, there is a change in the new employees, who were students until only recently; now they are ready to do their jobs and take up their responsibilities as company employees. Having gone through the difficult training camp together, the colleagues continue to support each other, and when one of them is down, the others will make active efforts to cheer him or her up.

Sanshin Chemical's efforts to match employees to jobs and the training it offers its new employees have allowed it to achieve a high employee retention rate. Mr. Matsumoto, who is responsible for recruiting and training the company's employees, says emphatically "We want our new employees to work as one from the time they enter the company to their retirement. We choose our new employees and we cultivate them to ensure that our staff take responsibility themselves for the creation of this type of company environment."

New recruits and long-standing employees rowing together

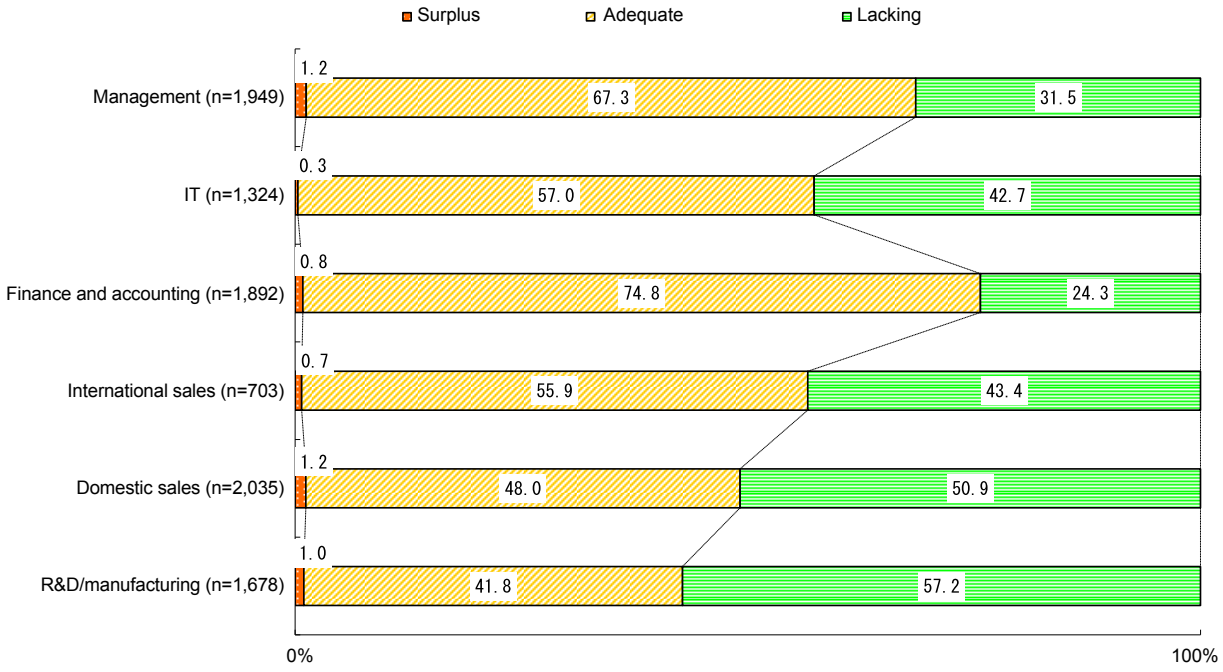
Section 3 Developing the quality and capabilities of human resources as required by SMEs and micro-businesses

This section focuses on "core human resources," those individuals whom SMEs and micro-businesses look towards to play a central role in their business activities. Core human resources here refers to people who are at the center of a variety of business operations or who are immediately useful for their special qualifications or highly-specialized work experience. Due to the changing nature of Japan's industrial structure as discussed in Part II, Chapter 1, there has never been a greater need for SMEs and micro-businesses to approach business development strategically. Consequently, there is growing demand for not just the traditionally-lauded, reliable workhorse personnel but also for people who can develop strategies and expand business. This section will therefore look at core human resources as people engaged in any of these six business activity categories: "product/service development, manufacturing," "sales channel cultivation (in Japan)," "sales channel cultivation (overseas)," "finance/accounting," "IT," and "management."

[1] Core human resources at SMEs and micro-businesses

To begin, Fig. 2-2-33 looks at feelings among companies that core human resources are excessive or insufficient. It shows that, across every category, companies feel core human resources are insufficient and that this feeling is particularly strong towards "R&D/manufacturing" and "domestic sales" personnel. Although relatively fewer companies feel "finance and accounting" and "management" personnel are insufficient, more than 20% do feel they are insufficient (see Appended notes 2-2-4, 5 for feelings that core human resources are excessive or insufficient, by business segment for each business aim (maintenance or expansion)).

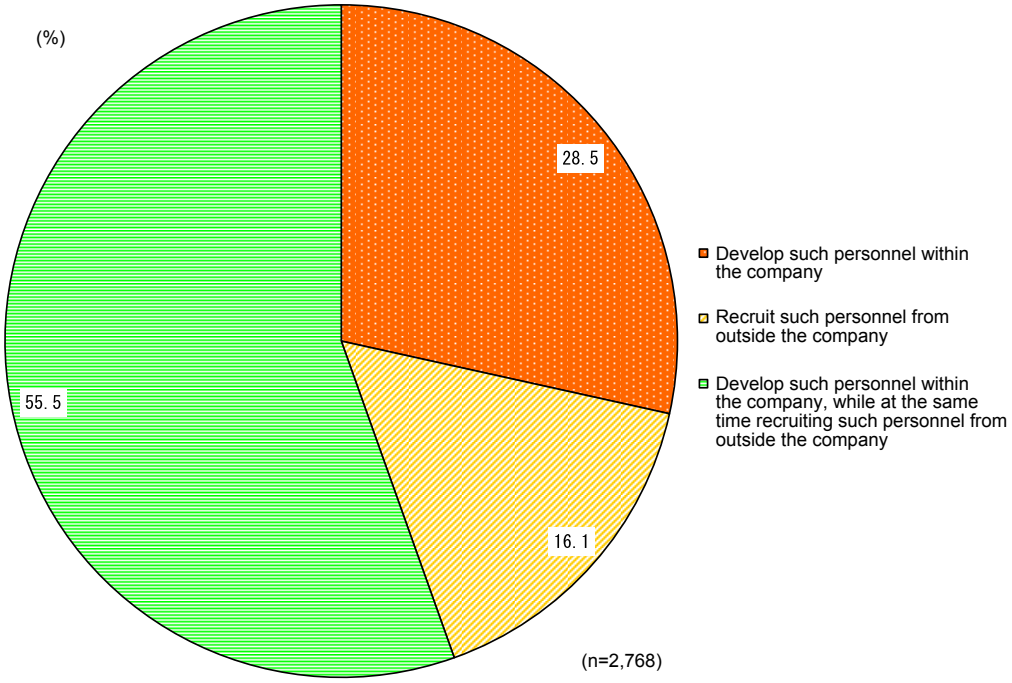
Fig. 2-2-33 Feelings that core human resources are excessive or insufficient, by business segment



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. 2-2-34 shows methods for alleviating core human resource insufficiencies. Many companies said "develop such personnel within the company" (28.3%) or "recruit such personnel from outside the company" (15.8%), but a majority of companies chose "develop such personnel within the company, while at the same time recruiting such personnel from outside the company," indicating that SMEs and micro-businesses are expanding and improving on their core human resource workforce by both acquiring them from the outside and training them in-house. To explore this, the following looks at both the recruiting and training of core human resources.

Fig. 2-2-34 Methods for alleviating core human resource insufficiencies

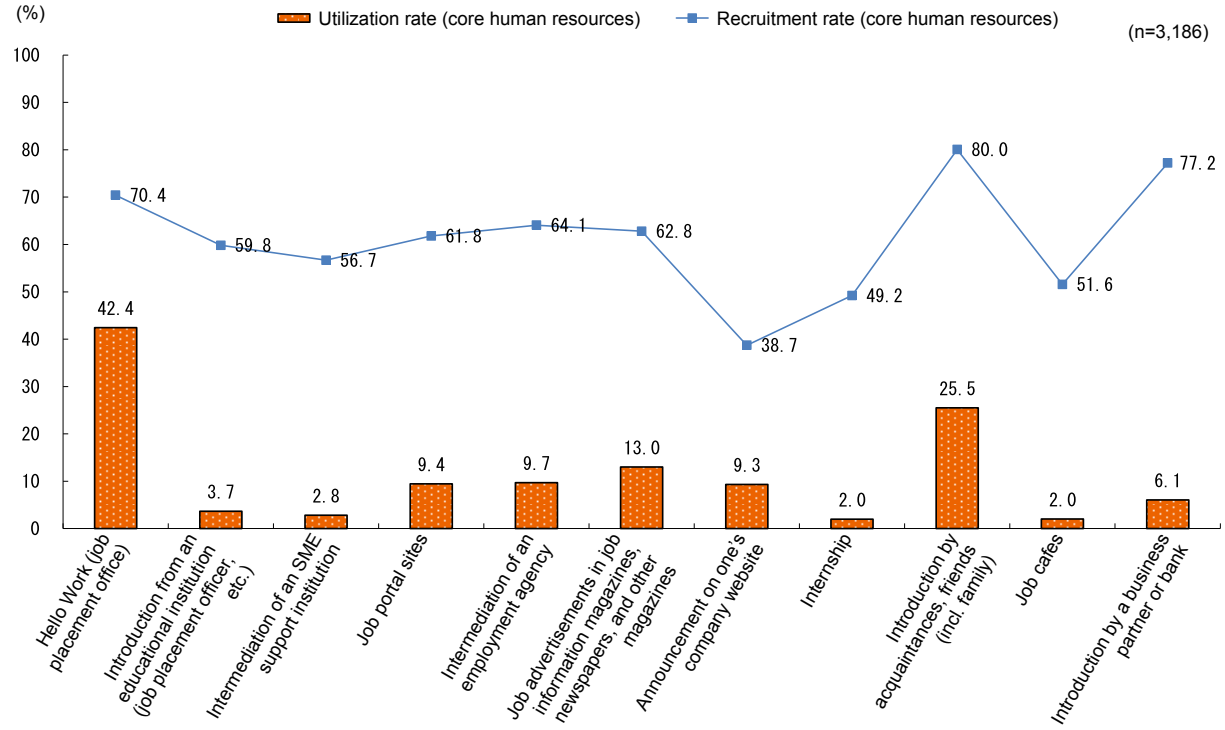


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

[2] Recruiting core human resources

Fig. 2-2-35 shows that as far as methods for recruiting core human resources, large percentages of companies use "Hello Work" or "introduction by acquaintances, friends" but that the most successful methods included "introduction by acquaintances, friends" and "introduction by a business partner or bank."

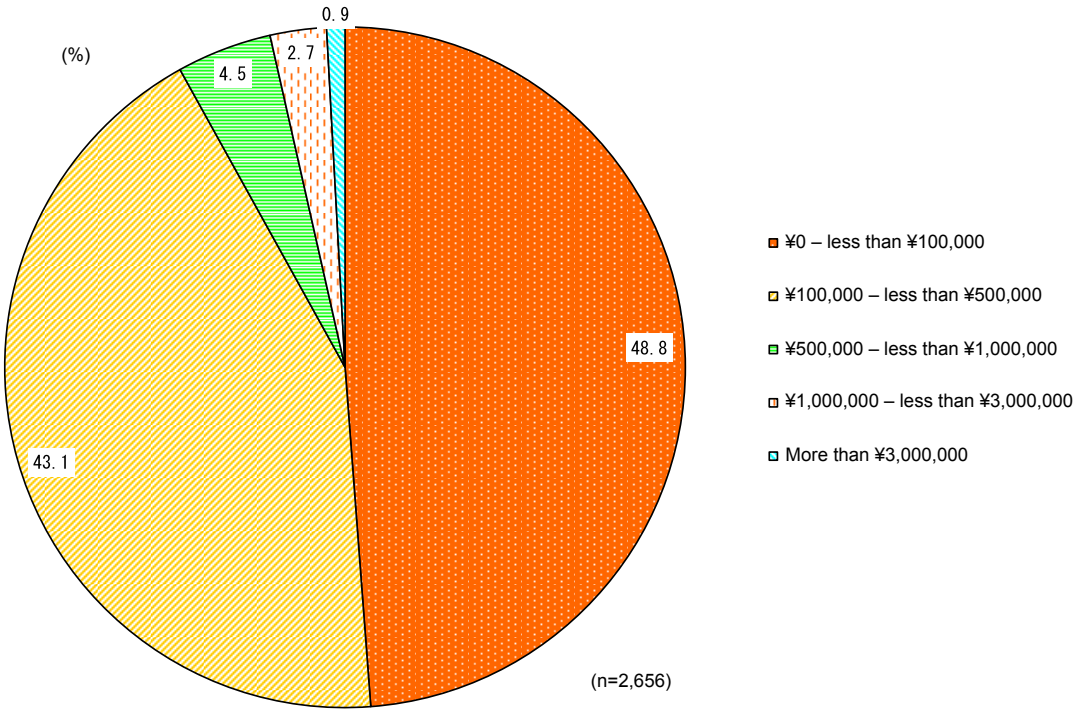
Fig. 2-2-35 Methods for recruiting core human resources



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Recruitment rates were calculated for each recruiting method using the formula "'have recruited' ÷ 'have utilized'."

A comparison with Fig. 2-2-22 shows that, concerning utilization and success rates, there are no major differences between core human resource and mid-career hire recruiting methods. This suggests that SMEs and micro-businesses have few options when it comes to methods for recruiting core human resources. Methods that may be effective for large enterprises to use in recruiting core human resources may be using a job portal site with nationwide reach or a headhunting company that can find people with valuable and rare capabilities. However, the high costs of these methods make them difficult for SMEs and micro-businesses to avail themselves of.

Fig. 2-2-36 Money spent on recruiting core human resources

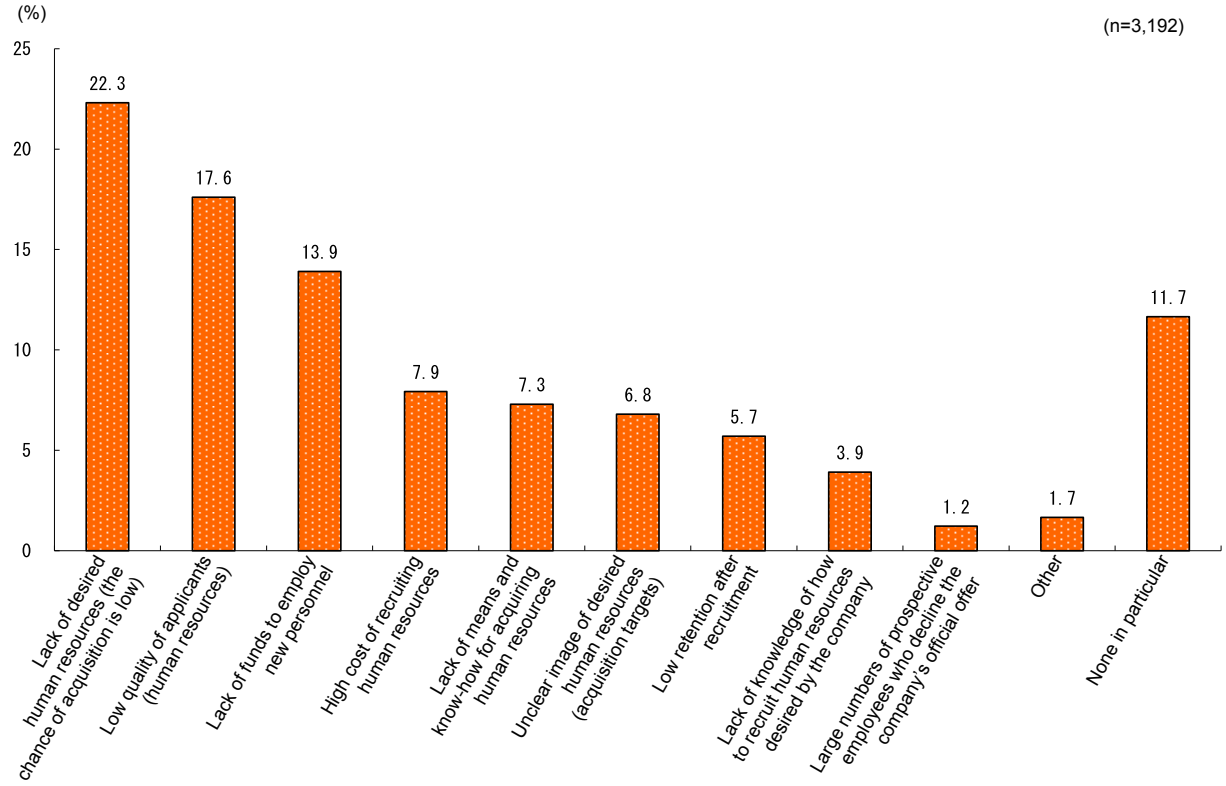


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. 2-2-36 shows how much money SMEs and micro-businesses can use towards recruiting core human resources. Concerning money spent to acquire one core human resource, roughly 50% chose "¥0 – less than ¥100,000" and 40% said "¥100,000 – less than ¥500,000." Thus, only a tiny fraction of SMEs and micro-businesses spend more than ¥500,000. This suggests that SMEs and micro-businesses are in need of further methods for effectively finding and recruiting core human resources and that, in essence, companies are generally waiting for applications to come in from quality human resources through personal connections or from a pool of people in a small geographic area. This is making it difficult to acquire the core human resources needed for strategic business management, and may be hindering business maintenance and growth.

We next look at Fig. 2-2-37 and issues concerning the recruiting of core human resources. Many companies chose "lack of desired human resources," "low quality of applicants," or other such responses concerning human resource number or quality. These were followed by issues related to financial costs such as "lack of funds to employ new personnel" and "high cost of recruiting human resources."

Fig. 2-2-37 Issues concerning core human resource recruitment

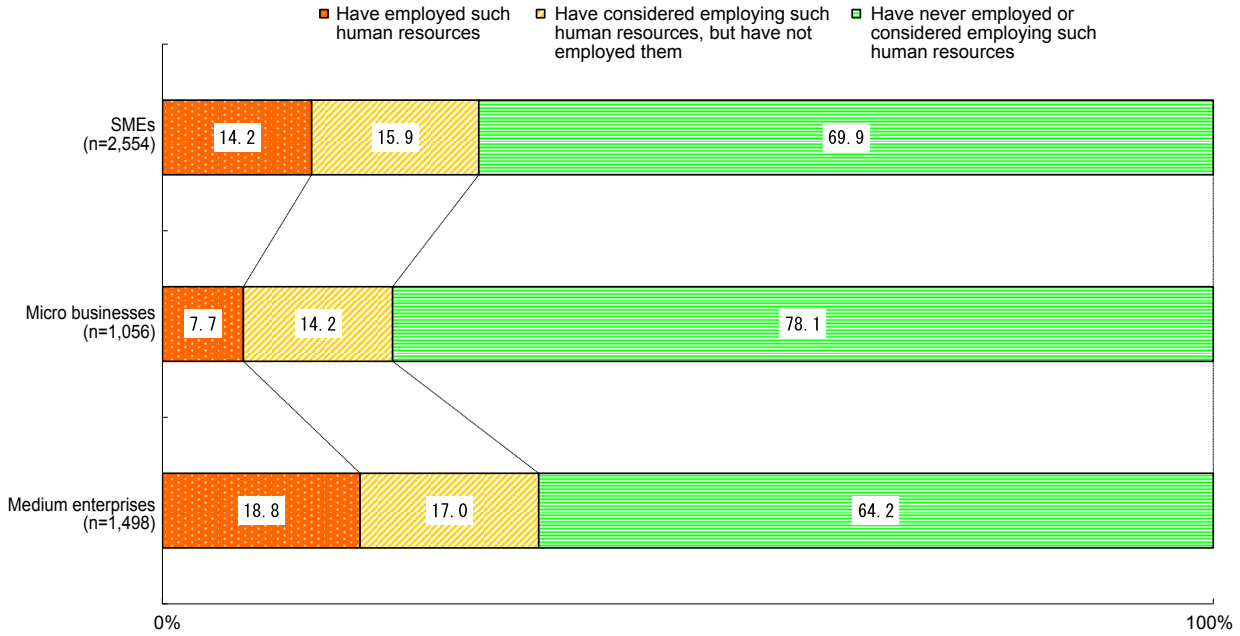


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

[3] Recruit human resources from large enterprises

Acquiring people from large enterprises is a method garnering attention in recent years as a means for SMEs and micro-businesses to get core human resources. Recruiting human resources that have developed high-level skills and know-how by working at large enterprises may be an effective method for SMEs and micro-businesses to acquire core human resources. To explore this idea, the below discussion looks at SMEs and micro-businesses who have recruited human resources from large enterprises.

Fig. 2-2-38 Hiring of human resources from large enterprises by SMEs and micro-businesses

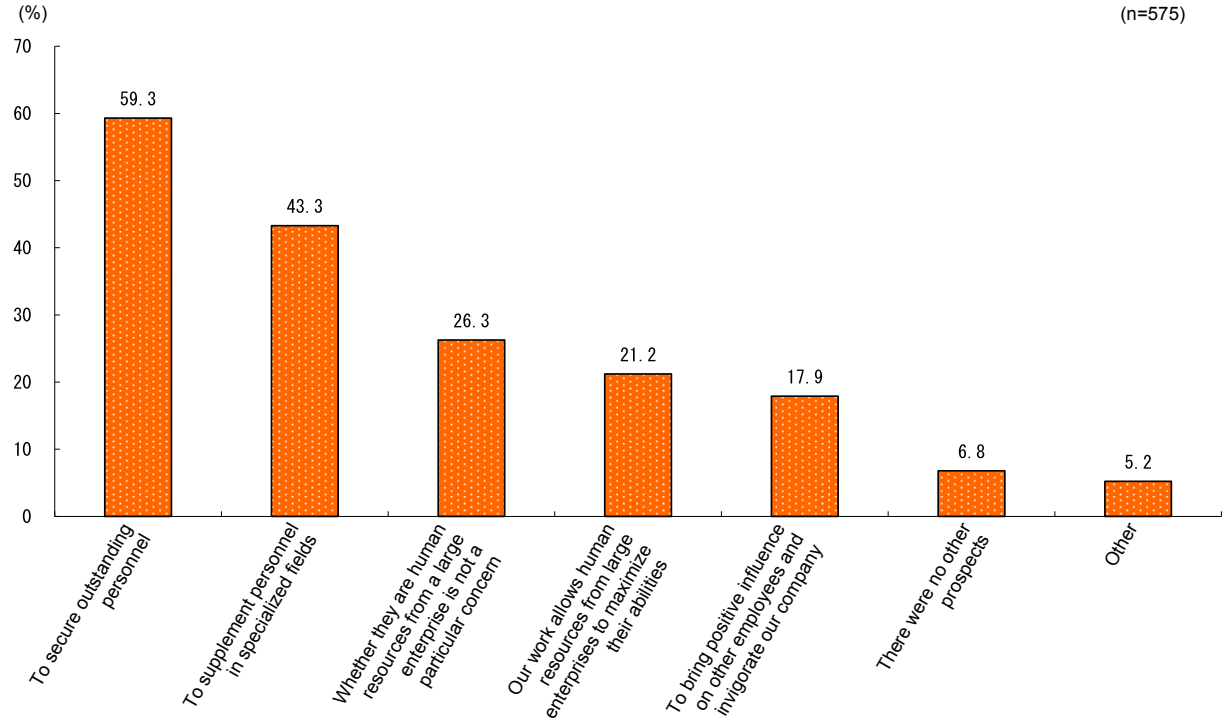


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. 2-2-38 shows the state of SMEs' and micro-businesses' hiring of human resources from large enterprises. 14.2% of companies said that they "have employed such human resources," a response that was relatively more common among medium enterprises than among micro businesses. 15.9% responded that they "have considered employing such human resources, but have not employed them." Combining these two percentages, we find that roughly 30% of SMEs and micro-businesses have recruited human resources working at large enterprises.

We next look at Fig. 2-2-39 and the reasons given by SMEs and micro-businesses for recruiting human resources from large enterprises. 59.3% and 43.3% of respondents chose "to secure outstanding personal" and "to supplement personnel in specialized fields," respectively, indicating that SMEs and micro-businesses are aware of recruiting human resources from large enterprises as a means to acquire core human resources.

Fig. 2-2-39 Reasons for hiring human resources from large enterprises

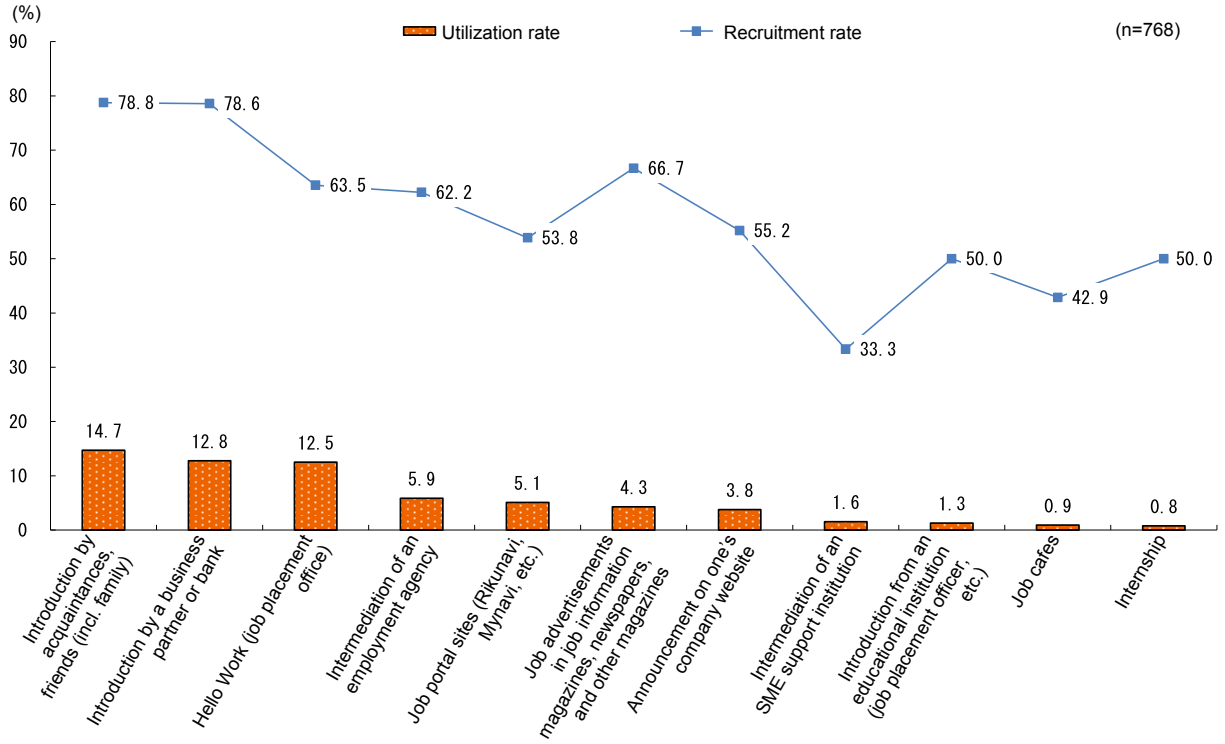


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Notes: 1. Based on responses from companies that hired human resources from large enterprises.
2. Total does not always equal 100 as multiple responses were possible.
3. Responses with response rates of less than 1% are not presented.

Fig. 2-2-40 shows methods employed by SMEs and micro-businesses to recruit human resources from large enterprises.

14.7%, the largest group, responded with "introduction from acquaintances, friends," which was followed by "introduction by a business partner or bank" at 12.8% and "Hello Work" at 12.5%. Compared to the results from Fig. 2-2-35 (methods for recruiting core human resources and recruitment rates), the response rate for Hello Work was low. "Introduction from acquaintances, friends" and "introduction by a business partner or bank" were the top responses concerning recruitment rate.

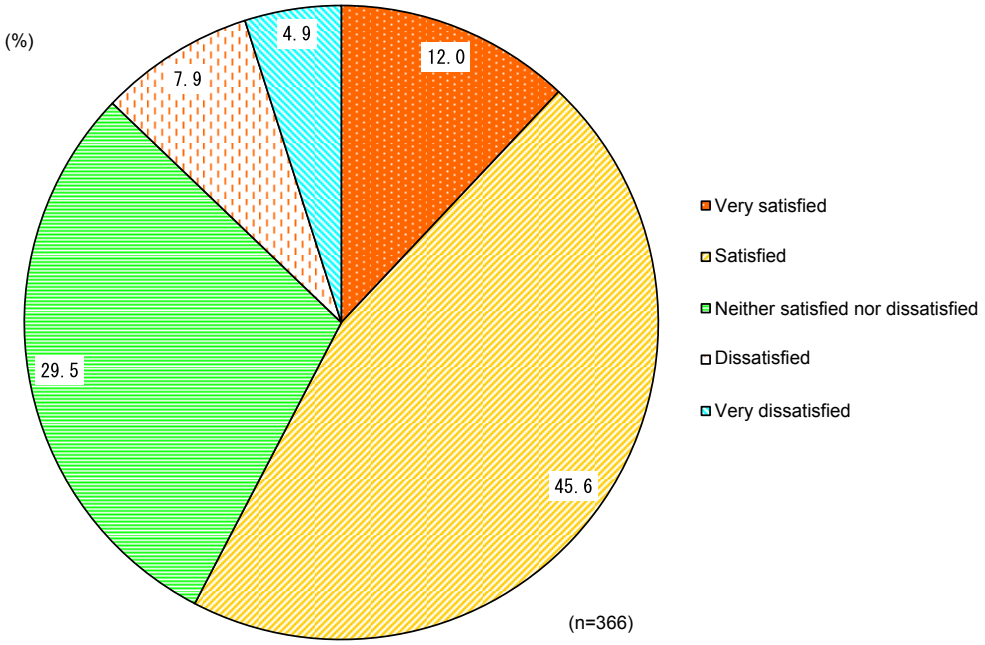
Fig. 2-2-40 Methods for recruiting human resources from large enterprises



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Recruitment rates were calculated for each recruiting method using the formula "'have recruited'' ÷ 'have utilized'."

Fig. 2-2-41 shows the satisfaction companies felt upon hiring human resources from large enterprises. Of these companies, 12.0% were "very satisfied" and 45.6% were "satisfied," which amounts to nearly 60% of companies looking favorably on hiring human resources from large enterprises. Some companies, however, experienced mismatches as evidenced by the 10% of companies who either said "dissatisfied" (7.9%) or "very dissatisfied" (4.9%).

Fig. 2-2-41 Satisfaction with hiring of human resources from large enterprises



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

The following discussion looks at a case where a company recruited human resources from large enterprises and explores measures to support personnel-company matching aimed at acquiring human resources from large enterprises.

Case 2-2-7 Sinkyo Electron Inc.

Seniors flourishing as instructors in niche technologies

Sinkyo Electron Inc. (employees: 27; capital: ¥10 million), based in Hino City in Tokyo, is a manufacturer of wireless communications devices for business and emergency use and image transmission equipment. The company actively employs seniors with extensive technological knowledge as work-ready staff members and personnel to assist in the training of full-time employees.

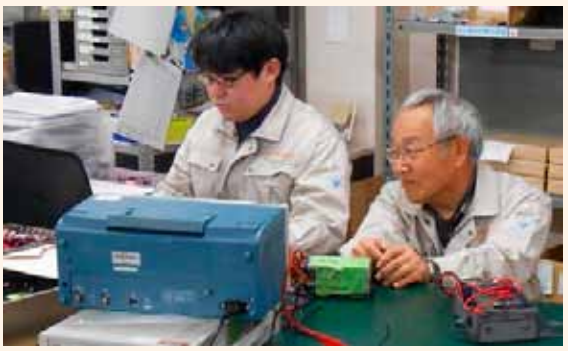
Sinkyo Electron first began to recruit seniors when it participated in a senior employment networking event at the invitation of Tama Shinkin Bank. At this event, company representatives met two seniors who had previously been employed by major manufacturing companies. They were impressed by their specialized technological knowledge and expertise, and by the insight that they had developed over their years of experience, and made the decision to recruit them. As work-ready staff, and as adjunct staff assisting in the training of company employees, the company's senior employees fulfill two major roles for the company.

The first of these roles is as individuals possessing a wealth of knowledge and technical expertise, built up over many years spent in the employ of major manufacturers. Using these assets, Sinkyo Electron's senior employees are able to evaluate the details of designs presented by younger employees and offer advice, resulting in the transmission of technological knowledge across the generations.

The second major role that senior employees fulfill for the company is in formulating plans for employee training of a similar level to those in use in major corporations. Precisely because they focus on training methods that produce results, senior employees who are able to formulate medium- to long-term training plans are very important to SMEs and micro-businesses, which can tend to be shortsighted in this area.

The thing that Hideki Nakanishi, President of Sinkyo Electron, believes is of greatest importance in employing senior staff members is that the company should offer these employees flexibility in the way they work. In deciding on schedules for attendance at work, Sinkyo Electron prioritizes its senior employees' own schedules, taking into

consideration requirements and circumstances such as time for outside interests, family trips, and the need to care for elderly parents, to ensure that senior staff members are able to fulfill their roles without stress. Mr. Nakanishi says "As a company, of course we want them to work as much as possible, and pass on their knowledge to our younger employees. But it is important to make senior employees' motivation to work and the hours that they are able to work the top priority, and not ask them to do the impossible." Convinced of the significant role to be played by senior employees, Sinkyo Electron continues to seek out eligible candidates in areas of technology close to its own domain, and actively recruiting them.

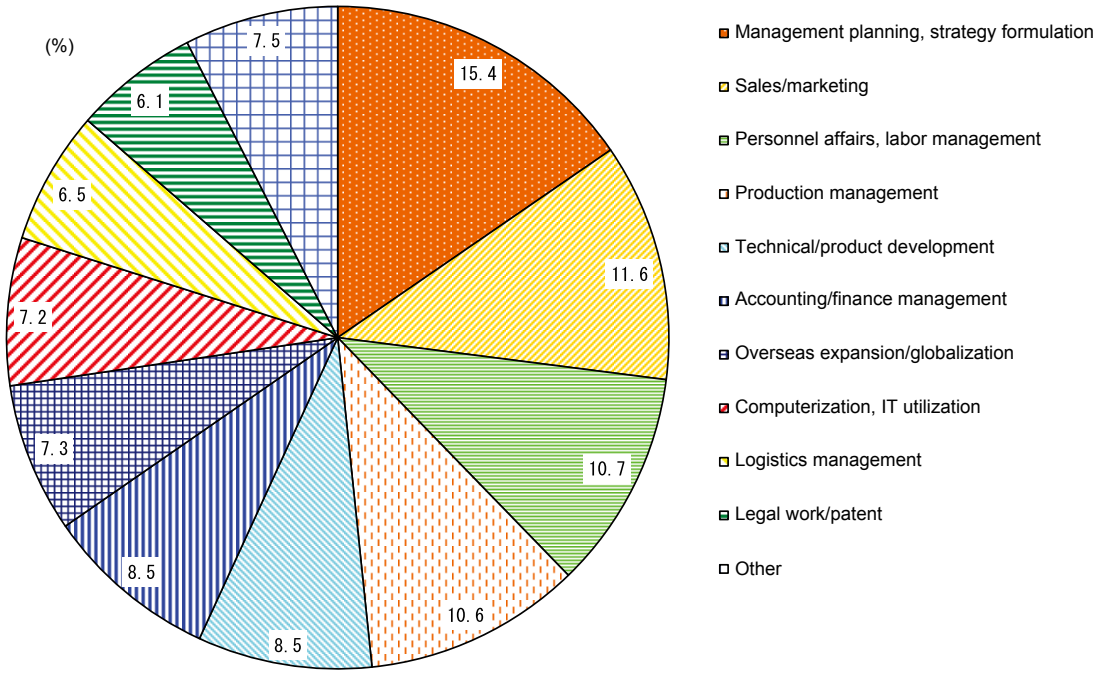


One of Sinkyo Electron's senior staff members instructing a younger employee

Column 2-2-4 Management Mentor Program

Headed up by regional financial institutions, the Management Mentor Program matches people who are registered with the Kanto Bureau of Economy, Trade and Industry and who have developed extensive experience and knowledge working at large enterprises (management mentors) with SMEs and micro-businesses looking to increase sales and alleviate problems concerning things such as production control and financial management.

Fig. Column 2-2-4 (1) Management mentors' areas of expertise



Source: Kanto Bureau of Economy, Trade and Industry.

The roughly 1,300 registered management mentors, most of whom reside in the Tokyo metropolitan area, can be recruited from the website of the Kanto Bureau of Economy, Trade and Industry. Their extensive range of expertise covers everything from management planning and strategy formulation to sales and marketing operations, letting them handle a variety of problems.

SMEs and micro-businesses participate in new worker networking receptions held by financial institutions (primarily credit unions) and go through a three-stage process of matching companies with management mentors in the hopes of resolving management issues.

The first stage, conducted by financial institutions, involves sitting down with SMEs and micro-businesses (their clients) and creating a management issues sheet. The second stage has the Kanto Bureau of Economy, Trade and Industry submit management issue sheets to management mentors, after which eligible management mentors apply for participation in a new worker networking reception. In the third stage, business managers, financial institution representatives, and management mentors all get together to consult with each other. This is followed by a second consultation where the company's expectations and the management mentor's intention, knowledge, and experience are confirmed and final matching is conducted. After a match is made, management mentors make use of programs including government-sponsored specialist dispatch schemes (including dispatching management mentors to companies up to three times free of charge when making use of the SMEs and Micro-business One Stop Comprehensive Support Business Expert Dispatch Program) and providing support. There have even been some cases where, after this process, mentors sign agreements to become corporate advisors to provide ongoing support.

A total of 1,472 management mentors and 439 companies participated in the 22 new worker networking receptions held in fiscal 2013. These receptions led to extremely high matching rates (support using national business expert dispatch program): of the 180 cases (roughly 40% of all cases), companies in 90 cases (about 20%) are receiving ongoing support.

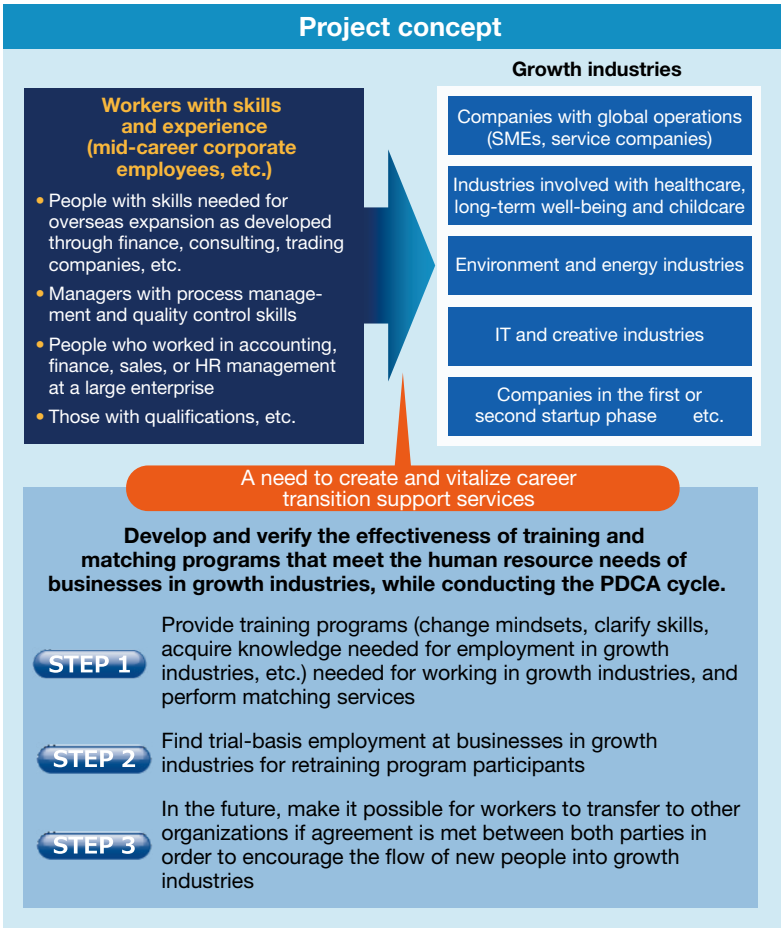
Column 2-2-5 Businesses Creating Various Career Transition Support Services

The rapid globalization of Japan's economy is, along with the growing number of elderly and declining birthrate, making industrial structure transformation an inevitability. The SMEs, venture companies, and companies working hard to expand internationally in growth industries, need to grow and enhance their ability to achieve growth.

But these companies do not always have the human resources they need. To address this, the Ministry of Economy, Trade and Industry has been conducting a model project since fiscal 2013 for mid-career workers with skills and experience in order to create and vitalize the industries that provide training programs needed for those employed in growth industries and that provide integrated matching services (career transition support services).

Aimed at creating opportunities for people in new industries, this project provides training programs to encourage autonomous career building by changing the mindset of mid-career workers and encouraging them to take stock of their skills and, following that, to try working—via temporary transfer or other format—for a company in a growth industry. By making it possible for workers to transfer to other organizations if agreement is met between both parties, the project encourages the flow of new people into growth industries, and creating and advertising success stories involving the usage of human resources at companies in growth industries is leading to more and better job transition support services.

Concept for the career transition support services project

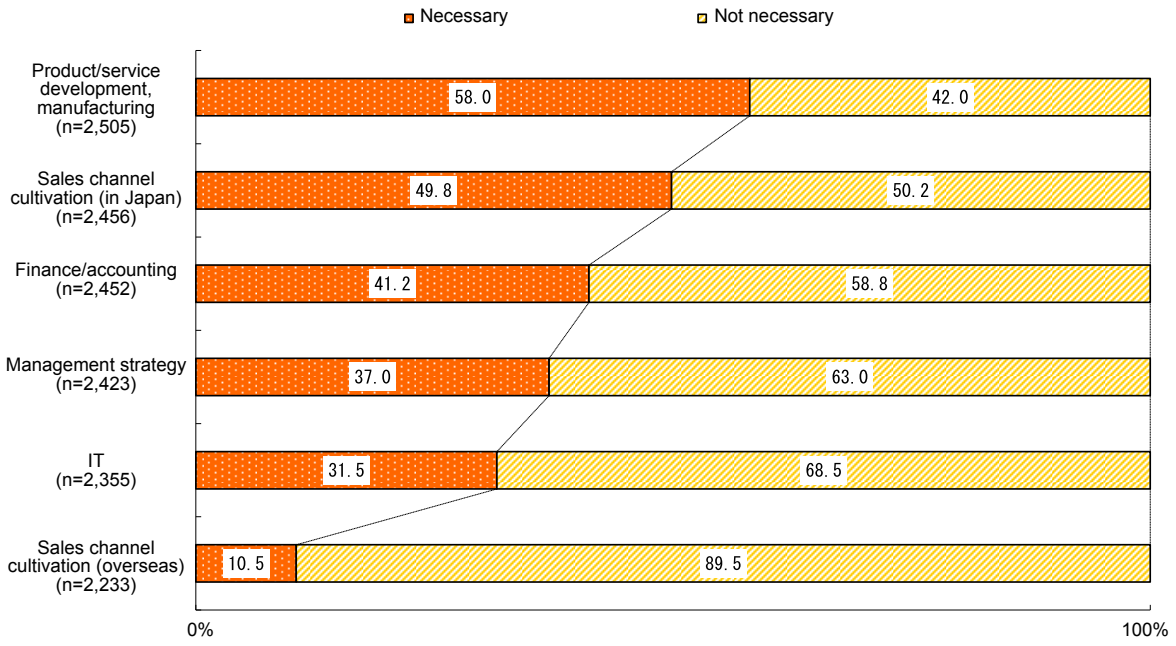


[4] Nature and effectiveness of initiatives being taken concerning human resource development

Now that we have taken a close look at core human resource recruitment initiatives, the discussion hereafter will focus on their training.

Fig. 2-2-42 looks at the necessity of training core human resources. 58.0% cited "product/service development, manufacturing" while 49.8% cited "sales channel cultivation (in Japan)," indicating a strong need to train people engaged in these activities. On the other hand, only 10.5% said "sales channel cultivation (overseas)" and 31.5% said "IT." This suggests that overall, among SMEs and micro-businesses, there are few companies engaged in overseas expansion or in implementing cutting-edge IT systems.

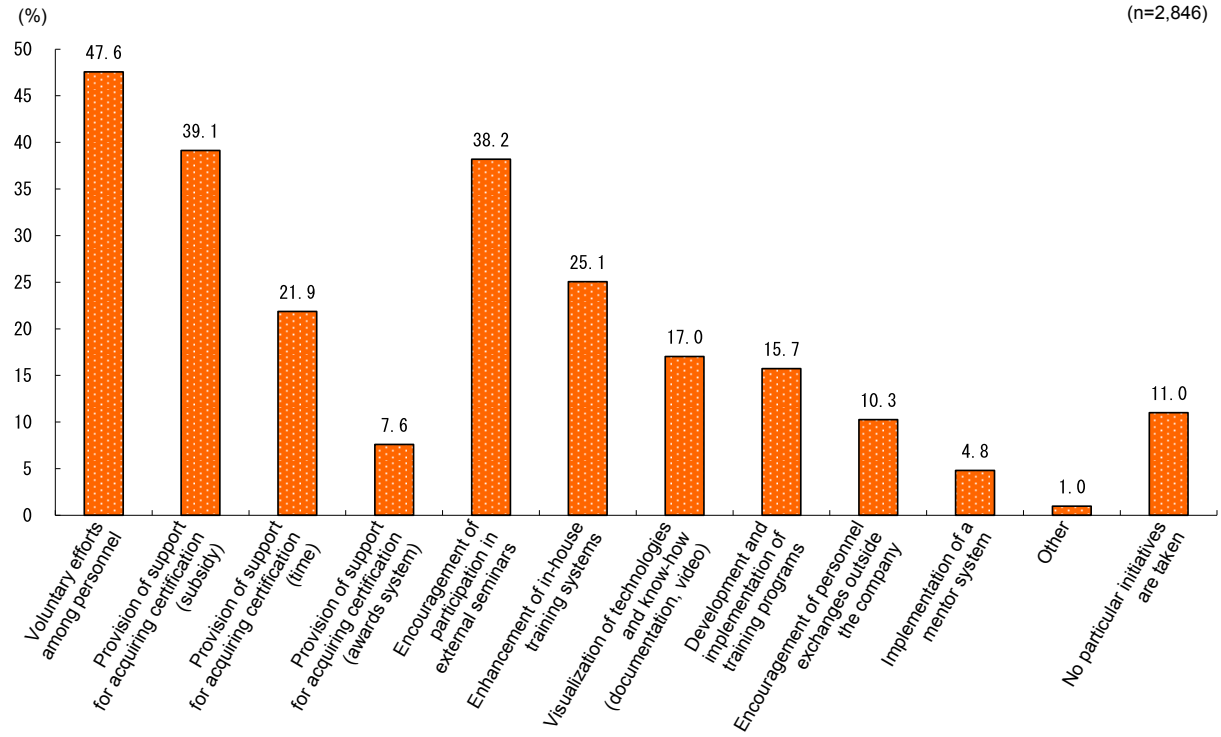
Fig. 2-2-42 Necessity of training core human resources



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Next, we examine the kinds of initiatives taken by SMEs and micro-businesses to train human resources. Fig. 2-2-43 shows that 47.6% of respondents cited "voluntary efforts among personnel" and 39.1% said "provision of support for acquiring certification (subsidy)," high percentages of respondents which illuminate a trend involving human resource development being entrusted to autonomous activities by workers rather than activities provided by the organizations they work for. There was also a significant number of companies training personnel using in-house programs, as is evidenced by the 25.1% response rate for "enhancement of in-house training systems" and 15.7% response rate for "development and implementation of training programs." Many companies also conducted training using outside resources, demonstrated by the 38.2% response rate for "encouragement of participation in external seminars" and 10.3% response rate for "encouragement of personnel exchanges outside the company."

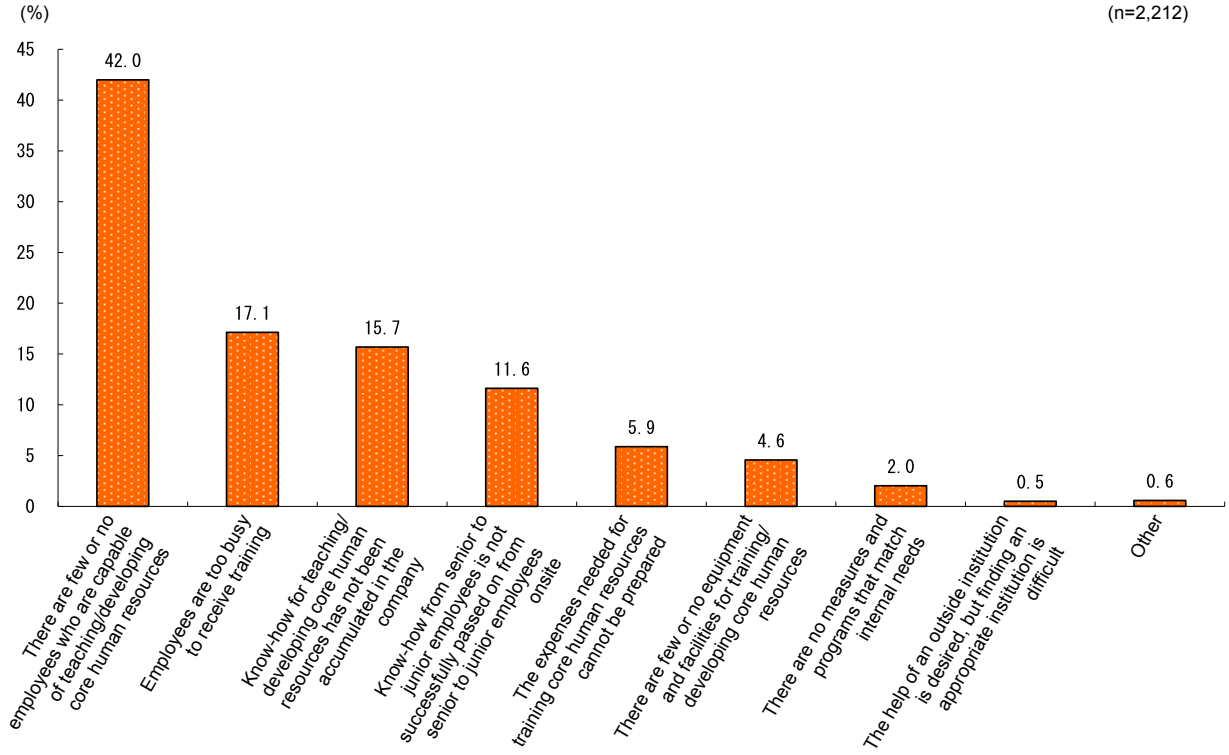
Fig. 2-2-43 Methods for training core human resources



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100 as multiple responses were possible.

Fig. 2-2-44 shows the kinds of issues faced by companies engaging in human resource development. The top response was "there are few or no employees who are capable of teaching/developing core human resources" at 42.0%, indicating a human resource insufficiency problem involving a lack of human resources for training other personnel. Other significant issues cited were "employees are too busy to receive training" (17.1%) and "know-how for teaching/developing core human resources has not been accumulated in the company" (15.7%).

Fig. 2-2-44 Issues concerning the training of core human resources



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Although respondents were asked to give their top three responses concerning the training of core human resources, only the top responses are reflected here.

The following pages present a case involving efforts to train human resources systematically.

Case 2-2-8 Marui Orimono Co., Ltd.

Positioning the cultivation of its employees' abilities as a management agenda, this company is actively investing in its personnel

Marui Orimono Co., Ltd. (employees: 223; capital: ¥572 million), based in Nakanoto-machi, Kashima-gun, Ishikawa Prefecture, is a manufacturer of synthetic fabrics and sportswear materials.

In the words of President Toru Miyamoto, "More than a company that simply hires employees, we are one that is unstinting in offering support to enable our employees to grow to the greatest possible extent; more than simply joining the company, we want our employees to become as much a part of the company as they can." Based on this philosophy, the company focuses a significant amount of energy on recruiting activities and fostering its employees, and as a result of a variety of initiatives it has realized a low rate of refusal of job offers by candidates for employment and a low turnover rate among young employees.

Marui Orimono began to enhance its employment of new graduates from 2008, and the company now recruits around 10 new high school and university graduates every year. The company focuses particular energy on increasing opportunities for communication with students. To this end, it appoints two female staff members who are close to student age as (part-time) employment coordinators. These staff members work to increase opportunities for contact with students, for example by organizing roundtable discussions between employees and students seeking to work for the company, and by making active efforts to calm students who are feeling nervous or anxious before or after an interview. Marui Orimono not only enables students to deepen their understanding of operations at the company through initiatives including factory visits, but also offers numerous opportunities for contact with its

employees, giving students some sense of the company culture and the in-house atmosphere, in an attempt to offer them an image of what working for the company might be like. These efforts have increased motivation to join the company among students, reducing the rate of rejection of job offers, and has also helped to avoid mismatches in recruiting.

New employees who have entered the company via this recruitment process continue to receive generous support. The company has introduced a "Big Brother / Big Sister" system, by means of which new employees are mentored by an older employee for three years after they commence their employment. For six months after a new recruit joins the company, they have daily consultations with their mentor, who will work to resolve any anxieties or uncertainties regarding matters such as work duties arising on that day. Following this period, the frequency of meetings will change to once a week or once a month, depending on how the new employee is developing in their job capacity. Naturally enough, simply offering a mentor is not enough to ensure the planned development of the new employee. Where Marui Orimono's system excels is in the fact that the development of new employees by mentors is not haphazard, but based on solid development plans. The mentors formulate yearly employee development plans with superiors, and offer guidance to their charges based on these plans. Every six months the company holds a meeting at which the mentors report on the progress of their mentoring. The mentors also exchange opinions regarding the fostering of new employees among themselves, enabling them to learn better methods of assisting in the development of new employees. The fact that this process is planned rather than haphazard also offers the new employees themselves a sense of security regarding their personal growth in the job, and this has significantly reduced the rate of attrition of new employees in the first three years of employment.

From their fourth year after joining the company, efforts to develop new employees continue, tailored to their rank in the company. In terms of in-house training, the company offers a diverse range of programs, including training for mid-level employees, targeting employees in their 20s, training for employees being prepared for management positions, "Junior Board" training, for employees who are candidates for executive positions, and training exclusively for female employees. Mr. Miyamoto says "We conduct basic training in-house, but we are also trying to broaden our employees' horizons by increasing their opportunities to participate in training outside the company." As part of these efforts, the company actively sends employees to take part in training initiatives including management training offered by its client Toray Industries and overseas training for young company employees offered by Ishikawa Prefecture.

At the same time, as a manufacturing company, Marui Orimono does not neglect the passing on of technical knowledge. Concerned that the rationalization of production had resulted in less time being available for on-the-job instruction, the company took cues from Toyota's Global Training Center, and appointed a veteran employee with a high level of technical expertise as a full-time instructor. Marui Orimono has worked to create an abundant educational environment for its employees, and if employees so desire, they can also participate in a wide range of programs free of charge, from classes directly connected with their work duties to an etiquette class designed for self-improvement.

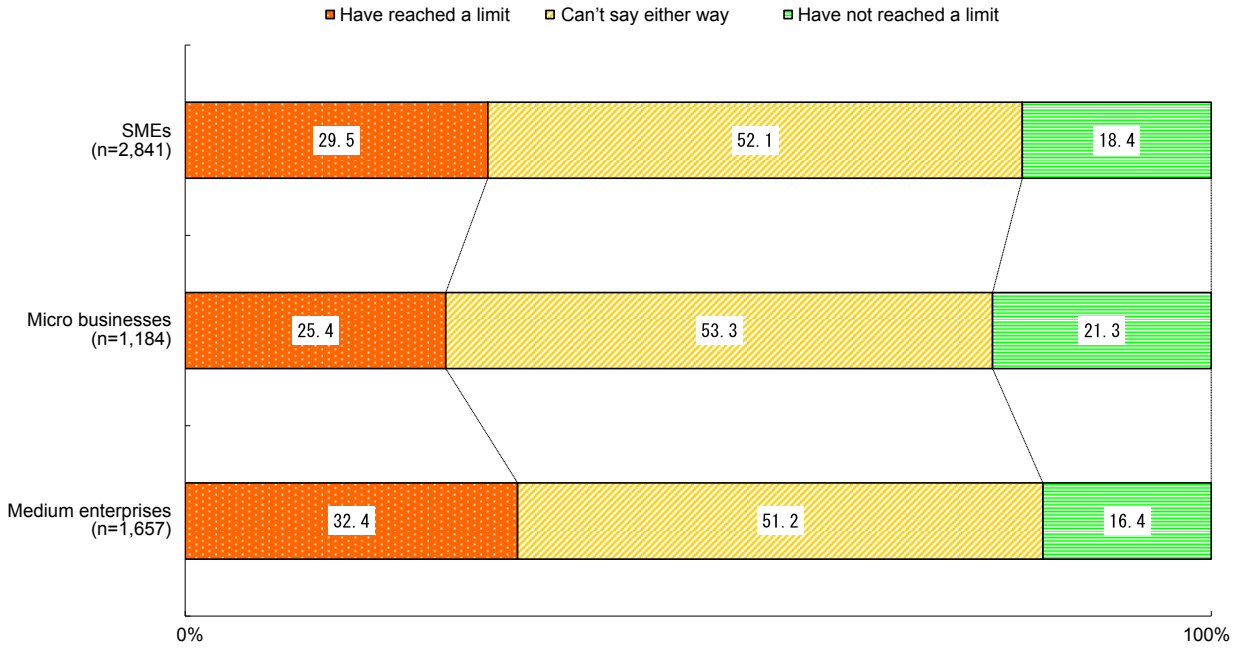
Marui Orimono is strongly aware that the cultivation of employees who work actively to expand into new areas and who are able to identify and resolve problems independently is essential if it seeks to realize further growth in the future. This is a management focus for the company, derived from its management strategy. Clearly, the fact that the company has always possessed a culture of employee education and an orientation towards employee education is behind the significant investment that it has made in fostering its employees, but the fact that the management cadre promotes the development of employees as a management focus has played an even greater part. The unwavering conviction of Marui Orimono's managers is apparent when Mr. Miyamoto says "As a manager, I see how to increase the abilities that my employees possess, and how to enable them to best display those abilities, as a management issue."

Young employees of Marui Orimono

[5] State of collaboration with outside parties to train human resources

Working with outside parties is one method at the disposal of SMEs and micro-businesses looking to overcome human resource development problems. Companies can pass on techniques and know-how on an individual basis, but the need to create systematized training programs and the fixed costs of training session such as seminars are prohibitive factors for smaller companies. Working with other companies can be one effective way to reduce these fixed costs. There is also the chance that, through the process of working with other companies, organizations will be motivated to take additional steps.

Fig. 2-2-45 Whether or not companies feel they have reached a limit concerning human resource development

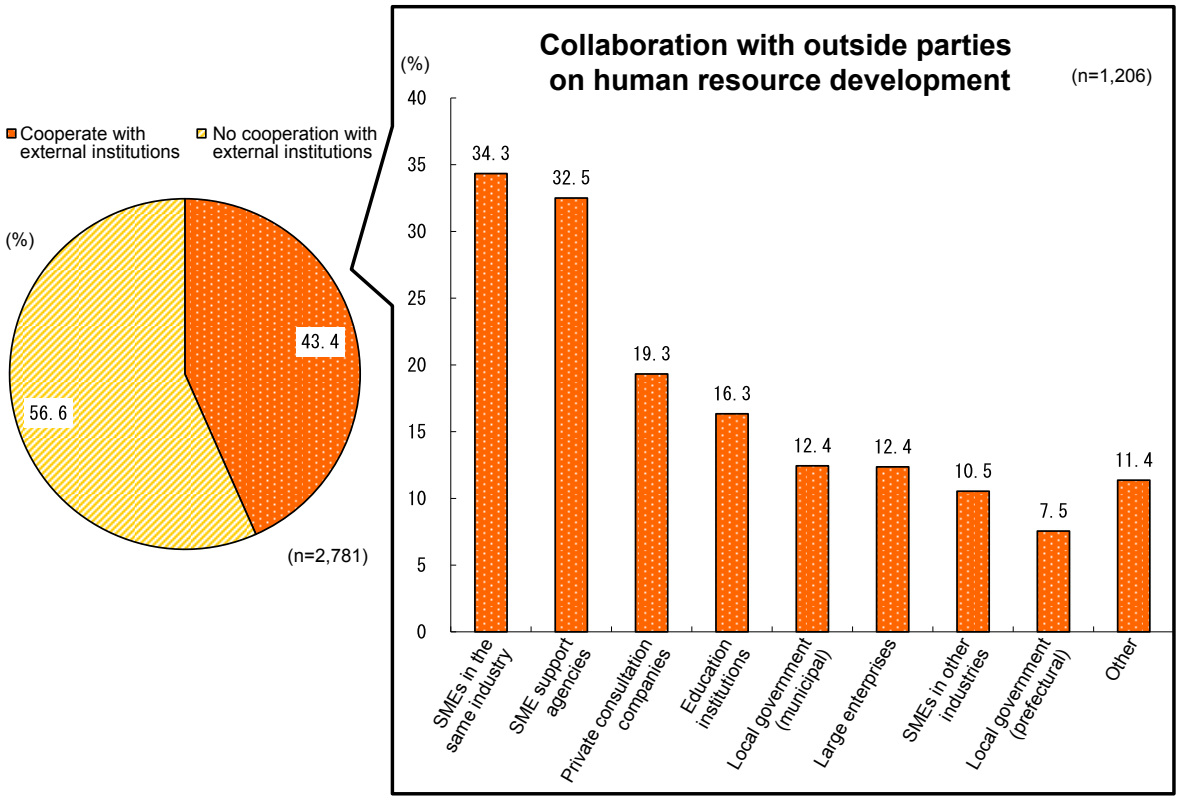


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Fig. 2-2-45 shows the percentages of companies who feel they have reached a limit in terms of human resource development. 29.5% of SMEs and micro-businesses overall feel this limit, while 18.4% do not. Broken down by company size, medium enterprises are the group that most feels they have reached a limit. As a company's workforce grows, so do their needs concerning human resource development—a fact partially owing to increasing problem awareness in the company.

Let us next look at Fig. 2-2-46, which examines the state of collaboration with outside parties on human resource development. 43.4% of companies—close to fully half of those surveyed—work with outside parties. From the perspective of who they are working with, 34.3% said "SMEs in the same industry" and 32.5% said "SME support agencies," suggesting that these companies are actively collaborating with other SMEs and making full use of SME support agencies. Other results were "education institutions" (16.3%), "local government (municipal)" (12.4%), and "local government (prefectural)" (7.5%).

Fig. 2-2-46 Collaboration with outside parties on human resource development



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100 as multiple responses were possible concerning "collaboration with outside parties on human resource development."

As we can see, many companies are working with others to train their human resources and a variety of different organizations are involved. This kind of collaboration has grown in recent years, and companies are more and more training their people in their communities. One example of this is discussed below.

Case 2-2-9 Minami-Shinsyu Iida Industry Center

A regional area finding the best way to cultivate the human resources it needs

The Minami-Shinsyu Iida Industry Center (workers: 24; subscribed capital: ¥17 million), based in Iida City, Nagano Prefecture, was established in 1983 in order to stimulate industrial development in its region, and has directed its efforts towards industries in the aerospace, biomedical, and environment and energy fields.

However, Iida City is not home to any four-year universities or specialized vocational schools, and in order to stimulate regional industry it was necessary to foster the type of human resources needed by regional industry, that is, human resources possessing advanced knowledge and technical skills. The Industry Center therefore works to cultivate human resources through two major initiatives. The first of these is the Iida Industrial Technological College, a virtual university which enables students in the region to acquire standardized knowledge and technical skills. The Iida Industrial Technological College offers more than 30 courses per year, ranging from technical courses, in which students are able to study subjects such as how to use three-dimensional CAD or machining techniques, through business management courses that cover subjects such as quality management and marketing, to special courses which provide the necessary knowledge for fostering new industries. Each course is offered at beginner, intermediate and advanced levels, enabling students to select the level that is right for them. Since classes started in

2006, a total of around 1,000 students a year have attended. In addition to increasing the knowledge and technical and management expertise of numerous individuals involved in the manufacturing industry in Iida City, the classes have produced a sense of solidarity among attendees, increasing the retention rate of people in the region. The second of the Industry Center's major initiatives is the operation in collaboration with Shinshu University of a system enabling workers to attend graduate school, involving the establishment within the Industry Center of the Shinshu University/Hani Area Industry-Academia-Government Cooperation Office as a base that connects Iida City and Shinshu University. Workers making use of the system are able to take a Master's degree following two years of research. As part of the process, students write a Master's thesis. In most cases, topics such as issues related to the company that the student works for form the subjects of these theses, and there are high expectations for the students to make use of their research outcomes when they return to their companies following graduation.

Personnel who have received the type of education discussed above are making great contributions to regional industry, and one of these industries is the aerospace industry. The Iida City Aerospace Project has established Aerospace Iida as a base in the Industry Center, and it has been a key player in the stimulation of the aerospace industry in the region. Nine SMEs based in the Iida region participate in Aerospace Iida, operating a joint production system. This means that rather than individual companies accepting orders for the manufacture of aerospace-related parts, the companies offer a one-stop system in which Aerospace Iida accepts the orders. This system has increased their competitiveness in the industry, leading to ongoing orders for the machining of parts for airplanes and satellites and other related processes. However, the manufacture of airplane parts necessitates a high level of technical ability and quality control, and it is necessary for the workers involved to acquire knowledge and technical skills specialized for airplane parts. To enable them to do so, Aerospace Iida established a training workshop taught by a former employee of a major heavy industry manufacturer. Aerospace Iida was also adopted by the Ministry of Economy, Trade and Industry to be part of its fiscal 2013 supplementary budget project Project for the Collaborative Fostering of Human Resources by Regional Companies. Consultants from outside the project became involved, and the SMEs participating in Aerospace Iida came together and shared details of their production processes, created a quality control system and acquired expertise in production technologies specifically related to the aerospace industry, and engaged in efforts to reduce costs. In providing an opportunity for local workers to acquire standardized knowledge and technical skills, and for the fostering of specialized personnel by the Iida Aerospace Project, the Minami-Shinsyu Iida Industry Center has been effective in fostering human resources possessing advanced knowledge and skills through a two-stage process.

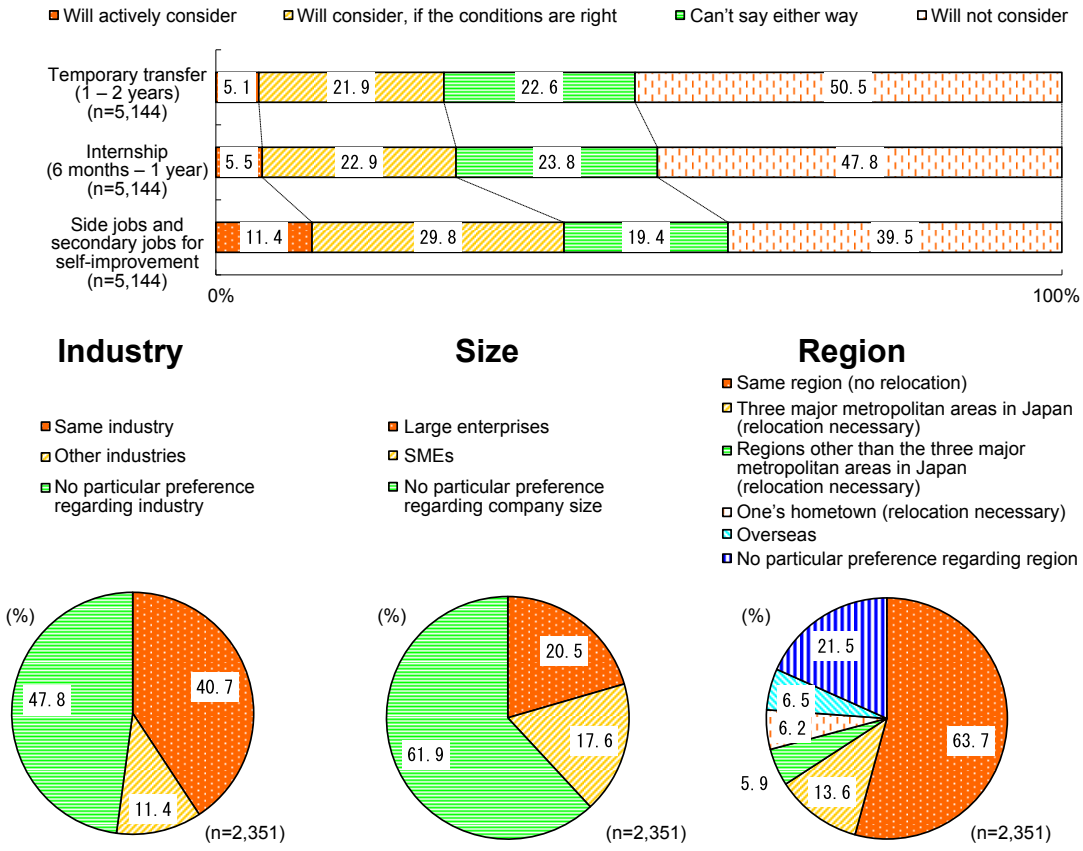
Mr. Matsushima, Manager of the Iida Aerospace Project, says "Compared to a large city, it is difficult for Iida to ensure the human resources that it needs, and so it is important for the entire region to pull together in order to help develop human resources. An initiative like this one develops human resources for local industry and increases its vigor, including the Iida aerospace industry, contributing to the revitalization of the region." There is a great deal to be learned from the activities of the Minami-Shinsyu Iida Industry Center, which has focused on fostering human resources for the region in the region as a means of invigorating regional industry and promoting regional revitalization.

A training session at the Minami-Shinsyu Iida Industry Center

[6] Human resources training via temporary transfer at other companies

One new and gradually growing initiative concerning collaborating with other companies involves training human resources by having them work short-term at other companies. More specifically, some companies are conducting training programs for new hires involving having them develop qualities as working adults through working at other companies. Others are grooming personnel for future management positions and expanding their perspectives by sending them to learn from other companies. The following discussion looks at the interest being shown by workers for these activities.

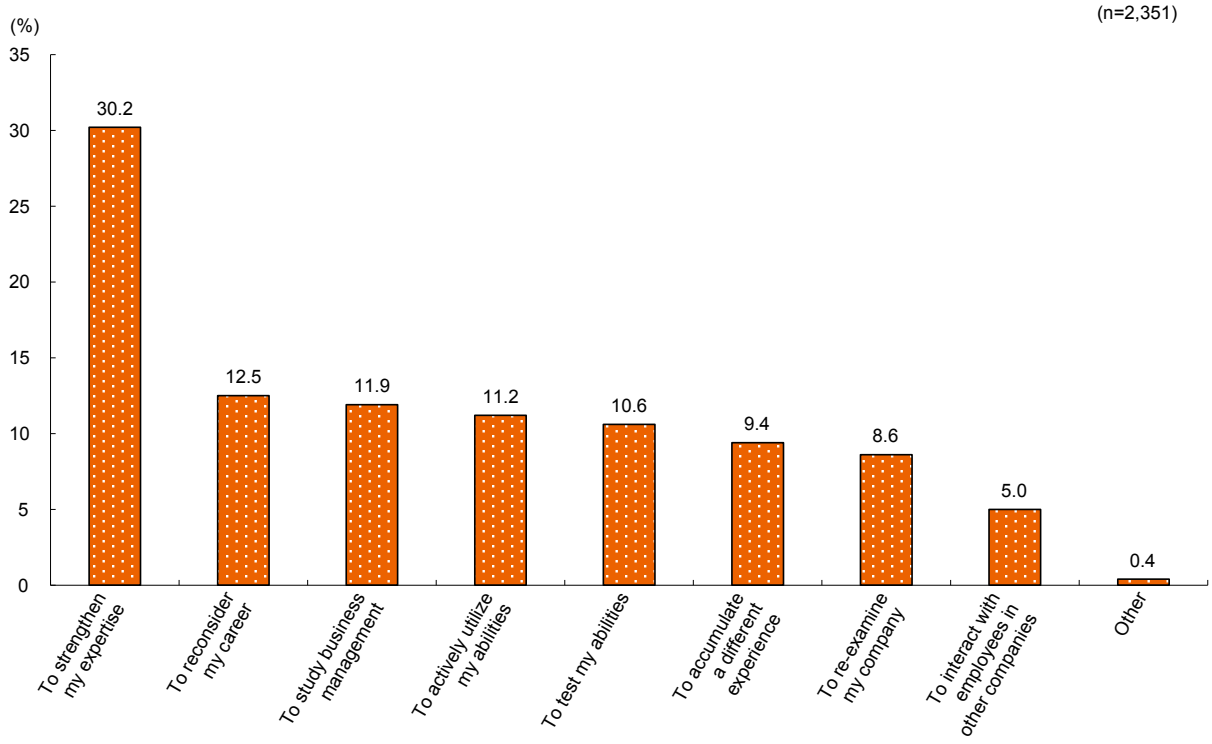
Fig. 2-2-47 Workers' interest in temporary transfer, internship, side job and secondary job opportunities



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Let us first look at Fig. 2-2-47, which shows workers' interest in opportunities involving temporary transfers, internships, and secondary jobs. Among those who chose "will actively consider" or "will consider, if conditions are right," 27.0% chose "temporary transfer," 28.4% chose "internship," and 41.2% chose "side jobs and secondary jobs," indicating a strong level of interest. As for which industries, company sizes, and regions workers are interested in, the most responses went to "no particular preference regarding industry" at 47.8% and "no particular preference regarding company size" at 61.9%, indicating many are interested in a variety of employment opportunities. Concerning region, a majority of respondents—63.7%—said "same region (no relocation)," meaning, conversely, that there are more than a few people looking to experience employment that involves relocation.

Fig. 2-2-48 Reasons for wanting to work at another company



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Next, Fig. 2-2-48 shows reasons for people wanting to work at another company. The top response at 30.2% was "to strengthen my expertise," which shows there is strong demand for opportunities enabling employees to brush up their skills and knowledge through employment at other companies. There were also a fair number of respondents who chose reasons related to looking back on their career, with 12.5% saying "to reconsider my career," 9.4% saying "to accumulate a different experience," and 8.6% saying "to re-examine my company."

This shows that employees have a certain measure of interest in working at other companies. However, as success in such endeavors requires trusting relations and an alignment of interests between the companies that send and the companies that receive employees, the first step is to spread the word far and wide that these initiatives are being conducted. The following pages discuss one related initiative.

Column 2-2-6 Temporary Transfer from an SME to a Quality Services Business — Warrior's Pilgrimage: Developing Next-Generation Business Leaders in a Competitive Age

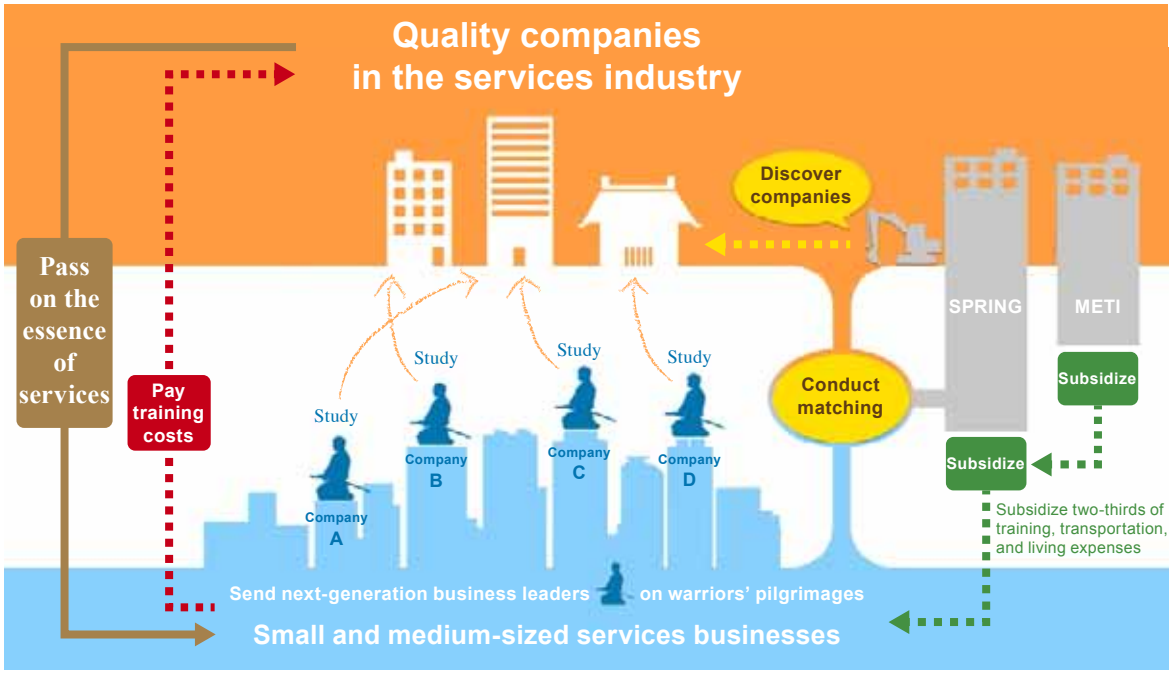
Warrior's Pilgrimage is a Service Productivity & Innovation for Growth (SPRING) initiative whereby people set to become the next generation's SME business leaders ("pilgrims") learn the essence of service innovation through "pilgrimages" (internships) at quality companies in the services industry.

Since its establishment in 2007, SPRING has sought to "enhance service industry innovation and productivity." In addition to recognizing quality companies that succeeded in improving productivity in the services industry through activities including the "Japan 300 High-Service Award," the organization has presented on the distinctive initiatives being taken by these companies at symposiums and seminars held throughout the country. Fragmented information passed on orally is of great use to managers, but understanding its true nature and essence can be difficult. There was a need to gain this knowledge first-hand through work at a quality company.

In recognizing this need, SPRING began the Warrior's Pilgrimage as a system for allowing employees at SMEs to work for a specified period at a quality company and receive practical training as interns.

Companies that received these "pilgrims" include quality companies and organizations such as those given Japan 300 High-Service Awards and those selected as Hospitably-Managed Companies. Additionally, as these activities are considered part of the Ministry of Economy, Trade and Industry's fiscal 2014 Micro Business, Etc. Human Resource and Support Personnel Development Project (Small and Medium-Sized Enterprise Service Industry Core Personnel Development Support Project), two-thirds of all pilgrims' training, transportation, and living costs are subsidized.

Warrior's Pilgrimage concept



The program achieved great results this fiscal year, with 21 people taking part in Warrior Pilgrimages. Below we look at one of these cases, where an employee from Kubota Kaikei Jimusho (Kobe City, Hyogo Prefecture) conducts an internship at Kyoei Shigen Center (Ogori City, Fukuoka Prefecture). Kyoei Shigen Center, the receiving company, is in the business of collecting and transporting trash. But its activities are not limited to just trash collection: the company goes door to door to assess needs concerning trash collection, which includes helping elderly persons for whom it is difficult to carry trash to the curb by picking it up at their door. The company also provides lifestyle support services based on customer needs. The company focuses on conducting business rooted in communities, with employees making such efforts as taking off their hats and warmly greeting commuters and students as they pass by in order to make communities cheerier places to live.

The intern in question was the future successor of the accounting firm, and hopes are resting on him to become a future leader of an office. His participation in the Warrior's Pilgrimage came from a desire to broaden his outlook by working outside his company. Although the accounting firm's business is altogether different from trash collection, he reported that he achieved significant personal growth during his one month internship as he learned how to show sincere consideration for others—something one could say is the essence of service business. He also taught Kyoei Shigen Center employees what he knew of accounting, resulting in both parties learning from each other.

As an internship program, the Warrior's Pilgrimage allows interns to learn the essence of service innovation—something only knowable through working in the industry.

It also allows for both the intern and the receiving company to see the different perspectives of each, which includes the receiving company finding inspiration from intern's knowledge and expertise.

Case 2-2-10 The Yamanashi Chuo Bank, Ltd.

Fostering diverse perspectives by dispatching employees for temporary work

The Yamanashi Chuo Bank, Ltd., which has its Head Office in Yamanashi Prefecture, is the prefecture's only regional bank, and as such operates in a close relationship with local companies. In considering the role it has to play in the regional economy as the number of companies in the prefecture dwindles and the birthrate declines and its population ages, the bank is aware of the importance of providing consulting services for local companies that go one step further, and of proposing solid solutions for business issues. In order to do so, the bank considered that a change of concept was necessary: Rather than viewing local companies from the external perspective of a bank employee, employees should grasp the circumstances of the companies from the perspective of the companies themselves. Since April 2012, the bank has therefore operated a system under which it dispatches employees to work at local companies for a year, giving them the opportunity to foster an understanding of the SME perspective by performing actual duties for the companies.

In concrete terms, the bank first chooses 10 employees per year from among employees who apply for the dispatch system. It asks for cooperation from companies with a focus on local Yamanashi enterprises (the destinations for bank employees are not necessarily finance-related companies), and then matches employees with companies. Finally, the year-long dispatch is commenced. Because the purpose of the exercise is to foster human resources for the bank, it seeks to minimize the burden on participating companies, taking on all expenses including the employee's salary and insurance payments, and even the employee's travel expenses at the destination company. With regard to work duties, the bare minimum of meetings are conducted, and as a rule this aspect is left up to the discretion of the company the bank employee is dispatched to. For the companies, this initiative is a no-cost, high-return proposition which enables them to have access to a bank employee who represents a valuable management resource in resolving previously intractable business issues and considering advance investments towards the future.

True to the purpose of the system, the bank employees who are dispatched develop a new perspective while performing work duties in local companies and sharing with their new colleagues, coming to think about the company from a standpoint within the company, rather than the standpoint of the bank. As a result, when they are later consulting with a company or conducting a loan review, they are able as never before to organically link the cold figures on the financial statements that they check to a variety of related procedures within the company, and offer a more in-depth response based on the SME perspective. In addition, their ability to view trends in the business environment for the company to which they were dispatched and consider the pressing management issues facing small companies from the inside increases their level of specialization and enables them to offer more empathetic responses to companies.

When they have completed their period of dispatch, the bank employees are offered the opportunity to formulate and present a report concerning their proposals to the company at which they worked and Yamanashi Chuo Bank. The various perspectives that they have developed during their dispatch year serve them well when they do so. Over the course of their experience, the dispatched employees develop the ability to consider issues from multifaceted perspectives, including those of full-time employees of the company to which they were dispatched, of bank employees, of residents of the local area, developed as a result of contact during their dispatch, and of representatives of other companies and administrative authorities, who they have met in the course of their work duties.

Mr. Kitta, the Manager of Yamanashi Chuo Bank's Personnel Department, who is responsible for the employee dispatch initiative, says "As a regional bank, we are required to offer optimum solutions in response to the various problems and needs of regional companies. What we need in order to do so is to foster personnel with diverse perspectives. I believe that we are cultivating diversity among our human resources by means of this employee dispatch program." Mr. Watanabe, Head of the bank's Personnel Development Office, continues "When you consider today's economic and social structure, it is essential for a diverse range of actors in the regional economy to combine their efforts for the sake of the region. The role of our employees who have cultivated diverse perspectives as a result of this initiative in making this happen is an important one."

Action from a diverse range of actors possessing different standpoints is necessary for regional revitalization. As a supplement to the collaborative industry-academia-government initiatives that are attracting attention today, this case study has focused on an initiative launched by a financial institution, which seeks to foster human resources by dispatching employees to work in local companies. When diverse actors are engaged in activities based on their respective standpoints, mediators able to understand diverse perspectives are necessary. Yamanashi Chuo Bank employees who have had an experience of dispatch to another company are currently displaying their abilities in a range of areas, including sales, sales coordination and loan reviews, but in the future they can perhaps be expected to make use of their ability to understand diverse perspectives and play the role of mediators in their region.

Below, we present two case studies of the dispatch of bank employees to other companies. One is entitled "A year spent searching out resources for regional tourism," and the other "A year spent learning philosophies deeply ingrained in the region."

A year spent searching out resources for regional tourism (Naigai Building Co., Ltd.)

Yamanashi Chuo Bank employee Mr. Sano was dispatched to Naigai Building Co., Ltd. (employees: 68; capital: ¥50 million), a company whose main business area is the management of hotels and large facilities. The company is contracted under a Designated Management System to manage Noppui no Yakata, a facility in the Mitama no Yu hot spring, located on Miharashi no Oka, a hill in Ichikawamisato town, Yamanashi Prefecture. Pointing to the company's management orientation of identifying the appeal of an area and actively advertising it, Naigai Building's President, Mr. Naito, says "In order to increase the number of users of the facility, we had not only to advertise the appeal of the facility itself, but also to increase the appeal of Ichikawamisato, the town where it is located."

The company had commenced its operations as part of the designated management system about ten years previously, and had identified regional points of appeal in Otsuka carrots (which at their longest grow to more than one meter) and "Kan-Kan Musume" corn (an unusually sweet variety which can be enjoyed raw), both of which had previously been little known outside the local region. However, the type of advance investment represented by identifying and publicizing regional points of appeal was not easy given the company's limited management resources. While Mr. Naito recognized this as an issue, his company did not have the human resources necessary for an effective response, and the situation continued unchanged for several years, without the company being able to act on it. Naigai Building therefore became involved in the employee dispatch system operated by the Yamanashi Chuo Bank, and Mr. Sano was dispatched to work there for one year from April 2014.

For that year, Mr. Sano decisively approached his task of identifying points of appeal in Ichikawamisato, producing two significant outcomes. The first of these was "the hundred festivals." While residents had traditionally known that large numbers of festivals were held throughout the local area and its surrounding regions, the number of people who maintained these traditions was diminishing, and exchange between the neighboring regions had declined in vigor, making it difficult to know precisely what the status of the festivals was. Mr. Sano therefore visited the homes of local residents and town halls in order to investigate. As he clarified the situation of the local festivals, he published details of his discoveries widely using media including his blog, photographs and books. Mr. Sano says "Doing this was related to publicizing points of attraction in the area, but it was also an opportunity to help local people to rediscover aspects of their region and to take pride in their regional culture." Mr. Sano also participated in the building of a portable shrine from barrels to be carried in the Gion Matsuri, one of the hundred festivals. In addition to deepening his contact with the local people, this also resulted in the planning of tours on which people from outside the region could assemble a portable shrine from barrels, help to carry it in the festival, and afterwards share drinks with the locals. Mr. Sano was able not only to make the appeal of the local region known in other parts of the country, but also to attract people from outside the region to actually experience that appeal.

The second major outcome of Mr. Sano's period in Ichikawamisato was the launch of the "Experience Wine-making in Ichikawamisato" project. This initiative enables visitors to experience all parts of the wine-making process, from growing and harvesting the grapes to making and bottling the wine. The outcomes of Mr. Sano's efforts in getting to know Ichikawamisato also gave birth to this project. Ichikawamisato was the next region in Yamanashi Prefecture to begin the cultivation of wine grapes after Katsunuma, which is now famous for viticulture, and the Japanese word for "grape" appears in place names in the area. Mr. Sano considered that experiencing the entire process of making wine in a region with such a deep relationship with viticulture would not only be enjoyable, but would also offer an experience of the deep-rooted history of the area. The project was launched with the cooperation of local farmers and wineries, JA Nishi-Yatsushiro, the Kyonan Agricultural Administration Office, and other entities.

After spending a year devoting himself to identifying the attractions of Ichikawamisato, Mr. Sano is scheduled to return to Yamanashi Chuo Bank from April 2015, following the completion of the term of his dispatch, but he says "I want to nurture the relationships that I have developed with Naigai Building and local people through the different projects." His eyes shining, he talks about the "Experience Wine-making in Ichikawamisato" as follows: "Even though my dispatch period will be over, I want to continue to be involved in the operation of the project, making a contribution to letting people know what an attractive place Ichikawamisato is." Having spent a year in intimate contact with a regional area, Mr. Sano experienced for himself the real meaning of "region," a word that tends to be used quite vaguely. He says "I was raised in Yamanashi, but this year has made me realize how many attractions the prefecture has. I've come to love Yamanashi, and I am proud to work here."

Mr. Sano taking part in a festival

A year spent learning philosophies deeply ingrained in the region (Moeginomura Co., Ltd.)

Yamanashi Chuo Bank employee Mr. Mutou was dispatched to Moeginomura Co., Ltd. (employees: 51; capital: ¥99.5 million), based in Kiyosato, Yamanashi Prefecture. Moeginomura is a company with a broad range of business interests, including, in addition to managing a hotel, a restaurant, and a café, operating a music box museum, organizing ballet events during summer, and manufacturing and selling beers. Joji Funaki, the President of Moeginomura, says "We began our business operating a café, but we wanted to increase the possibilities for entertainment for local people and bring a new level of culture to the local area, and that led to us operating the range of different businesses that we have today." Mr. Funaki's parents settled in Kiyosato, and he has lived there all his life. This means that he conducts his business based on principles developed through approaches intimately bound up with the region's culture. We will introduce some of these below.

First, Mr. Funaki believes that the revitalization of a region cannot be measured in economic terms, but rather advocates the importance of cultural richness. Having seen the use of money that has come into the region ruled by self-interest, Mr. Funaki believes strongly in the importance of cultural development to the achievement of sustainable regional revitalization. This idea is embodied in the fact that Mr. Funaki operates Japan's largest music box museum. The culture of music boxes originated in Europe, and continues as a timeless tradition. Unless one shares the feelings of past owners, and is considered trustworthy, collectors are reluctant to pass their music boxes on. This meant that Mr. Funaki initially experienced considerable difficulty in collecting the boxes, but he eventually built up relationships of trust with collectors around the world, and today possesses Japan's largest collection and operates a museum that is rich in culture and tradition from throughout the world. Mr. Funaki has also organized "Field Ballet" (open-air ballet) performances since 1990. The Field Ballet performances enable visitors to watch ballet as part of nature, caressed by gentle breezes under the star-filled Yamanashi sky. The appeal of this experience has seen the event grow into one of the major events of the Kiyosato summer calendar, with the number of visitors increasing from 350 when the event began to more than 10,000 in 2004.

Mr. Funaki also respects the specificities of the local region in his operation of his business. For example, he uses mineral-rich Kiyosato spring water to brew beer under the brand name Touchdown. Helped by a retired technician who previously worked for a major beer manufacturer, Mr. Funaki set out to brew high-quality beer. In 2014, the highest-quality variety produced by his brand, Premium Rock Bock, was crowned "Asia's Number One" in the Bock Category of the 2014 World Beer Awards. Mr. Funaki says "I want people to enjoy this premium beer and Kiyosato dishes under our star-filled sky, enveloped by a natural beauty that can only be found in Kiyosato."

Mr. Funaki is also serious about the fostering of human resources, and actively provides support for the overseas dispatch of young people with dreams in order to enable them to achieve excellence. Mr. Matsuoka, who is involved in the manufacture of Touchdown Beer, was sent for training in Germany in order to become able to brew the world's best beer, while Mr. Kubota, a local bartender, visited Scotland, the home of whisky, with both benefiting significantly from their experiences. "I want young people to understand what a great asset it is to always follow your dreams."

Dispatched to spend a year in this type of environment, following a period of apprenticeship under Mr. Funaki, during which he fulfilled a variety of roles, Mr. Mutou is now acting as the manager of the music box museum, an institution which may be said to symbolize Mr. Funaki's activities. As the manager of the museum, in addition to making efforts to reform the organization of the facility and create a pleasant working environment for employees, Mr. Mutou is also working to increase the number of visitors, efforts which are steadily producing outcomes. In addition, exchanges with Mr. Funaki's local, national and international network have contributed significantly to Mr. Mutou's personal growth.

One day, Mr. Funaki had Mr. Mutou draft a reply to a letter addressed to himself. The contents of this letter were rather surprising. Mr. Funaki thought "My ideas are all here and nothing to add." In the course of a year in Kiyosato, the deep-rooted philosophies that Mr. Funaki had imbibed over the years had been passed on in their entirety to Mr. Mutou.

Through his dispatch experience in Kiyosato, Mr. Mutou learned that regional revitalization would not be achieved through the medium of the economy alone, and came to recognize the importance of a diverse and broad-ranging revitalization, based on a sense of value deeply-rooted in the region and enterprises that make appropriate use of the specific characteristics of the region.

Mr. Mutou working at the music box museum

Joji Funaki, President

Case 2-2-11 ETIC. (Entrepreneurial Training for Innovative Communities) (NPO)

Transforming companies through practical internships

The non-profit organization (NPO) ETIC. (Representative Director: Haruo Miyagi; employees: 70 (35 full-time employees as of December 2014)), based in Tokyo's Shibuya City, was established in 1993 (incorporated in 2000) in order to foster human resources displaying entrepreneurial spirit, and in the course of its history has encouraged large numbers of motivated young people to participate in new social initiatives.

One of these is the Challenge Community Project, commenced in 2004, in which almost 50 organizations throughout the country, including ETIC., have played a coordinating role in bringing together approximately 1,800 SMEs and approximately 7,000 students. The project seeks to discover the seeds of new businesses and increase the number of managers able to foster the next generation who will work for regional revitalization. The central initiative that brings together SMEs and students are practical internships. However, these are quite different to regular internships, which seek to introduce students to work procedures and the atmosphere of the company.

In the practical internships which ETIC. helps to coordinate, the companies do not treat the students like a customer; the basic idea is that the student, as a company employee, seeks solutions to management issues that must be resolved in order for the company to realize its mid- to long-term vision. Because of this, the internship periods are long, lasting three to six months, and most of the issues with which the students grapple are directly related to company management, such as the launch of new businesses, the development of new products, and the expansion of sales channels. ETIC. recommends companies to set issues which are important, but which have a low order of priority.

Given that the resolution of management issues is the goal, organizing and implementing the internships is not easy. But the coordinators at ETIC. offer empathetic support to students and companies who are motivated and ready for the experience in order to guide the internships towards success. ETIC. provides support designed to boost the outcomes produced by the internships as much as possible, for example by appropriately matching students and companies, reviewing issues set for students together with the companies, providing advice based on a rich array of prior examples, and encouraging participants to look back on the internship experience when it is completed.

The more serious that the students, companies, and coordinators are about the experience, the greater the outcomes. As a result of frequently needing to make decisions involving personal responsibility, the students develop a strong sense of personal involvement and the ability to identify issues and resolve them for themselves. In the case of the companies, the resolution of problems is a business outcome in itself, and forms the groundwork for later sales expansion or the launch of new businesses. Cases in which new products or services have been developed leading to increased sales in the range of tens of millions of yen, new sales channels have been opened up, and other significant outcomes have been obtained, are not rare.

The system also has another advantage for the companies involved. Most SMEs employ new staff only irregularly, and are not experienced in the process of recruitment, and have little opportunity to make contact with students. By becoming part of the practical internship program, these companies gain an understanding of what to be aware of when employing students and of how to approach the training of the new employees following their recruitment. Existing employees also have the opportunity to instruct and foster the students, leading to personal growth. In addition, the expenses borne by the participating companies amount to an average of 400 to 600 thousand yen in membership fees and 30 to 50 thousand yen per month to support the student (plus an allowance for accommodation as necessary). When it is considered that this is the six months personnel cost for employment of a resource who essentially functions as a company employee, the cost is relatively low.

However, ETIC. also offers three examples of cases in which a practical internship will fail. The first of these is when the company does not expect any results from the student. In these cases, the company regards the student simply as labor power, and prepares jobs for them to perform. The second is when management has no ideas to offer regarding issues to be resolved. In these cases, the managers remain entirely uncommitted to the initiative, thinking, for example, that they would like to leave the initiative up to the type of free thinking of which they believe students to be particularly capable. The third and final case is when the student is passive. In these cases, the student does not take responsibility or there are no situations or events necessitating decision-making, and the student does not ultimately take active initiatives. Of course, the opposite of these cases is one in which the company has formulated its own ideas regarding the specific management issue to be resolved, and will accept a certain degree of cost and risk in leaving the detailed working out of the idea and its implementation and the verification of its effectiveness to the student. For companies that have the motivation and are ready to respond to the requirements that are demanded of them, but have not found the opportunity to transform themselves, the practical internship program can be an important first step towards transformation.

Table. Differences between a practical internship and a normal internship

Category	Practical internship	Normal internship
Period	Two to six months	Two or three days to two weeks
Purpose	Launching new businesses, expanding sales channels, sales, etc.	Observation and experience of work procedures, receiving lessons
Position of intern	Project leader, special work partner	Trainee
Expectations on student	Success in project, success in special role	Avid desire to learn
Goal of company	Resolution of specific issues, launch of new businesses	Social contribution, and internship is part of recruitment activities
Goal of fostering of human resources	Cultivation of entrepreneurial characteristics, development of independent career-minded orientation with proactiveness and sense of personal responsibility	Fostering of vocational awareness, cultivation of understanding of work, social study

Source: ETIC.

Almost 50 organizations from all over Japan are registered as regional coordinators for the practical student internships organized by ETIC. Practical internships are organized throughout the country, with each coordinating organization having its particular specialties and individual characteristics. Below, we introduce the NPO G-net, based in Gifu Prefecture.

An explanatory session regarding practical internships organized by ETIC.

G-net (NPO)
Using the energy of youth to provide support for the reinvigoration of regional SMEs and micro-businesses

The NPO G-net (employees: 15), based in Gifu City, Gifu Prefecture, provides support for the reinvigoration of regional SMEs and micro-businesses through initiatives including internships for young people and job-seeking support.

When he would return home to Gifu Prefecture during his university days, Shoji Akimoto, G-net's Founding Director, found that the local shopping arcade in his hometown was losing its vitality. He was spurred into action by the feeling that he had to do something for his region, that if things were left as they were, then the decline would continue. When Mr. Akimoto collected opinions from store owners regarding the reasons for the decline, he realized that they considered elements of the external environment, including the physical deterioration of the arcade and a lack of parking space, to be the main factors. Believing that it would be essential for him to increase the number of people involved in order to make an improvement, Mr. Akimoto established G-net in 2001. The mission of the new NPO was to assist in the revitalization of the region through the fostering of human resources who loved Gifu and worked actively to solve the problems of the region.

Today, G-net's main activities are 1) The provision of support for job-seeking and recruitment, and 2) The organization of internships.

1) Support for job-seeking and recruitment: Seeking to create opportunities for young people in Gifu to learn about local SMEs and micro-businesses, in this area of its activities, G-net provides support in different stages, from connecting companies and students in their first or second years of university, to matching companies and new graduates through initiatives including its selection of the "100 Most Appealing Companies," in which it adopts the perspective of young students in deciding the appealing points of working for different companies, and the "Job-seeker's Choice Employment Fair," an event at which it matches university graduates and companies.

2) Internships: G-net offers a varied menu of internships depending on the period involved, but its main focus is practical six-month internships. In this category, G-net apprentices motivated students to managers of local SMEs and micro-businesses, and they work to develop new businesses. In 2013, 45 students (from 25 universities) and 33 companies participated in the program. The arrangement is advantageous for both parties: For the students, it provides an opportunity for personal growth, and the companies receive assistance from the students to expand their business and solve management issues. G-net also offers two-week and one-and-a-half-month internships, depending on the needs of the companies and the students. Every year, around 230 students participate in the program as a whole. Recognizing the appeal of local companies as places of employment, approximately 70% of the students find work with local SMEs and micro-businesses (results for 2013 graduates), and more than ten of the students who have participated in the program have gone on to start their own businesses. It has been possible to realize the program through the cooperation of a wide variety of entities, including the Gifu Shinkin Bank and Gifu University.

G-net's internships function as a platform providing opportunities for growth for both students and companies, and they also offer splendid opportunities for students to recognize the appeal of their region and find employment there.

A student on an internship

Case 2-2-12 AKITAKATA CONSO

Support to make working in a regional area more enjoyable and more fulfilling

AKITAKATA CONSO, based in Akitakata City in Hiroshima Prefecture, is a consortium involving municipal administrations, regional commercial bodies, and industry support organizations organized around the NPO Career Project Hiroshima. The purpose of the consortium is to foster human resources for the region within the region. Local companies are able to participate in AKITAKATA CONSO without cost, and the consortium provides support

as a "regional Human Resources Division" for initiatives to enable the companies to resolve their dilemmas and problems in relation to the fostering of human resources.

Those initiatives can be broadly divided into the holding of events for the exchange of information between managers and representatives of personnel departments, the holding of joint training workshops (Off-JT) and the rotation of employees between companies (OJT).

The first of AKITAKATA CONSO's initiatives, events for the exchange of information between managers and representatives of personnel departments, enable representatives of local companies to discuss management issues, in particular issues related to the development of human resources, and to exchange opinions regarding AKITAKATA CONSO's support activities. In addition, by socializing together over food and drink, participants deepen their connection as people who all work in Akitakata City, and the events produce an atmosphere that promotes the development of the means to foster human resources suitable for Akitakata City throughout the region.

The second initiative, the holding of joint training workshops (Off-JT), involves the holding of joint seminars in order to solve issues related to the cultivation of human resources that affect the companies participating in the exchange events discussed above. In addition, the workshops offer training in subjects including business etiquette and communication, with a focus on group work that would be difficult for an individual company to implement. These events not only assist in the fostering of human resources, but also promote the development of deeper bonds between the employees who participate in seminars and training sessions, helping to ensure that local human resources remain in the local region.

The third initiative, the rotation of employees between companies (OJT), is the most characteristic of AKITAKATA CONSO. It will be explained in detail below by looking at actual cases. Rotation between companies is a mechanism by means of which companies registered with AKITAKATA CONSO dispatch or receive employees for a specified period, due to scenarios including finding themselves with an excess or a shortage of staff or having the need to cultivate human resources for their future. In these cases, AKITAKATA CONSO acts as a "regional Human Resources Division," directing regional resources exactly where they are needed.

Below, we look at Nanjo Sobi Kogyo Co., Ltd. and the Kawane Yuzu Cooperative as examples of the use of the mechanism.

Yachiyo Plant, Nanjo Sobi Kogyo Co., Ltd.

Nanjo Sobi Kogyo Co., Ltd. (employees: 720; capital: ¥100 million), was established in 1915 as a manufacturer of canvas canopies for rickshaws. Celebrating its 100th year of existence in 2015, the company today focuses on the development, manufacture and sale of interior fittings for automobiles. Nanjo Sobi Kogyo has plants in Japan and overseas, including its Yachiyo Plant located in Akitakata City.

Recently, with its automaker clients experiencing favorable conditions, Nanjo Sobi Kogyo found itself faced with a shortage of labor power, and learned about the activities of AKITAKATA CONSO. This resulted in the company being assisted by the two-month dispatch of workers from a transport company in Akitakata City which had a more than sufficient supply of labor power. At first, the dispatched workers felt somewhat out of place as new employees in a manufacturing plant, but they were soon able to absorb the necessary knowledge and working methods of a manufacturing business.

Mr. Mochinaga, the Manager of the Yachiyo Plant, says "Receiving assistance from a local company when we were short-handed was a huge help to us. For the remainder of their time working with us, I would like our new employees to use the experience they have gained working in transport, and offer us advice on things like transport routes for goods within the factory." As we see here, a measure designed to alleviate a shortage of staff has produced new added value in the form of consulting based on specialized knowledge.

A scene from Nanjo Sobi Kogyo's workplace

Kawane Yuzu Cooperative

The Kawane Yuzu Cooperative was established in 2012 as the result of an organizational change in the Kawane Yuzu Promotion Association (established in 1981) designed to expand the organization's customer base and increase operational efficiency, for example in the area of borrowing funds. The cooperative has around 60 members, including local farmers.

The Kawane Yuzu Cooperative cultivates about 5,000 yuzu trees in the Kawane area of Akitakata City, and harvests approximately 30 tons of yuzu fruit every year. The harvested fruit is used to make products including juice, ponzu (a soy/citrus sauce), jams, and very popular yuzu butter cakes, which are made with yuzu marmalade and combine a moist texture with the aroma of yuzu. In this case, primary producers are responsible for production, processing, and sales, including Internet sales.

The cooperative works vigorously to develop new products and expand sales channels, but its farmer members are increasing in age, and its labor shortage during the best period for harvesting the fruit, October to December, is becoming severe. Through AKITAKATA CONSO, the organization has been able to receive assistance from the NPO Furusato Net Yasuragi-kai. This has not only solved the harvest labor shortage problem, but the NPO staff have also had a considerable effect on the cooperative through their versatility, for example by using their knowledge and expertise in offering advice regarding the management of the harvested yuzu and providing instruction to young cooperative members. The staff dispatch has also deepened ties between businesses in different areas of Akitakata City by commencing an exchange between the Kawane Yuzu Cooperative (based in Takamiya-cho) and Furusato Net Yasuragi-kai (based in Mukaihara-cho).

In both of the examples we have seen, in addition to its initial purpose of supplementing a shortage of human resources, rotation between companies has had secondary effects, for example in prompting the offering of advice from an outside perspective and the creation of ties between companies.

The realization of this initiative, however, involved considerable difficulty. To begin with, it was necessary to explain the initiative to companies and to bring the companies that agreed with the idea on board. Further, it was necessary to gain an understanding of the needs of the companies dispatching staff members and the companies accepting temporary staff members through networking events and other initiatives, and then to match those needs. The biggest obstacle here was realizing trust between the companies involved. The initiative was commenced only after the organizations involved in the consortium, in particular Career Project Hiroshima, showed convincingly that in addition to the fact that the companies were based in a single area (Akitakata City) and were known to each other (the essential condition), rotation of employees between them would have considerable value for local companies.

Mr. Koichi Arita, the President of Career Project Hiroshima, says "It took time from conceiving the project, but local managers eventually understood the idea of rotating human resources between companies, and we were able to get it up and running. The system has still not taken root in the region, and the number of instances of its use needs to increase, but until then we want to continue with the initiative in cooperation with municipal administrations, commercial organizations, industry support organizations, and educational institutions in order to contribute to the development of human resources as a regional Human Resources Division in Akitakata City. We think that this type of initiative will invigorate companies in the city, and boost the city's attractiveness."

Processing factory of Kawane Yuzu Cooperative

A meeting of AKITAKATA CONSO

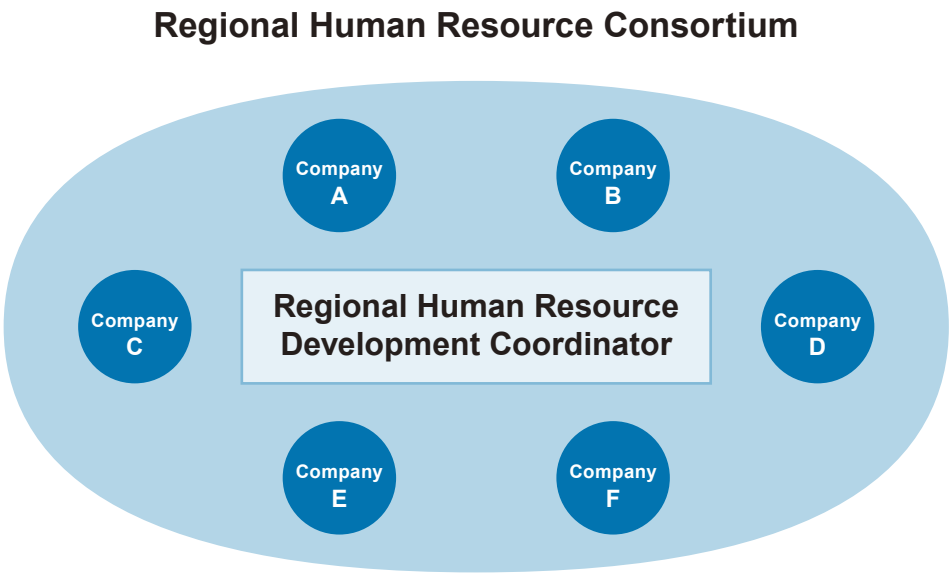
Column 2-2-7 Regional Company Human Resource Joint Development Project

Due to the limited business scope and range of departments at regional SMEs and micro-businesses, there are limits to the human resource development methods available for employees to gain experience from various departments and improve their abilities in-house. To address this problem, this project promotes the coming together of multiple SMEs and micro-businesses in a region to conduct human resource development as a unified community. Specifically, the project allows young and mid-career employees that will be the future agents of growth at their companies to take part in temporary transfers to other companies in order to acquire wide-ranging experience and to participate in OJT training and joint training sessions at other companies. Through such activities, many SMEs and micro-businesses in a region get together and collaborate to conduct the kind of human resource development that is difficult to provide on their own.

The project also seeks to handle activities that would be inefficient for individual companies to accomplish themselves. This includes identifying the diverse needs of and providing matching services for sending and receiving personnel for the sake of such endeavors as conducting temporary transfers for human resource development and holding OJT training at other companies, as well as helping to resolve delicate problems concerning contractual relationships relating to such endeavors.

To achieve these goals, the project promotes human resource development at regional SMEs and micro-businesses by helping to form Regional Human Resource Development Consortiums comprising multiple SMEs and micro-businesses and led by Regional Human Resource Development Coordinators, and by supporting human resource development through OJT at other companies and temporary transfers for human resource development between companies in the same region.

Regional Human Resource Consortium concept



Project activities

- Conducting OJT at other companies and coordinating temporary transfers for human resource development between companies in the same region
- Conducting OJT through employee exchange with other companies
- Planning and conducting joint Off-JT training sessions ...etc.

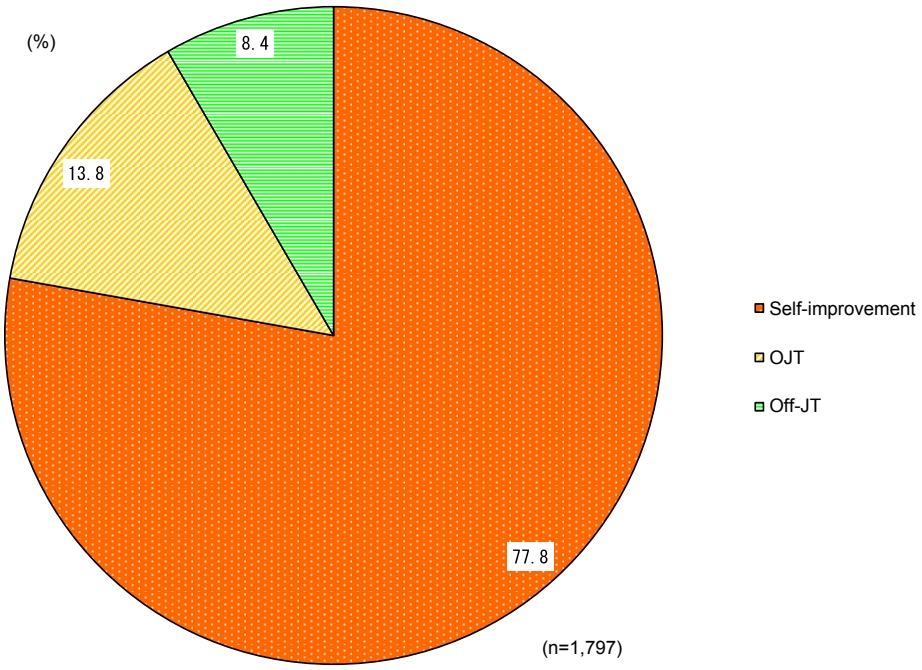
[7] Self-improvement

Following on the discussion so far of the state of in-house human resource development (OJT and Off-JT), we will now look at the importance of self-improvement as a part of human resource competency development.

Fig. 2-2-49 shows the results of asking workers conducting all three kinds of human resource development—self-improvement, OJT, and Off-JT—

which was the most effective. The standout top response at a 77.8% response rate was self-improvement, illustrating that such efforts are very important to those routinely striving to improve their competency.

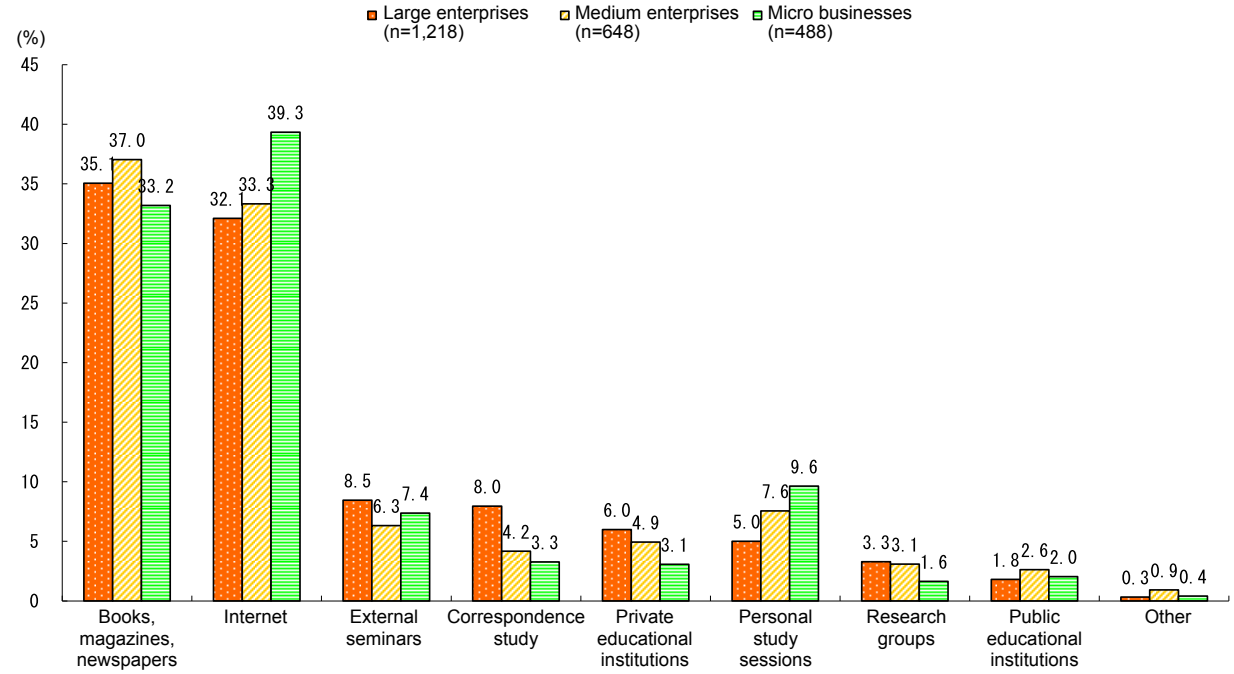
Fig. 2-2-49 Effective efforts for competency development (OJT, Off-JT, and self-improvement)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Based on those improving their competency through OJT, Off-JT and self-improvement.

Many respondents chose "Internet" or "books, magazines, newspapers" as a means toward self-improvement, but some also sought self-improvement through "external seminars," "correspondence study," or "private educational institutions" (Fig. 2-2-50). Looking at company size, many employees of large enterprises chose either "external seminars" or "correspondence study," while those at smaller companies often said "Internet" or "personal study sessions."

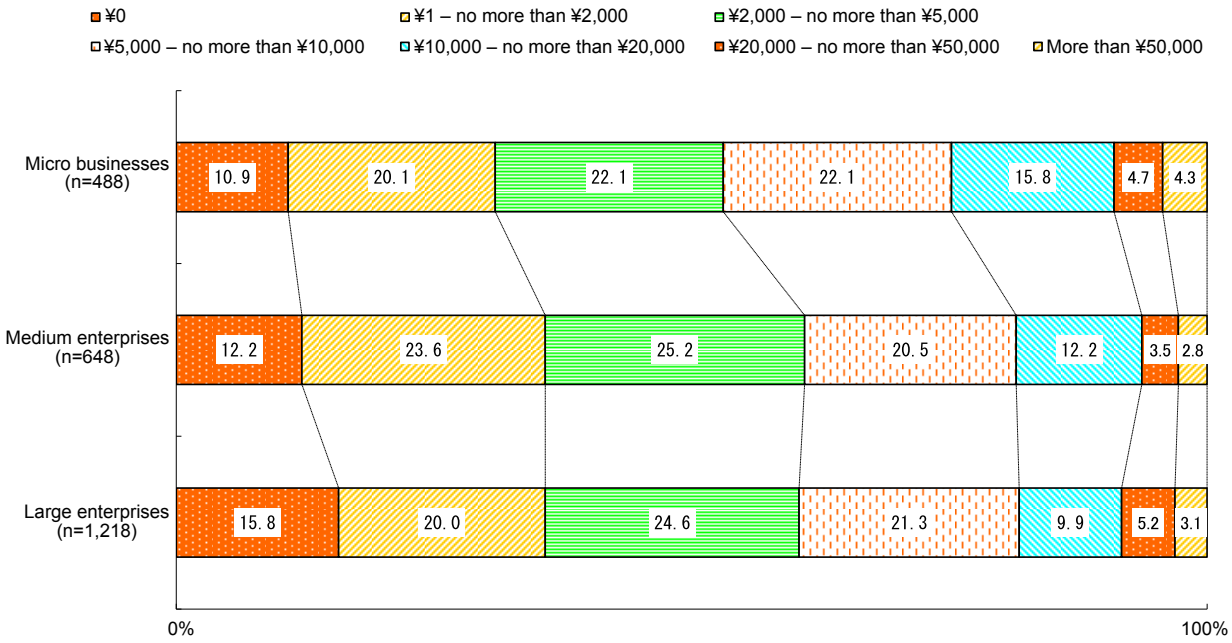
Fig. 2-2-50 Efforts aimed at self-improvement



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Although respondents were asked to give their top three responses concerning efforts aimed at self-improvement, only the top responses are reflected here.

Fig. 2-2-51 shows amounts respondents spent monthly on self-improvement. "¥0" garnered about 10% of responses, while "¥1 – no more than ¥2,000," "¥2,000 – no more than ¥5,000," and "¥5,000 – no more than ¥10,000" each garnered roughly 20%. There were also more than a few people who spent more than ¥10,000, which suggests that these people are receiving extensive education provided by education institutions. Looking at responses by company size, employees of smaller companies tend to spend more on self-improvement, which may indicate the importance of self-improvement in human resource development for SMEs, particularly micro businesses.

Fig. 2-2-51 Monthly expenditure towards self-improvement

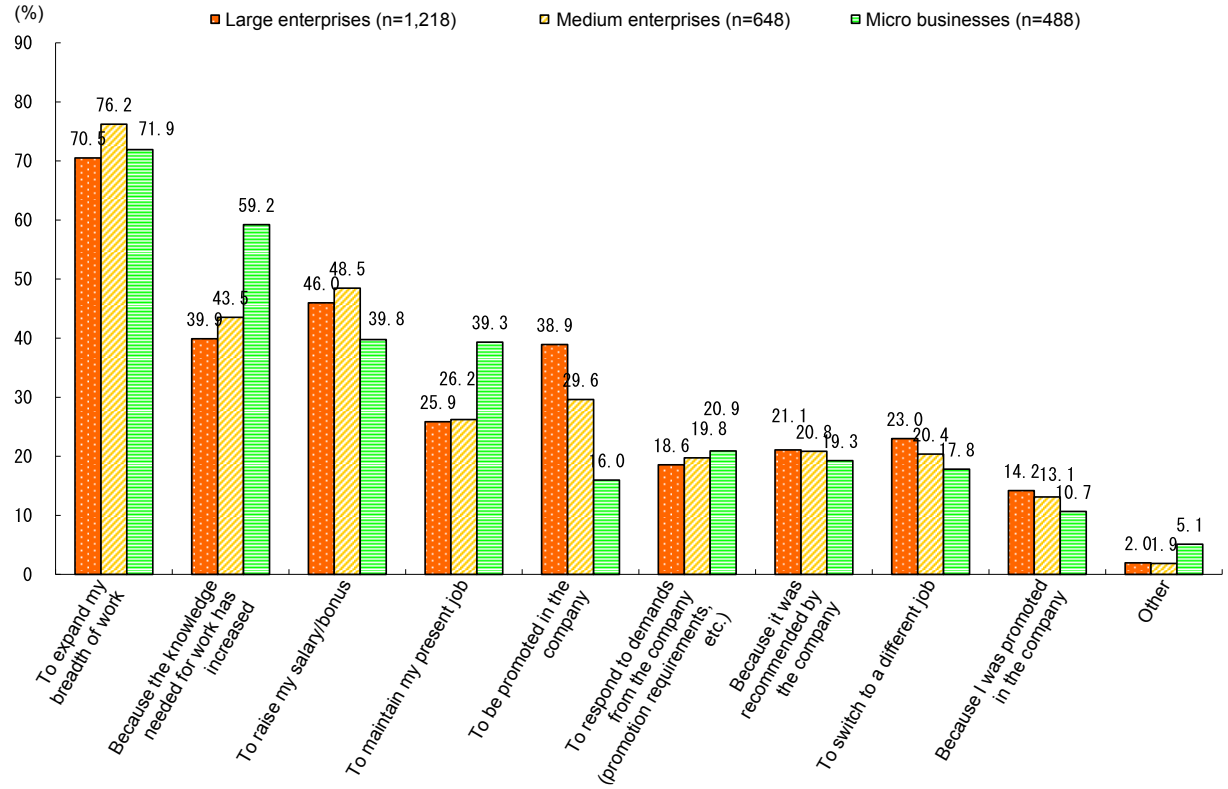


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

When asked their reasons for engaging in self-improvement, the largest group of respondents said "to expand my breadth of work," which was followed by "because the knowledge needed for work has increased" and "to raise my salary/bonus," suggesting respondents' self-improvement efforts are guided by ambition (Fig. 2-2-52). Looking at company size, the smaller the company, the larger the response rates were for "because the knowledge needed for work has increased" or "to maintain my present job." From this we can see that—given that workers at SMEs, especially those at micro businesses, are not always being given specialized roles and are given a wide range of duties—these workers are conducting self-improvement in response to the diverse knowledge they are required to have and from their need to maintain the employment. "To be promoted in the company" was another case where response rates rose with company size.

This shows that respondents are keenly aware of the importance of self-improvement in addition to Off-JT and OJT as part of human resource development at SMEs and micro-businesses. We can also see that respondents, especially those at micro businesses, are actively engaged in studying outside the work place with strong problem awareness in order to improve their own abilities and secure employment. As business models undergo multitudinous changes in response to a transforming industrial structure and to technological progress—including IT—in Japan in recent years, workers are adopting a defensive stance and protecting their work for the future rather than just aimlessly doing the jobs their companies ask of them. This is allowing them to develop the skills needed to create new work, which is likely to lead to self-improvement taking on greater value.

Fig. 2-2-52 Reasons for engaging in self-improvement



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Note: Total does not always equal 100 as multiple responses were possible.

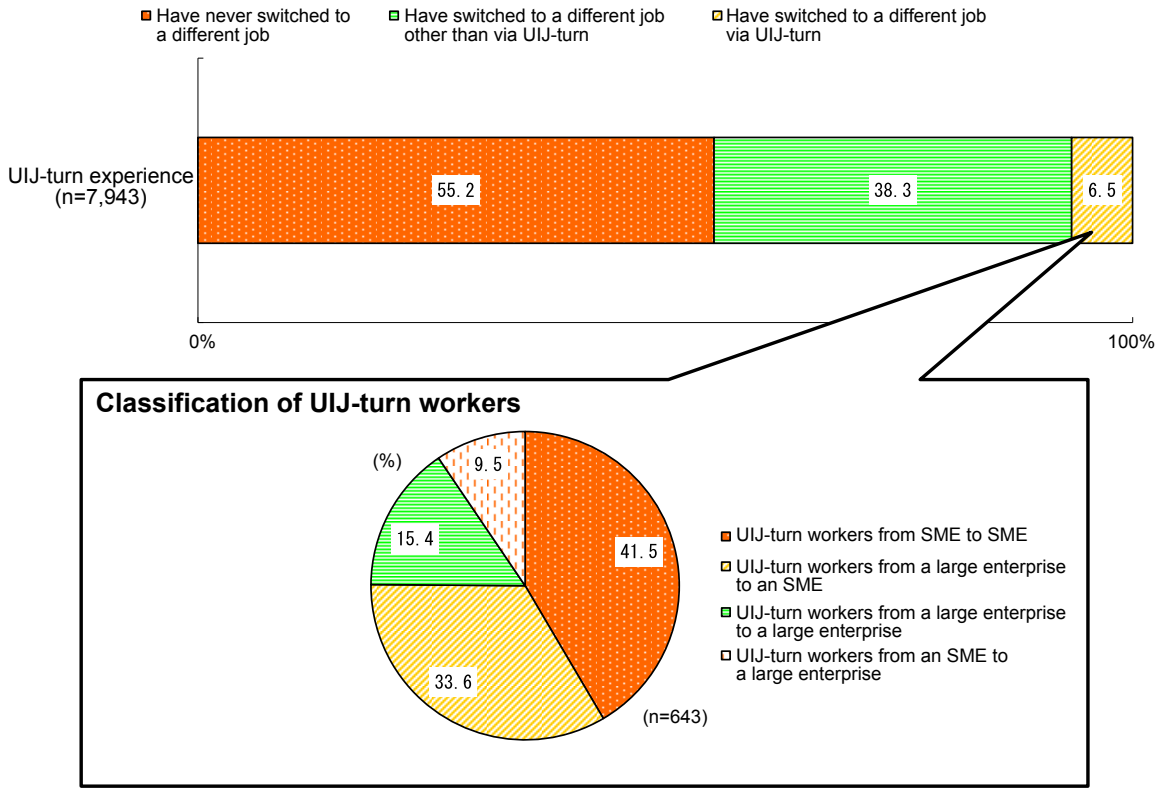
Section 4 Regional networks and human resource strategies

As regional revitalization is advocated, the UIJ-turn is attracting attention as a means to mitigate the heavy concentration of human resources in urban areas. To see UIJ-turn succeed, in addition to ensuring needs can be met concerning food, clothing, and shelter where the workers will be taking up employment, it is necessary to create jobs in these areas. UIJ-turn seeks to alleviate human resource insufficiencies at regional SMEs and micro-businesses by supplementing these enterprises' workforces with people from urban areas. This section provides an overview of job changes associated with UIJ-turn, the particulars of which have hitherto been difficult to ascertain.

[1] Job changes associated with UIJ-turn

As an aspect of job changes associated with UIJ-turn (Hereafter "UIJ-turn job changes"), let us first look at the numbers of people going through UIJ-turn job changes. According to Fig. 2-2-53, 44.8% of all respondents have been through a job change and those who have been through a UIJ-turn job change account for 6.5% (and 14.5% of those who have changed jobs). Looking at the types of people who have been through UIJ-turn job changes, 41.5% were "UIJ-turn workers from SME to SME," 33.6% were "UIJ-turn workers from a large enterprise to an SME." This indicates that SMEs and micro-businesses play an important role in absorbing workers changing jobs in association with UIJ-turn (refer to Appended notes 2-2-6 and 2-2-7 for personal attributes and Appended notes 2-2-8 and 2-2-9 for advantages and degree of satisfaction in job changes).

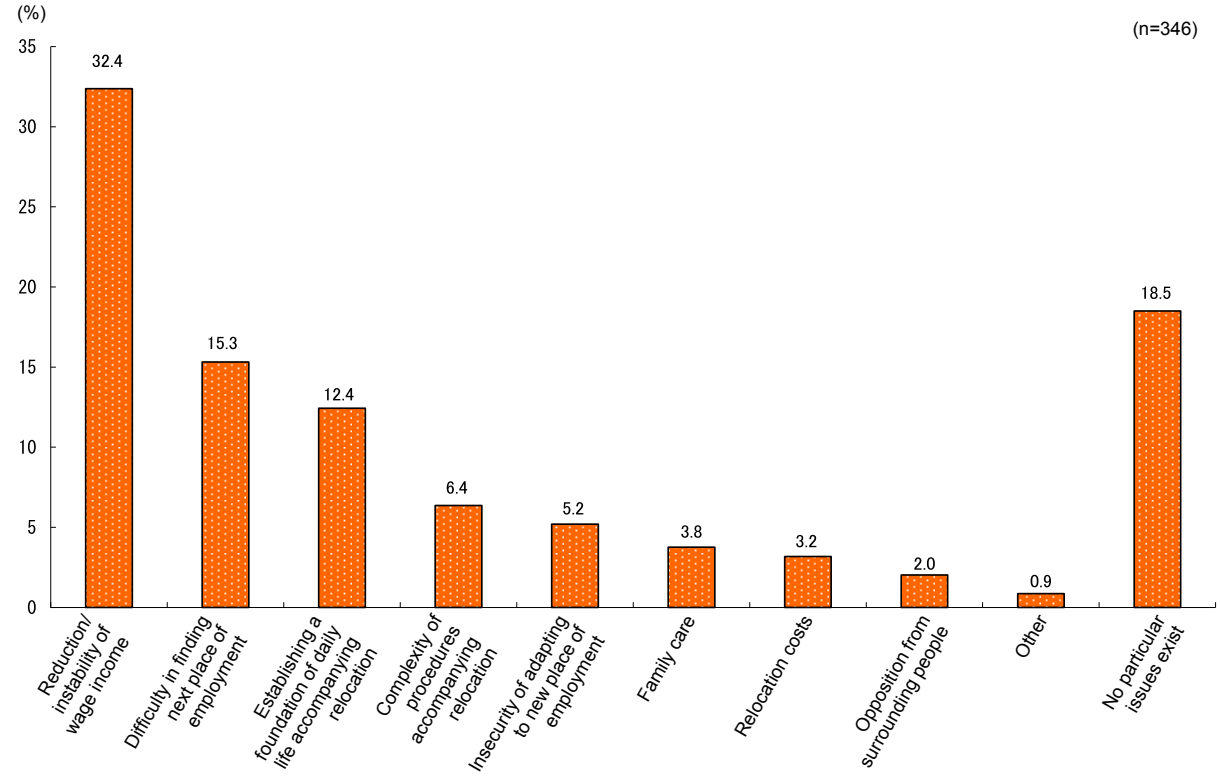
Fig. 2-2-53 Experience changing jobs, including in association with UIJ-turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Next we look at the kinds of job change issues faced by those who went through a UIJ-turn job change. A look at Fig. 2-2-54 shows that the issues felt most keenly by UIJ-turn job changers were "reduction/instability of wage income" (32.4%), "difficulty in finding next place of employment" (15.3%), and "establishing a foundation of daily life accompanying relocation" (12.4%). The following pages explore "wage income," "employment," and "foundation of daily life" in connection with UIJ-turn job changes.

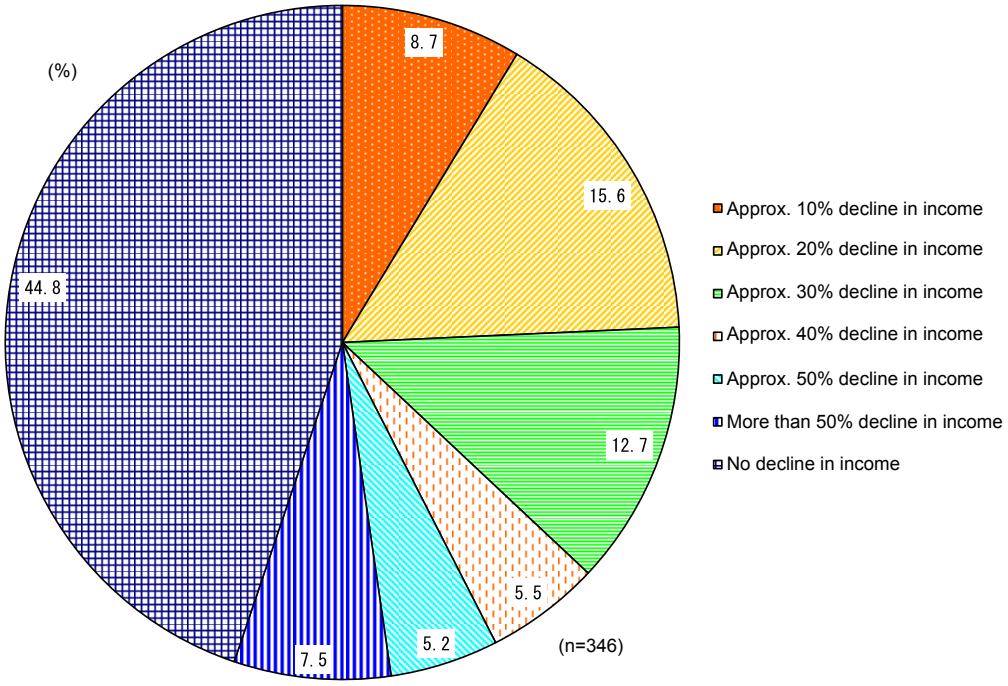
Fig. 2-2-54 Issues with job changes associated with UIJ-turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

The first point of interest is how wages change as a result of UIJ-turn job changes. Fig. 2-2-55 shows changes in annual income resulting from a UIJ-turn job change. Although the majority of respondents cited an income decrease, 44.8% said "no decline in income." This suggests that while there may be a general trend towards less income when workers go through a UIJ-turn job change, this is not always the case (see Appended note 2-2-10 for annual income changes for each type of job change).

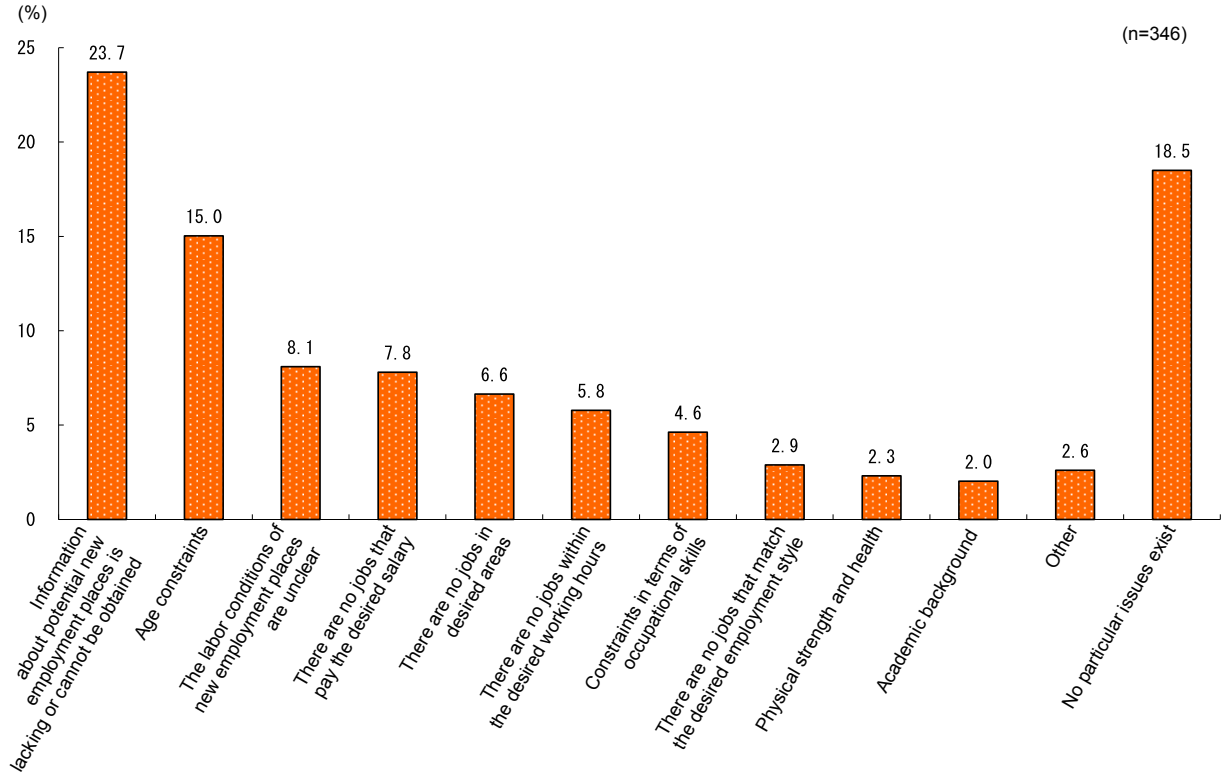
Fig. 2-2-55 Changes to annual income following a UIJ-turn job change



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Figure 2-2-56 shows issues faced by workers when looking for jobs. While response rates were 23.7% for "information about potential new employment places is lacking or cannot be obtained" and 15.0% for "age constraints," a large number of respondents—18.5%—said "no particular issues exist."

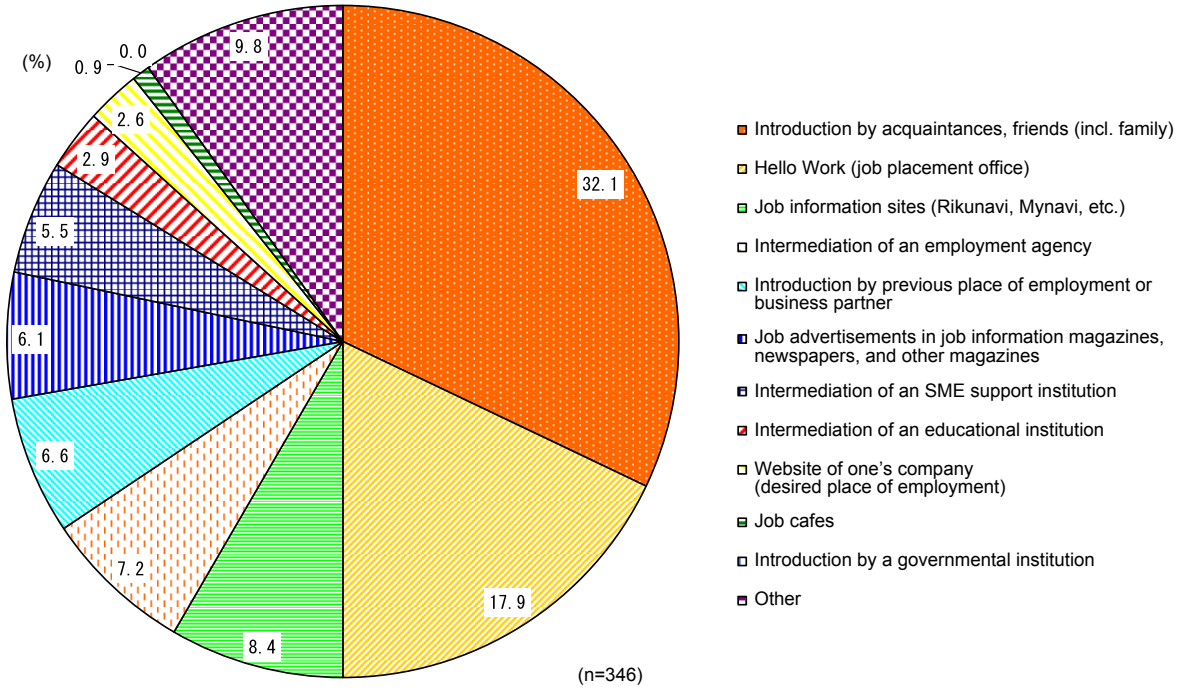
Fig. 2-2-56 Issues faced when looking for jobs associated with UIJ-turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.
Notes: 1. "Other" includes "do not know how to find a job" and "high financial costs of finding a job."
2. Although respondents were asked to give their top three responses concerning issues faced when looking for jobs, only the top responses are reflected here.

Let us now look at how the UIJ-turn job changers found their jobs as they face these issues. Fig. 2-2-57 looks at the methods used by UIJ-turn job changers to find employment. 32.1% said "introduction by acquaintances, friends," indicating a significant number of people changed jobs through personal connections—a method that, for those who can make use of it, is likely to entail relatively fewer hurdles for those undergoing a UIJ-turn job change. Going forward, promoting UIJ-turn job changes as part of official policies will require systematically establishing methods for changing jobs that overcome physical distance hurdles between urban and regional areas. The next most common responses were Hello Work at 17.9% and "job information sites" at 8.4%, a result that prompts hopes that public-private job change methods will improve and expand for UIJ-turn job changers as well.

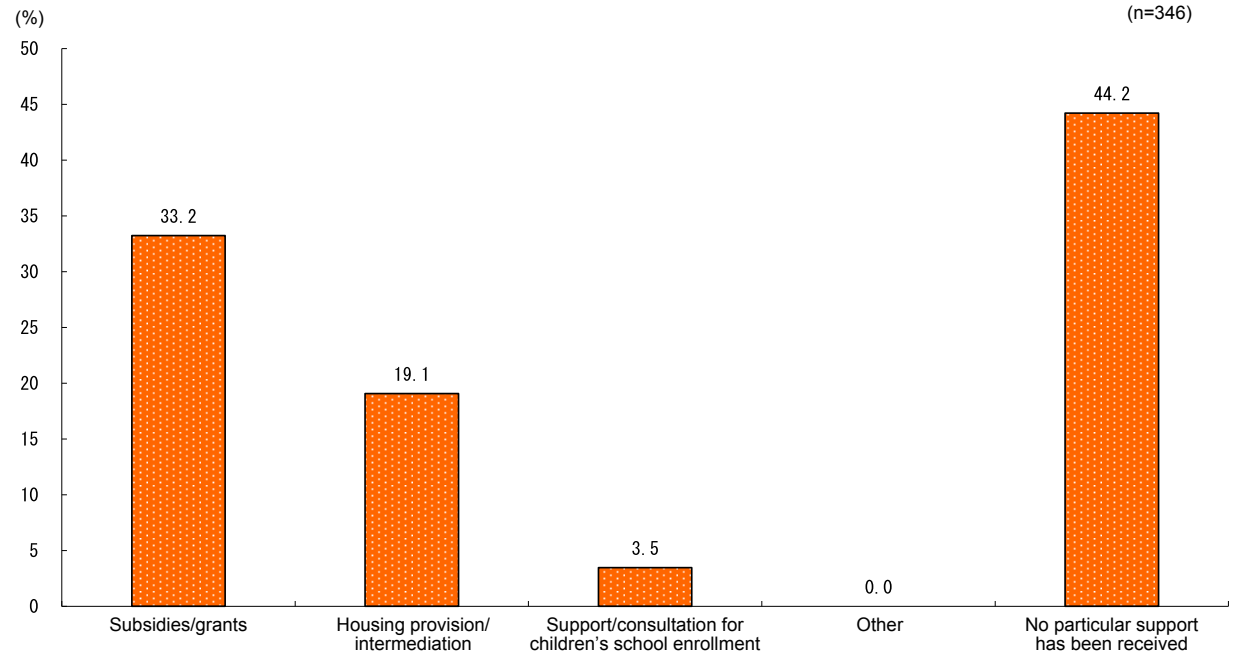
Fig. 2-2-57 Methods used to find work when changing jobs in association with UIJ-turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Lastly, we look at the kind of support being received from local governments concerning "establishing a foundation of daily life accompanying relocation" when workers go through a UIJ-turn job change. In Fig. 2-2-58 we see that, in terms of support received from local governments for those going through a UIJ-turn job change, 33.2% received "subsidies/grants," 19.1% received "housing provision/intermediation," and 3.5% received "support/consultation for children's school enrollment." On the other hand, the largest percentage of respondents—44.2%—said "no particular support has been received," indicating that they did not receive support when going through a UIJ-turn job or that available policies are possibly too limited. This situation merits prefectures making full use of UIJ-turn subsidies to subsidize half of labor costs incurred when workers with experience in fields outside of those eligible for regional revitalization preceding grants—as established in the fiscal 2014 supplementary budget—find employment on a trial basis.

Fig. 2-2-58 Support from local governments received when changing jobs in association with UIJ-turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Now that we have reviewed the state of UIJ-turn job changes, it would appear that UIJ-turn requires support from others, including family, and entails many issues such as mental stress and the burden of dealing with changes of lifestyle, including food clothing and shelter, associated with relocation. Additionally, given that finding work is critical to maintaining a lifestyle after relocating, how a person finds work is key to achieving success with UIJ-turn. However, as this questionnaire has made clear, there are few methods available for finding work and many people have to resort to leveraging personal connections, i.e. getting introductions from acquaintances or friends.

Promoting UIJ-turn and alleviating the concentration of populations in the three major metropolitan areas will require systematic support for job changes that overcome physical distance hurdles. People who have acquired experience working in cities have the potential to supplement the human resource shortages at companies in regional areas and ultimately vitalize the region. In order to encourage this development, the government will need to systematically provide information pertaining to job changes that entail relocating to regional areas, and to work with local governments to provide "total care" support that helps satisfy clothing, food, and shelter needs.

The following pages look at public-private initiatives involving support for UIJ-turn job changes.

Case 2-2-13 Furusato Recruiting Support Network

Creating a network of regional businesses throughout the country in order to support the recruitment of employees from Tokyo Metropolitan Area for Japan's regions

Furusato Recruiting Support Network ("F-Net" below) is a network formed in 2008 by 20 companies in order to operate a human resources project with a focus on the provision of support for employment throughout the country, in an attempt to contribute to the development of regional communities through human resources.

Regarding the background to the formation of the Furusato Recruiting Support Network, Hiroyasu Shimozono, President of Key Company Co., Ltd. (based in Chiyoda City, Tokyo), which acts as the secretariat for the network, says "Human resources are disappearing from Japan's regional areas, and the outflow is producing a sense of crisis, but there are limited support initiatives aimed exclusively at regional areas. We recognized the necessity of resolving this issue in cooperation with the Tokyo Metropolitan Area, and commenced our activities from there." F-Net's main focus is the provision of support to individuals who wish to relocate from the city to a regional area. In concrete terms, the network appoints Recruitment Advisors (RA), who consult with companies regarding management issues from the HR perspective, to oversee regional companies, and Career Advisors (CA), who oversee desirable employment choices and career formation for job seekers, to oversee potential human resources in the Tokyo Metropolitan Area, and matches regional companies seeking human resources and individuals from the Tokyo area who wish to find employment in a regional area. The network succeeds in placing 10-20 workers in regional positions per year.

JJC Co., Ltd. (President: Masanori Geshi; based in Kanazawa City, Ishikawa Prefecture), the company which acts as the Chair of F-Net, says that since the Great East Japan Earthquake, the number of new graduates of universities in the Tokyo Metropolitan Area wishing to find employment with regional companies is increasing, and opportunities for regional SMEs and micro-businesses to employ university graduates are growing.

Given these burgeoning opportunities, the number of regional SMEs and micro-businesses seeking to employ personnel from Tokyo is increasing, but matching the needs of human resources and companies is not easy. This is where F-Net comes in, providing consulting services to companies in the area of recruiting. Mr. Shimozono of Key Company says "The ability to recruit employees can be broken down into the attractiveness of the company (the company brand, capital, etc.), employment conditions, and recruitment activities. The attractiveness of the company and employment conditions can't be easily changed, but it is possible to enhance recruitment activities." Mr. Shimozono recommends appointing a staff member to supervise recruitment. It can be expected that the employee appointed to this position will gain experience in interacting with students and will continue to accumulate knowledge concerning recruitment.

Mr. Shimozono also suggests that companies change their thinking regarding the type of human resources they are seeking. According to him, today's students can be divided into a goal-setting type, who are good at setting and realizing short-term goals, and who can be expected to produce short-term growth, and a value-oriented type, who prioritize their personal sense of values, and seek social value from their work, for example by making a contribution to individuals or the community. Given the recent trend towards hiring immediately work-ready employees, companies tend to actively recruit the goal-setting type and ignore the value-oriented type. However, Mr. Shimozono suggests that the value-oriented type will not be inferior to the goal-setting type from a medium- to long-term perspective, and considering the recruitment of this type of student without being swayed by work-readiness will increase the chances that companies have to secure human resources.

Similarly, Koho Shien Co., Ltd. (President: Hiroshige Nishijima; based in Niigata City, Niigata Prefecture), which provides support for the recruitment of human resources and is one of the companies that makes up F-Net, indicates that the biggest problem for people wishing to leave the city in order to find work in regional areas is obtaining information on regional SMEs and micro-businesses. While there are new graduates and mid-career employees looking to move out of the city, in many cases they do not know about the available companies themselves, and these companies therefore do not become candidates for job-seeking. Koho Shien advises that companies do not have to advertise themselves throughout the entire country, and that they should target their PR activities at regions in which there are high concentrations of desirable human resources, and actively make themselves known at local junior and senior high schools, working to increase their level of recognition both within and outside their local region.

In addition, companies should keep in mind the following two points in order to increase their employee retention rate following recruitment.

First, they should make any business issues that they face quite clear. If business issues are not made clear, then the company's attitude with regard to the hiring of new graduates is also unclear, and efforts to develop the new employee following recruitment are haphazard.

The second point is to devote more effort to supporting new graduates after hiring them than to attempting to match them with the company. While it is essential for companies to take the measure of potential hires, it is not easy for students without work experience and companies to mutually understand each other in the true sense of the term. Even increasing the number of interviews an applicant attends would not have a significant effect. Rather

than this, companies could increase their retention rate by focusing on creating a work environment in which other employees provide encouragement to a new employee who might be thinking of leaving the company.

As we have seen above, F-Net encourages companies strongly rooted in their specific regions throughout the country to share and combine their respective knowledge and expertise, and provides advice and practical support to companies and job-seekers. The managers of SMEs and micro-businesses which are experiencing difficulties in recruiting new graduates or mid-career recruits would benefit from consultation with the company. The companies that make up F-Net have extensive experience in the provision of support, and are able to offer advice concerning recruitment initiatives tailored to the specific business issues that companies are facing.

The F-Net booth at a company publicity event

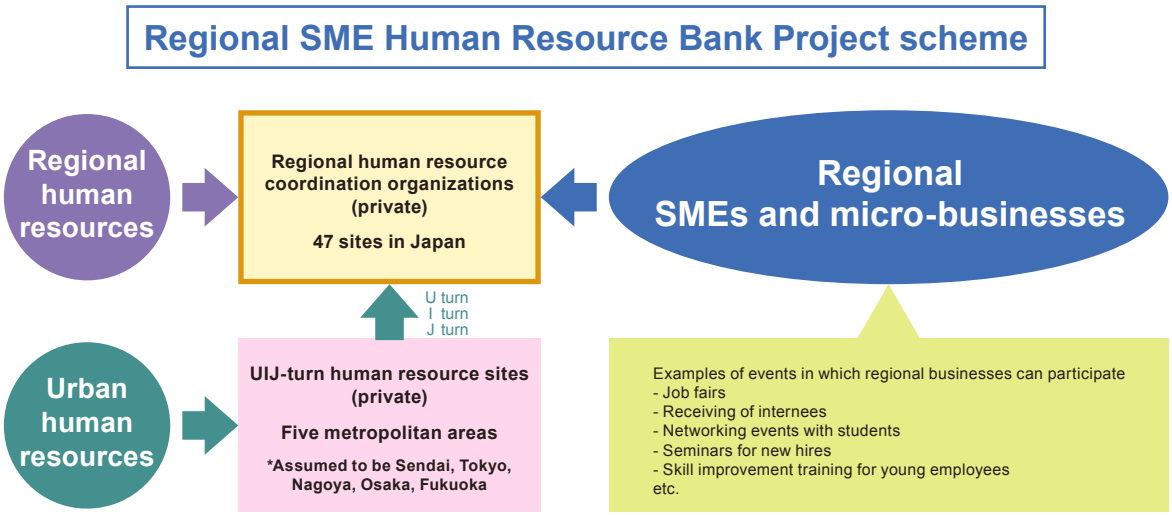
Column 2-2-8 Regional SME Human Resource Bank Project

Recruiting human resources is a monumentally difficult task for SMEs and micro-businesses with scant corporate resources. This problem becomes ever more severe for such enterprises in regional areas as more people go to work for large enterprises in big cities and the population grows ever older. As such, Japan needs to make better use of the country's diverse human resource pool, which includes young people who have experience traveling elsewhere for higher education or other purposes, homemakers who have marketable skills but who left their job to raise children, and seniors with extensive experience and knowledge.

This project ascertains the needs of SMEs and micro-businesses in regional areas, discovers human resources regional businesses need from among a diverse pool of young people, women, seniors and other such human resources inside and outside the region, and provides a full range of support spanning the introduction of job seekers to efforts to retain them. By participating in support projects conducted by regional human resource coordination organizations, regional businesses can advertise the appeal of their company and the kind of human resources they need while gaining opportunities to match up with such human resources.

The project has two specific functions (see diagram below). The first function is establishing UIJ-turn human resource centers in five cities nationwide, discovering and training human resources in urban areas, and acting as intermediary to SMEs and micro-businesses. The second function is establishing regional human resource coordination organizations in 47 locations around the country building cooperative frameworks with local governments, local financial institutions and universities, and other such community-based organizations, ascertaining the human resource needs of regional SMEs and micro-businesses, then providing support in introducing and retaining those people.

Regional SME Human Resource Bank Project scheme



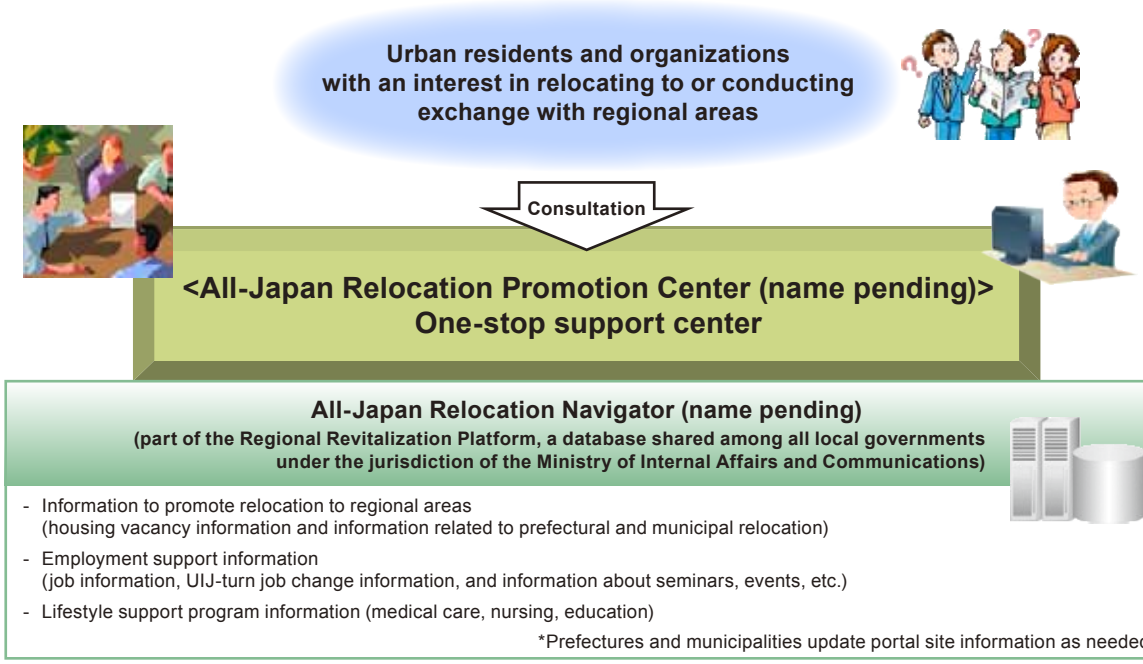
Column 2-2-9 All-Japan Relocation Navigator (name pending) and All-Japan Relocation Promotion Center (name pending)

The All-Japan Relocation Navigator (name pending) is a portal site that provides a comprehensive range of information related to relocation, employment, lifestyle support, and other subjects for the sake of promoting relocation to regional areas. The Navigator is to be established as part of the Regional Revitalization Platform[7] run by the Ministry of Internal Affairs and Communications. Its specific responsibilities are providing the following information: 1) information to promote relocation to regional areas (housing vacancy information and information related to prefectural and municipal relocation), 2) employment support information (job information, UIJ-turn job change information, and information about seminars, events, etc.), and 3) lifestyle support program information (medical care, nursing, education). Prefectural and municipal governments update information on the portal site as needed, ensuring useful information is provided. Those looking to relocate can also search information based on weather, natural environment, jobs, housing, lifestyle conditions, transportation, and other subjects, and the site also plans to provide promotional videos produced by local governments to help users decide on a relocation destination.

In addition to this Internet-based system that allows those looking to relocate to easily find information, there are also plans to open the All-Japan Relocation Promotion Center (name pending) under the direction of the Ministry of Internal Affairs and Communications. The Center will provide consultation opportunities for urban residents and organizations that have an interest in relocating to or conducting exchange with regional areas. Specifically, the Center collaborates with local governments and related ministries and agencies and uses the All-Japan Relocation Navigator (name pending), acting as a centralized point of contact for providing comprehensive consultation and information about relocating to regional areas. In addition, the Center distributes pamphlets and other information about relocation and exchange from local governments, and holds seminars, PR sessions, and other such events for those interested in relocation and exchange. The Center is scheduled to be built on the first floor of the Echizenya Building at 1-1-6 Kyobashi, Chuo-ku, Tokyo.

7) A site run by the Ministry of Internal Affairs and Communications that provides information to be used for promoting "regional area revitalization plans," which are community-based growth strategies.

All-Japan Relocation Navigator (name pending) and All-Japan Relocation Promotion Center (name pending) schemes

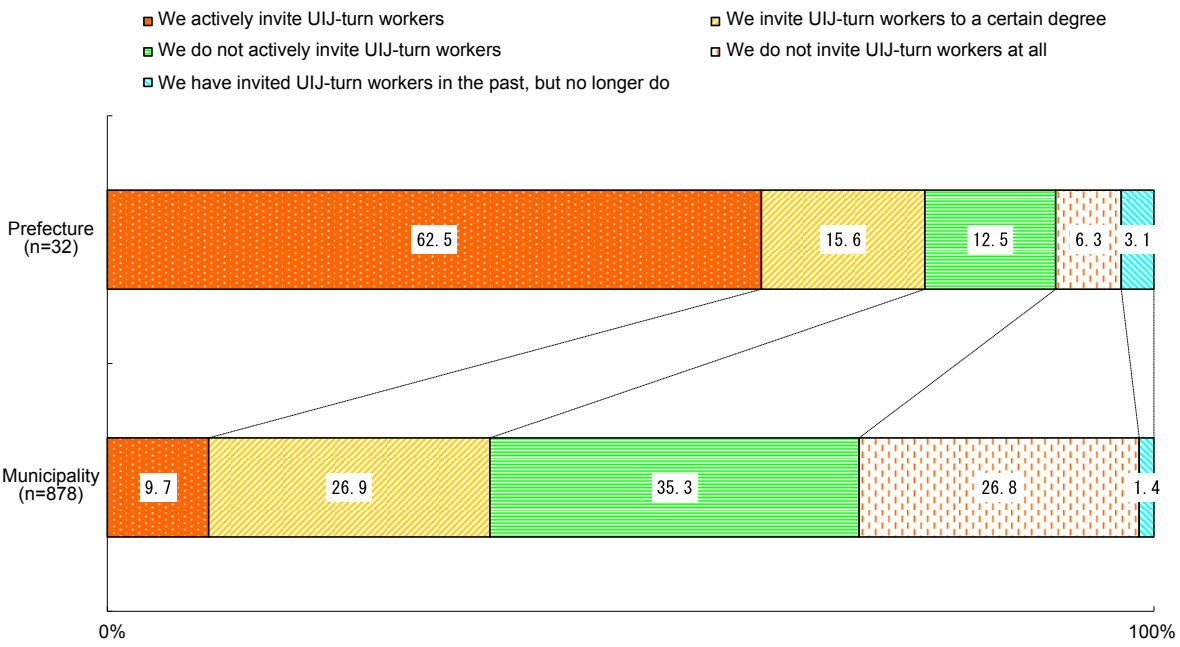


Column 2-2-10 Efforts by local governments to promote UIJ-turn

This section has examined UIJ-turn from the perspective of those relocating. This column will touch on trends seen among local governments concerning UIJ-turn.

Looking first at Fig. Column 2-2-10 (1), which shows the extent to which local governments are inviting UIJ-turn workers, we see that 62.5% of prefectures said "we actively invite UIJ-turn workers" and 15.6% said "we invite UIJ-turn workers to a certain degree." On the other hand, only 9.7% of municipalities responded that "we actively invite UIJ-turn workers" and 26.9% said "we invite UIJ-turn workers to a certain degree," while the majority said either "we do not actively invite UIJ-turn workers" or "we do not invite UIJ-turn workers at all." As people relocating for UIJ-turn work (and their families) will see their living conditions change, it is expected that this kind of UIJ-turn worker invitation will lessen the burden they shoulder by having local governments provide support for food, clothing, and shelter. However, compared to prefectures, municipalities are not engaging in UIJ-turn worker invitation as proactively.

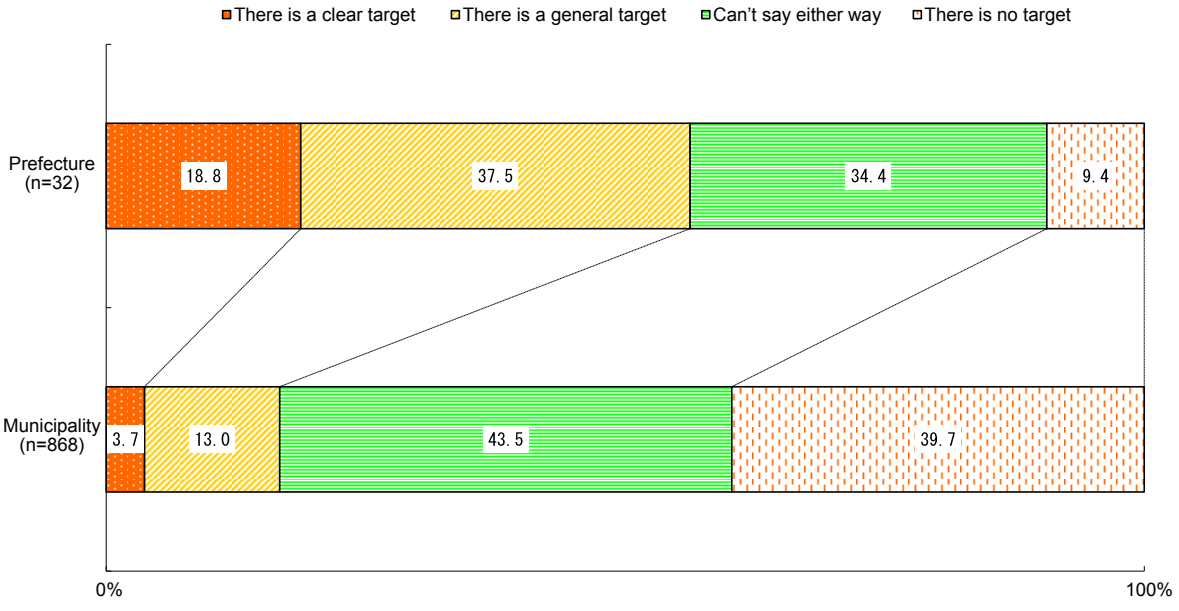
Fig. Column 2-2-10 (1) Extent to which local governments are inviting UIJ-turn workers



Source: Land Brains Co., Ltd., *Survey of Initiatives Involving Regional Area Revitalization* (December 2014), commissioned by the SME Agency.

Let us next look at whether or not local governments that are inviting UIJ-turn workers have a clear target demographic. Fig. Column 2-2-10 (2) asked local governments inviting UIJ-turn workers what their target demographic was. Among prefectures, 18.8% said "there is a clear target" and 37.5% said "there is a general target." Meanwhile, 3.7% of municipalities said "there is a clear target" and only 13.0% said "there is a general target." However, 43.5% of municipalities said "can't say either way" and 39.7% said "there is no target," indicating that many municipalities are inviting UIJ-turn workers without a clear target demographic in mind.

Fig. Column 2-2-10 (2) Target demographics for UIJ-turn worker invitation



Source: Land Brains Co., Ltd., *Survey of Initiatives Involving Regional Area Revitalization* (December 2014), commissioned by the SME Agency.
Note: Based on asking local governments whether or not they had clear target demographics for UIJ-turn worker invitation.

In promoting UIJ-turn, while it is important to cast a wide net for a variety of people, providing support for food, clothing, and shelter tailored to the individual characteristics of each person based on their gender and age, as well as their skills and experience, can make invitation more effective and ultimately revitalize regional areas. In this sense, clarifying target demographics for UIJ-turn worker invitation is likely to be one effective strategy.

The following pages look at two examples of efforts to create a system for receiving workers based on a clear concept and of succeeding in inviting UIJ-turn workers.

Case 2-2-14 Kamiyama-cho, Tokushima Prefecture (NPO Green Valley)

A municipality which is increasing its social vigor by accepting skilled job seekers from the city

Approximately 83% of Kamiyama-cho, located in Myozai County, Tokushima Prefecture (population: 6,038 as of the 2010 population census; area: 173.31 km^2), is covered by forest, and the forestry industry was once vigorous in the town. The town's population, 21,000 at the time of the merger of municipalities in 1955, dwindled with the decline of the forestry industry, and is now just 6,000. However, in 2011, the town's population began to increase for the first time in its history. The "Work In Residence" program operated by the NPO Green Valley (employees: 5) was behind this increase in new residents settling in Kamiyama-cho.

Green Valley is an NPO that operates an art business and provides support for relocation and the establishment of businesses. Green Valley originated in 1992 in the activities of the Kamiyama-cho International Exchange Association, a local voluntary organization that conducted international exchanges using blue-eyed dolls donated from the U.S. At first, Green Valley engaged in community-building activities focusing on the twin themes of the environment and art. In 1998, the organization established Japan's first program in which regional businesses managed the cleaning of regional roads, known as the "Adopt Program." In 1999, it commenced the Kamiyama Artist In Residence program, in which it invites Japanese and overseas artists to stay in the town and create art works. The program was conducted for the 16th time in 2014.

This initiative has gradually increased the number of artists moving to the town, and in 2007, Green Valley was commissioned by the municipal administration to operate a Relocation Support Center. This involves working to promote relocation to Kamiyama (renovating old houses, working to revitalize shopping areas, operating the Relocation Support Center, etc.) and operating a Work In Residence program. The concept of this program is "Creative Depopulation." The thinking behind this is that, with the fundamental decline in natural dynamism which is occurring, it is necessary to change the structure and composition of the population by taking in skilled people from outside the region in order to realize a sustainable community. The essential point here is encouraging people who already have occupations to relocate, because there are few sources of employment within the town. The program emphasizes the building of relationships of equality with local residents rather than the provision of special measures for people who relocate, and it operates a system in which, for each empty house in the locality, local people nominate the type of occupation they would prefer the new resident to be engaged in. Between 2010 and 2013, the program resulted in the relocation of more than 100 people to Kamiyama, spanning a wide range of occupations, including baker, systems engineer, photographer, and entrepreneur.

In 2010, Green Valley also commenced operating a business in which it renovates empty houses in the town and rents them as satellite offices to businesses such as city-based IT companies. As of 2014, this business was renting satellite offices to 11 companies. Green Valley has also established the Kamiyama Juku, which offers training to help young people without unemployment insurance to find work. Since 2010, these classes have been conducted for six terms, and have offered training to 77 people. With 50% of the trainees finding employment with businesses renting satellite offices, this initiative is also helping to maintain the population of young people in Kamiyama.

A renovated historic house functioning as a satellite office

Inside a satellite office

Case 2-2-15 Amakusa City, Kumamoto Prefecture

A municipality making up a lack of management resources through cooperation with major companies in the city

Amakusa City (population: 89,091 (as of the 2010 population census); area: 683 square kilometers), is located in the southwest of Kumamoto Prefecture. Surrounded by a beautiful deep indigo ocean, the city is located in the center of the Amakusa Islands, made up of Kamishima, Shimoshima, Goshourajima and other islands. At 683 square kilometers, the city covers the largest area in Kumamoto, and its population of approximately 90,000 makes it the third-largest in the prefecture.

The city's temperate climate and abundant marine resources make agriculture and fisheries its main industries. Amakusa City is also blessed with considerable tourist resources, including beautiful natural scenery and a relationship with the history of Western European contact with Japan and Japanese Christianity. Using the catchphrase "Japan's Treasure Islands" to advertise its diverse points of appeal, Amakusa City conducts PR activities related to tourism, special regional products and relocation to the city, with the enjoyment that visitors can obtain from discovering a range of attractions within its bounds as a selling point.

Amakusa City was born from the merger of two cities and eight towns in 2006. The depopulation of the city has been a major issue, with a population of approximately 103,000 in 2000 declining by 14,000 in a period of ten years. The fact that the city's high school students were leaving to attend university or to find work following their graduation, and due to a lack of employment opportunities in Amakusa City almost none were returning, represented a particularly pressing issue. As a measure to address this issue, the city authorities sought to create businesses based on the region's abundant agriculture and fisheries, history, culture and natural beauty. However, management resources, encompassing human resources, knowledge, networks and funds, were all lacking in the region. In order to supplement these resources, the city focused on major companies in the city.

Conducting surveys among major companies, the city authorities considered needs for the provision of workplaces in which elderly and middle-aged employees could flourish, the provision of opportunities for re-employment for staff members taking early retirement, the presentation of opportunities for hands-on experience for young employees, issues of realizing job satisfaction, the safe and stable procurement of raw materials, and practical training for staff, and approached several companies proposing that they allocate human resources as Amakusa Treasure Island Strategy Managers.

They received a response from the ANA Strategic Research Institute Co., Ltd. (based in Minato City, Tokyo), which called for applications from ANA employees who wished to take leave and move to Amakusa for work opportunities. Two employees answered the call and moved to the city.

The city took these two ANA employees on as managers of the Amakusa Treasure Island Strategy. One was a man with abundant experience in the ANA sales division. Seeking to make use of his expertise in product development and sales and his extensive network, at present he is working for the city's Industry Policy Office, conducting PR and sales promotion activities for Amakusa foodstuffs and regional products in cooperation with an "antenna shop" (stores opened in Tokyo by regional governments in order to promote and sell regional products) and developing travel packages based on an air service from Tokyo to Amakusa, seeking to increase the number of visitors and the number of people looking to settle in the city.

The other ANA staff member was a woman who had worked as a cabin attendant on international flights. Employed by the city's Tourism Promotion Office, in addition to working to foster human resources in an attempt to improve the level of service in the city, in cooperation with the other resident ANA employee, she conducts PR activities in Tokyo and offers information by means of a blog and SNS in order to increase recognition of Amakusa and boost the number of fans of the region.

With regard to regional tourism, the city is organizing tours that take in resources such as dolphin-watching and the Sakitsu region, which features the Sakitsu Church, one of the Christian heritage sites in Nagasaki and Kumamoto Prefectures proposed for inclusion on the 2016 World Heritage List. The number of participants in these tours is increasing. In line with these initiatives, efforts are being made to improve the level of service in the region, and numerous requests for customer service seminars are being received from local companies and groups. Extensive PR activities are also being aimed at regional specialty products, with products being exhibited in fairs in Tokyo through the ANA Group network and the organization of joint events in cooperation with the ANA in-house market and regional municipalities which have active air services.

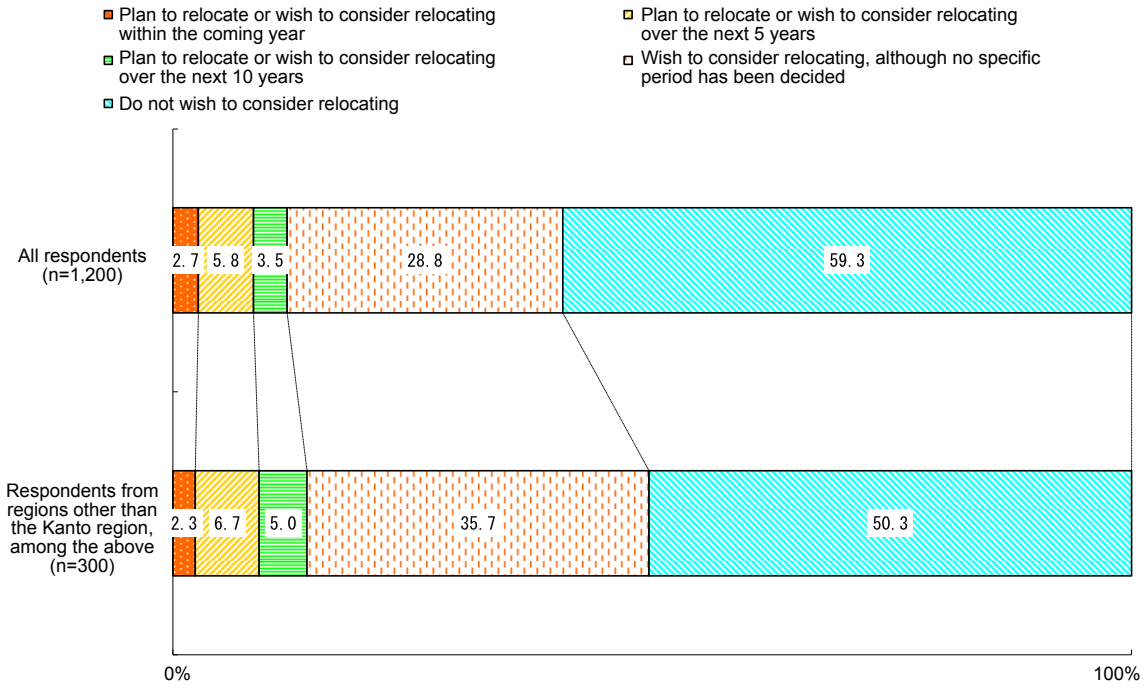
Workers who have relocated to Amakusa offer advice on the development and distribution of regional products

Column 2-2-11 Survey of Tokyo Residence Regarding Intent to Relocate in the Future

We have so far looked at the state of job changes associated with UIJ-turn. In this column, we present an overview of the *Survey of Tokyo Residence Regarding Intent to Relocate in the Future*, conducted by the Cabinet Secretariat in 2014 to identify needs and issues related to UIJ-turn.

Fig. Column 2-2-11 (1) shows the intent of Tokyo residents to relocate to regional areas outside of Tokyo. Results found that 2.7% of Tokyo residents "plan to relocate or wish to consider relocating within the coming year," 5.8% "plan to relocate or wish to consider relocating over the next 5 years," and 3.5% "plan to relocate or wish to consider relocating over the next 10 years." Combined, nearly 10% of Tokyo residents are considering relocation with a specific timeframe in mind. Roughly 30% of respondents said "Wish to consider relocating, although no specific period has been decided." If the needs of people such as these with indistinct plans concerning relocation are also considered, this amounts to fully 40% of Tokyo residents (of which 50% are respondents from regions other than the Kanto region) who are currently or plan to consider relocating to regional areas.

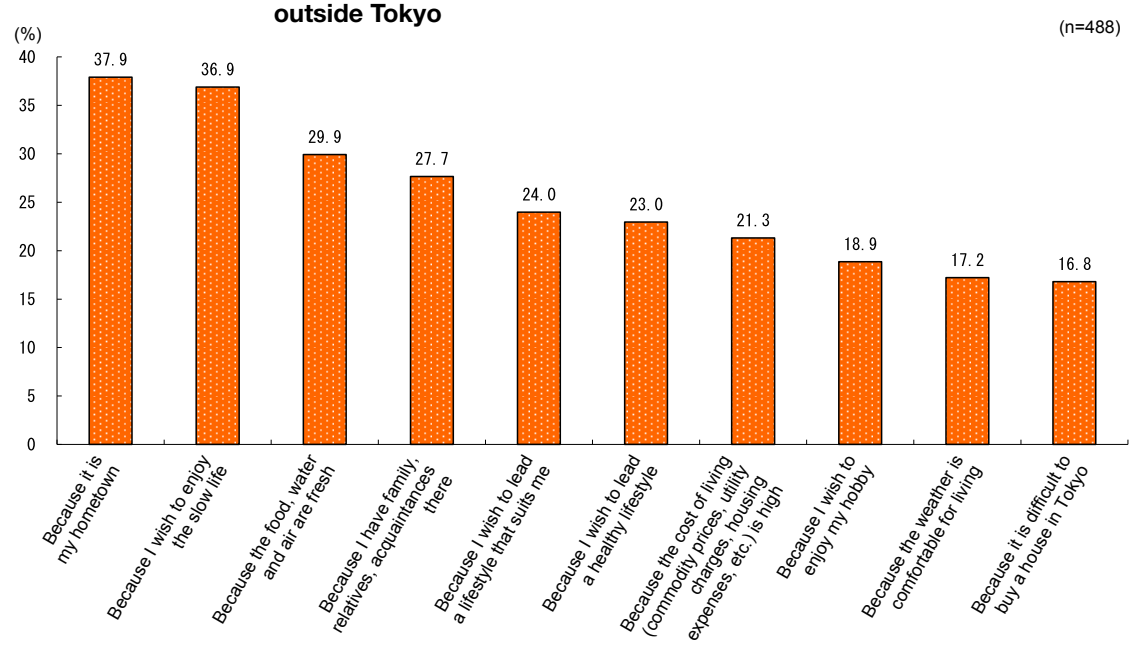
Fig. Column 2-2-11 (1) Intent of Tokyo residents to relocate to regional areas outside Tokyo



Source: Cabinet Secretariat, *Survey of Tokyo Residents Regarding Intent to Relocate in the Future*.

Next, to gauge the degree to which people are planning or considering relocating, Fig. Column 2-2-11 (2) shows the reasons for considering relocation. Many respondents cited reasons related to returning home (U turn), including "because it is my hometown" and "because I have family, relatives, acquaintances there." However, many others expressed a desire for a quieter lifestyle surrounded by nature in regional areas, as shown in responses such as "because I wish to enjoy the slow life" and "because the food, water and air are fresh."

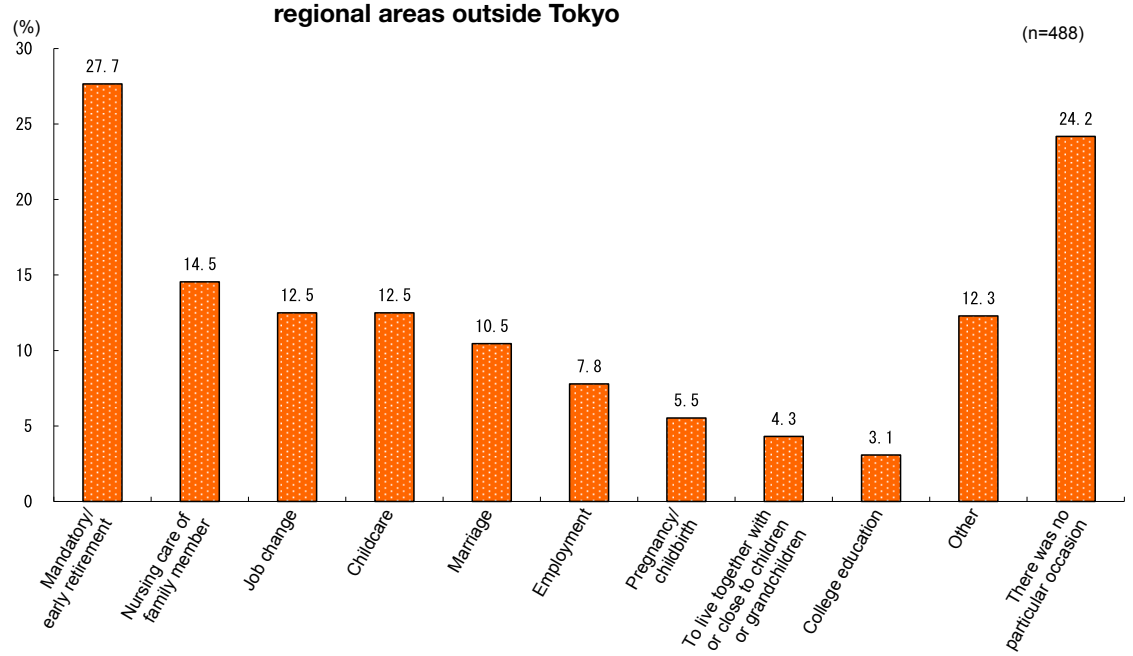
Fig. Column 2-2-11 (2) Reasons for Tokyo residents wanting to relocate to regional areas outside Tokyo



Source: Compiled by the SME Agency based on the *Survey of Tokyo Residents Regarding Intent to Relocate in the Future* conducted by the Cabinet Secretariat.
Notes: 1. Total does not always equal 100 as multiple responses were possible.
2. Only the top 10 responses are presented.

Next, we look at Fig. Column 2-2-11 (3) to understand the occasions that prompted people to plan or think about relocating to regional areas outside Tokyo. The top response was "mandatory/early retirement," which suggests that many respondents began thinking of relocation due to personal circumstances at critical periods of transition such as when beginning to provide "nursing care of family member" or a "job change." However, many also responded with "there was no particular occasion," suggesting the desire to relocate may be prompted by a nebulous longing to experience life in a regional area. In order for those who might one day relocate to take the first step, it will no doubt be important for official support systems to be developed and expanded.

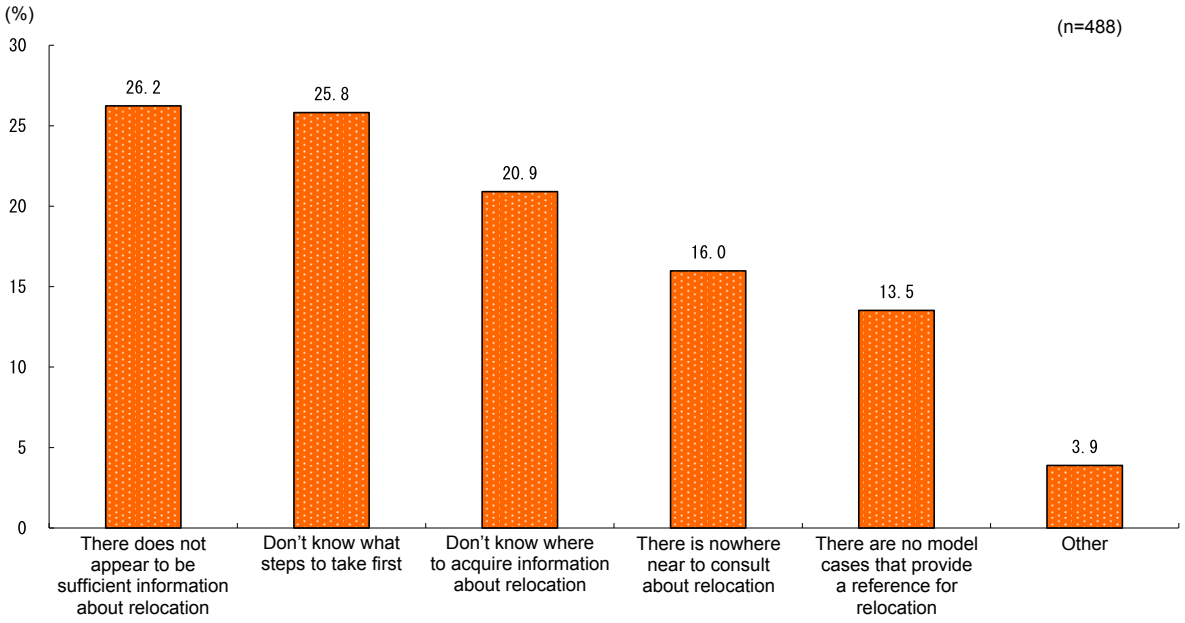
Fig. Column 2-2-11 (3) Reasons prompting Tokyo residents to plan to or consider relocating to regional areas outside Tokyo



Source: Compiled by the SME Agency based on the *Survey of Tokyo Residents Regarding Intent to Relocate in the Future* conducted by the Cabinet Secretariat.
Note: Total does not always equal 100 as multiple responses were possible.

To continue, we now look at issues faced by those considering relocating (Fig. Column 2-2-11 (4)). The top responses at 26.2% and 20.9%, respectively, were "there does not appear to be sufficient information about relocation" and "don't know where to acquire information about relocation." These results illustrate a problem: that people are not getting the information they need to decide whether or not to relocate—a decision that will result in a change of living conditions. To address this, local governments and other organizations inviting people will need to make earnest efforts to provide information concerning relocation. Moreover, many people do not have clear information about basic procedures involved in relocating, as evidenced by the high response rate for "don't know what steps to take first." Support systems will take into account the needs of these people considering relocation.

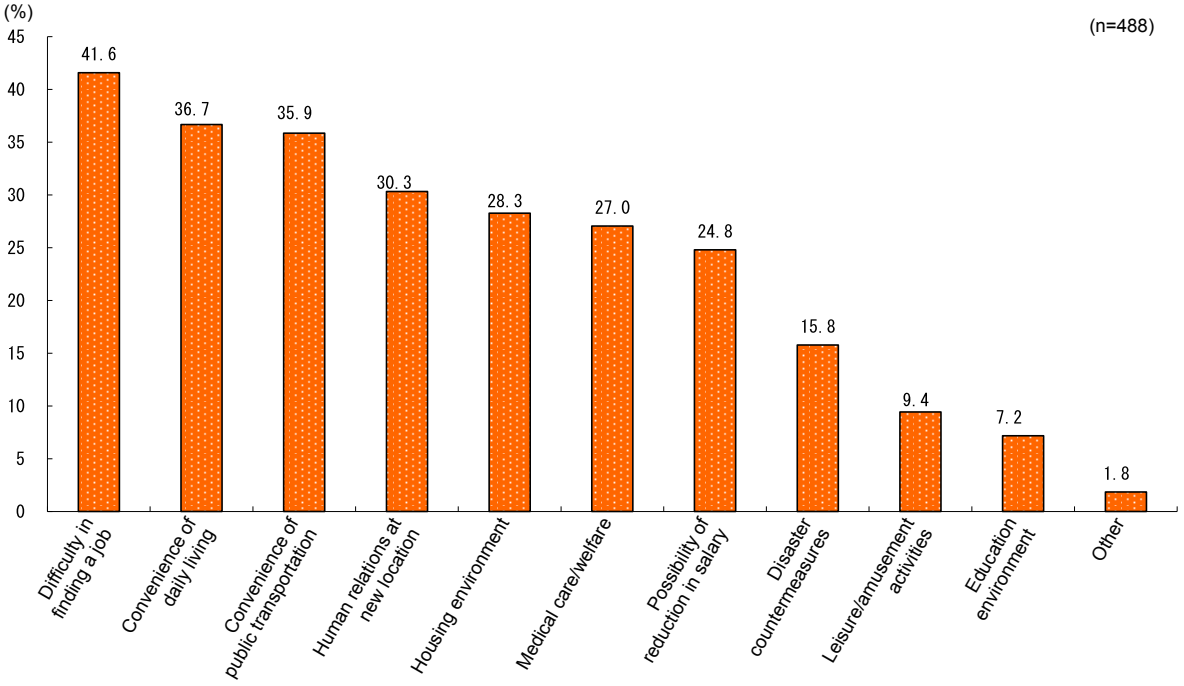
Fig. Column 2-2-11 (4) Things hindering consideration of relocation by Tokyo residents



Source: Cabinet Secretariat, *Survey of Tokyo Residents Regarding Intent to Relocate in the Future*.
Notes: 1. As things hindering consideration of relocation are presented here, results for "none of the above apply" are not shown.
2. Total does not always equal 100 as multiple responses were possible.

Lastly, we look at Fig. Column 2-2-11 (5) and the concerns that respondents who were thinking about or planning relocation had for living in the new location. The top response was "difficulty in finding a job," indicating that many respondents had concerns or fears regarding whether or not they would be able to find a job in a new location and earn enough income to live. Other areas of concern were "convenience of daily living" and "convenience of public transportation."

Fig. Column 2-2-11 (5) Concerns and fears felt by Tokyo residents towards living in a new location



Source: Cabinet Secretariat, *Survey of Tokyo Residents Regarding Intent to Relocate in the Future*.
Notes: 1. As concerns and fears are presented here, results for "none of the above apply" are not shown.
2. Total does not always equal 100 as multiple responses were possible.

The preceding pages have provided an overview of people's intentions concerning relocating to regional areas from urban areas based on the *Survey of Tokyo Residence Regarding Intent to Relocate in the Future*. Whether one lives in an urban area or regional area, there are advantages and disadvantages. Whichever the choice, it is important to first take a comprehensive accounting of individual personal values. However, basic information concerning relocation is not being sufficiently provided for people to make such decisions. This survey has shown that needs related to relocation are high for at least Tokyo residents, and illuminates the possibility that more job changers can be drawn to regional areas from urban areas if the national and local governments take a proactive approach to providing information about relocation and undertaking specific initiatives to support relocation. More robust official support systems for relocation would remove some of the hurdles associated with relocating and allow citizens to flexibly choose where to reside—whether an urban area or a regional area—based on where they are at in life.

Conclusion

This chapter has examined the state of and trends concerning human resources at SMEs and micro-businesses and has presented a detailed discussion of efforts to secure, retain, and develop these people. The discussion has also focused on local communities due to their rising profile amid growing interest in regional area revitalization in recent years, and has looked at UIJ-turn as a means to develop human resources in, and bring more people into, regional areas.

The bedrock of companies is their human resources—the managers and the rank-and-file employees—that undertake the companies' business. For SMEs and micro-businesses in particular, their scant material resources make human resources their greatest corporate resource. As such, the recruiting and development of human resources is the most important business activity for such enterprises. Thus, this chapter has, through questionnaire results and case studies, examined overall efforts pertaining to the acquisition and development of human resources at SMEs and micro-businesses, and has looked at individual cases of companies engaged in distinctive initiatives. Different companies are variously focused on a range of efforts concerning either human resource acquisition or human resource development. However, if there is one commonality between these companies, it would be that both engage with their employees in good faith based on a sound understanding of their own organizational distinctiveness.

As a result, companies have found successful means

for acquiring and developing human resources. Engaging with human resources will allow companies to find people with the skills required and hire people suited to the corporate climate, while at the same time improving retention rates by cutting down on mismatches. This will also have the result of employees, including new hires, helping each other, inspiring each other, and achieving mutual growth and improvement.

In addition to such initiatives undertaken by individual companies, one trend of note concerning human resource acquisition and development is an increase in companies working with others to share corporate resources and expertise. More broad-based attempts to secure and develop human resources together as a region—rather than smaller-scale efforts between two organizations—are slowly but surely getting off the ground.

In such areas, a competitive but harmonious air is being fostered between companies as they work with SME support agencies and administrative bodies, all members of that community facing the same direction and working towards growth together. Such initiatives are vitalizing these communities and enhancing their appeal, causing more human resources to come and improving conditions for human resource acquisition—a virtuous cycle. In this way, an approach to recruiting and developing human resources at SMEs and micro-businesses that involves a unified community is one solution to achieving strong communities.

Part III

Looking at regional Japan
—Dealing with their own changes and traits—

Chapter 1

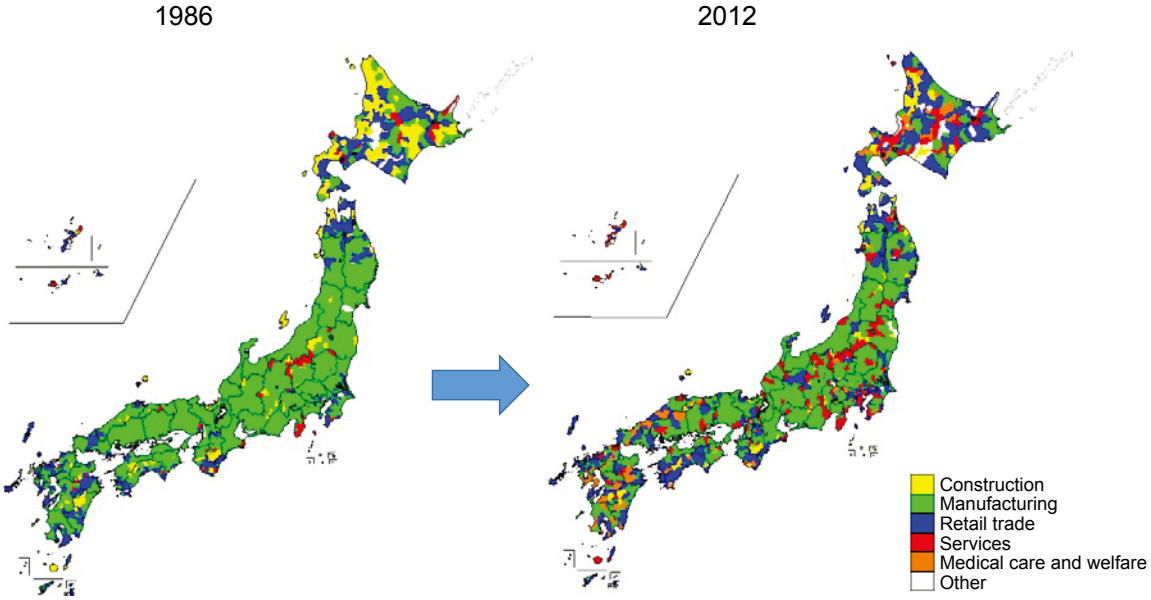
Specific measures for regional revitalization

In Part II, we observed how SMEs and micro-businesses are facing up to medium- and long-term changes in their socioeconomic structures[1] through measures aimed at innovation and market development and initiatives to address qualitative and quantitative changes to personnel.

In Chapter 3 of Part I, we discussed the fact that regions have recognized that, due to the changes in the socioeconomic structure they each face, industries have changed in terms of their growth rates and strengths, and these regions must take steps that take into account the respective regional circumstances.

The changes in socioeconomic structures that the regions face are reflected in the changes in the regional industrial structures and populations. Fig. 3-1-1 plots those industries with the largest numbers of workers in each municipality[2] and then plots those municipalities by industry. In effect, this shows us the core industries that are providing employment in the regions. The figure shows that in 1986, with exception of Hokkaido, the key industry driving employment

Fig. 3-1-1 Changes in regional core industries as shown by worker numbers (by municipality)



Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan* and MIC and METI, *2012 Economic Census for Business Activity*.

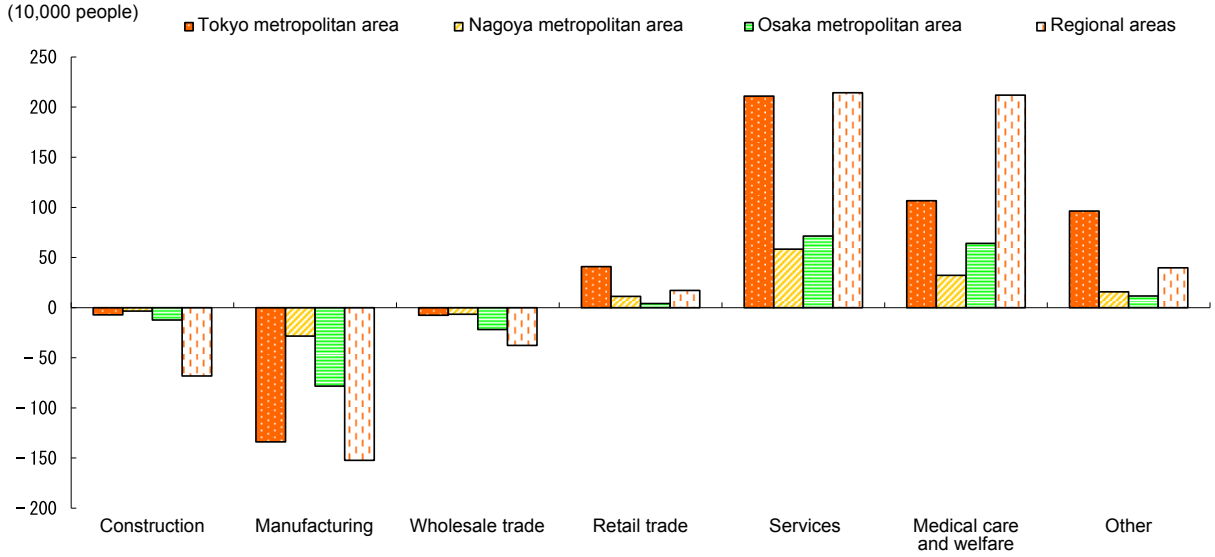
Notes:
1. The figure extracts the industries with the largest numbers of workers in each municipality and then plots those municipalities by industry. Data was also extracted for primary industries such as agriculture.
2. The major categories for industry type used when extracting industry figures were based on the March 2002 revisions. The industry categories used in 1986 and 2012 are also being reorganized based on industry subcategories.
3. The plotting for Services in municipalities included the following as major categories: Eateries/Accommodation, Education and Training Support, Compound services and Services (businesses not otherwise categorized).
4. Where there were multiple industries that qualified has having the highest number of workers by municipality, the industries were arranged in order of those having the most business establishments.
5. The "Other" category includes regions that were not targeted at the time of the survey.

1) For more information on the medium- and long-term changes in the socioeconomic structure that confront regional areas, refer to Part III, Chapter 2.
2) In Part III, unless stated otherwise, "municipality" refers to "municipalities throughout Japan that include special zones".

in almost all the municipalities throughout Japan was manufacturing. However, we can see that by 2012, falling worker numbers in manufacturing and growth in other industries, coupled with changes in social structures that vary from region to region, have led to increasing diversity in the industries that support regional employment.

When we also look at variations in employment in metropolitan areas[3], we see that manufacturing employment has declined in all metropolitan areas, while employment has increased in Services, Medical care and Welfare (Fig. 3-1-2). This provides further evidence of increasing diversity in the industries that support regional employment.

Fig. 3-1-2 Variations in worker numbers in metropolitan areas (1986–2012)



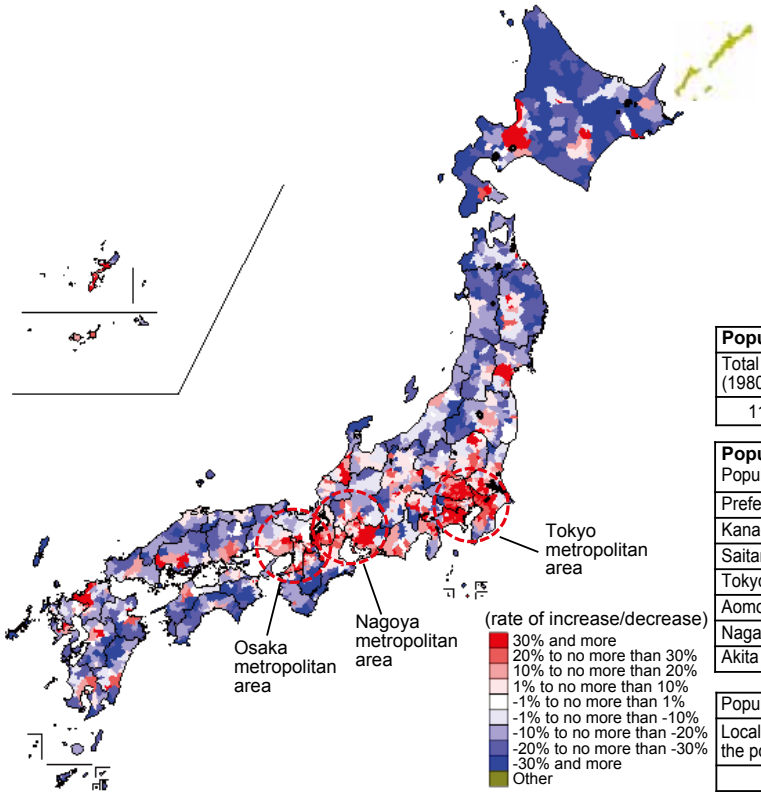
Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan* and MIC and METI, *2012 Economic Census for Business Activity*.

Notes:
1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. The Eateries/Accommodation, Education and Training Support, Compound services (excluding post offices) and Services (businesses not otherwise categorized) categories are also included in Services.
2. Worker number totals are based on business establishments.
3. Tokyo metropolitan area: Saitama, Chiba, Tokyo, Kanagawa Prefectures
Nagoya metropolitan area: Gifu, Aichi, Mie Prefectures
Osaka metropolitan area: Kyoto, Osaka, Hyogo, Nara Prefectures
Regional areas: areas other than Tokyo, Nagoya, Osaka metropolitan areas

When we look at changes in the population in regional areas, it is clear that many regional municipalities, particularly those in hilly and mountainous areas, are faced with declining populations (Fig. 3-1-3). In regions where the population is declining, it is likely that declining regional demand in those regions will lead to decreasing numbers of retail business establishments that provide day-to-day necessities (food, gasoline, etc.). This decline in retail business establishments can also lead to serious impacts on the lives of regional residents, such as an increase in the number of people with limited access to retail outlets (“shopping refugees”) in the regions.

3) In Part III, the three major metropolitan areas are discussed separately from the regional areas. Here, the three major urban areas are the Tokyo, Nagoya and Osaka metropolitan areas, while “Regional area” refers to the other metropolitan areas.
Tokyo metropolitan area: Saitama, Chiba, Tokyo and Kanagawa prefectures; Nagoya metropolitan area: Gifu, Aichi and Mie prefectures; Osaka metropolitan area: Kyoto, Osaka, Hyogo and Nara prefectures

Fig. 3-1-3 Population changes in Japan by municipality (1980–2010)



Population increase/decrease in Japan as a whole			
Total population (1980)	Total population (2010)	Increase/ decrease	Rate of increase/ decrease
117,058,537	128,059,362	11,000,825	9.4%

Population increase/decrease by prefecture
Population (top 3 prefectures, bottom 3 prefectures, 1980-2010)

Prefecture	Changes	Rate of change
Kanagawa	2,123,983	30.7%
Saitama	1,774,076	32.7%
Tokyo	1,541,107	13.3%
Aomori	-150,568	-9.9%
Nagasaki	-163,785	-10.3%
Akita	-170,748	-13.6%

Population increase/decrease by municipality	
Local governments where the population is declining	Local governments where the population is increasing
1,038	704

Source: MIC, *Regional Statistical Database*.
Notes: 1. The figure plots population numbers by municipality for 2010, taking the 1980 population level as 100.
2. "Other" indicates regions not included in the survey.

To ensure the ongoing development of the SMEs and micro-businesses that exist in regions facing these sorts of changes in the socioeconomic structure, a wide range of measures aimed at regional revitalization are needed. For instance, these would include initiatives to revitalize regional economies by making use of regionally specific production factors (= "local resources[4]") and steps to ensure that the local residents who support local demand enjoy rich and active lifestyles.

Bearing the above factors in mind, this chapter aims to introduce measures aimed at regional revitalization by a diverse range of agents according to the circumstances of the region, and also discusses the perspectives required by measures for regional revitalization based on the results of surveys (*Survey of Measures for Regional Revitalization*[5], *Survey of Support for Regional SMEs*[6], *Survey of the Status of Support for SMEs by Regional Financial Institutions*[7] and *Survey of Your Involvement in Your Region*[8]).

4) Here, "local resources" refers not only to the "regional industrial resources" nominated by prefectures ("agricultural, forestry and fisheries products, mining and manufacturing products and tourism" recognized as regional specialty products) under the "Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Resources Derived from Local Industries" (hereinafter referred to as the "Regional Resources Act"). It also encompasses every sort of resource that exists in the region, including natural and human resources and history. In Part III, "local resources" also refers to "any and all resources found in the region" unless otherwise stated. The "Bill for the Partial Revision of the Law on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium Enterprise" (approved by Cabinet on March 10, 2015), which sets out the details of active participation by municipalities, is to be presented in the 189th regular session of the Diet. Refer to Column 3-1-2 for details.
5) This was a questionnaire that surveyed 47 prefectural and 1,741 municipal governments throughout Japan in December 2014, conducted by Land Brains Co., Ltd. on behalf of the SME Agency. The return rate for the survey was 51.8%.
6) This was a questionnaire that surveyed 1,671 Societies of Commerce and Industry and 514 Chambers of Commerce and Industry throughout Japan in December 2014, conducted by Land Brains Co., Ltd. on behalf of the SME Agency. The return rate for the survey was 38.5%.
7) This was a questionnaire that surveyed 105 regional banks (including second-tier banks), 267 credit unions and 154 credit cooperatives throughout Japan in December 2014, conducted by Land Brains Co., Ltd. on behalf of the SME Agency. The return rate for the survey was 61.8%.
8) This was a survey (monitored via the Internet) conducted in January 2015 by Land Brains Co., Ltd. on behalf of the SME Agency). The monitoring targeted municipalities with populations of 50,000 residents or fewer, with respondents to the survey (3,000 respondents) filtered to ensure uniformity according to age group, gender and region.

Section 1 Utilizing local resources to revitalize regional economies

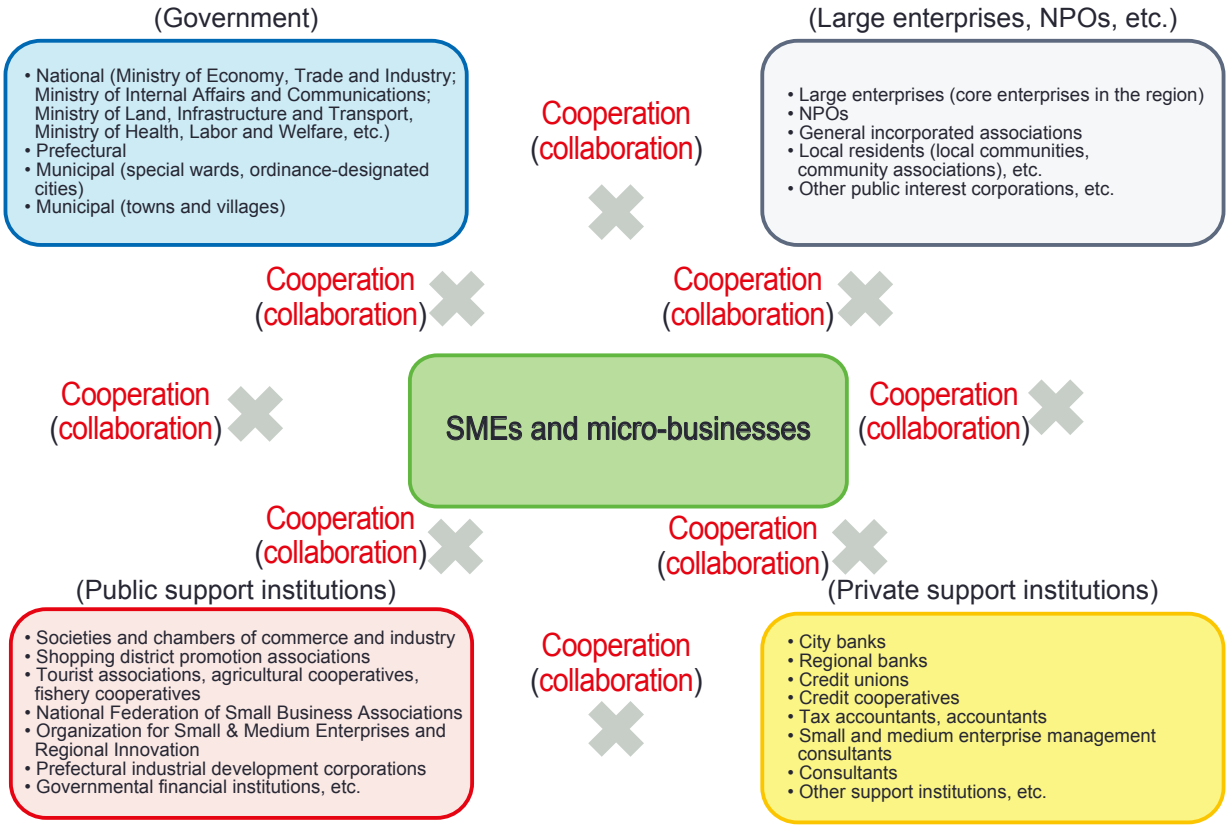
[1] Local resource utilization that recognizes the broader market

To respond to changes in socioeconomic structures in regional Japan and revitalize regional economies, measures are needed that draw on the strengths of the regions through the SMEs and micro-businesses that underpin those regional economies. To achieve this, it is vital that we make active use of the local resources that are the strengths of those regions and that serve as a means for differentiating them from others.

In every region throughout Japan, the SMEs and micro-businesses that underpin the regional economies have long worked to develop assets such as specialty products using local resources. When we look at instances of local resource utilization that can be regarded as successful, two characteristics stand out: (1) the programs are implemented region-wide with a diverse range of agents (Fig. 3-1-4); and (2) the programs are implemented with a recognition of the broader market[9].

In terms of the utilization of local resources, which can be seen as the key factor in the revitalization of regional economies, what follows is a discussion of initiatives for SMEs and micro-businesses aimed at maximizing the potential of local resources, while recognizing the importance of programs that take into account region-wide links and the broader market. To this end, we will focus on the recognition and status of programs aimed at local resource utilization by municipal governments and societies and chambers of commerce and industry, which are likely to be key partners for SMEs and micro-businesses when they themselves use local resources. By doing so, we will clarify the perspectives required for local resource utilization that will be instrumental in the revitalization of regional economies.

Fig. 3-1-4 Regional cooperation centered around SMEs and micro-businesses as shown in instances of the successful use of local resources

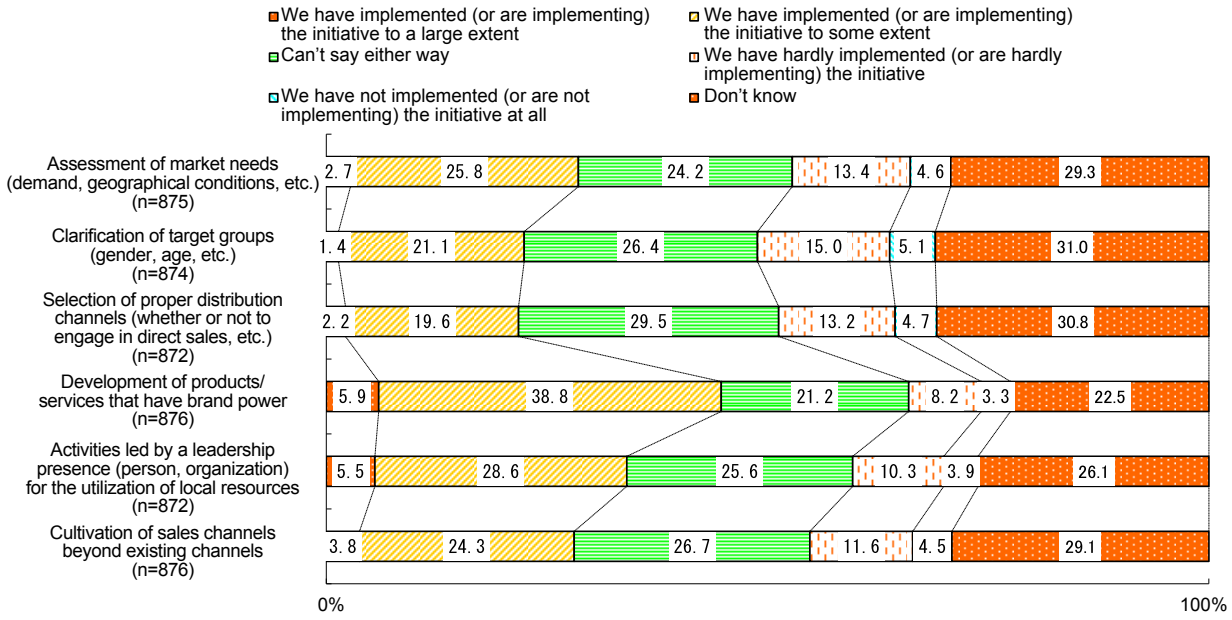


9) The *FY2014 Survey of Leading Initiatives for Regional Revitalization* report commissioned by the SME Agency lists instances of local resource utilization, and these include many programs that recognize region-wide links and many that recognize the broader market.

Engagement by municipal governments and societies and chambers of commerce and industry

This section will look at regional programs conducted when local resources were utilized from the perspective of municipal governments (Fig. 3-1-5). The figure shows that municipalities recognized that efforts were being made to some extent with respect to initiatives such as "Development of products/services that have brand power" and "Activities led by a leadership presence (person, organization) for the utilization of local resources". However, it also shows that as far as they are aware, little or no effort is being made with respect to the items relating to marketing: "Clarification of target groups (gender, age, etc.)" and "Selection of proper distribution channels (whether or not to engage in direct sales, etc.)".

Fig. 3-1-5 Initiatives when local resources are utilized in regions

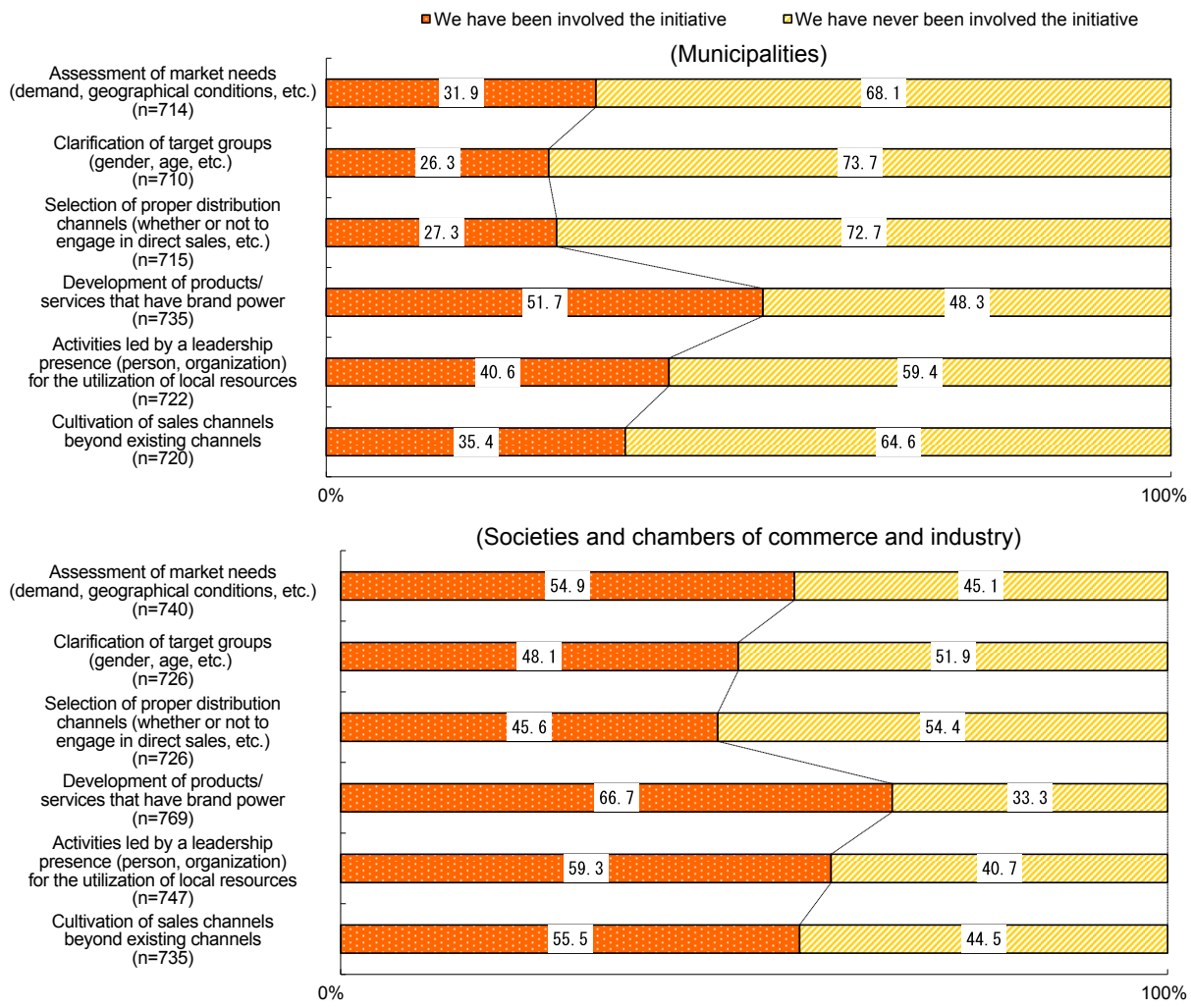


Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Notes: 1. The survey asked municipal governments about measures that were (or are being) undertaken when local resources are utilized in that region. It did not ask about the participation of the municipal governments themselves.
2. Where there are multiple instances of local resource use in a region, the survey requested responses as to whether those measures were being implemented on average.

Next, Fig. 3-1-6 shows the level of participation by municipal governments and societies and chambers of commerce and industry when local resources are used in regions. The figure clearly shows that, compared with municipal governments, a higher proportion of societies and chambers of commerce and industry generally participated when local resources were used. It also shows that, while roughly 50% of municipal governments responded that they had participated in "Development of products/services that have brand power", no more than around 30% of municipal governments responded that they had participated in marketing in the form of "Assessment of market needs" (31.9%), "Selection of proper distribution channels" (27.3%) or "Clarification of target groups" (26.3%). By contrast, 60% or more of the societies and chambers of commerce and industry responded that they had participated in "Development of products/services that have brand power", while at the same time they had also participated in marketing to some degree through "Assessment of market needs" (54.9 %), "Selection of proper distribution channels" (45.6 %) and "Clarification of target groups" (48.1 %).

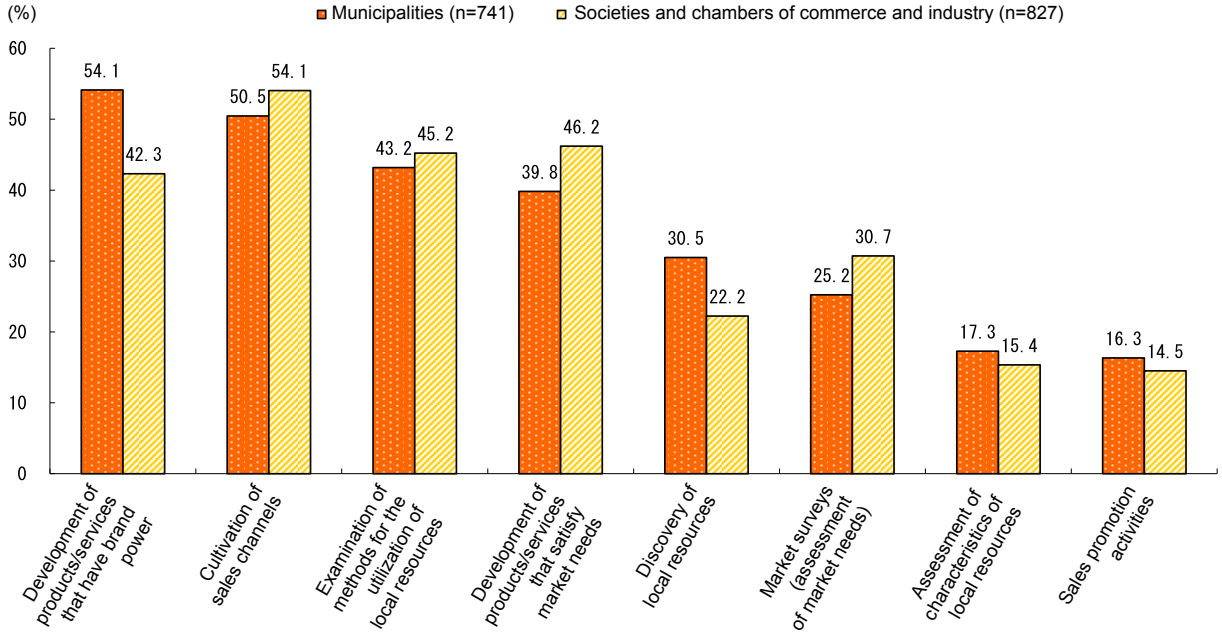
Fig. 3-1-6 Participation in initiatives when local resources are utilized in regions



Sources: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Land Brains Co., Ltd., *Survey of Support for Regional SMEs* (December 2014), commissioned by the SME Agency.

Next, we look at the sorts of problems that municipal governments and societies and chambers of commerce and industry felt they faced when undertaking programs to utilize local resources. While both municipal governments and societies and chambers of commerce and industry felt they succeeded in raising the profile of "Development of products/services that have brand power", "Cultivation of sales channels", "Examination of methods for the utilization of local resources" and "Development of products/services that satisfy market needs", there were some slight discrepancies in their recognition of that success (Fig. 3-1-7). We can see that municipal governments experienced problems, particularly with respect to efforts to brand local resources, while societies and chambers of commerce and industry experienced problems in different areas, particularly regarding marketing initiatives

Fig. 3-1-7 Issues when utilizing local resources



Sources: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Land Brains Co., Ltd., *Survey of Support for Regional SMEs* (December 2014), commissioned by the SME Agency.

Notes: 1. The top three ranked issues that were faced or deemed likely to be faced when using local resources were selected and processed as multiple responses regardless of ranking.
2. The figure shows the items with the top eight numbers of responses.
3. The total may exceed 100 as multiple responses were possible.

As the figure shows, there are differences between municipal governments and societies and chambers of commerce and industry participating in programs to use local resources in the respective regions in terms of their participation and the issues they faced. The differences probably include instances where the roles of the municipal governments and the societies and chambers of commerce and industry are clearly separated depending on the region, and some where they are not. However, because both municipal governments and societies and chambers of commerce and industry have extensive networks within and beyond their respective regions, one important role they both play is that of using their networks effectively to bring in people with expertise in such initiatives, expertise that may be lacking in their own region. Such initiatives, centered around municipal governments and societies and chambers of commerce and industry working collaboratively with a range of parties within and outside the region, are contributing to the revitalization of regional economies through programs that make use of local resources.

Below, we look at some case studies of regions who have made use of local resources. Each of these case studies illustrates an instance where municipal governments or societies and chambers of commerce and industry have cooperated with various other parties, such as SMEs in the same industry, in programs to brand local resources and develop products with consumers in mind.

Case 3-1-1 Yamatotakada Chamber of Commerce and Industry

Aiming for local revitalization by restoring area cotton fiber industry, chamber of commerce and industry supports SMEs by encouraging collaboration

Yamatotakada City, Nara Prefecture (population: 68,458 (2010 Population Census)) is located in the west-central part of the prefecture. It is a core industrial urban center of the Chuwa-Katsuragi area. Large-scale cotton cultivation became established here in the middle of the Edo Period, and spinning mills concentrated in the area. Together these drove the commercial development of the city. With the decline of the textile industry, however, spinning mills began to close, and the city's population has been decreasing since 1999.

Facing these circumstances, volunteer members of the Yamatotakada Chamber of Commerce and Industry came together to create a forum to learn the history of the city's development. They specifically focused on the fact that the city's infrastructure, shopping districts, public agencies, and the like had stayed intact in spite of the industrial decline of recent years. Though it refers to itself as an "industrial city," the volunteers realized anew that Yamatotakada's commercial roots lay in the cotton industry of the Edo Period, so they decided to restore the cotton field landscape as a symbol of the city that drove the local economy.

To begin, in 2007, City Hall and the Chamber of Commerce and Industry planted cotton in an adjacent field and opened Watta Land ("Cotton Land") to restore cotton cultivation. In addition, they hosted tours to rediscover the town and a "cotton making seminar" to acquaint the citizens with their initiatives. They also opened Monozukuri Messe Yamatotakada to encourage collaboration between businesses. The following year, they formed the Monozukuri Network, consisting of members from different industrial fields. The network took a survey of citizen needs for textile products and interviewed businesses to discover new products to develop. Many businesses reported that they wanted to revive the textile industry by getting out of OEM and subcontracting arrangements and instead forming a brand that would let them set their own prices.

Then in 2011, having found what cotton products local citizens were looking for and reflecting businesses' technology and local pride, the industry began developing baby clothing with cotton just as more cotton was being grown. When these products were exhibited at Baby & Kids Expo, many buyers came away impressed and before long were coming to local fields and mills to observe production. This encouraged chamber members to really want to develop this initiative further.

The chamber subsequently tried other initiatives, getting help from various sources. For example, nurses from the city hospital cooperated in a monitor-based survey of clothing. Products were exhibited at events, and the hospital stocked up on socks and bibs to give away as gifts to new parents. These activities caught the eye of large department stores, which began to sell the products at major stores in Kyoto and the Kanto Region.

Three enterprises in the city now manufacture and sell clothing. These companies are working to improve profitability, with the goal of getting this business into the black within five years. Members are working to enhance profitability by using every part of the cotton. For example, out of 800 kg of cotton, only 159 kg goes into the final product. Therefore about 500 kg of seeds are used in drugs and fertilizer, while another 114 kg of short fiber thread, previously disposed of as scrap, is respun into thick thread to make swaddling wraps for babies. The members are proposing such ideas to city businesses and coordinating with them.

The cycle that has led to the revival of Yamato cotton, as first advocated by the chamber of commerce and industry, has swept in city businesses and residents while weaving local pride into something new.

Mr. Sakamoto, then-Vice Chairman of Yamatotakada Chamber of Commerce and Industry

Baby clothing products made with locally grown cotton

[Observations from the case]

Success factors

The leadership of Mr. Sakamoto, then-Vice Chairman of the Yamatotakada Chamber of Commerce and Industry, had much to do with this series of events. The need for cooperation between SMEs and the chamber of commerce and industry led to the establishment of a venue to learn from each other and the formation of the Monozukuri Network, which brought together people from different fields. By learning together and spinning their intentions into a single thread, the participants were able to make their network stronger subsequently. Moreover, the Chamber of Commerce and industry established a "Department for a Prosperous Yamatotakada," which works together with the network. To produce the cotton, companies voluntarily grow their own crop. The crop is hand-picked by company retirees as well as personnel from other companies not in the business of making cotton products. Personnel and R&D costs will be expensive until the business is truly up and running, but the impressive thing is that citizens, businesses, and the chamber are all voluntarily taking part. With each party taking a bit of the load, everyone can share the burden together.

Use of local resources: Advancing local industry by branding local resources

First, when seeking to identify local resources and create a spillover effect in the region, it is important that organizations with wide networks in the region (e.g., city and town governments, chambers of commerce and industry, citizen lifestyle support centers) sufficiently understand the technologies and ideas of businesses. To do this, however, it is very important to have a shared awareness that instead of organizations working independently to sustain the effort, related businesses need to continue working together as they profit. It is also a good idea to create an overall story and build a comprehensive network and to have pioneering, public-spirited leaders who start up initiatives and cause them to proceed at a fast pace.

Instead of thinking, "I hope this goes well," participants need to think, "This is business." It is important that they think about how to build sales channels and arrange their production system as they actively market their product and propose solutions.

Future issues

Even local industries can benefit by expanding their business beyond OEM and subcontracting and by manufacturing products of high added value to sell on their own. Such industries can not only increase profitability but also develop more pride and motivation as businesses. However, it is important that they constantly remain aware of the need to cut costs, use resources more effectively, and increase added value, and that they make the corresponding improvements.

Case 3-1-2 Furano City, Hokkaido Prefecture (Furano Omelette Curry Promotion Council)

Promoting local restaurants by creating a new food culture with local resources

Furano City, Hokkaido Prefecture (population: 23,244 as of February 28, 2015; area 600.97 km^2), is located close to the center of Hokkaido. Its core industries are agriculture and tourism. Tourists come to see fields of lavender and hill scenery and to go skiing. The TV drama series *Kita no Kuni kara* began broadcasting in 1981, boosting tourism to a peak of about 2.5 million visitors annually in 2002. More recently, however, that effect has worn off, and the local community has subsequently wrestled with developing its tourism resources.

With that problem on their minds, in 2002 a group of young workers, led by Kengo Matsuno, an employee of the Furano City Hall and Chairman of the Furano Omelette Curry Promotion Council ("Council"), decided to undertake a new citizens initiative going beyond their daily jobs. Focusing on food as a way to tie the core local industries of agriculture and tourism together, they launched the Food Triangle (Agriculture/Commerce/Consumption) Research Group ("Research Group"). The Research Group's discussions led to a campaign to market curry as a local specialty dish that could take full advantage of the Furano area's agricultural resources. Their catchphrase was "Feast on the luxurious taste of Furano curry." They recruited curry restaurants in the city to take part in a group called the Furano Curry Rangers ("Curry Rangers"). The group held a number of events including curry parties and a stamp rally (customers got a stamp from each curry restaurant they dined at) designed to use curry to stimulate the local economy. Although the curry campaign started out successfully, by around 2005 shadows had started to fall on it. Among the reasons, it was difficult to differentiate the product from those of other areas and the Research Group and the Curry Rangers group had different ideas about local production for local consumption.

To come up with a breakthrough, the city invited the editor in chief of a tourism magazine and the lead chef from a hotel as advisers from outside the town. Together they studied directions for using curry to stimulate the local economy. In 2006, this effort gave birth to omelette curry, a combination of a rice-filled omelette and curry. Reflecting on their past experience, they established "Six Rules," which included using only local ingredients and

serving the dish in a particular style. In this way they sought to use food for local branding. When the omelette curry dish was first created, eight restaurants in the city began serving it. Immediately thereafter, the dish became the subject of a major feature in a tourism magazine. In the first Golden Week after launch, tourists could be seen lining up outside the restaurants. The campaign also took advantage of Furano's strength as one of Japan's leading tourist destinations. Presently, 12 restaurants offer omelette curry. Sales of the dish peaked in 2010 and have stayed largely level since then.

In 2009, three years after the launch of omelette curry, the Council was established, mainly by restaurants offering the dish. With the launch of the Council, the restaurants took responsibility for funding its activities. With its funding source secured, the Council was able to take systematic initiatives such as expanding the scope of activities to promote omelette curry. Part of the reason for the arrangement was so that the Council from its beginning could secure its own funding rather than for example relying on subsidies such as those from the local government. Aside from paying an annual fee to fund Council initiatives, the restaurants subscribe to the Six Rules, one of which is that the shop must put little "lunch flags" on top of their omelette curry dishes. The Council sells the flags to the restaurants, with the proceeds helping to pay the cost of Council initiatives.

Speaking of the Council's long-term objectives, Chairman Matsuno says, "Our goal is not just to make omelette curry a local gourmet dish for tourists. Rather, we want to create a 'food culture.' We want to offer a local taste such as people grew up with and which they will keep in their memory along with the beautiful scenery of Furano."

Omelette curry, topped with a lunch flag

The Council in session

[Observations from the case]

Success factors

To stimulate the local economy, it is extremely important to look anew at the various resources that an area has to offer and to develop products that can take advantage of them. It is also essential that the products become beloved by local citizens so that they can then express their love to others outside the area. In other words, it is necessary to get the various parties in the area involved.

In this case, the parties understood that the curry they originally developed made it difficult to offer a unique product or a unified brand. Reflecting on this, they brought in outside support and developed a new product. Using the PDCA cycle in this manner was a success factor for them. Another big factor is that a framework was built that allowed local restaurants to offer omelette curry without taking on substantial risk. The Council was not launched until three years after omelette curry was developed, when everyone could see the results of the effort. One distinctive feature of this effort was the fact that during those three years before the Council existed, the parties worked to publicize their product and build recognition at minimal expense.

Use of local resources: Promoting local restaurants by branding local resources

To develop a specialty product using local resources and build a brand that other localities cannot compete with, it is necessary to have a common brand image within the area and write rules to maintain the brand. In this case, the parties reflected on their experience developing a curry product with local resources. They decided that they would use rice, eggs, vegetables, meat, and so on from Furano and Hokkaido, and their Six Rules expressly state that the products must use the specialty products cheese (or butter) or wine. While establishing such minimal rules, it is also important to create an environment where shops can compete with each other to make an even better product.

It is also essential to have some person or organization with an intermediate support role, to communicate the initiative to an outside audience. It is also important to secure the funding to support these efforts. As this case shows, systematic initiatives are essential. For example, there could be a council consisting mainly of government workers who can communicate information not from the perspective of the individual store but from a third-party perspective. A funding source can be secured by having the stores fund the initiative. PR initiatives for products like omelette curry can then expand in scope.

Future issues

Currently, there are 12 restaurants offering omelette curry and more are expected to participate in future. That leaves the problem of how to maintain the brand image if the number of participants increases. Commenting on this point, the Council says, "In future, we would like to see our city have more shops offering omelette curry on their menus than in other areas. And we think it important to develop a food culture so that it is not just tourists but also local citizens regularly eating omelette curry in restaurants and at home."

Case 3-1-3 Hatashita Co., Ltd.

A business that works to strengthen a brand of specialty products by using seasonal local resources

Hatashita Co., Ltd. (employees: 4; capital: ¥3 million), based in Shinkami-Goto Town, Minami-Matsuura District, Nagasaki Prefecture, manufactures and sells processed seafood products using fresh seafood caught off the shore of Nakadori Island in the Goto Islands chain.

The company specializes in a type of flying fish called *ago*, which are caught with nets on the company's own boats. Hatashita manufactures and sells such Goto Islands specialties as *yaki-ago* (grilled ago), *shioboshi* (salted and dried fish), and *mirinboshi* (dried fish seasoned with mirin). The business has a motto of making all its products by hand.

Starting in 2011, it spent two years developing a new product that would expand sales of one of its specialty products known as *ago dashi* (*ago* soup stock). It succeeded in creating the new item Ago Dashi Chazuke, a dried soup stock mixed with tea that is poured on boiled rice.

Developing a new product made it necessary to deal with several challenges. For example, besides *ago*, several other types of local fish are caught in different seasons in the Goto Islands. Moreover, some seasonal fish are caught in large volumes but have a very limited range of distribution, and seasonality causes fish prices to decline and part of the catch to be disposed of and wasted. Therefore, the company was highly motivated to raise the price of its fish inasmuch as possible to ensure that local resources are used effectively and the local economy is stimulated. While *ago* soup stock is the base for Ago Dashi Chazuke, other fish caught in large quantities are mixed in depending on the season. Four varieties were developed: *buri*/Japanese amberjack (mainly in spring), *kawahagi*/thread-sail filefish (mainly in early summer), *isaki*/chicken grunt (mainly in summer), and *aori-ika*/bigfin reef squid (mainly in autumn).

To realize this concept, the company turned for support to the Shinkami-Goto Town government. They took advantage of a program offering support for the development of new specialty products with local resources (in FY2015 they switched to a startup support program that is itself a collaboration with a program from a relevant organization). Under this program, the company made a trial product in the first year, then in the second year studied product packaging and actively promoted its product by participating in business conventions.

Behind the initiatives of each fiscal year was an effort by town government employees to "listen proactively and thoroughly." During production of the trial product in the first year, the employees sought help from a Nagasaki Prefecture marine products lab and supported a local event where people could taste-test the product. In the second year, during the packaging consideration, they took advantage of corporate instructors sent by a Nagasaki Prefecture foundation to bring together designers. Through efforts such as these, town government staff deftly combined programs from different relevant agencies to offer precise support.

The new product Ago Dashi Chazuke sells as a gift item alongside major products like *yaki-ago*, *shioboshi*, and *mirinboshi*. It is sold at product exhibition sites mainly in the Kyushu region, particularly the Fukuoka airport, as well as on the Internet. Because catches of *ago* go up and down with the seasons and weather, the product also plays the role of evening out supply.

The company's president, Mr. Sunao Hatashita, notes that "We only recently brought Ago Dashi Chazuke with in-season Goto Islands fish pieces to market, so we're still working on expanding our sales channels, but recently there have been repeat customers for the product. This is also leading us to expand our line of products related to our main *ago* product. Going forward, we also look forward to expanding our offerings to include such things as *takikomi gohan* (rice seasoned and cooked with various ingredients) and promoting seasonal fish of the Goto Islands."

President Sunao Hatashita

Ago Dashi Chazuke developed by Hatashita Co., Ltd.

[Observations from the case]

Success factors

Success factors in this case included spreading *ago dashi* to a wider audience and establishing a clear concept of using in-season Goto Islands fish to enhance Hatashita's ability to sell its major products *yaki-ago*, *shioboshi*, and *mirinboshi*, produced by manufacturing methods developed up to now. Another success factor is that the company accurately gauged regional raw materials market conditions and consumer needs. Another key point is that Hatashita collaborated with the local government from the product development stage instead of developing the product alone. The active involvement of the local government ensured that the company got support for package design, which is another important element in developing sales channels. As a result, Hatashita successfully expanded its sales channels, especially at the Fukuoka airport and other parts of Kyushu.

Thanks to the fact that the business took this approach to developing a new product, the efforts of town government employees to listen proactively and thoroughly, and the deft combination of support programs from the local government and other relevant organizations, the company was able to get a product on the market at low cost and in a relatively short period of time.

Use of local resources: Developing a product by learning consumer needs

Sometimes manufacturers and sellers of processed agricultural and marine products can find ways for using currently untapped resources if they study consumer needs and the market conditions for the raw materials that are available to them, particularly those in the local area.

In this case study, seasonal fish were caught in large quantities but their range of distribution was limited, meaning that fish prices declined and part of the catch was disposed of and wasted. The company also found out that consumers nationwide wanted to purchase specialty and in-season products from different regions. Hatashita was able to tie these two things together. In so doing, they were able to develop a new product and help boost raw materials prices to some extent. This is a good example of a business taking a new perspective to examine ways of using resources that are already being used and thereby maximizing the value of resources in the region.

Future issues

Day by day contact with a resource and an awareness of its potential are necessary if one is to realize that regional resources that are not fully used and currently not sold with any added value can in fact be better used. Without such an approach, it would be difficult to use a resource and create a successful commercial product with it.

On the other hand, even if they are full of ideas, regional micro businesses might not be accustomed to bringing their seemingly petty challenges to specialists. In that sense, the willingness of local government employees to listen proactively and thoroughly to micro businesses is going to be increasingly important in the future.

Case 3-1-4 Katsuren Fishery Cooperative Association, Etc.

Collaborating with a variety of local parties to develop and expand distribution of mozuku gyoza, a dish with consumers in mind

The Katsuren District (formerly Katsuren Town), located in the center of Okinawa Prefecture, became part of Uruma City (population 119,314 in the 2010 Population census) when it merged with the former Gushikawa City, Ishikawa City, and Yonashiro Town in 2005. The district consists of the Nakagusuku Bay side of the Katsuren Peninsula as well as the islands of Hamahiga and Tsuken. It has healthy agricultural and fishing industries, and in 2000 the Katsuren Castle ruins became a World Heritage Site, being recognized as part of the "Gusuku Sites and Related Properties of the Kingdom of Ryukyu." The area is a tourist attraction. Although the population of Uruma City as a whole has been rising since the mid-1960s, the population of the Katsuren District has been declining.

Cultivation of mozuku seaweed began in earnest in Okinawa around 1980. Presently Okinawa accounts for about 90% of production in Japan, while the Katsuren District by itself produces about half the amount from Okinawa. Recently, however, there has been a series of years with abundant harvests. Moreover, consumption has not increased, as the traditional way of eating mozuku (as a vinegared dish) remains largely the only way it is eaten. This means that the product sells cheaply, and is often discarded once it is produced. This is a challenge not only to mozuku growers but to the regional economy.

In response, the Katsuren Fishery Cooperative Association collaborated with a variety of groups to develop products and increase mozuku sales. Unfortunately, because most of the emphasis was put on the act itself of developing new products with mozuku, development alone did not increase sales.

At the advice of a representative from Co-op Okinawa, 12 groups, including the prefectural and city governments, a local meal service center, and distributors, came together to discuss the issue. They came to realize

that consumers were becoming more health-conscious. That is how they decided to develop healthy mozuku gyoza (potstickers), with the health benefits of mozuku and less meat. Mozuku was even incorporated into the gyoza wrapper to reinforce the visual image of the ingredient. Aside from direct sales to consumers, the association began to provide the product for school lunches, touting the fact they were healthy and locally produced for local consumption. They further partnered with "Kimutaka no Amawari," a traditional stage production put on by Uruma City junior and senior high school students. Under this partnership, the play is incorporated into the package theme and part of the sales is donated to the student group.

The association promoted the product in other ways as well, such as a press conference at the prefectural government building and by providing the product for school lunches. The product began to spread throughout the area, lifting sales from about 50 packs a day to 36,000 in a month and a half.

The association then embarked on selling the product abroad by taking advantage of Okinawa's geographical characteristics. While the product ties in with the local culture of Kimutaka no Amawari, outside Japan, the manufacturer puts its focus on yaki-gyoza (pan-fried gyoza), which have not yet caught on overseas but are an important part of the food culture in Japan. The manufacturer offers taste tests to promote the product overseas and PR focuses on the fact that only Japanese ingredients are used, putting the emphasis on the safety of Japanese foods. The 12 groups, feeling that overseas sales outlets were not yet sufficient, made a partnership with the so-called En Group, which actually operates more than 20 restaurants in Hong Kong, Macau, and Singapore. This arrangement has led to the product being sold day-to-day overseas, especially in Asia.

Mozuku Gyoza label also promotes local culture

[Observations from the case]

Success factors

One success factor in this case is that a variety of local groups including governments got together to discuss and take action to find uses for the local specialty product mozuku. All of the parties provided resources that complemented the others. It is important that businesses actively seek out such a forum from government agencies and third parties that can offer intermediate support.

Manufacturing and selling a specialty product requires specialty knowledge and experience in both production and distribution. Partnerships, therefore, make it possible for an enterprise to take new challenges. Selling outside of Japan in particular requires great effort and cost to develop new sales outlets, make all the necessary arrangements, and so on. For that reason, it is important to get sales outlet development support from existing distributors and the like.

Use of local resources: Product development from the customer's point of view

Developing a specialty product often involves looking at various ideas and other case studies and creating test products. But it is important to accurately gauge the needs of consumers and develop products they will buy. Particularly in this case, where the enterprise was trying to sell a very common food product (gyoza), it was important to give customers motivation to buy the product. In this case it was incorporating the students' play and the area's history into the product package and actively using it for PR purposes. It is also essential outside Japan to communicate how Japan's unique yaki-gyoza is cooked and how good it tastes. It is also important to learn foreign customs and ideas and develop a product accordingly.

Future issues

This case study shows that it is possible to export mozuku gyoza together with a variety of agricultural products. Issues include selling vegetables and Japanese-made Chinese food products overseas and expanding sales outlets outside Japan.

Case 3-1-5 Tour Station, Inc.

An enterprise leading community-based tours flavored with local history and culture

Tour Station, Inc. (employees: 3; capital: ¥10 million), based in Fuso Town, Aichi Prefecture, plans and coordinates tours and overnight lodging. It provides community-based tourism to Inuyama Castle and the castle town area. (Community-based tourism is tourism that brings visitors to a place of interest, as opposed to traditional tourism that sends visitors off to another location.) Among the unique features of these community-based tours, local people serve as "storytellers" who teach travelers the history and culture of Inuyama.

To get certified by the Ministry of Economy, Trade and Industry under the Act for the Promotion of the Use of Local Resources by Small and Medium Enterprises, the city of Inuyama, the Inuyama City Tourism Association, the Inuyama Chamber of Commerce, the Inuyama Machizukuri Co., Ltd. (the joint applicant for certification), and businesses in the Inuyama castle town area worked together to establish a business plan with an understanding of the importance of encouraging participation by local residents. From their conversations with the residents of the castle town area, they particularly recognized the importance of the historical knowledge that the local community had and the importance of live voices of people with a long association with the town. Enabling travelers to hear the area's history and culture directly from the community was considered a central point of community-based tourism as the group worked together.

Staff members known as the Inuyama Hospitality Team go along on tours as guides, providing some of the basic facts. For example, they tell how Inuyama Castle (a designated national treasure) is the only privately owned castle in Japan. They share how the castle town has the same boundaries as it did on maps from the Edo Period, making it literally "a castle town of both today and yesterday." However, it is local citizens, serving as storytellers, who tell ad lib stories of the community's history and culture. The ability to see Inuyama Castle and the castle district up close while absorbing historical and cultural information from the Inuyama Hospitality Team and hearing stories from people who live in the area makes it a richer learning experience. Guests can also take part in a variety of other experiences, such as making *tonbodama* (glass accessories), joining an *ozashiki asobi* (a party hosted by geisha), or watching cormorant fishing.

Tour Station started out its initiatives just hoping to provide tourism services to contribute to the local area as part of its corporate social responsibility (CSR). Its company policy, however, was to help stimulate the region by getting local people involved. Therefore it began operating with a new business model: creating shared value (CSV), that is, value for both the business and the community. During tours, visitors stop in at restaurants and souvenir shops, choosing businesses with close ties to the community and happily making purchases there. The aim is to provide something good for everyone: tourists, the Inuyama Hospitality Team, and local people.

The effort has been well received both by tourists and local citizens. The number of customers and cumulative sales are going up each year.

Looking beyond Inuyama in future, President Kato of Tour Station has his eyes on *dashi matsuri* (decorated float festivals) in the Tokai, Hokuriku, and Shinshu regions. Of 32 candidates for registration under the UNESCO Convention for the Safeguarding of Intangible Cultural Heritage (Yama, Hoko and Yatai Ceremonies), fully half are in the Chubu Region. Tour Station is now building a network with the Japan Tourism Agency and the Chubu Branch of the Japan Travel and Tourism Association that will let local areas band together to practice community-based tourism with a single theme across a larger region. Specifically, the concept would be based on introducing visitors to the fact that the concentration of *dashi* float and *karakuri* mechanized puppet culture was a factor that led modern manufacturers to cluster in Chubu, and that *karakuri* were the starting point for manufacturing in the region, a fact that links traditional culture with some of the world's top manufacturers.

Tour Station President Hiroaki Kato


Tourists enjoy the view from the tower of Inuyama Castle

[Observations from the case]

Success factors

Rather than trying to do community-based tourism by itself, it is important that a travel business bring in the community. Guides provided by the travel business can tell visitors about the area's history and culture, but that is not enough. By getting local residents involved in really exposing visitors to the history and culture of each place, Tour Station was able to help visitors learn and experience the story of Inuyama at multiple levels.

Visitors were able to get close to the local people and hear their stories in non-stereotypical fashion. Local businesses were able to invite customers into their facilities and shops. The arrangement benefited the travel company, visitors, and local citizens. The important lesson here is not that experience-based tourism is successful just because one provides information about local history and culture. Rather, the important thing is making arrangements that somehow help visitors absorb area history and culture. In this case, that arrangement was the element of "involving the community."

However, community-based tourism by itself offers very few sales outlets, making it difficult to attract customers. Moreover, consumption per visitor is rather low, so it is possible for this type of tourism to reach a dead end business-wise. When visitors and local residents get a sense of satisfaction from their experience with community-based tourism, it helps to build trust in the travel business. It is important to use this to build a positive cycle so that these satisfied customers then look into more traditional tourism, such as high-value cruises. Rather than looking at community-based tourism and traditional tourism as a set of trade-offs, it is important to take the two in total in order to strengthen one's approach to tourism demand.

Use of local resources: The importance of network building

To get local people involved and present travelers with the area's history and culture in a way that really brings in the community, one must actively create partnerships with the community. This requires interacting with the community on a daily basis. In this case, Tour Station personnel attended community-building meetings and activities in the castle town area to heighten the sense of camaraderie and willingness to show hospitality to visitors. This effort created a network which became the social foundation for stimulating the local economy by bringing in the community.

In addition, the company is not limiting its network to the Inuyama area. It plans to expand the network to a much larger area spreading across the Chubu region (Tokai, Hokuriku, Shinshu), where so much of the *dashi* and *karakuri* culture is concentrated. Presently, it is working on a scheme in which visitors could take local trains to the *dashi* festivals in different locations. At the same time, it is holding advanced case study reporting events, which experts and businesses working on community-based tourism can attend. Therefore the strengthening of information and personal networks can make community-based tourism more attractive, lead to the discovery of new tourism resources, and make effective use of human resources over much larger regions.

Future issues

The number of tourists visiting Inuyama Castle is gradually growing. It surpassed 500,000 people in 2014. The number of people taking advantage of the Inuyama Hospitality Team is also expected to keep rising. However, more tourists mean having to address such issues as garbage processing. Solutions are required that involve the community. It will also be necessary to use the human networks developed through community-based tourism in order to maintain the scenery. Finally, women in their 60s currently make up the bulk of customers. Tour Station needs to plan tours of events like *dashi matsuri* that are more accessible to young people.

Up to this point, we have examined several case studies where various members of the community worked together and achieved something locally. This would be a good point to introduce "Regional collective trademark system." Such a system is one effort that can be used to brand local resources.

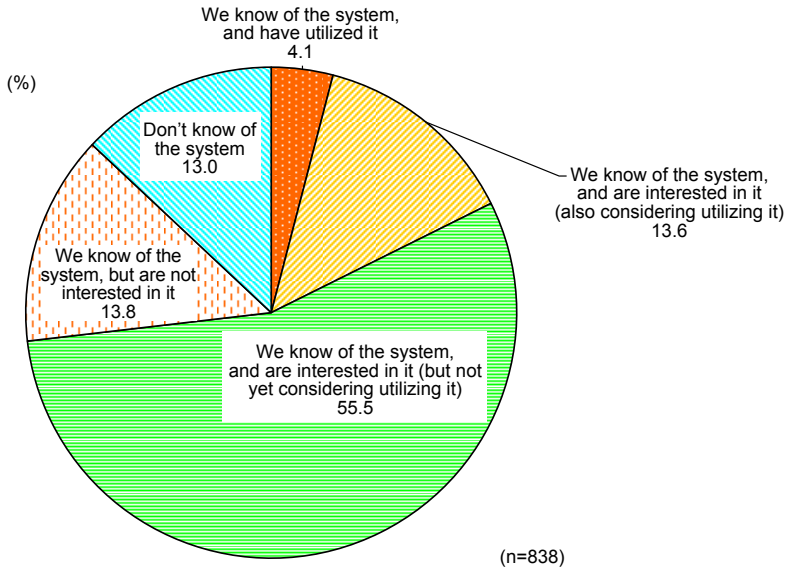
Column 3-1-1 Regional collective trademark system

Where a trademark consists of information such as the region name and the product (or service) name, and is widely recognized as being used by an organization rooted in the region and by its members, the regional collective trademark system allows the trademark to be formally registered as a "regional collective trademark". The system was introduced in April 2006 with the aims of helping to maintain business trust, supporting the revitalization of regional economies and enhancing industrial competitiveness by adequately protecting regional brands. This system supports the development of regional brands by providing benefits such as the ability to exclusively use a trademark anywhere in Japan, to prevent others from using the trademark and to semipermanently update its usage rights.

Since the introduction of the system, there have been over 1,000 applications from associations all over Japan, and over 570 of those have led to the registration of specialty products (as at the end of February 2015). Until now, the system has been restricted to associations established under special legislation for business cooperatives, such as agricultural cooperatives, fishing industry cooperatives and the equivalent overseas corporations. But on 1 August 2014, the range of parties eligible to register trademarks was broadened so that societies and chambers of commerce and industry, incorporated NPOs and the equivalent overseas corporations can also submit applications.

Fig. Column 3-1-1 shows the level of recognition of the "Regional collective trademark system" among societies and chambers of commerce and industry. The figure shows that even though only 4.1% of organizations responded "We know of the system, and have utilized it", 69.1% of organizations responded "We know of the system, and are interested in it". Changes to the system mean that societies and chambers of commerce and industry can also submit applications for regional collective trademarks, so in future, it is likely that there will be even greater use of the system for regional branding.

Fig. Column 3-1-1 Recognition of the regional collective trademark system by societies and chambers of commerce and industry



Source: Land Brains Co., Ltd., *Survey of Support for Regional SMEs* (December 2014), commissioned by the SME Agency.

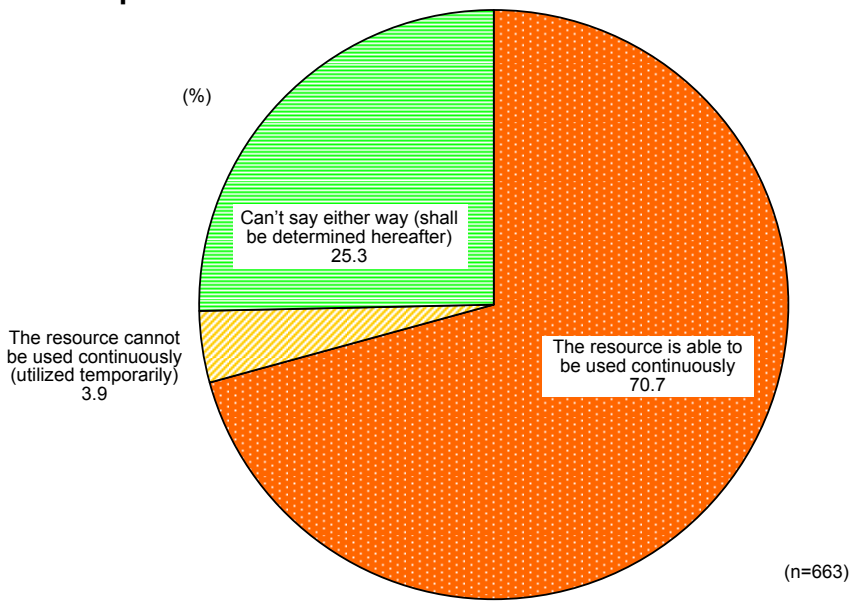
Features of local resources visible in examples of successful local resource utilization

Japan is a country with four seasons marked by wide variations by global standards and is also a geographically diverse nation. This overlapping complexity of conditions has given rise to extensive regional diversity in Japan. For instance, the varieties of fish caught in Hokkaido differ greatly from those caught in Okinawa Prefecture, while the scenery in the two locations is also very different. However, the local resources that these fish varieties and scenery comprise are respectively eaten and enjoyed on a daily basis in those regions, and precisely for this reason, local people may fail to appreciate the true value of those local resources. It is only by differentiating those local resources from those in other regions that their potential can be realized. To maximize that potential, it is vital that we reaffirm the true value of local resources that are seen simply as a part of everyday life in those regions. By comparing them with the resources in other regions, regions can come to appreciate the uniqueness of their own resources and can go on to develop products and marketing that differentiates their own goods.

The examples below show where the greatest success has been achieved by utilizing local resources with the participation of municipal governments, and through these we will look at the characteristics of the local resources used from the perspectives of whether "The resource is able to be used continuously" and whether "Local residents are aware (of the resource)".

Fig. 3-1-8 shows whether local resources can continue to be used on an ongoing basis in those examples of local resource use that are considered to be the most successful by the participating municipal governments. The figure shows that 70.7% of municipal governments responded that "The resource is able to be used continuously" while a mere 3.9% responded that "The resource cannot be used continuously". It seems likely that achieving success in the development of goods and services that utilize local resources (expanding sales, branding local resources, etc.) will take some time. To respond to changes in the needs of consumers (purchasers) and in market demand, it is important to review the goods and services from time to time and, when developing goods and services that use local resources, to select the resources used on the basis of these perspectives.

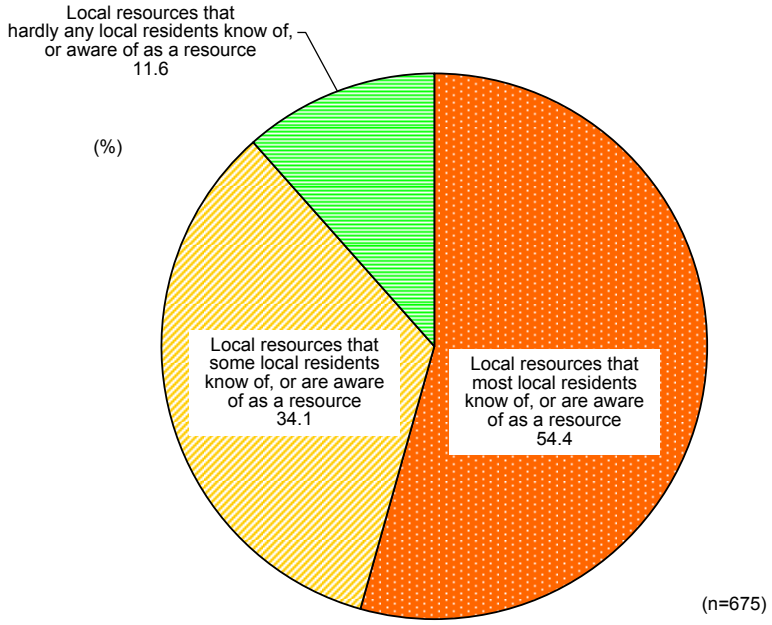
Fig. 3-1-8 Potential for continuous use of local resources in the most successful examples



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Next, Fig. 3-1-9 shows the levels of awareness among local residents of the local resources being used in those examples of local resource use that are considered to be the most successful by the participating municipal governments. Roughly 50% of municipal governments responded "Local resources that most local residents know of, or are aware of as a resource", while around 10% responded "Local resources that hardly any local residents know of, or aware of as a resource". This shows that even when resources are not necessarily known of in the region, or not actually recognized as a "resource", considerable success can be achieved by appropriately assessing market demand and then using those resources to develop goods and/or services and cultivate sales channels.

Fig. 3-1-9 Awareness among local residents of local resources in the most successful examples



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

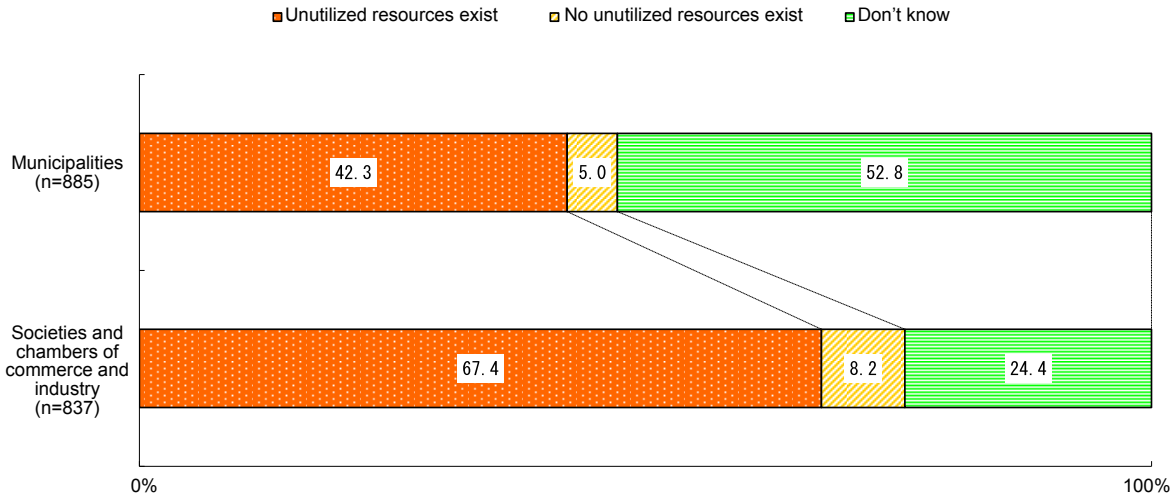
So we have now seen the way that resources that are not necessarily known of in the region, or that are not recognized as a "resource", hold the potential for considerable success. Below, we will investigate the possibilities for utilizing such resources.

We begin by looking at the existence of unused resources in the regions[10] as indicated by the awareness of municipal governments and societies and chambers of commerce and industry, as shown in Fig. 3-1-10. The figure shows that around 40% of municipal governments responded "Unutilized resources exist" and roughly 50% of municipal governments responded "Don't know". Conversely, among societies and chambers of commerce and industry, around 70% of the organizations responded "Unutilized resources exist" while over 20% responded "Don't know". This suggests that there is still a significant proportion of unused resources in regional areas, and that by effectively cultivating the value of those unused resources in the future, it is possible to create differentiation between the different regions.

10) Here, "unutilized resource" refers to "a local resource that has not been fully utilized in the region".

On the other hand, as we have seen from the participation levels of municipal governments and societies and chambers of commerce and industry in local resource utilization, the societies and chambers of commerce and industry are more strongly aware of the unused resources and of issues such as how to sell to the market and how to develop products that will sell. This suggests that the societies and chambers of commerce and industry could become a major presence by implementing programs that make use of unutilized resources.

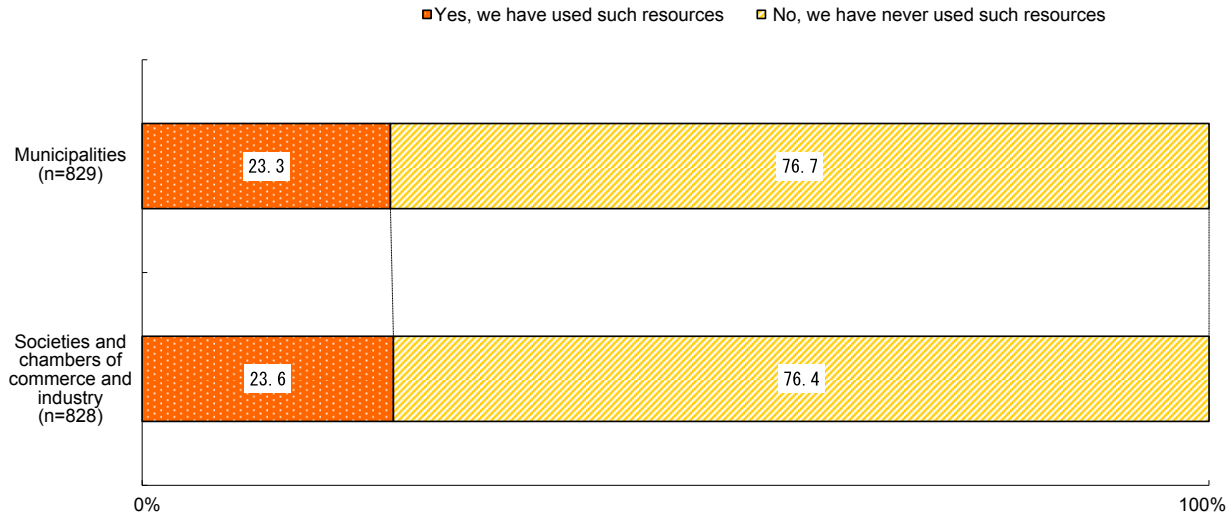
Fig. 3-1-10 Existence of unutilized resources



Sources: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Land Brains Co., Ltd., *Survey of Support for Regional SMEs* (December 2014), commissioned by the SME Agency.
Note: Here, "unutilized resource" refers to "a local resource that has not been fully utilized in the region"

But perhaps the resources that are not fully recognized in the regions are in fact being utilized. Fig. 3-1-11 illustrates the existence of instances where local resources with low recognition rates were utilized with the participation of municipal governments and societies and chambers of commerce and industry. The figure shows that 23.3% of municipal governments and 23.6% of societies and chambers of commerce and industry responded "Yes, we have used such resources". This indicates a trend in the utilization of local resources where recognition in the region is high and the resources used are recognized as a single brand. Only some of the resources with low regional recognition rates appear to be being utilized, but at the same time, some instances of the most successful local resource utilization do not necessarily involve the use of resources with high recognition rates. This suggests that there is considerable scope for the utilization of local resources with low recognition rates, and that in such regions, there is also a need for investigations into the utilization of resources that are not necessarily well recognized.

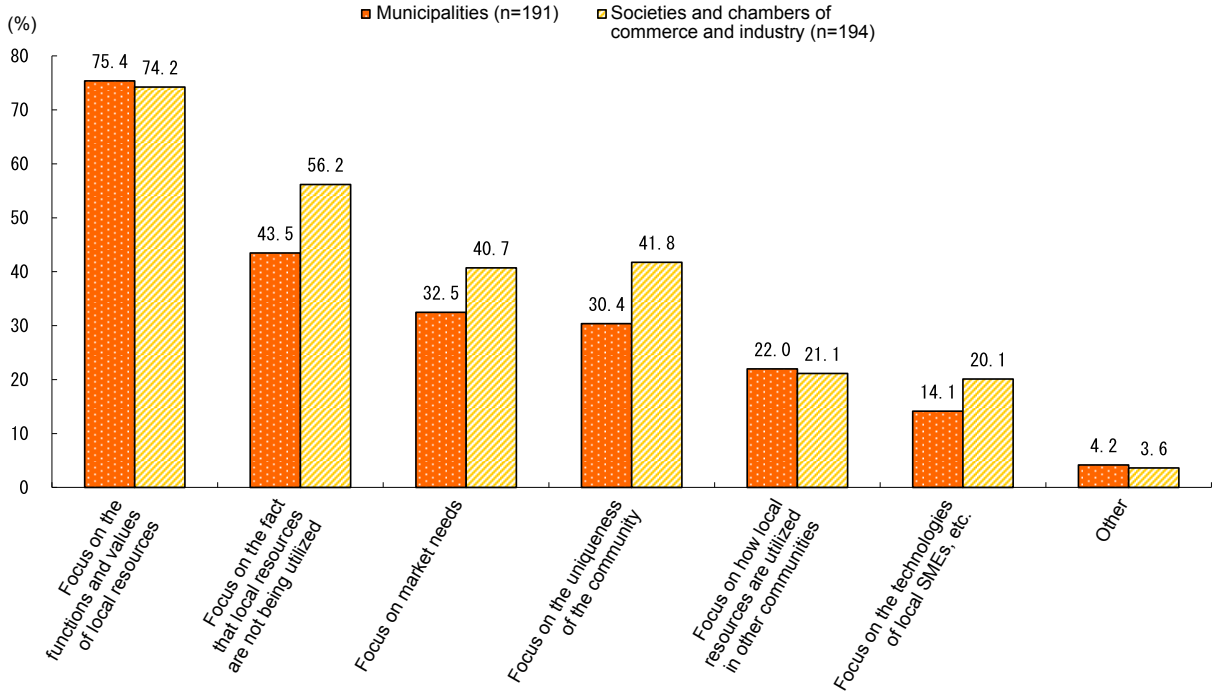
Fig. 3-1-11 Instances of the utilization of local resources with low recognition rates



Sources: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Land Brains Co., Ltd., *Survey of Support for Regional SMEs* (December 2014), commissioned by the SME Agency.
Note: Among the instances of local resource utilization in which municipal governments or societies and chambers of commerce and industry participated, the figure shows instances where the response was “Local resources that hardly any local residents know of, or aware of as a resource”.

Next, Fig. 3-1-12 shows the perspectives required in regions when local resources with low recognition rates are utilized. For both municipal governments and societies and chambers of commerce and industry, the most frequent response was “Focus on the functions and values of local resources”. This indicates that, for resources with low recognition rates in the region, there is an expectation that focusing on the inherent functionality and value of a resource may well draw attention to the uniqueness of that resource as well as its previously unknown functions and value. The figure also shows that, compared with municipal governments, more societies and chambers of commerce and industry responded “Focus on the fact that local resources are not being utilized” or “Focus on the uniqueness of the community”. This shows that societies and chambers of commerce and industry, due to the flexibility of their thinking, see the value of local resources from a new and different perspective and are more open to the idea of actively utilizing resources that are not widely recognized in the community.

Fig. 3-1-12 Perspectives (viewpoints) required for the utilization of local resources with low recognition rates



Sources: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Land Brains Co., Ltd., *Survey of Support for Regional SMEs* (December 2014), commissioned by the SME Agency.
Notes: 1. The figure shows the viewpoints or perspectives thought by municipal governments or societies and chambers of commerce and industry to be essential to the use of resources, where those organizations participated in instances of local resource utilization where "Local resources that hardly any local residents know of, or aware of as a resource" were used and who responded "Yes, we have used such resources".
2. Responses were calculated for up to three items.

For information on examples of the use of resources that are only little known in the community, or that are not recognized as a "resource", refer to case study 3-1-9 below.

Cooperation with businesses close to the market (measures to cultivate sales channels)

Thus far, we have seen how municipal governments and societies and chambers of commerce and industry have, when utilizing the local resources of SMEs and micro-businesses, actively contributed to cultivating sales channels and developing products with brand power while addressing their respective issues, and have boosted outcomes to a certain extent. We have also seen that there are resources in the regions that are not being fully utilized, and that raising awareness of the functionality and value of those local resources, and of market demand, can bring out the true value of the resources and achieve considerable success depending on how the resources are utilized.

However, it also seems that it is by no means easy for municipal governments and societies and chambers of commerce and industry, or the SMEs and micro-businesses that are the producers, to develop sales channels or products that adequately address market demand. Nor is it easy for them to commercialize resources that are not being fully utilized in the regions. So it is crucial that SMEs and micro-businesses, when they utilize local resources, work in cooperation with various other organizations to address these problems, including municipal governments or societies and chambers of commerce and industry depending on the issue faced. Below, we discuss cooperation for the purposes of dealing with the issues around local resource utilization, focusing on market development that includes the development of products and services with brand power.

Where SMEs and micro-businesses have issues with cultivating sales channels for products and services that utilize local resources, one option is to cooperate with existing business that are close to the market, such as retail businesses. By cooperating with retail businesses of this sort, they would be able to review existing products that are already addressing market demand and to develop new products.

The "Bill for the Partial Revision of the Law on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium Enterprise (approved by Cabinet on March 10, 2015)", which is to be presented during the 189th regular session of the Diet, sets out the details of "salesmanship" assistance that promotes cooperation with a wide range of organizations close to the market. This applies to retail and Internet-based business, including large and medium-sized enterprises, as well as ordinary corporations that link producers and retailers (tourist associations, etc.) and incorporated NPOs, etc. This has arisen because, so far, the Regional Resources Act targeted support primarily at manufacturers (or producers), and this has brought into relief the problems businesses face where, even when they have developed new products that utilize local resources, their ability to expand their business is limited due to issues in cultivating sales channels. In fact, because over 90% of businesses authorized under the Regional Resources Act were working alone, we have seen many examples where there has been only limited cultivation or expansion of sales channels and business growth. It is probable that when SMEs and micro-businesses utilize local resources in the future, they will be able to cultivate sales channels that are tailored to the needs of the market by working in conjunction with existing businesses of this sort that are close to the market.

Besides the retail businesses discussed previously, other businesses close to the market would include the designers who produce, for example, the packaging for products that utilize local resources. Cooperating with a designer on product design increases the likelihood that the product developed will be more appealing to consumers due to the design features of the packaging. Another likely collaboration is with producers who are well-versed in utilizing local resources.[11] Because producers who are experienced in utilizing local resources are familiar with many examples of local resource utilization, cooperation with such producers yields a higher likelihood of carrying out initiatives that are consistently goal-focused (on expanding sales or branding local resources, etc.) when businesses work to develop products and cultivate sales channels. Another option is to cooperate with businesses who provide comprehensive support for market development[12], from working with producers to develop products that use local resources through to the final sales stage. Businesses who support comprehensive market development are close both to the market and to the producer, and as such act as a link between the two. By assessing the value of local resources from the perspective of such businesses, it is possible to develop products and services with brand power and to formulate sales strategies that are tailored to market needs. This leads to market expansion.

The businesses who support comprehensive market development can be broadly divided into two types based on the products and services being handled. One is businesses that deal with products and services that use local resources from all over Japan. Businesses of this type are generally able to look at products and services that use local resources found throughout Japan from a nationwide perspective and discern whether the products will actually sell, despite being the same sort of product. Consequently, by cooperating with such businesses, SMEs and micro-businesses who use local resources can get a clearer idea of the nationwide standing of products and services that use local resources, and getting help in product development from those businesses will probably assist their efforts to increase the value and enhance the brand power of products and services that use local resources.

The other type of business that supports integrated market development is organizations with "regional trading functionality". Such organizations (referred to hereinafter as "local business firms") are gaining prominence as a new mainstay in the utilization of local resources. Regional trading functionality refers to functions or initiatives for discovering local resources and studying ways of utilizing those resources in close association with the region rather than on a nationwide basis, as well as providing comprehensive support for the activities of regional producers, including conducting market surveys, developing products, growing markets (consultations and business matching), running sales campaigns, sales and providing sales information to manufacturers, etc. It also includes functions or initiatives that actively sell regional products (specialty products) into national (or international) markets.

Local business firms can contribute in a broad range of ways to the utilization of local resources, from developing close ties with the region and discovering local resources through to cultivating sales channels and making sales. Consequently, their particular contribution is initiatives that consistently remain strongly focused on the goals of expanding sales and branding local resources. Because it is also difficult for producers to forge direct pathways to the market, it is likely that local business firms positioned close to the market will take up the role of connecting producers to markets.

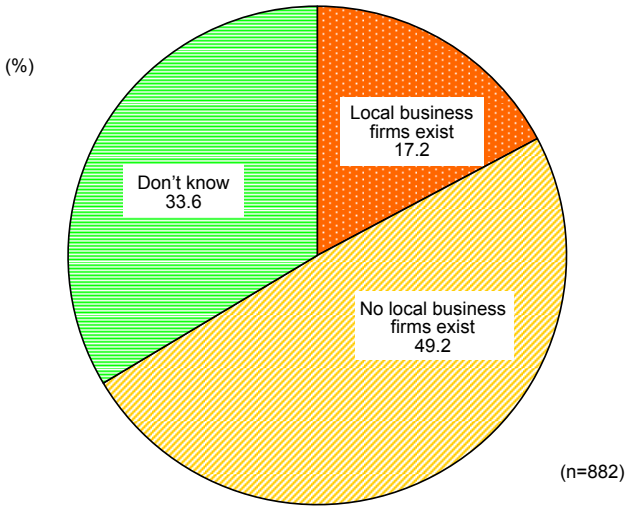
And because they provide "salesmanship assistance" under the Regional Resources Act revisions discussed earlier, local business firms will likely also act in a comprehensive supporting role in local resource utilization, extending right through to branding for local

11) Here, "producers" refers to existing businesses who are very familiar with instances of local resource utilization throughout Japan and who, when local resources are utilized, center their product and market development around those initiatives.
12) Here, such businesses are not limited to private sector enterprises and can include public-sector organizations led by local governments (prefectural or municipal governments) or societies and chambers of commerce and industry, etc.

resources. Below, we will look at the current situation with respect to these regional trader functions.

Fig. 3-1-13 shows the presence or otherwise of local business firms in terms of municipal government recognition. The chart shows that less than 20% of municipal governments responded "Local business firms exist", while the majority responded either "No local business firms exist" (49.2%) or "Don't know" (33.6%).

Fig. 3-1-13 Presence of local business firms

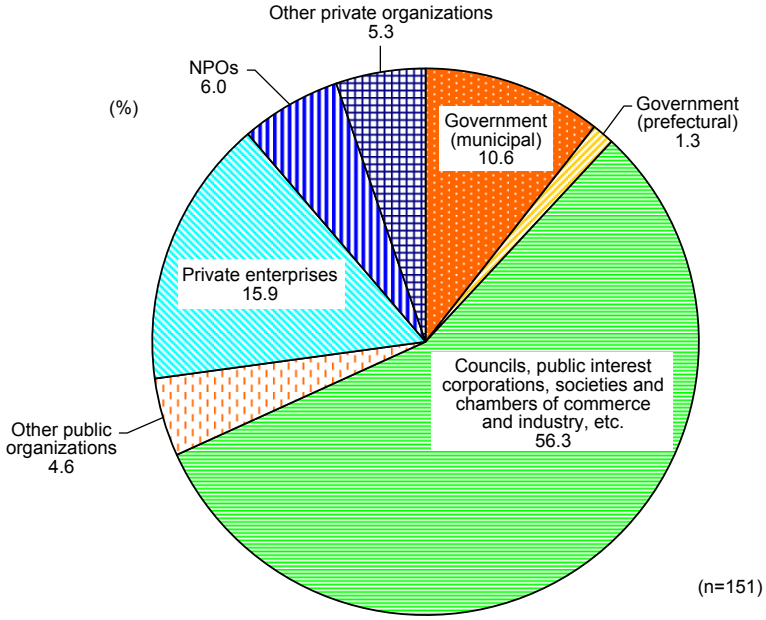


Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Note: Here, "local business firms" refers to organizations with trading company functions for discovering local resources and studying ways of utilizing those resources in close association with the region rather than on a nationwide basis, as well as providing comprehensive support for the activities of regional producers, including conducting market surveys, developing products, cultivation of sales channels (business meetings and business matching), running sales campaigns, sales and providing sales information to manufacturers, etc. This also includes functions for actively selling regional products (specialty products) into national (or international) markets.

When we then looked at the municipal governments who responded "Local business firms exist" and asked them about the organizations that underpin local business firms, more than 60% responded "Councils, public interest corporations, societies and chambers of commerce and industry, etc.". In addition, the "Private enterprises" and "Government (municipal)" responses each accounted for around 10% of the total, showing that, depending on the region, various different organizations are supporting comprehensive market development by SMEs and micro-businesses for goods and services that utilize local resources (Fig. 3-1-14).

Fig. 3-1-14 Administrative bodies for local business firms

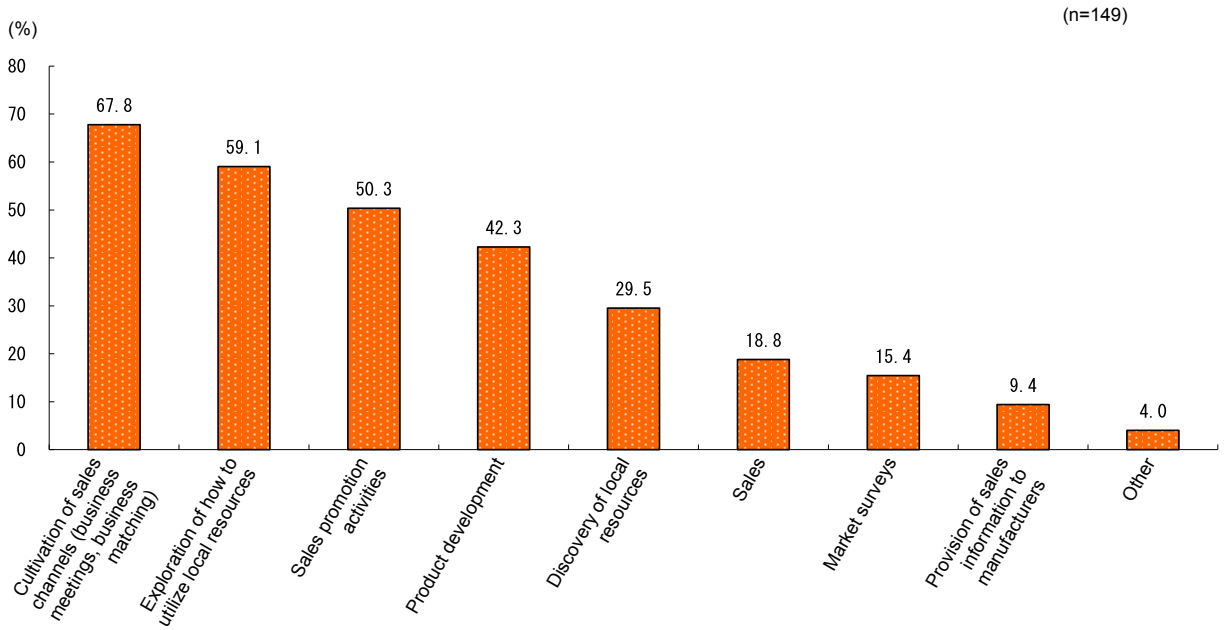


Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Notes: 1. The figure shows the administrative bodies for local business firms based on those municipal governments who responded "Local business firms exist".
2. Where there are multiple organizations that could be termed local business firms, responses were calculated for those organizations with the largest sales volumes.

So, when we look at the type of regional trading functions that municipal governments consider to be important, the largest number of municipal governments responded "Cultivation of sales channels (business meetings, business matching)" (67.8%). This shows that municipal governments are particularly optimistic with respect to initiatives for cultivating sales channels when it comes to regional trading functionality (Fig. 3-1-15). By contrast, few municipal governments are aware of "Market surveys" as an important function (15.4%) in comparison with "Cultivation of sales channels" or "Exploration of how to utilize local resources". This is probably due to the fact that the market survey functions of local business firms are not sufficiently used in regional areas.

Fig. 3-1-15 Important functions carried out by local business firms

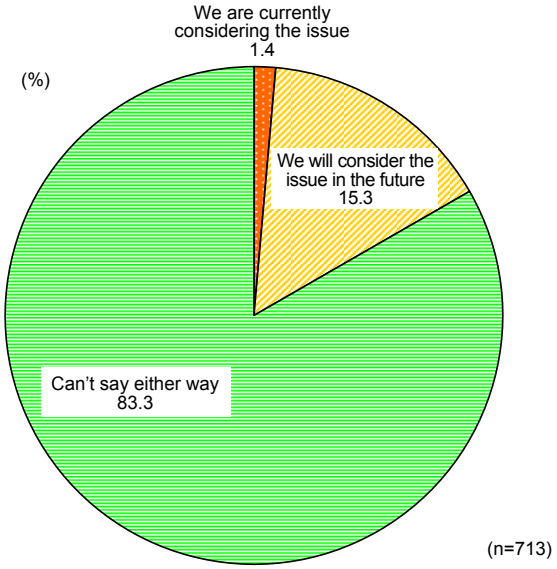


Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Notes: 1. The figure shows the functions carried out by local business that were considered to be important by those municipal governments who responded "Local business firms exist".
2. The top three responses for important functions were calculated and processed as multiple responses.

In regions where these local business firms do not exist however, it is likely that municipal governments themselves, by making full use of regional trading functions, can support comprehensive market development for products and services that utilize the local resources of SMEs and micro-businesses. When we look at whether municipal governments are considering acting as the principal agents for regional trading functions, it is clear that this is an option that very few are considering, with only 1.4% responding "We are currently considering the issue". And the fact that only 15.3% responded "We will consider the issue in the future" indicates that few municipal governments see it as an option for the future (Fig. 3-1-16). In the future, where municipal governments observe the more widespread adoption of such initiatives and come to realize the importance of such regional trading functionality, it is likely that some of the 83.3% who responded "Can't say either way" will start looking more closely at this option. In this sense, the future should see ongoing growth in the importance of organizations with regional trading functions that provide comprehensive support for market development by working closely with the community when local resources are utilized.

Fig. 3-1-16 Administrative trends in local business firms



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Note: The figure addresses municipal governments who responded "No local business firms exist" or "Don't know" with regard to local business firms within the municipality and shows the approach of those municipal governments to operating local business firms themselves.

Now, we can move on to look at some specific instances of comprehensive market development support for products and services that use local resources. We begin by looking at some case studies of businesses who provide comprehensive market development support by handling products and services that use local resources throughout Japan.

Case 3-1-6 Seisansha Chokubai Norenkai Co., Ltd.

A business providing comprehensive sales outlet development support for food product producers throughout Japan

Seisansha Chokubai Norenkai Co., Ltd. (employees: 52; capital: ¥100 million), based in Taito City, Tokyo, was established in 2007. Its business philosophy is to be a bridge between consumers and food product producers around Japan. When it first opened, the company worked primarily in wholesale. Now, however, it offers wide-ranging sales outlet development support for food product producers. This includes product development consulting and running a retail business.

Seisansha Chokubai Norenkai ("Norenkai" for short) had a very simple business model when it started: the company stocked products from food producers around Japan and sold them wholesale, primarily to liquor stores.[13] Therefore it had to develop good judgment of products to accept for this business. Using the Internet, Norenkai found a large number of businesses producing distinctive products with ingredients from local areas. After repeated conversations in person and over the phone, it ultimately chose about 100 companies to provide products it would handle.

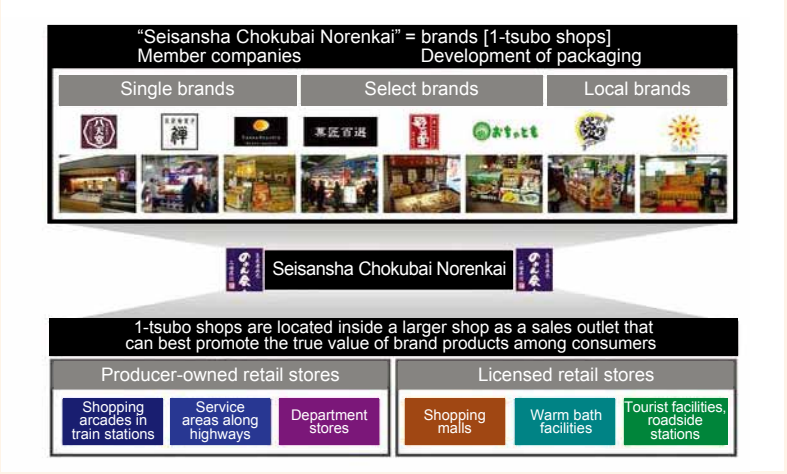
In time, it would learn more about the producers of the food products that it was wholesaling. It sensed that these producers needed comprehensive support with product development and branding that accounted for consumer needs. It therefore developed a multifaceted consulting service on sales outlet development. In particular, it put its energies into developing and branding products that make full use of the attractiveness of

13) Wholesale products are sold in a tiny section of retail shops. Under Norenkai's business model, gross profit is added when products are sold by wholesale. However, the company also engages in direct retail in some cases, in the form of franchises.

local specialty products. So far, it has supported the planning and development of such products as Iwaki Tomatoes (Iwaki City, Fukushima Prefecture), Ibusuki Mangos (Ibusuki City, Kagoshima Prefecture), and Nichinan Mikan (Nichinan City, Miyazaki Prefecture).

On the sales side, it is also engaged in retail. Rather than simply consigning the products it stocks to retailers, it operates shops in shopping areas and railway stations. It was led to go beyond wholesaling because it felt it needed to take responsibility to develop sales outlets. One example of a product is cream-filled buns by Hattendo Co., Ltd. That business was originally a local bakery in Mihara City, Hiroshima Prefecture. However, Norenkai's employees were so convinced by the great taste of the product that Hattendo decided to develop sales outlets nationwide. It began by selling from a vacant storefront it rented on a daily basis in a shopping district of Tokyo. As news of the great taste of the product spread by word of mouth, lines started to form. As the shop became established and serious selling began, Hattendo's sales boomed, increasing 10-fold. While Norenkai is able to develop sales outlets as a retailer, it is also very particular about how it sells products. Thinking that face-to-face contact is important for selling a local product, it does not sell online as a rule.

Recently, Norenkai is looking beyond Japan and helping retailers develop sales outlets in other countries. In 2014, it actually established offices in Thailand and Taiwan to create footholds outside Japan. Norenkai President and Director Kenta Kurokawa says that "Food manufacturers face some high hurdles if they want to expand overseas. They have to deal with regulations and setting up a distribution network, for example. Expanding overseas also requires a reasonable initial investment. But it is difficult to ensure stable funding from business back home (or get an investor) until the time the overseas business is successful. Therefore, SMEs making food products need comprehensive support to build sales outlets."



Norenkai's business scheme

[Observations from the case]

Success factors

In the wholesale industry, good judgment in finding products from food producers all over Japan significantly affects a business's success. Talking with food product producers, over the phone or face-to-face, Norenkai judges their products comprehensively, considering the product's taste and visual appeal, the story behind the product, and the business's capabilities and ideas about its products. These are then considered in light of market needs. Norenkai was founded by a person who had previously worked at a consulting company and therefore is very good at interviewing prospects. Another strength is that it understands demand on the global market, since it helps its clients to develop sales outlets in Japan and abroad. It is also important in this case to correctly grasp the needs of the businesses Norenkai seeks to support. It has to take its clients' point of view and work closely with them to help them sell their product, in a station shop or elsewhere. Having done so, Norenkai is able to discover hidden attractions from places around Japan and help local businesses develop global sales outlets.

Use of local resources: An initiative to comprehensively support sales outlet development

A local business seeking to develop sales outlets throughout Japan and beyond will run into a number of problems unless it has management resources like personnel and funding as well as enough know-how. For that reason, it is essential to partner with a business like Norenkai that can help develop sales outlets. Norenkai takes a multifaceted approach to the act of sales. As it works with sales outlets as a wholesaler, the issues that businesses face start to take shape. Norenkai has a business system in place that lets it offer exacting support for these problems. Specifically, it works in product development and branding based on market demand and it even takes responsibility for selling products as a retailer. Norenkai's work consists of a seamless series of sales outlet development processes, from identifying problems based on retailer characteristics to finding solutions to those problems. The effort creates a positive cycle for those businesses that Norenkai assists.

Future issues

Norenkai sales outlet development efforts up to now have focused on Japan, but now it senses the need to expand the scope of its business to places outside Japan. Presently, it is preparing by learning the regulations in each country, securing logistics networks in each country, and setting up local offices. Going forward, the company will continue to support sales outlet development in Japan and abroad for local food product businesses. By so doing, it expects to practice good judgment based on a wide variety of market needs and to discover more attractive goods from local areas.

In addition, since its founding, Norenkai has emphasized profitability as a business, but it also considers social service an important part of its philosophy. Discovering attractive goods hidden in local areas helps to stimulate not only the business being supported but also its local business partners and the entire region in which that business is located. Recently, to harness that philosophy for the recovery of the Tohoku region, Norenkai has begun a new initiative called Kibo no Wa (Circle of Hope). The concept is to support recovery by expanding the circle of people who have hope for the future. Accordingly, it is actively supporting food product producers in the disaster affected area. It has also partnered with a local newspaper to host a panel session looking at the state of recovery in the area. Continuing this initiative into the future and embodying Norenkai's philosophy of social service will be a challenge going forward.

The next two case studies will look at small and medium enterprises that function as trading companies for their regions.

Case 3-1-7 First International Corporation

A business that functions as a community-based trading company by changing how local industry works

First International Corporation (employees: 7; capital: ¥10 million), based in Hachinohe City, Aomori Prefecture, is a business that functions as a community-based trading company. A group of volunteers from the Hachinohe Chamber of Commerce & Industry led its establishment in 1994, made possible by investment from local businesses and individuals. In 1994, Hachinohe City was one of Japan's leading marine products cities. But the annual catch had peaked at 800,000 tons by the late 1980s, and empty storefronts started to appear in the city center. Container ships started running regularly between the Port of Hachinohe and Singapore, Hong Kong, and Taiwan at this time. This inspired the idea of creating a trading company to support import and export of regional goods to expand the area's potential.

Because First International was founded with support from local businesses and residents, it had not only the trust of the community but also of the city of Hachinohe. As a result, it also won the trust of international trading partners. However, it was not all smooth sailing from the very beginning. At first, few of its employees knew much about foreign trade, and the company's attempts to find business partners were futile. So then, working through the Hachinohe Chamber of Commerce & Industry, the business invited an experienced veteran of a large Tokyo trading company to serve as executive officer. Members began to learn and started steadily conducting marketing. Finally, about a year after the company's founding, it made its first business deal.

What really changed First International's business fortunes was Taiwan's entry into the WTO in 2002. To join, Taiwan dropped its import limits on Aomori apples. Since its founding, First International has aimed to export famous Aomori apples and has steadily built relationships with producers. Seeing Taiwan's entry into the WTO as an opportunity, representatives accompanied Hachinohe City officials to a business negotiation event in Taiwan that the city sponsored. Taiwanese businesses were just starting to handle apples, and demand in Taiwan was booming. The volume of exports from Hachinohe was growing annually as a result.

It became urgent to find new apple vendors to keep up with the boom in demand. The town of Nambu, which lies adjacent to Hachinohe, supported its apple growers, thus beginning a new effort to get organized to export. With the town's agriculture and forestry department serving as the executive office, each farmer was allocated a certain volume he or she could reasonably produce. Their combined crops were put together in containers and shipped out. First International served as broker between Nambu Town and Taiwanese businesses and gave instructions to farmers on sorting apples for export, box design, packing the product for marine shipping, and other matters.

The success of the Nambu Town apple exporting venture inspired a request to First International for help exporting other goods such as a variety of fruit trees from various areas. Currently, the company exports local agricultural products from a much larger area. Exports ship out not only from the Port of Hachinohe but also Tokyo, Kobe, and other international ports. Now exports include not only apples but Chinese yams, marine products, and more. They go to points in Asia and North America primarily. First Internaional is also expanding its business to import many items. From North America, for example, it imports wood, building materials, food products, furniture, marine products, and miscellaneous goods. Six of the seven employees are young people

proficient in foreign languages. Sales continue to grow.

President and CEO Shigeo Yoshida says, "Apples grown by small farmers are crossing the oceans because of a community-based trading company that develops sales outlets and takes care of all the export procedures needed to ship a product abroad. We are a community-based trading company, and our role as a solution to the decline in local industry is only going to grow more important."

Apples that will go to Taiwan, China, and beyond

[Observations from the case]

Success factors

This type of business – a community-based trading company invested in by local businesses and citizens and supported by the government – helps the local community feel confident in the business, because it is so visible, and also builds trust outside the area. This is one factor that has helped First International build its current business foundation in the 20 years since it was founded. Another important aspect is that the company's steady operating activities in the local area and beyond have turned a sense of trust into truly relying upon the company. Moreover, in the process of developing the business, one key to the success of the effort is that First International relied not just upon its own efforts but also made appropriate use of government support to secure its vitally important sales outlets and suppliers.

First International also took advantage of such opportunities as business talk events sponsored by Hachinohe City, Aomori Prefecture, and JETRO Aomori. It further cooperated with the neighboring town of Nambu, which worked to set up an apple supply system for export. Particularly in the case of Nambu, First International gave advice ranging from how to sort fruit for export to designing boxes. What is unique about this case is that the company went beyond the role of a typical trading company (serving as product broker) and did things that only a community-based trading company can do.

As for the current makeup of the staff, almost every member is a young person who comes from the area. Their efforts to take advantage of local resources position the company to return its market profits to the area. This builds the community's trust in First International as a community-based trading company.

Use of local resources: The importance of functioning as a local trading company connecting producers to the market

Businesses such as this who act as brokers between the local area and the outside world conduct a wide variety of market-minded initiatives that capture demand. They also offer advice to local businesses. As such, they have a vitally important role to play. However, having roots in the community is very important in order to play the role of broker. For example, after the Nambu Town initiative, a local government in Yamagata Prefecture also asked the company for help exporting local apples. Although they started doing business, it ended after a year. Among the reasons, Yamagata produce was not well known in Taiwan, and the venture was unable to establish a good price for products in Taiwan. Part of this may be because, unlike the case of Nambu Town, this government was getting advice from a business that came from outside the region. The conditions were not right to get this kind of support from First International. One lesson that can be derived from this case study is that when handling products from outside one's area, it is hard to stay in step with the local community and develop those products for export. Also, it is possible that if each community has a broker with local roots, those brokers can develop ties with each other, leading to smooth transactions and product development in collaboration with the community.

Future issues

In this case, at about the time it was established, First International invited a person from a major trading company to serve as its executive officer and it also got government support; these factors built trust in the company. If such a person cannot be found within the community, it is very important to get help from the outside and it is essential to try to support the company's activities.

Case 3-1-8 MNH Co., Ltd.

A business that turns local resources and problems into money and employment

MNH Co., Ltd. (employees: 5; capital: ¥9 million), based in Chofu City, Tokyo Metropolis, establishes mechanisms for developing leaders to solve local problems and creates products and services.

Current Chairman, Yoshitsugu Suga, established the company in March 2008. He wanted to do more than just hire young people. Rather, he hoped to create and spread a new model for society by cultivating social entrepreneurs who would go into business for themselves and create new employment for young people. Naohiro Ozawa, who had been the administrative director of a nonprofit in the Tama district, joined the company in 2010 and was promoted to President the following year. He coordinated projects to use local resources to solve problems and also undertook business projects with an emphasis on practical human resources development. The company's stated mission is to "convey, in easily understood terms, an aptitude and know-how for turning local resources and problems into money and employment to young people wishing to contribute to their community and Japan."

President Ozawa says, "The task of building business mechanisms and creating products and services that sell is a lot like putting together a jigsaw puzzle. As you piece together local resources and problems into a business, they start to form a single picture. To solve local problems, it's important to work vertically (that is, building relationships with businesses that manufacture products), but working horizontally (building networks in the community) is just as important." In particular, the importance of working horizontally (local networks) lies in the know-how that President Ozawa built up when he served as administrative director of the nonprofit organization in the Tama district.

The company's local community is also its business area. When it designs a new business scheme, it always works closely with local businesses and groups (such as community welfare workshops) in ways that bring in manpower. It is not easy for such business schemes to go into other areas, given the transportation and other costs. Moreover, in every business it develops, MNH is always mindful to plan products and services that will sell and to provide for the happiness of all persons involved (that is, enable them to take advantage of the benefits). In this way it creates ties among various businesses and groups such as those noted above. MNH's strength is that the very actions that help solve local problems build sustainable business mechanisms (that is, markets with high barriers to entry). They also create employment and boost wages for parties involved in the business, such as local community welfare workshops and nonprofits. As a result, it also helps the local community enjoy economic benefits.

Asked to describe the key points of developing a project, President Ozawa says, "You have to be a type of trading company with roots in the community, and then it's important to use wisdom and innovations to build a well-balanced business vertically and horizontally."

MNH President Naohiro Ozawa (front left)

Products planned and developed by MNH

[Observations from the case]

Success factors

MNH's basic stance on solving local problems is to work both vertically (building relationships with businesses that manufacture products) and horizontally (building networks in the community). As a community-based trading company, one factor behind MNH's success is that it has used wisdom and innovations to create well-balanced businesses both vertically and horizontally. Additionally, it limits its business area to its own community. What is distinctive about this company is that it sells only in the Tama district, taking into account its ability to secure local manpower and ensure cost efficiency in building business schemes.

MNH's business schemes start by working vertically and horizontally and ensuring that everyone involved ends up happy so that bonds are formed among the various businesses and groups, and then it plans businesses that are sure to sell. This is the greatest know-how that MNH has learned.

Use of local resources: Discovering the value that lies in local resources and problems

The business model at MNH is 1) to establish frameworks for developing young leaders (human resources who will take a leadership role in their communities and are capable of solving various problems) who will use wisdom and innovations to turn local resources and issues into money and employment, and 2) to pursue business planning that promotes the creation of businesses (products and services) that turn into money and employment. The company does not manufacture anything; its business hinges completely on planning and sales. It is important for this company to pay attention at all times to local information so that it will notice local resources and the value in them. From the information it collects, MNH hunts for the sprouts of local resources and builds up stocks of them. Its key to success is the sense to plan products that are sure to sell and knowing how to put together a business model that will sell the entire output in the same community.

Future issues

Outlying regions, especially semi-mountainous areas, are falling behind in the development of human resources (young leaders) who will lead the community and solve problems. To truly promote and revitalize the outlying regions going forward, human resources are needed who can solve those regions' problems. Regional problems are expected to grow increasingly diverse and serious. Governments and support organizations need to do even more to support the development of human resources to solve those problems.

Column 3-1-2 Overview of the partial revision to the Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Resources Derived from Local Industries

In an environment where we face challenges such as an aging society and greater competition, establishing strong and attractive regional economies is an indispensable part of promoting sustainable growth in Japan's economy. To achieve this, we must energize and expand business activity by which the SMEs and micro-businesses that are the mainstay of regional economies utilize the local resources that are sources of community strength and tools for differentiation. The "Regional Resource Utilization Promotion Act", which supports business activity by SMEs using local resources, was drawn up in 2007 with this in mind. To this point, roughly 14,000 "resources derived from local industries" (agricultural, forestry and fisheries products, mining and manufacturing products and tourism assets recognized as regional specialty products) have been designated by prefectural governments, and 1,333 business plans by SMEs using those resources have been approved by the national government (as of 2 February 2015). Of those businesses, roughly 10% have achieved lasting success, such as increased sales in excess of ¥100 million.

While this shows that local resources are scattered far and wide in Japan, and that there is considerable scope for further growth among businesses that use local resources, it also brings into sharp relief problems such as the fact that over 90% of the approved businesses are stuck in single-business programs and are not getting access to unified, region-wide initiatives, as well as the problems they are having cultivating sales channels for the new products they have developed.

To use "hometown specialty products" made using resources from local industries as leverage in regional revitalization, the Regional Resources Act was partially revised with the aims of: (1) promoting community-wide programs through active participation by municipal governments through declarations of support for hometown specialty products; (2) cooperating with retailers and Internet businesses; and (3) promoting the development of products and sales channels tailored to the preferences of consumers by providing additional support for experience-based tourism. A summary of these aims is provided below. (See Fig. Column 3-1-2 for details.)

(1) Participation by municipal governments

A wide range of related players in the region, starting with the municipal governments that are closely attuned to the region and most familiar to SMEs and micro-businesses but also including societies and chambers of commerce and industry, will combine their resources to provide systems for region-side efforts to build "regional brands".

(2) Enhanced sales power

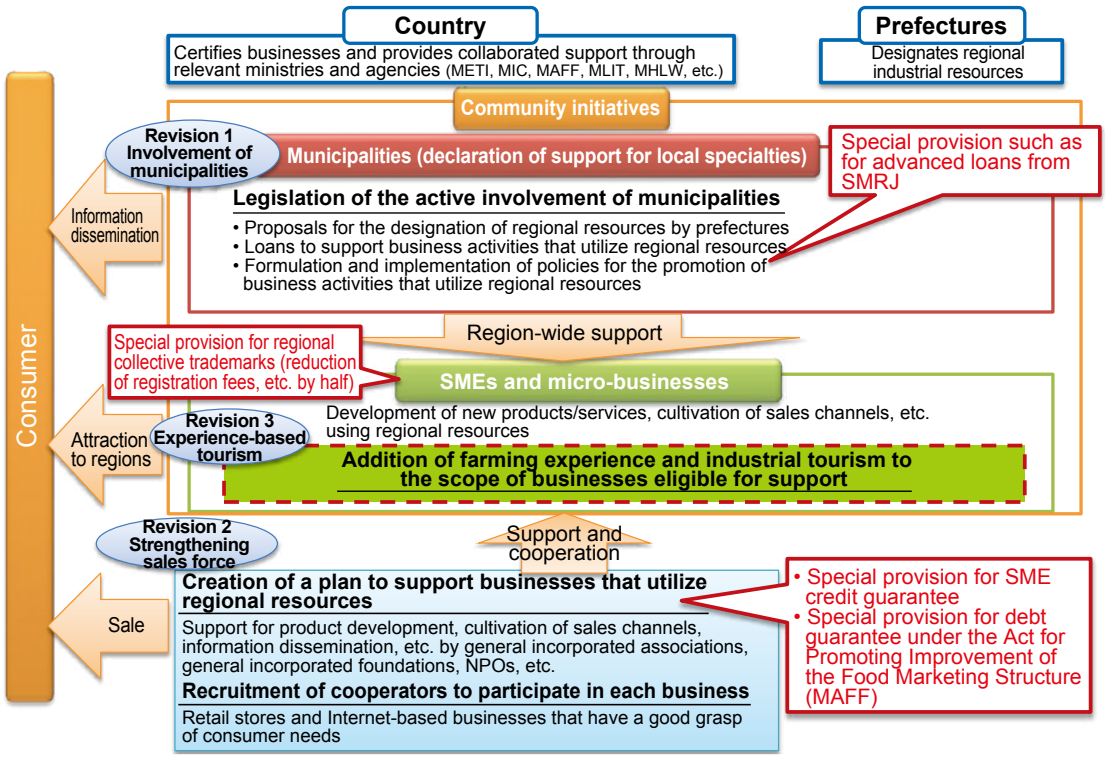
While the power of a brand may be a given within its own region, from an external perspective there may be a need to redefine the appeal of a local resource as an exemplar of its region. By drawing on the strengths of outside partners who are close to consumers, products and services

attuned to consumer preferences are developed or improved and sales channels cultivated that then lead to greater brand power in the region.

(3) Experience-based tourism

In the past, approved resources from local industries have primarily been regional specialty products comprised of agricultural, forestry and fisheries products, mining and manufacturing products and tourism assets. However, additional businesses to be supported will now include agricultural experience-based tourism and industrial tourism, such as fruit picking, arts and crafts workshops and factory visits.

Fig. Column 3-1-2 Overview of the partial revision to the Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Resources Derived from Local Industries



Thus far, we have conducted our analysis of the utilization of local resources and the issues raised based primarily on the results of surveys of municipal governments and societies and chambers of commerce and industry. To finish, we now discuss the outlook for the future utilization of local resources given the results of this analysis.

1) Awareness of the unique value of local resources

When utilizing a local resource, it is important that the community realizes the unique value of the resource. Even where resources are available in every region in the country, local resources can be differentiated from others if they offer value unique to that region, and competitive products and services can be developed.

The key point is whether people can be made aware of the unique value of those local resources. Even where a resource is taken for granted in its own region, it may be seen as extremely valuable in other regions. To raise people's awareness of the true value of their local resources, it is important to reconsider the value previously given to the local resources from a diverse range of perspectives, or to compare them with the resources of other regions. Another approach to highlighting the unique value of local resources is, for instance, to have the values that only that region's resources offer assessed objectively and from a broader perspective by people with a viewpoint that is external to the region. By getting an objective assessment of the value of local resources from an external perspective, communities may come to recognize the true values of their local resources, values that were completely overlooked from a purely

local perspective. Some communities may not be fully prepared to accept assessments from perspectives external to the community, but it is certainly the case that getting objective evaluations from an external perspective is an important measure in appreciating the true value of local resources. Approaches of this sort are likely to hone the value of local resources and promote their branding.

2) Cultivation of sales channels for the broader market (including developing products and services with brand power)

When products and services that utilize local resources are developed, it is also important to cultivate sales channels that cater to a broad market. When local resources are utilized, even if the community itself fully appreciates the unique value of their resources, it will be difficult for those products and services to make an impact on the broader market if product development and the cultivation of sales channels do not cater to that broader market. But the SMEs and micro-businesses that produce the regional products and services are not necessarily capable of cultivating sales channels that cater to the broader market. Consequently, it is vital that they resolve the issue either by cooperating with retail businesses that are close to the market or by working with businesses who will support comprehensive market development, from discovering local resources right through to selling the products and/or services.

While the main effort in utilizing local resources comes from the region's SMEs and micro-businesses, it is also important that communities cooperate on a region-wide basis in each of the efforts undertaken. When all the parties involved in initiatives to utilize local resources employ each other's strengths and build relationships that compensate for each other's weaknesses, it becomes possible to fully realize the true value of those local resources, which is where the resilience of regional communities resides. In the future, the SMEs and micro-businesses utilizing local resources will be in a position to work with a diversity of collaborators to ensure that local resources are used to help revitalize regional economies.

[2] Perspectives required for tourism asset utilization

The environment in which the tourism industry operates

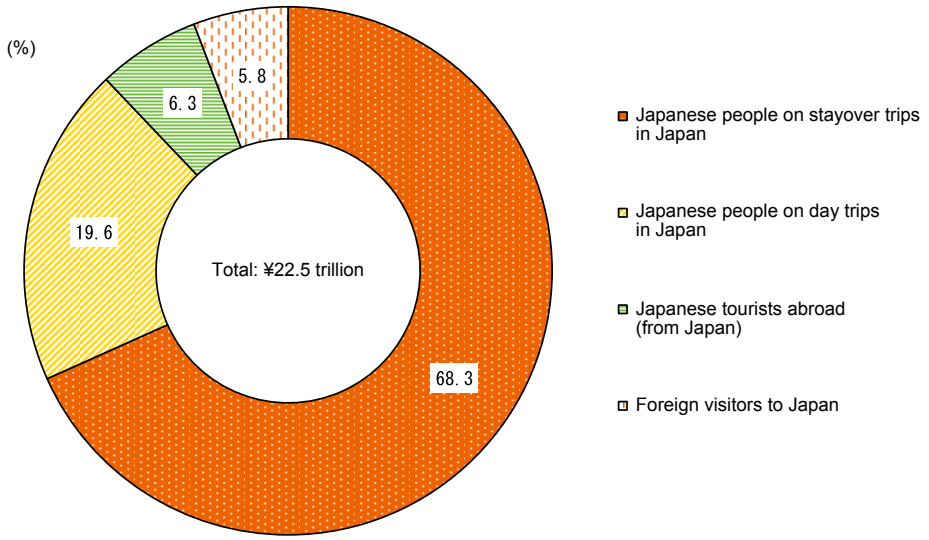
So far, we have been looking at initiatives to revitalize regional economies that make use of local resources, but now we will focus in particular on the utilization of the tourism assets among those local resources. Tourism is a broad-based industry that encompasses more than just transportation and accommodation, including peripheral industries (eateries, souvenir and gift shops, etc.) as well as agriculture. And the consumers who come with tourism (hereinafter referred to as "tourists") have a wide-ranging impact on regional economies, making tourism an important generator of demand and employment in regional areas.

In 2012, the measured impacts of tourist consumption on production, value addition and employment were ¥46.7 trillion, ¥23.8 trillion, and 3.39 million respectively, and represented 5.2%, 5.0% and 6.2% of the value of outputs, GDP and total employment respectively[14]. This demonstrates that promoting the regional tourism industry is a measure that must be actively pursued in that it effectively promotes SMEs and micro-businesses also. Recognizing this connection, we will now provide an overview of the current situation of tourism in Japan and discuss the directions of initiatives in the tourism sector that contribute to revitalizing regional economies.

Fig. 3-1-17 shows a breakdown of the tourism spend in Japan. The figure shows that the domestic tourism spend in Japan in 2012 was ¥22.5 trillion, of which roughly 70% came from trips by Japanese people that included overnight accommodation.

14) See the Japan Tourism Agency, *Research Study on the Economic Impacts of Tourism in Japan*, March 2014

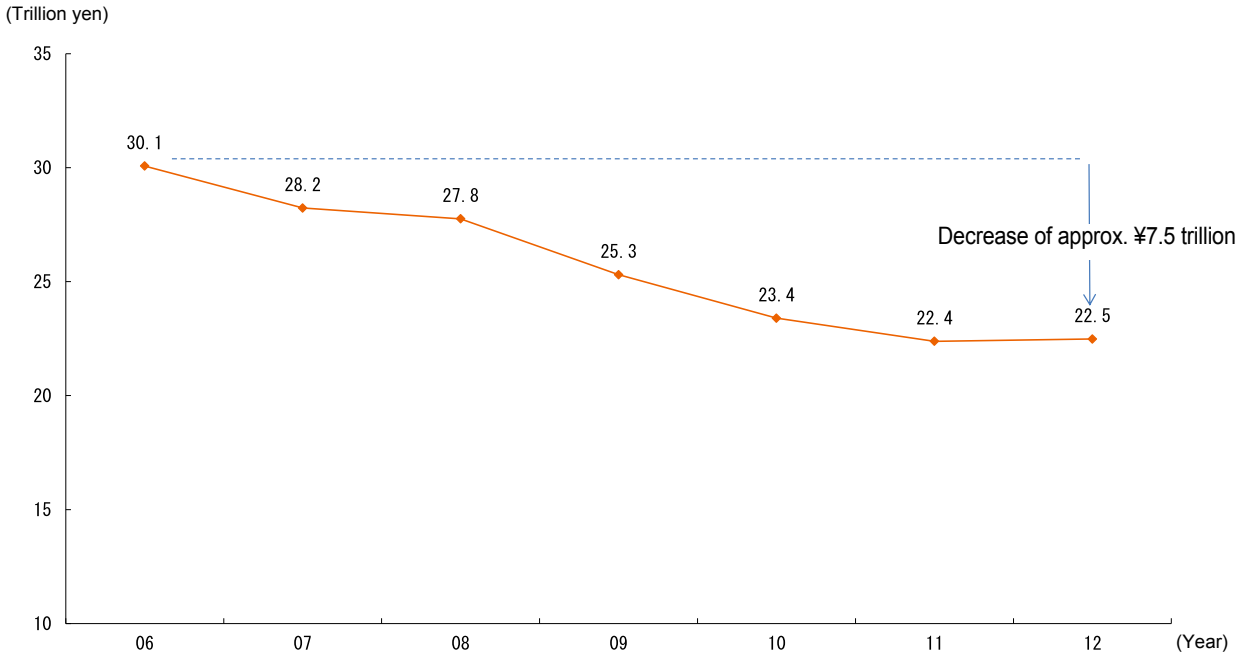
Fig. 3-1-17 Tourism spend in Japan (2012)



Source: Compiled by the SME Agency from METI, *Regional Story Creation Seminar (Inaugural), Agency Explanatory Data*.

Next, we look at trends in the domestic tourism spend, as shown in Fig. 3-1-18. The figure shows that the tourism spend in Japan is decreasing steadily, falling by around ¥7.5 trillion in the 6 years between 2006 and 2012 However, it also shows that the pace of decline has halted and that in the future, wide-ranging measures are needed to boost the tourism spend in regional Japan.

Fig. 3-1-18 Tourism spend in Japan

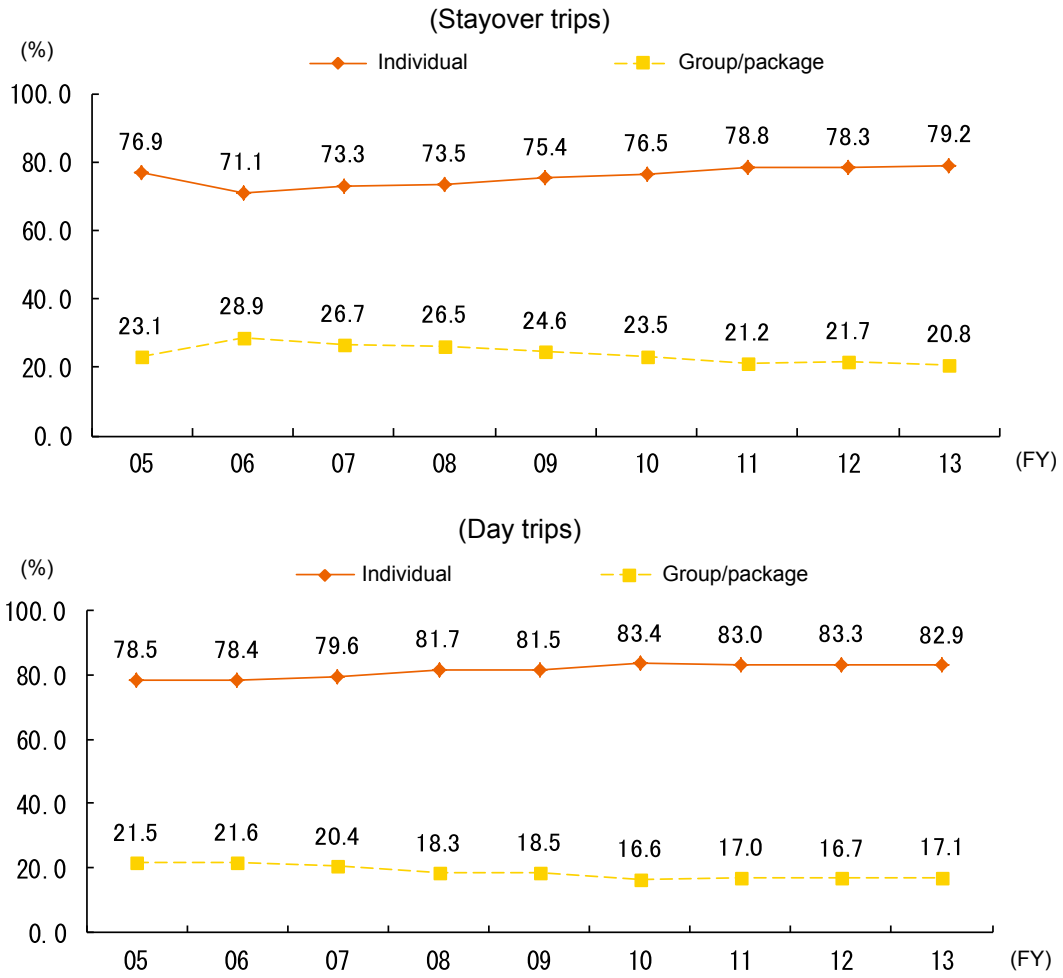


Source: Compiled by the SME Agency from the Japan Tourism Agency, *Research Study on the Economic Impacts of Tourism in Japan*.

In this way, while the domestic tourism spend is falling, we can also see changes in the nature of domestic travel (types and frequency of travel, length of stay, etc.).

Fig. 3-1-19 shows the trends in the types of domestic travel. The figure reveals an increasing trend in individual travel both on trips involving overnight accommodation and on day trips, while group and package tours are declining.

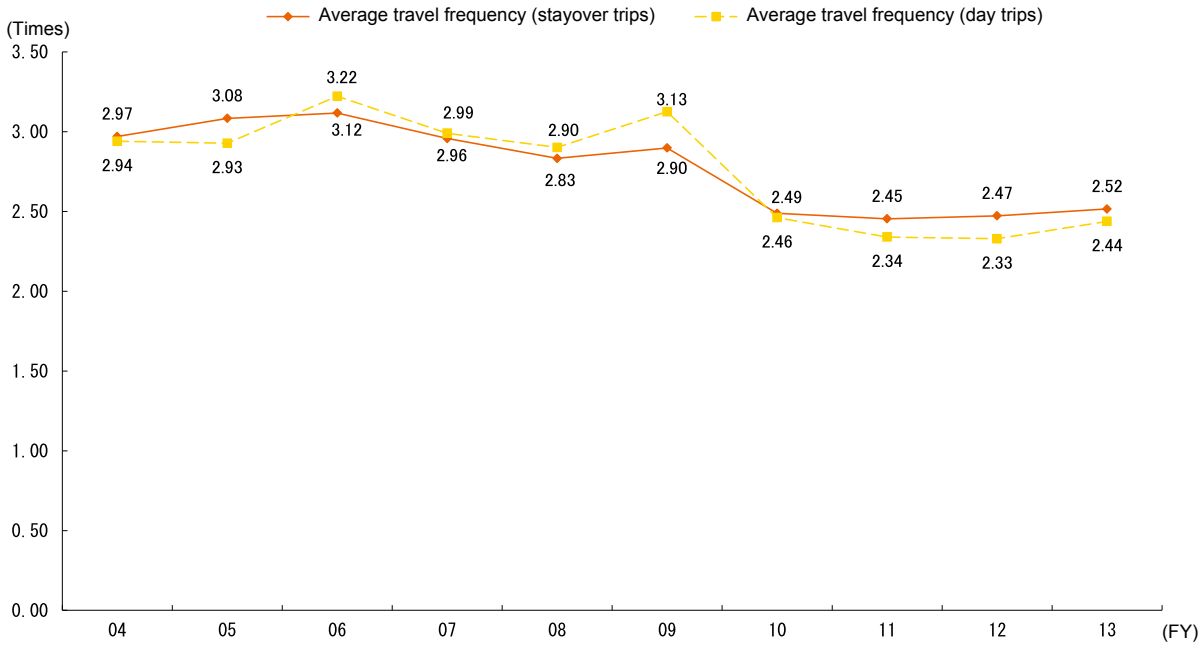
Fig. 3-1-19 Trends in types of travel (excluding business travel)



Source: Compiled by the SME Agency from the Japan Tourism Agency, *Japan National Tourism Survey*.
Note: Since FY2010 the questionnaire used for the *Japan National Tourism Survey* has been expanded.

Next, we look at the average travel numbers in Japan, as shown in Fig. 3-1-20. The figure shows that, like the domestic tourism spend, trips involving overnight accommodation and day trips have both declined, but the decline appears to have bottomed out.

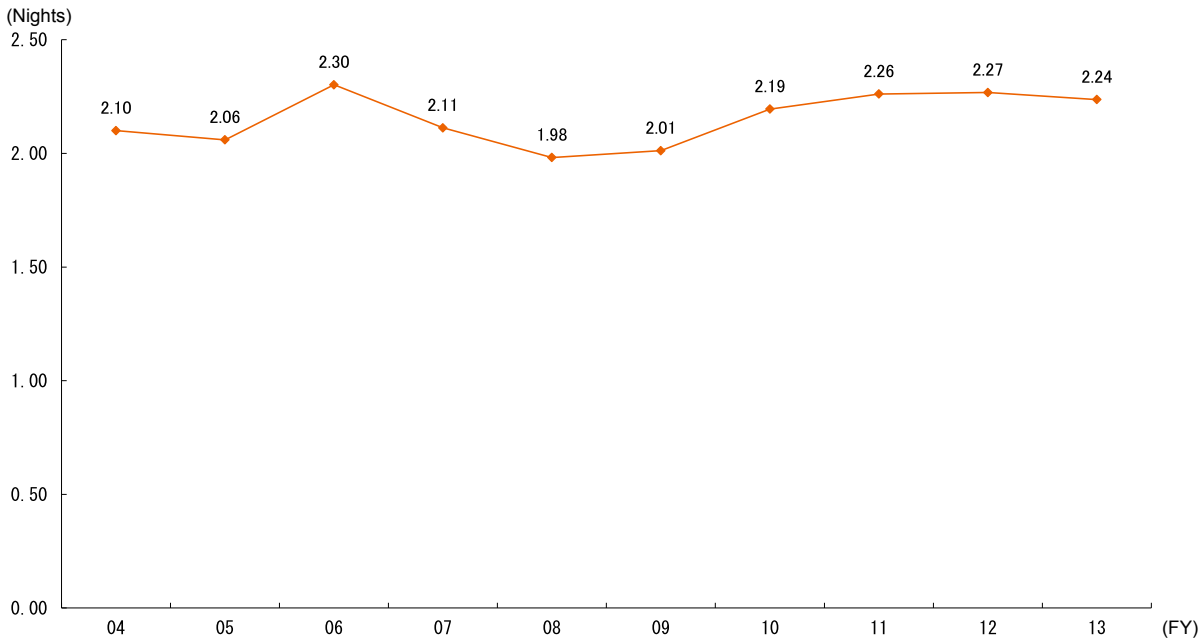
Fig. 3-1-20 Average number of trips by Japanese citizens



Source: Compiled by the SME Agency from the Japan Tourism Agency, *Japan National Tourism Survey*.
Note: Since FY2010 the questionnaire used for the *Japan National Tourism Survey* has been expanded.

Finally, we look at the length of stay on trips involving overnight accommodation in Japan, as shown in Fig. 3-1-21. From the figure, we can see that within the limits of statistical confirmation, the length of stay declined from its peak in FY2006 and then started rising again in FY2009. In FY2013, the figure remained steady at a fixed average length of stay.

Fig. 3-1-21 Average length of stay on trips involving overnight accommodation



Source: Compiled by the SME Agency from the Japan Tourism Agency, *Japan National Tourism Survey*.
Note: Since FY2010 the questionnaire used for the *Japan National Tourism Survey* has been expanded.

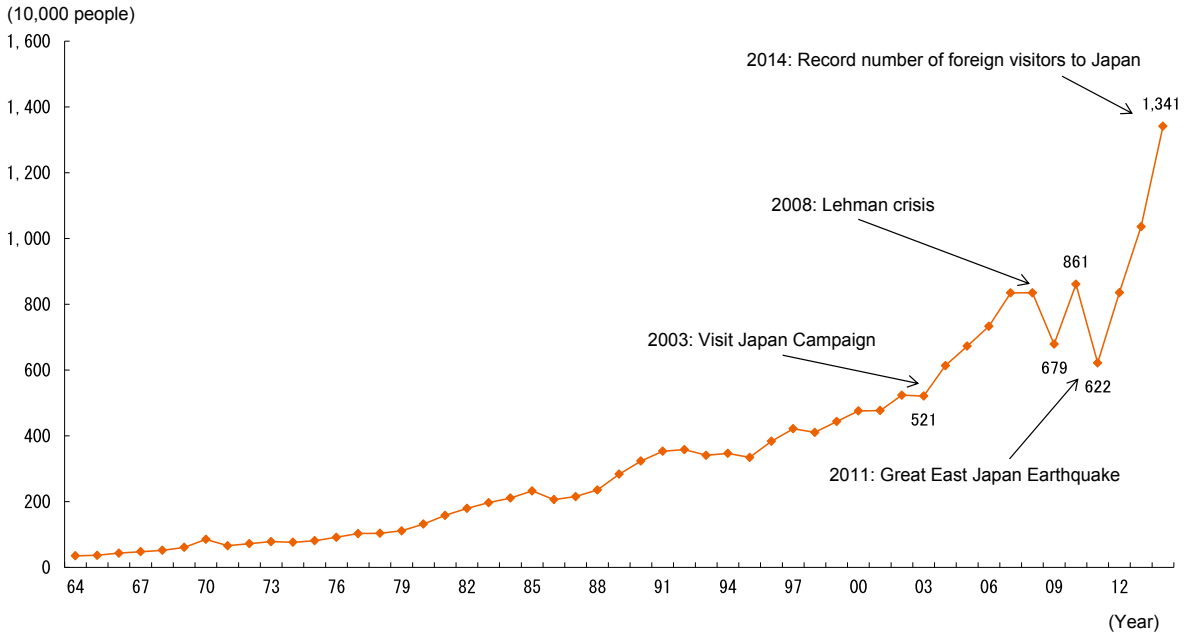
This confirms that, while the domestic tourism spend is falling, there have indeed been changes in the nature of domestic travel (types and frequency of travel, length of stay, etc.). In terms of the types of travel, the increasing trend towards travel by individuals shows the importance in regional areas of ongoing initiatives that are tailored to the demand generated by trips by a wide range of individuals. Also, while there is a slight downward trend in the number of actual trips, the length of stay for trips involving overnight accommodation is remaining constant. This points to the need for regional measures that will effectively communicate the attractiveness of the region and appeal to tourists, creating in them a desire to visit the region and thereby ensuring repeat visits. Each of these initiatives, should not be taken up solely by individual organizations such as regional SMEs and micro-businesses, municipal governments, societies and chambers of commerce and industry or tourist associations. Rather, they should involve region-wide cooperation between diverse parties in the region, as discussed in the previous section, as this will make those initiatives more effective.

Specific regional initiatives

In this section, we will discuss specific programs for promoting the regional tourism industry, working on two broad fronts.

The first of these is the potential for promoting the tourism industry by appealing to overseas tourists. Fig. 3-1-22 shows the number of overseas visitors to Japan[15]. This shows that, apart from 2009, the year following the Lehman crisis, and 2011, the year of the Great East Japan Earthquake, the number of overseas visitors to Japan has increased year on year. Factors contributing to this include initiatives to boost tourist numbers and the downward trend in the value of the yen. In 2013, the number of overseas visitors to Japan topped 10 million for the first time, and in 2014 the figure was significantly higher again, setting a new record for the largest number of overseas visitors to Japan.

Fig. 3-1-22 Numbers of overseas visitors to Japan

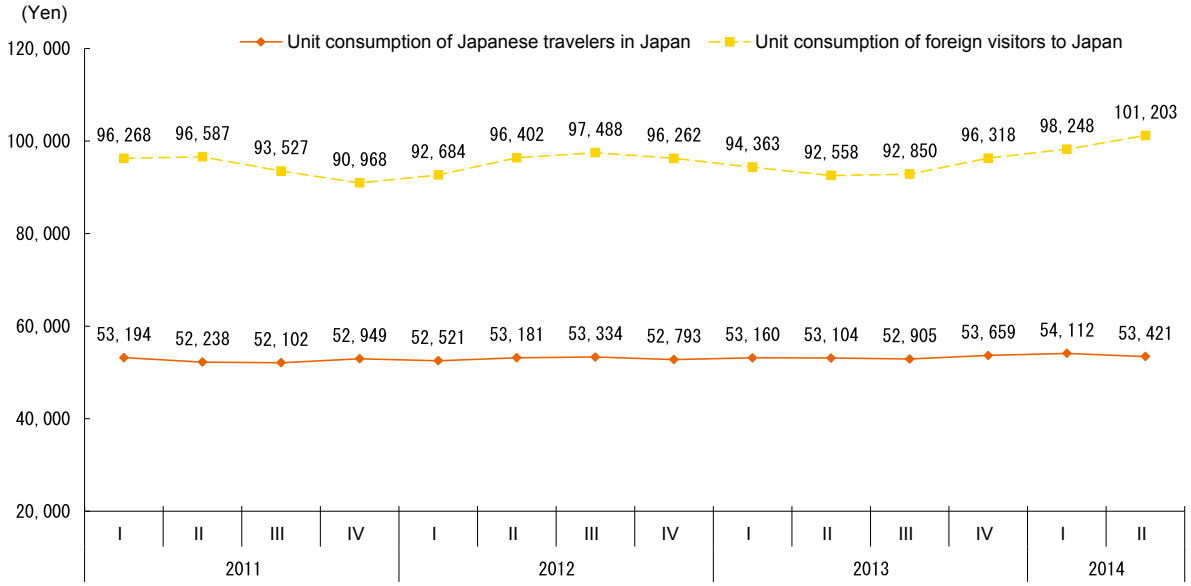


Source: Japan National Tourist Organization (JNTO)
Notes: 1. The figures for 2014 are based on estimates calculated independently by JNTO.
2. “Overseas visitors to Japan” refers to the number overseas tourists entering Japan, as calculated by subtracting the number of non-Japanese long-term residents who nominate Japan as their primary country of residence from the number of non-Japanese visitors formally admitted to Japan according to figures compiled by the Ministry of Justice (MOJ) based on nationality. To this figure is then added the number of non-Japanese visitors who temporarily disembark in Japan. Students and residents and their families who enter or re-enter the country are also included as overseas visitors to Japan.

15) “Overseas visitors to Japan” refers to the number overseas tourists entering Japan, as calculated by subtracting the number of non-Japanese long-term residents who nominate Japan as their primary country of residence from the number of non-Japanese visitors formally admitted to Japan according to figures compiled by the Ministry of Justice (MOJ) based on nationality. To this figure is then added the number of non-Japanese visitors who temporarily disembark in Japan. Students and residents and their families who enter or re-enter the country are also included as overseas visitors to Japan.

Next, we look at the changes in the travel spend per overseas tourist as compared with the travel spend per domestic tourist. While the amount spent on travel per domestic tourist has remained more or less unchanged, the amount spent per overseas tourist has trended upwards since the April-June quarter of 2013 (Fig. 3-1-23). There are numerous possible reasons for this, including the recent decline in the value of the yen, but another cause may be stronger sentiment towards consumption on the part of overseas tourists.

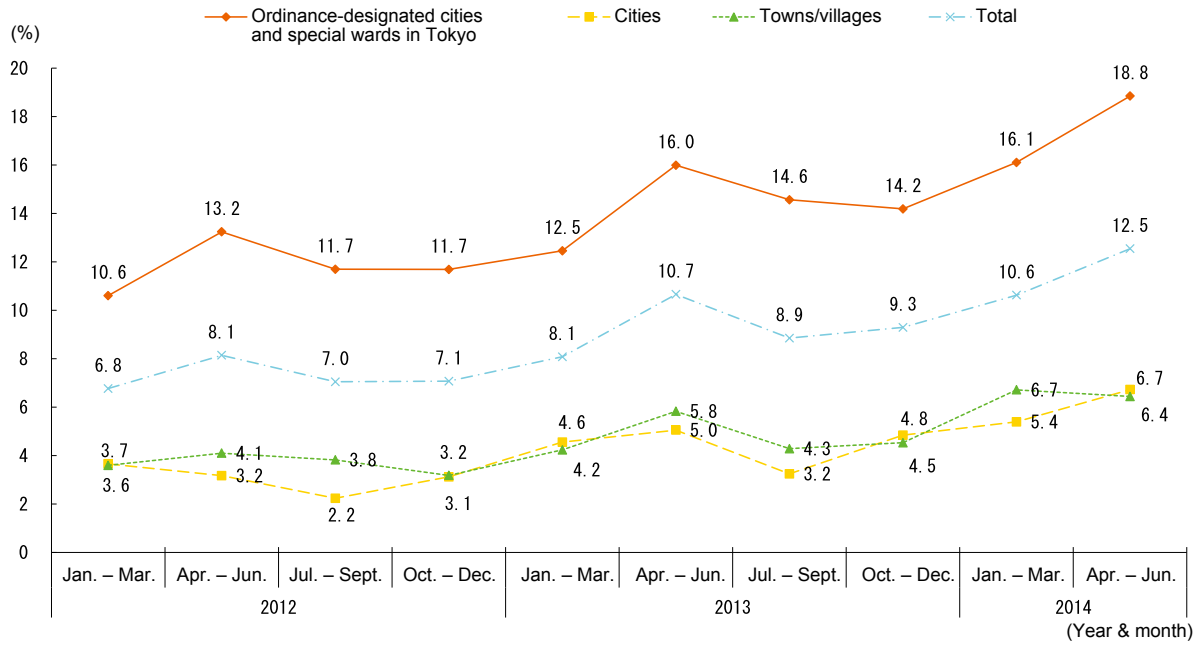
Fig. 3-1-23 Difference between unit consumption by overseas and domestic tourists



Sources: Japan Tourism Agency, *Japan National Tourism Survey*, *Consumption Trend Survey for Foreigners Visiting Japan*.
Notes: 1. Unit consumption was calculated as the moving average for the previous 4 quarters.
2. Domestic tourism includes day-return tourist travel.

On the other hand, when we look at the types of region where the increasing numbers of overseas tourists are staying, for the April-June quarter of 2014, we see a broad gulf appearing, with 18.8% of overseas visitors to Japan staying overnight in government-designated cities and Tokyo special wards, 6.7% staying in other cities and just 6.4% staying in towns or villages (Fig. 3-1-24). The higher proportion of overseas visitors to Japan staying overnight in government-designated cities and Tokyo special wards rather than in other cities, towns and villages is most likely due to factors such as the high levels of awareness of those cities and wards as tourist destinations, the ease of access and the large number of sightseeing tours on offer.

Fig. 3-1-24 Proportions of overseas visitors to Japan staying overnight (total number of guests)



Source: Compiled by the SME Agency from the Japan Tourism Agency, *Survey of Accommodation and Travel Statistics*.
Note: Foreigners as a proportion of overnight guests.

As we have seen, the number of overseas visitors to Japan is steadily increasing and the purchasing power of overseas tourists is considerable. So one avenue for promoting the regional tourism industry is to actively attract these overseas tourists to regional areas. At present, the proportion of overseas visitors to Japan who stay in municipalities is low when compared with government-designated cities and Tokyo's special wards. Another way to look at this situation is that it means there is scope for new overseas tourists to be drawn to regional communities by actively communicating the appeal of regional destinations, something that the increasing numbers of overseas tourists are still unaware of. With the advances in information technology, we are now in an era in which the appeal of regional destinations can be communicated anywhere in the world through the use of websites and SNS, regardless of the region. In fact, this now presents a truly golden opportunity for communities to consider what the attractions are that they need to communicate to the world.

To do this, they need initiatives that take into account the needs of overseas tourists. For instance, necessary steps would include highlighting the appeal of the region in other languages[16] (foreign language support for websites, etc.), offering foreign-language tourist guidance at tourist offices, or providing foreign-language support for hotels, eateries and souvenir shops. Such steps are not simple due to the need to overcome the language barrier, but it is vital that the need for such measures is recognized in regional areas. It is important that they take steps to deal with the increasing numbers of overseas visitors to Japan by engaging with partners who offer expertise in foreign languages.

16) Overseas visitors to Japan are deeply interested in Japan's food culture, its hot springs and its natural and scenic beauty. By engaging in eco-tourism and "green" tourism centered around Japan's food culture, it is eminently possible even for regions with no apparent tourism assets to be highly attractive to overseas tourists. (See *2014 White Paper on Small and Medium Enterprises in Japan*, P.74-76.)

Fig. 3-1-25 Schematic of regional story creation

Another measure for promoting the tourism industry which we discuss below is the tourism strategy based around "regional story creation"[17]. Regional story creation is a way that a region can offer an integrated approach to tourists by linking its local resources together through a "story" (Fig. 3-1-25).

Up to now, the development of tourist areas has proceeded through individual, fragmented initiatives by regional SMEs and micro-businesses, such as retailers, eateries and tourism businesses, and by municipal governments, tourism associations and societies and chambers of commerce and industry. This has created a problem for many regions in presenting the impression or appeal of their region to tourists in a coherent way.

Also, in order for the tourism spend by tourists visiting a region to actually contribute to the revitalization of the regional economy, the impact of that tourism spend on the region (the "economic ripple effect of tourist expenditure"[18]) must be increased. The economic ripple effect of tourist expenditure is determined by three factors: the number of tourists, the tourism spend per visitor and the local procurement rate[19]. So it is important to formulate a tourism strategy that maximizes this effect by both balancing and boosting these three factors.

17) Here, "regional story creation" refers to a tourism strategy that is being studied by the "Regional Story Creation Seminar", sponsored by the Ministry of Economy, Trade and Industry (METI) Regional Economic and Industrial Policy Group. For more details on the methodologies for regional story creation, refer to the seminar report.
18) Here, "economic ripple effect of tourist expenditure" is defined as "the extent to which the money expended by tourists who visit a region and consume tourist products in that region impacts on the regional economy, expressed as a monetary amount". (See *Tourist Area Management Perspectives and Practice* compiled by the Japan Travel Bureau Foundation.)
19) Here, "local procurement rate" is defined as "the proportion of goods and services procured in the same municipality".

Regional story creation is a process consisting of: (1) gathering together everyone in the region who is involved in tourism and sharing a regional identity[20] in the form of an "original story"; (2) making this original story into a concrete "experiential story" that visitors can actually visit and enjoy; and (3) tourists who actually visit the region and experience the appeal of the story create their own "vicarious story" that tells the story in their own way.

The creation of a regional story builds a mechanism (a driving force for tourism) that unifies the region and supports the tourism industry. It more clearly defines the image of the tourist as a target for the tourism industry and provides a "bridge" linking the target to the broad appeal of the region. It also communicates the appeal of the region via channels such as social media through the vicarious experiences of the tourists.

The broad dissemination of a regional story increases awareness among potential travelers, and products that allow people to vicariously experience the regional story help to differentiate that region from other tourist areas. Using a regional story to weave together the resources in a region is important in maximizing the economic ripple effect of tourist expenditure.

Column 3-1-3 The importance of increasing the local procurement rate

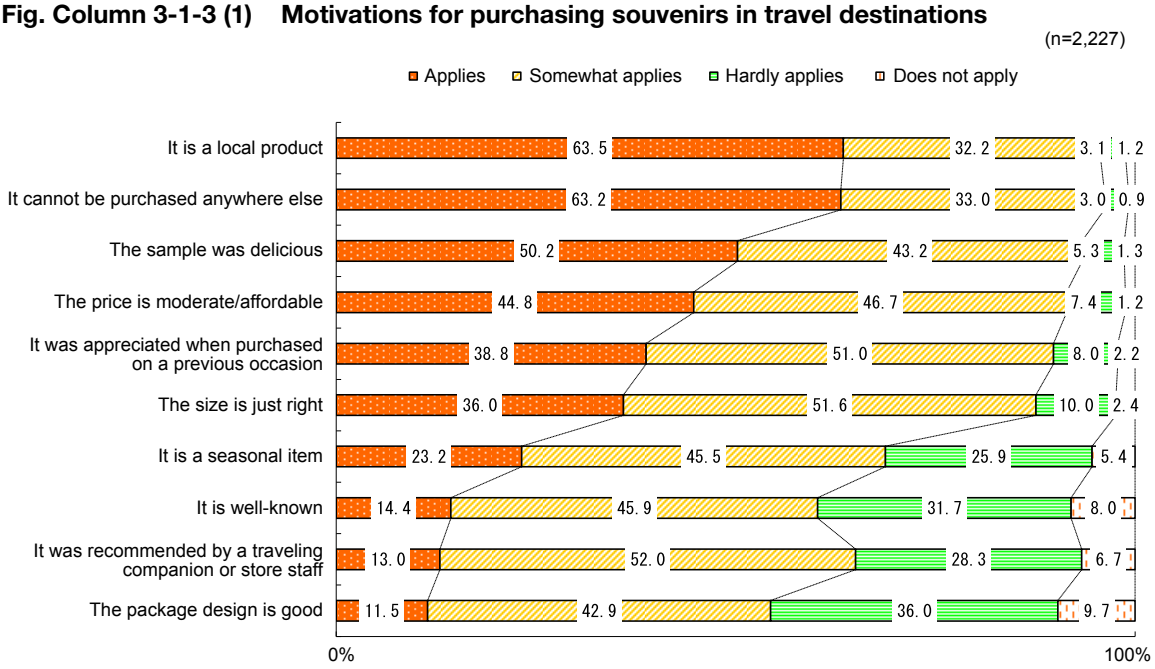
We have already mentioned that the key to increasing the economic ripple effect of tourist expenditure is balancing and boosting the number of tourists, the amount spent by each tourist and the local procurement rate respectively. In this section, we focus on the importance of raising the local procurement rate. Among regional SMEs and micro-businesses, it is probably generally recognized that they can contribute to the community by using goods and services procured locally. But what impression do products and services that utilize local resources give from the viewpoint of consumers? Here, we look at this as revealed by a survey conducted by the Japan Travel Bureau Foundation[21].

Fig. Column 3-1-3 (1) shows the motivations for purchasing souvenirs in travel destinations. Of the people who responded "Applies", 63.5% responded "It is a local product" and 63.2% responded "It cannot be purchased anywhere else", showing a tendency for tourists to purchase products and services that are specific to that region as souvenirs. It also shows that, for the regional SMEs and micro-businesses manufacturing souvenirs and managing the souvenir shops, effectively publicizing the fact that they procure their raw materials in the same locality provides them with a powerful way of tapping into the purchasing power of tourists.

20) Here, "identity" is used to mean a "sense of belonging (to the region)".

21) A survey of 2,227 people in the "active traveler" segment conducted by the Japan Travel Bureau Foundation in December 2013. Here, the "active traveler" segment is defined as "people who 'love to travel' and make at least 4 domestic trips involving overnight accommodation per year (excluding business trips or hometown visits), and who had visited at least two of nine randomly chosen tourist destinations (not including people employed in tourism-related industries)".

Fig. Column 3-1-3 (1) Motivations for purchasing souvenirs in travel destinations



Source: Japan Travel Bureau Foundation

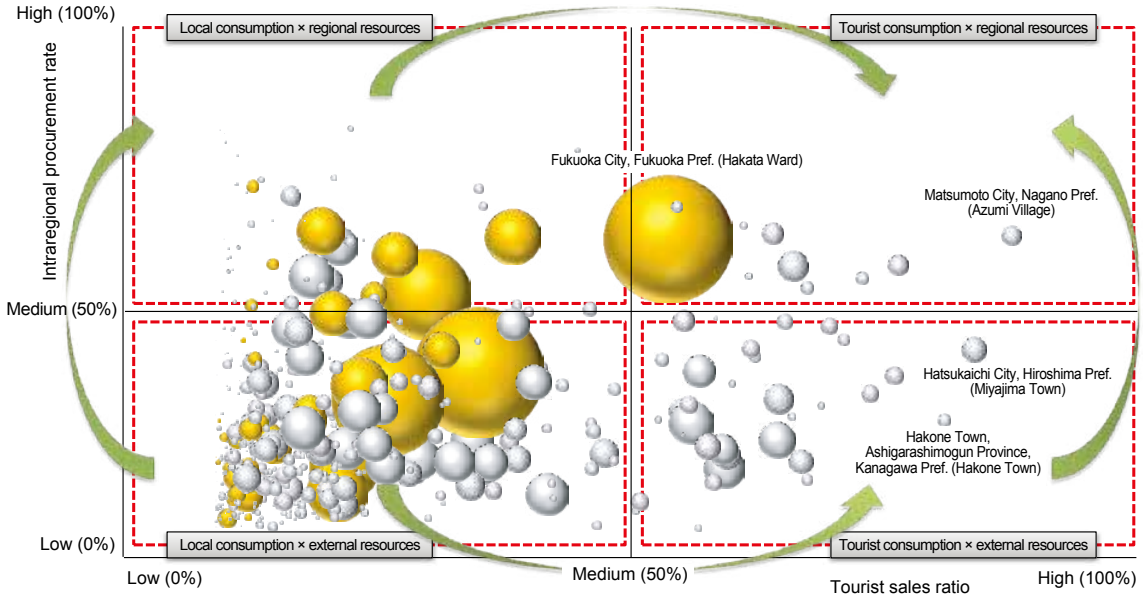
A high proportion of respondents also chose “It is a local specialty” or “It is made using local ingredients” when asked about their reasons for choosing what to eat at travel destinations, showing that the findings for SMEs and micro-businesses who manufacture souvenirs and operate souvenir shops can be said to apply equally to SMEs and micro-businesses who run regional eateries. (Fig. Column 3-1-3 (2)).

Fig. Column 3-1-3 (2) Reasons for choosing menu items in travel destinations

Source: Japan Travel Bureau Foundation

Local procurement rates vary markedly by tourist destination, and this may have a major impact on the economic ripple effect of tourist expenditure. Fig. Column 3-1-3 (3) shows the distribution of tourism as shown by the proportion of tourist sales and local procurement rate. Tourist areas with local procurement rates of 50% or more make up roughly 15% of all the tourist areas shown, showing that in many regions, resources in the same municipality are not being sufficiently used as raw materials. In terms of sales, we can also see that tourist areas where sales to tourists account for 50% or more of the total make up no more than around 10% of the tourist areas shown. From this, it is clear that in many regions there is scope to increase sales to tourists and raise the local procurement rate. Introducing measures to achieve this will heighten the economic ripple effect of tourist expenditure with the result that both regional economies and local SMEs and micro-businesses will be revitalized by tourism.

Fig. Column 3-1-3 (3) Distribution of tourism based on tourist proportions and local procurement rates



Source: Compiled by the SME Agency from the Japan Tourism Agency, *Local Economy Tourism Survey*.
Notes:
1. The survey targeted tourism-related businesses in tourist areas (904 locations). Of those, 469 tourist areas are shown where 20 or more surveys were collected.
2. The local procurement rate is the proportion of goods and services procured from within the same municipality.
3. The bubble size shows the total sales to tourists.
4. Orange indicates the Tokyo special wards (metropolitan areas) and former cities and wards located in government-designated cities, and silver indicates other regions (regional areas).

Thus far, we have discussed the potential for attracting overseas tourists and for promoting the tourism industry through regional story creation. Below, we present some case studies relating to the measures aimed at promoting the tourism industry discussed previously[22].

22) In the cases studies based on regional story creation, support was provided to businesses creating regional stories by the "Network formation support program for regional resource utilization". See the program results for details. (The program is scheduled to end in March 2016.)

Case 3-1-9 Ochiishi Nature Cruise Council

A business council that changed everyone's perspective and uses fishing boats to offer sightseeing cruises

The Ochiishi Nature Cruise Council, located in Hokkaido's Nemuro City (population 29,192 in 2010 Population Census, with an area of 512.73 km²), was established in 2010 by seven fishing businesses, a group of women fishers, the Ochiishi Fishery Cooperative, the city of Nemuro, the Nemuro Tourism Association, and the Nemuro Tourism Development Council. The Council uses fishing boats to offer cruises. The Ochiishi Nature Cruise takes visitors into an environment that is home to rare seabirds that are seldom spotted elsewhere. The city of Nemuro, where the Council is located, is at the easternmost tip of the island of Hokkaido. It has long had a flourishing fishing industry, especially as a place where salmon and trout can be caught in the north sea. More recently, it has become known in Japan as one of just a few centers of the Pacific saury industry. The Ochiishi district, home to the fishing port of the same name, can be found on the south side of the Nemuro Peninsula. The beautiful fishing village takes advantage of the natural topography facing the Pacific Ocean. The community itself is small, consisting of about 200 households. Most households are engaged in the fishing industries. The major fishing industries include Pacific saury, salmon, trout, octopus, fixed net salmon fishing, and konbu kelp.

The nature cruises offered in the area attract bird lovers from Japan and abroad. The number of customers has grown every year since the business started. Aside from direct sales, the cruises have a ripple effect, boosting local name recognition and sales of boxed lunches made with local ingredients.

The Ochiishi Nature Cruise Council began as the Ochiishi District Marine Vision Council, which was authorized by the Hokkaido Regional Development Bureau in 2005. One of the early initiatives of the Marine Vision Council in the Ochiishi district was a "Taste of Ochiishi Festival." The event began in 2007 to promote specialty products from Ochiishi. During these festivals, the Council used fishing boats to offer visitors sightseeing cruises so that they could enjoy the scenery from the local waters. Among the passengers on one of these cruises was a Mr. Niiya, who was then employed at the ANA Strategic Research Institute Co., Ltd. He realized the potential of the area waters, since they were one of the few breeding grounds in Japan of the tufted puffin. His advocacy of the area as a tourism resource led others to come visit. In response, the local fishery cooperative had researchers and other experts take a total of 12 surveys of local bird life over the course of a year, beginning in 2009. They found that birdwatchers could see the tufted puffin and all sorts of other birds, including some endangered ones. In 2010, they got authorization to operate cruises from the Ministry of Land, Infrastructure, Transport and Tourism, and the nature cruise business began in earnest.

To get started, the cooperative recruited fishers from the region to serve as captains and guides. The seven boats that they got together ran trial runs to decide on operating speeds and routes. They also established voluntary regulations so that they would create no harmful impact on the birds. The Ochiishi Nature Cruise Council consists of an executive office and three groups: the fishing boat group, the reception group, and the PR group. The fishers who make up the fishing boat group are in charge of cruise operations. The reception group, made up of female volunteers, sell among other products boxed lunches made of local ingredients to nature cruise customers. The Council also hired two new employees for the reception group under an emergency hiring system. They are in charge of reservations, sales, and receiving customers boarding the vessels as well as managing vessel schedules. In the PR group, the Nemuro City Chamber of Commerce and Industry Tourism Section and the local tourism association administer the website and conduct a range of PR activities. The administrative office oversees Council duties and accounting. Cruise tickets are ¥7,000. A portion of each ticket sale goes to the Ochiishi Umidori Fund, which supports sea bird surveys and protection efforts. Already more than ¥300,000 has been donated to this cause. In the first year, the cruises attracted 576 customers. The number of customers grew each year after that, reaching just short of 1,000 in the fifth year. More than 40% of customers come from outside Hokkaido, and recently an increasing number of customers come from outside Japan. So far, some members have brought in

On board a nature cruise

Etopiri-kan, where visitors are welcomed

more than ¥600,000 in a month, so that local fishers are seeing more revenue. Going forward, the Council looks forward to creating more jobs for young people.

[Observations from the case]

Success factors

One reason that fishing boats have successfully established a nature cruise business is that the local community discovered a seabird that is common in the area but rare globally. Additionally, experts told the community about the potential for this business, and the local fishery cooperative reacted positively. One success factor is that the community worked with experts and took their time to enhance the value of their product. Another big point is that the community as a whole built the framework for the business, giving it the shape it has today.

A particularly praiseworthy point is that the fishery cooperative, with the agreement of local fishers, established ticket prices, safety standards, rules about what boats could be used, rules about returning profits to protect seabirds, and a framework for using local marine products (such as boxed lunch sales). In other words, the business was meant to be sustainable so that fishing and tourism could coexist with each other.

To get customers from both Japan and abroad, the community took advantage of a network of ornithologists and other experts from outside Japan to help launch the business. They also promoted their service in birdwatchers' magazines. Customers on these nature tours have a very high probability of encountering designated endangered species such as tufted puffins and spectacled guillemots. That, along with the novelty of using fishing boats as cruise vessels, encouraged the mass media to pick up on the story and increase recognition beyond birdwatchers. An effort is now underway to build a footpath, so that customers can experience attractions other than seabirds, such as the coastal scenery with its precipitous cliffs and the rare plant life of the local marshland. The path will give visitors a chance to walk through the local scenery in addition to taking nature cruises and will bring out more of the area's potential for tourism with overnight lodging.

Use of tourism resources: A community working together to establish a system to receive visitors

The Ochiishi district had never been a tourist spot until it started operating nature cruises. Now, the fishing boats used for the cruises and the fishing port's wharves, market, and other facilities are getting attention from the outside world. In about 2005, the Ochiishi District Marine Vision Council started practicing hygiene management at the port. Activities included cleanups of the port and beach, and even local children took part. However, as the community became more aware of its visibility to the outside world, the local environment clearly was improved compared to before. A project that brought people in touch with each other led to local beautification and hygiene management in the port. This is an important point to remember.

And in addition to nature cruises, the community started to build the above-mentioned footpath and started taking tsunami defenses at an early point. When the fishers led an effort to establish rules for how their boats should put out to sea and to raise awareness about tsunami defense, the effect spread to their households and neighbors. The result is that the entire area is more aware of disaster prevention.

All of these effects are explained in part by the fact that the community reacted so positively to the proposal by outside experts to develop the area's potential. However, particularly noteworthy in this case is that the management team of the fishery cooperative and individual fishers with leadership characteristics wanted to do something to help the community.

Future issues

The nature cruise business is bringing in nearly 1,000 people annually at this time, and it is the hope of the Council to keep levels the same or slightly growing. The Council's goal is to have an appropriate number of customers that will allow the business to continue and to coexist with the local fishing industry. Some of the future issues are adding more guides to maintain the hoped-for scale and stepping up services for foreign customers.

Section 2 Regional revitalization by identifying regional issues

[1] Regional issue identification by SMEs and micro-businesses

In the previous section, we looked at initiatives to assist in the revitalization of regional economies whereby local SMEs and micro-businesses utilize the local resources that are the strengths of those regions. Local resources are utilized through initiatives aimed at recognizing the true value of those resources, or at cultivating sales channels and developing products that cater to the market, thereby differentiating each region's products from those of other regions.

However, population decline and the aging of society in regional areas, particularly in hilly and mountainous areas, give rise to regional issues that are becoming more diverse and entrenched. This is making the lifestyles of regional residents increasingly unsustainable, so much so that there are some regions that are themselves becoming virtually unsustainable. For example, as the population continues to decline, stores selling everyday necessities in regional areas (food, gasoline, etc.) are shutting down, and this can lead to elderly residents who do not have their own means of transport becoming "shopping refugees" in those communities. And because young people are leaving regional areas, those communities are losing their vitality and population decline is accelerating.

Amid this, we have seen instances where initiatives to resolve regional issues through programs by regional SMEs and micro-businesses have achieved "creation of social value (regional revitalization)" and "creation of social value (increased corporate profits)". These types of programs for SMEs and micro-businesses were discussed in the *2014 White Paper on Small and Medium Enterprises in Japan* in "CRSV (Creating and Realizing Shared Value[23])". They were introduced as "an approach whereby SMEs and micro-businesses conducting business activities rooted in the community resolve regional issues through the programs, thereby making those communities vibrant, and the benefits of which are enjoyed by the SMEs and micro-businesses implementing the programs to resolve regional issues." The white paper also discussed the possibilities of SMEs and micro-businesses as a "way of life".

We will begin by comparing this CRSV approach (concept) to the social responsibility concept[24] that has existed so far. The current social responsibility concept can be generally set out as shown in Fig. 3-1-26[25].

23) See the *2014 White Paper on Small and Medium Enterprises in Japan*, P.439-448.
24) Here, "social responsibility concept" is defined as an approach to social initiatives that is not limited to business activities that pursue efficiency or economy in the enterprise, but also includes programs that address community issues and activities that contribute to society.
25) It must be noted that these arrangements are not restricted to SMEs and micro-businesses.

Fig. 3-1-26 Comparison of transitions and arrangements in the existing social responsibility concept and the CSRV concept

(%)

	Existing social concepts					CRSV
	Mecenat/ philanthropy	CSR	Strategic philanthropy (CRM)	Strategic CSR	CSV	
Date	1980s – 1990s	Early 2000s	Late 2000s	Late 2000s	2010 and on	
Objective	Social contribution	Exercise of social responsibility (social contribution, corporate ethics, compliance)	Social contribution, corporate branding	Resolution of social issues, increase in profit and competitiveness of the company as a whole, corporate branding	Resolution of social issues and acquisition of sales and profit through business activities	Resolution of regional issues and acquisition of sales and profit through business activities
Description	Charitable/voluntary activities			Commercial business	Commercial business for resolving social issues (social business)	Commercial business for resolving regional issues (social business: community business)
Working capital	Surplus funds acquired through business (profits)				Social business expenses (costs)	
Collaboration	Independent operation (no collaboration)				Cooperation with multiple organizations, including public, private and intermediary support institutions (collaboration)	
Organizational form	Business company (general/socially-oriented large enterprise)					Regional business company (general/socially-oriented SME, venture company)
Operating area	Overseas and throughout Japan					In Japan (limited to designated or neighboring regions)
Effect	Social contribution, acquisition of brand strength (reputation, fame)			Resolution of social issues, increase in profit and competitiveness of the company as a whole, acquisition of brand strength (reputation, fame)	Resolution of social issues through business, economic values (sales, profit), social innovation, acquisition of brand strength (reputation, trust)	Resolution of regional issues through business, economic values (sales, profit), social innovation, acquisition of brand strength (reputation, trust)

Source: Mizuho Information & Research Institute, *FY2014 Survey of SMEs' Leading CRSV Initiatives* (February 2015), commissioned by the SME Agency.

The social responsibility concept as it has manifested so far, ranging from social contributions (Mecenat[26], philanthropy[27], etc.) through to "CSR[28]", "strategic CSR"[29] and "CSV"[30], is an abstract conceptual framework that does not reach down to the level of practical implementation. Moreover, discussions so far have focused on the behavior of large enterprises with regard to social issues at the national level. Much has been said within this framework (the context of large enterprises and the resolution of social issues) about concepts such as CRM[32] (Cause-Related Marketing), which is the typical method used for strategic philanthropy[31]. However, since

26) "Mecenat" means "support for arts and culture that is one aspect of social contribution rather than requiring a short-term sales promotion or advertising impact". Refer to the website for the Kigyo Mécénat Kyogikai (KMK: Association for Corporate Support of the Arts) (http://www.mecenat.or.jp/ja/introduction/post/about/).

27) "Philanthropy" is a generic term referring to volunteer activities or activities that contribute to fields with high value to the community, such as arts and culture, the promotion of scholarship and providing relief to the needy.

28) "CSR (Corporate Social Responsibility)" refers to efforts to provide economic value to society, to contribute to society by returning corporate profits or to prevent corporate impropriety.

29) "Strategic CSR" refers to initiatives that involve choosing those social problems that will have the greatest impact when tackled by the enterprise and that will yield benefits for both the enterprise and the community by reforming the value chain and the competitive environment.

30) "CSV (Creating Shared Value)" refers to the formulation and implementation of policies that increase an enterprise's own competitive strength while also improving the management environment and the regional community in which the enterprise does business.

31) "Strategic philanthropy" refers to activities that tie an enterprise's actions to contribute to society (philanthropy) to sectors that help improve the company's competitive potential, and that work strategically to maximize both the social and economic value created from those activities.

the mid-2000s, the regional issues of population decline and an aging society have raised their heads within Japan and due to the more diverse and entrenched nature of regional issues, we are now seeing regional areas where the resolution of problems that by rights ought to be handled by government is proving very difficult using programs gradually implemented by government alone. This has led to the emergence of regional SMEs formed by "social entrepreneurs"[33] at the local community level, or the formation of incorporated NPOs and intermediate support organizations (social enterprises) to resolve these issues. These initiatives have been focused on the large enterprises discussed previously and are characterized by the fact that they resolve regional issues through methods such as "social business"[34] ("community business"[35] in the case of regional areas) and "social marketing"[36] based on an approach of "resolving social issues through business and creating shared value" shared with programs such as "strategic CSR" and "CSV".

Another concept is now emerging called "social innovation"[37] which, rather than merely resolving issues, gives rise to new additional value in regional areas (by reforming systems, etc.). These trends indicate that we are entering an era of concepts that go beyond the existing abstract expressions of the social responsibility concept by enterprises into an era of practical concepts where the focus is shifted more towards actual introduction and real-world implementation. These new concepts refer to concrete design methods for startup processes and businesses (social design[38]), or to specific organizational structures or collaborations that need to be adopted.

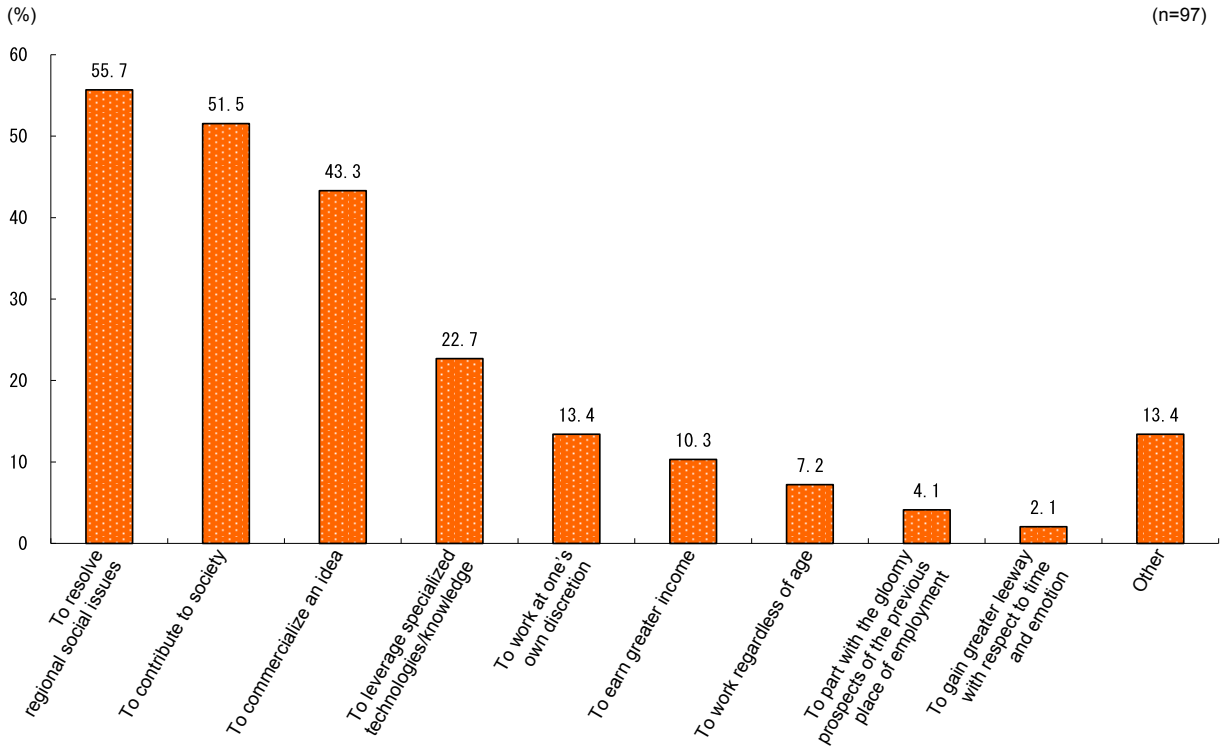
In this context, CRSV refers to "initiatives aimed at resolving regional issues that can only be addressed by SMEs and micro-businesses that are rooted in the community, and that are also aimed at creating a virtuous circle through mutual support between the SMEs and micro-businesses that resolve regional issues through those initiatives and the other community residents who benefit from the resolution of those issues[39]". As such, CRSV can be seen as a new social responsibility concept intended for regional areas. While the extent of the impact of these initiatives on regional revitalization is governed to some extent by the scale of the measures, resolving regional issues both creates social value and boosts the enterprise's own corporate value. In this sense, initiatives by SMEs and micro-businesses who themselves live in the community are one definite step towards regional revitalization. So, now we look at the particular characteristics of SMEs and micro-businesses who resolve these sorts of regional issues, as revealed by the results of the "Survey of Leading CRSV Initiatives"[40].

We begin by looking at the motivations of the businesses who initiated programs to resolve regional issues, as shown in Fig. 3-1-27. The figure shows that around 50% of respondents selected "To resolve regional social issues" and "To contribute to society", while roughly 40% chose "To commercialize an idea" and around 20% opted for "To leverage specialized technologies/knowledge".

This shows that businesses who undertook initiatives to resolve regional issues generally started their business not for their own profit, but rather with the idea of benefiting others (the community)[41].

32) "CRM (Cause Related Marketing)" refers to activities whereby an enterprise with an image, products and services on the market builds relationships and/or partnerships around one or more causes for mutual profit.
33) A "social entrepreneur" is someone responsible for corporate innovation that proposes and implements a new business model to address social issues for which solutions are currently needed (e.g. welfare, education, the environment, etc.).
34) "Social business" refers to initiatives that use business methods to resolve social issues.
35) A "community business" refers to one in which local residents independently resolve local issues using business methods.
36) "Social marketing" refers to the design, implementation and control of programs that are designed to influence the community's willingness to accept ideas, taking into account product planning, price setting, communication, distribution and market surveys.
37) "Social innovation" refers to the provision of the social products and services required to resolve social issues, or the development of mechanisms to deliver those products and services.
38) "Social design" refers to concepts for resolving social issues and their respective methodologies or mechanisms.
39) See the *2014 White Paper on Small and Medium Enterprises in Japan*, Fig. 3-5-47.
40) This was a survey of 175 businesses in July 2014, conducted by the Mizuho Information & Research Institute on behalf of the SME Agency. The 175 businesses were selected based on a range of reference materials as being likely to engage in both business activities and the solution of regional issues. Of the 112 business who responded to the survey (89 SMEs and micro-businesses and 23 incorporated NPOs) 12 did not respond that regional issues were being resolved due to their business. Consequently, those businesses were excluded from the actual analysis, leaving 100 (79 SMEs and micro-businesses and 21 incorporated NPOs) that were analyzed. The survey respondents included a mix of SMEs and micro-businesses and incorporated NPOs, but because the incorporated NPOs faced the same issues as the SMEs and micro-businesses when doing business, as explained below, all the respondents were analyzed in the same way.
41) In the *2014 White Paper on Small and Medium Enterprises in Japan*, women, young people (aged 35 or less) and seniors (55 and older) were surveyed separately with regard to their motivation for starting up their businesses. The result was high response rankings for "To work at one's own discretion" (81.1%) and "To work regardless of age" (74.5%), while "To contribute to society" (39%) did not rate as highly as a startup motivation for businesses working to resolve regional issues, showing that there are differences in the startup motivations. The figures shown here are average values for women, young people and seniors.

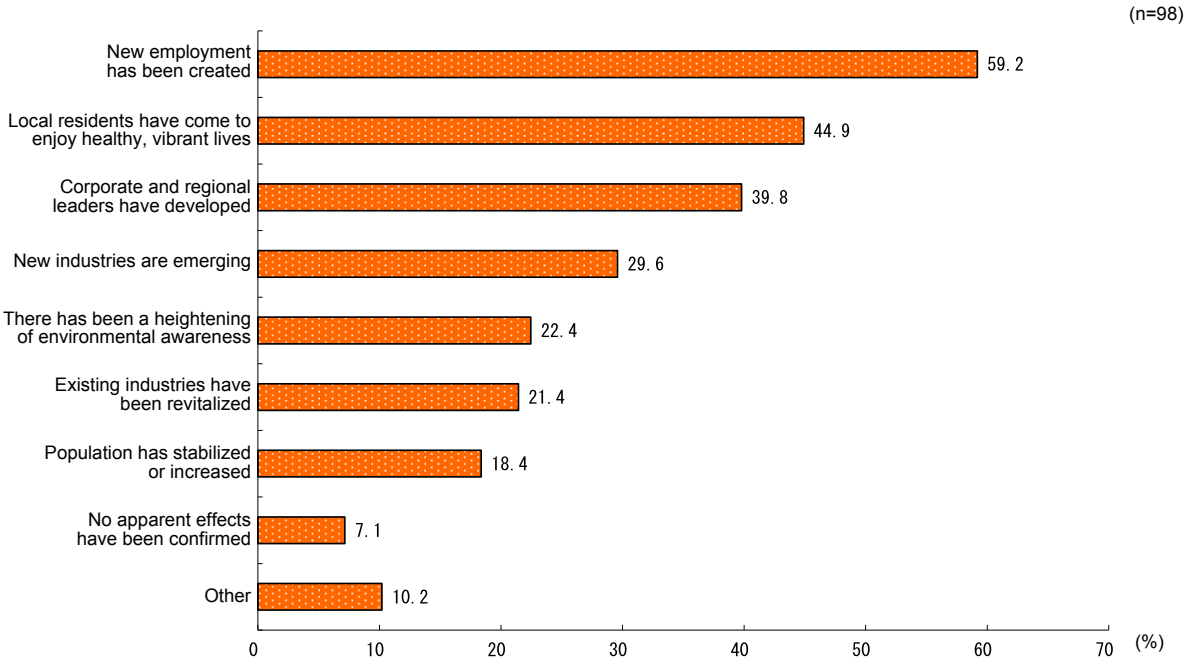
Fig. 3-1-27 Startup motivations of businesses working to resolve regional issues



Source: Mizuho Information & Research Institute, *Survey of Leading CRSV Initiatives* (July 2014), commissioned by the SME Agency.
Note: The total may exceed 100 as multiple responses were possible.

Next, we look at the impact on communities of regional issues being solved by businesses, as shown in Fig. 3-1-28. The high response rankings for "New employment has been created" (59.2%) and "Corporate and regional leaders have developed" (39.8%) show that the resolution of regional issues by businesses is contributing to regional economies by creating employment and developing human resources, etc. The high ranking for "Local residents have come to enjoy healthy, vibrant lives" (44.9%) also shows that the resolution of regional issues by businesses contributes directly to reforming or improving the living environment for local residents.

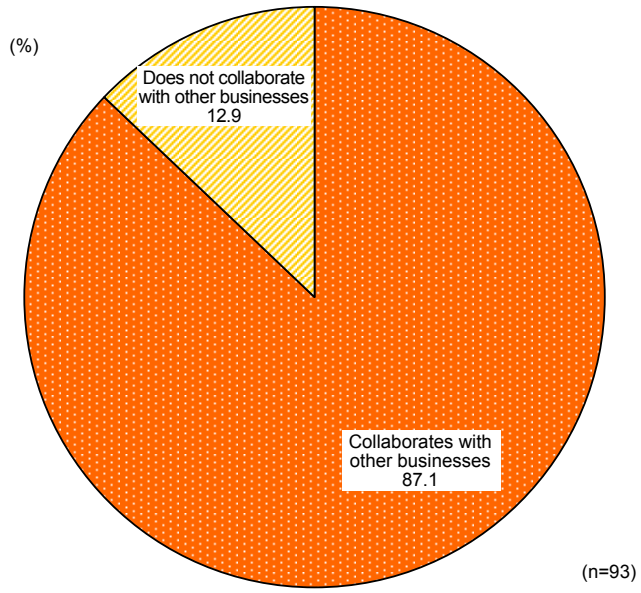
Fig. 3-1-28 Impact on communities of regional issues being solved by businesses



Source: Mizuho Information & Research Institute, *Survey of Leading CRSV Initiatives* (July 2014), commissioned by the SME Agency.
Note: The total may exceed 100 as multiple responses were possible.

In order for businesses to resolve regional issues, it is important for them to cooperate with other organizations rather than trying to resolve the issues independently. Fig. 3-1-29 shows the status of cooperation by businesses who resolve regional issues. This shows that overall, around 90% of businesses cooperate with other organizations, suggesting that many businesses are aware of the benefits in terms of business promotion of cooperating with others.

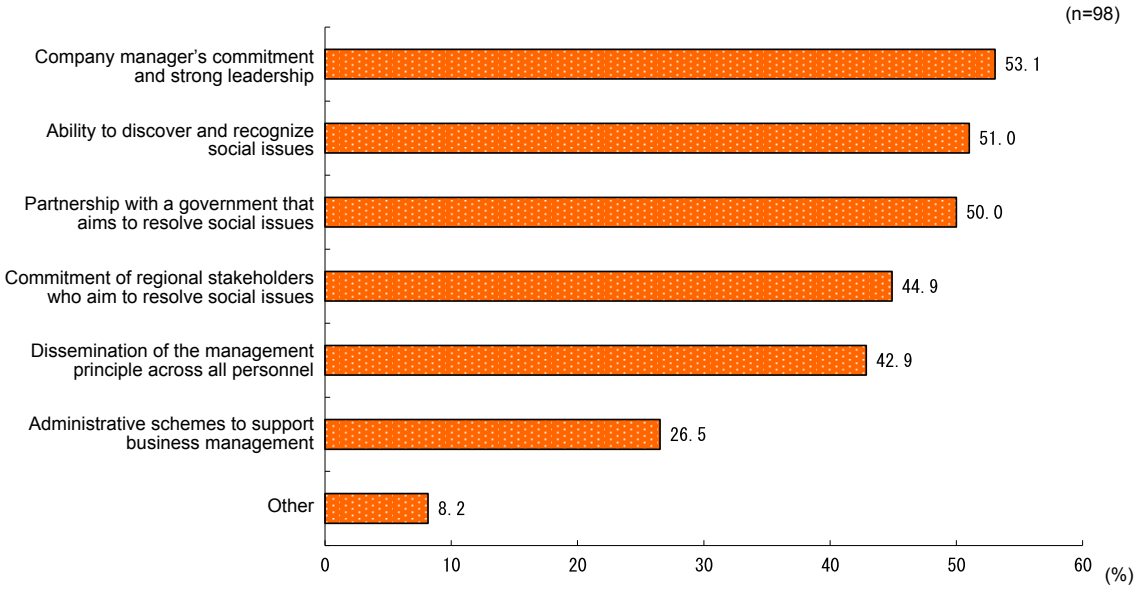
Fig. 3-1-29 Cooperation status of businesses working to resolve regional issues



Source: Mizuho Information & Research Institute, *Survey of Leading CRSV Initiatives* (July 2014), commissioned by the SME Agency.

If we then look at the types of elements needed to combine business and resolving regional issues, we can see that the response chosen most frequently (by 53.1% of respondents) was "Company manager's commitment and strong leadership" (Fig. 3-1-30). From this, we gather that many businesses understand that the success or failure of the business in both resolving regional issues and doing business depends on strong leadership and commitment by management to resolving the regional issues. Many respondents also selected "Ability to discover and recognize social issues (important issues arising in local communities)" and "Partnership with a government that aims to resolve social issues", showing that many of the respondents understand that by casting a wide net in an effort to resolve regional issues, businesses are formed.

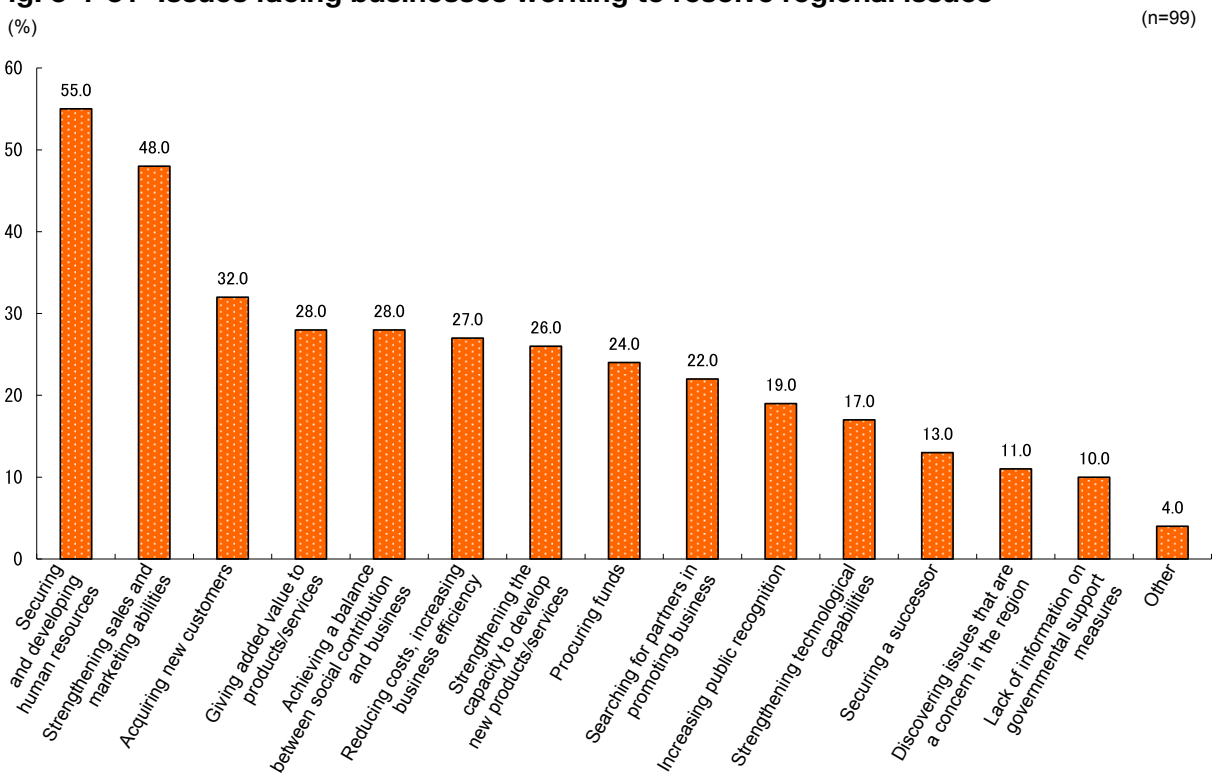
Fig. 3-1-30 Required elements to combine business and the resolution of regional issues



Source: Mizuho Information & Research Institute, *Survey of Leading CRSV Initiatives* (July 2014), commissioned by the SME Agency.
Note: The total may exceed 100 as multiple responses were possible.

By contrast, we now look at the sorts of issues faced by businesses initiating programs to resolve regional issues, as shown in Fig. 3-1-31. Around 50% of the businesses involved in efforts to resolve regional issues responded "Securing and developing human resources" and "Strengthening sales and marketing abilities", indicating that the issues they face are similar to those confronting ordinary businesses. However, just under 30% responded "Achieving a balance between social contribution and business", showing that they also have problems that would only be faced by businesses working to resolve regional issues. With regard to whether or not businesses combine forces to somehow resolve regional issues, it is important to overcome the problem of balancing social contribution and business. This is achieved by clearly identifying whether resolving those regional issues will bring a commensurate reward.

Fig. 3-1-31 Issues facing businesses working to resolve regional issues



Source: Mizuho Information & Research Institute, *Survey of Leading CRSV Initiatives* (July 2014), commissioned by the SME Agency.
Note: The total may exceed 100 as multiple responses were possible.

So far, we have picked apart the CSRV approach, one in which business conducted by local SMEs and micro-businesses resolves regional issues, by comparing that approach with the existing social responsibility concept, and we have also examined the characteristics of the businesses engaging in efforts to resolve regional issues. We have found that initiatives by businesses who put altruism ahead of self-interest are achieving success in resolving regional issues that have become more diverse and entrenched with the changes in the socioeconomic structure. At the same time, we have also found that the businesses working to resolve those regional issues face the same sorts of problems as ordinary businesses.

Below, we look at some case studies of SMEs and micro-businesses working to resolve regional issues through business.

Case 3-1-10 Awae Co., Ltd.

Stimulating a community by refining and using its resources

Awae Co., Ltd. (employees: 10; capital: ¥10 million), based in Minami Town, Kaifu District, Tokushima Prefecture, runs businesses designed to stimulate the local community. These include protecting and passing down local cultural resources, inviting businesses in, and supporting efforts to encourage people to move here permanently.

Awae President Motoharu Yoshida decided to locate a satellite office of his IT venture company in Minami, his hometown. Upon doing so, he had opportunities to interact with local citizens. One thing he learned from them was that outsiders visiting the area had helped to stimulate it. Yoshida therefore established Awae out of a desire to revitalize the area.

Despite abundant local resources, Minami Town had a serious case of the problems typical of depopulated areas: people were having fewer children, the population was growing older, young people were leaving, and the total population continued to decline. Reminded of this state of affairs, President Yoshida decided to create a business model that would use local resources for local revitalization.

He began by making digital copies of rare photographs of bygone scenes and individuals, photos that had been abandoned in vacant, traditional Japanese houses. He used these to start a photo stock service so these photos

could be kept alive on a cloud. Next, he directed his efforts toward revitalizing local primary industries. Taking products produced in small quantities and only consumed locally, he led a branding effort, which developed package design and added the back story of how these products are produced. Yoshida then established unique direct sales routes to customers outside the area. These efforts transformed local resources that had previously had no recognized value into something with value.

He also renovated an old public bathhouse that had been built in the Meiji Era (1868-1912) and had once served as a community center. By improving the building, he gave local people a new place to meet, while setting up Awae's headquarters at the same location. The site provides a place where visitors from the cities can connect with the local population.

The company's efforts have helped to gradually revitalize the entire town, where more businesses have moved in. The presence of the company has raised hopes that the creation of new jobs will increase the population of young people and lower the elderly percentage of the population.

Many local citizens approach Awae seeking all types of business advice, but the company is also a symbol of great hope for people all around. The success of the local revitalization model in Minami Town would seem to be a clue for finding solutions in many other communities with problems similar to here.

President Yoshida hopes to spread his local revitalization model elsewhere. By continuing to create local employment and places for people to meet, this model seeks to build new relationships such that the cities and outlying areas can share the best of themselves with each other. It is Yoshida's wish to "make Japan's countryside sparkle."

Awae President Motoharu Yoshida

The renovated public bathhouse

[Observations from the case]

Success factors

One reason for Yoshida's success is that he listened to people in the community, which inspired him to enhance the community's resources and use them to solve area problems, such as the falling birthrate and depopulation. By working very hard to enhance resources rather than use them as is, he successfully drew out the original value of those resources to the greatest possible extent. As noted above, Awae used local resources such as rare photographs of bygone scenes and people, photos that had been left abandoned in old vacant traditional houses; products produced in small quantities and consumed only in the local area; and a public bathhouse built in the Meiji Era that had once served as a community center. Most local people would not have paid much attention to these resources, but President Yoshida, who had been away from his hometown, was able to see the value in them. Moreover, the experience of being away from his hometown strongly motivated him to rediscover it. This suggests that looking at local resources from a different perspective can help a person draw out the latent value of those resources.

Solutions to local problems: A manager's strong desire to solve local problems

The key industry in Minami Town, in southeast Tokushima Prefecture, is fishing. Population is falling year by year, dipping to 7,471 as of February 1, 2015. Revitalizing the area is a big issue. The challenges that the area faces are always changing, so solutions require a sustained effort. President Yoshida had a strong desire to find some kind of solution for the issues faced in Minami, his birthplace and hometown. It was this desire that powered his business. In addition, bringing his business skills to the effort made it sustainable.

The effort is powerful enough to gradually change the way the local community thinks. The arrival of businesses to the town created employment and a way for local people to interact with people from the cities. Therefore it is hoped that by running a business that meets local demand, Awae can further boost sales and help stimulate the local area.

Future issues

Awae looks forward to continuing its Minami Town business model and adapting it for general use to spread it to other areas with similar troubles. However, this will come with certain challenges, such as getting financing for capital investment and developing new products and services. President Yoshida feels that there are many interests at stake when doing business in a small town in particular, and that it is necessary to coordinate with the local community to ensure that the business goes smoothly.

Case 3-1-11 Yume Sozo Co., Ltd.

Raising and selling high-quality torafugu by using flexible thinking and local resources

Yume Sozo Co., Ltd. (employees: 10; capital: ¥30 million), based in Nakagawa Town, Nasu District, Tochigi Prefecture, raises and sells a fish called torafugu (tiger globefish). It furthermore sells processed torafugu products, manages an "antenna shop" (where product sales are tested), and offers consulting services for franchise businesses.

Company President Katsuaki Noguchi had managed an environmental survey business in his hometown of Nakagawa since 1984. Noting that the town was in a general state of decline, with the population dropping and the birthrate falling, he began looking for ways to stimulate the local economy. Using his environmental analysis knowledge and skills, he studied the local hot springs, one of the area's major resources, and realized they had a high sodium content. The fact that the local high school also had a fisheries program inspired him to think of setting up a fish nursery using hot spring water. He performed nursery trials, then established his company in April 2010. It commenced raising and selling torafugu, a high-quality saltwater fish. President Noguchi understood that he would also have to do a thorough study of the profitability of such a business. He did comparative studies of the biological characteristics of several types of fish, considering rate of growth and ease of raising, among other factors. He ultimately decided that the torafugu was best suited for his nursery.

To keep nursery construction costs and other initial investments in control, he took advantage of classrooms in a closed elementary school and a lot that once held a swimming school. Understanding that some of the most important factors would be water quality control and the training of caretakers, he invested plenty of time and money into those areas. He hired fishery program graduates from the local senior high school and trained them to be caretakers.

Working with a university and other partners, President Noguchi made enhancements to produce cultivated torafugu tasting even better than torafugu caught in the wild. For example, immediately before shipping the fish, staff increased the salt content of the nursery water, which boosted the amino acid content of the fish, making it more delicious.

The novelty of cultivating "hot spring torafugu" in landlocked Tochigi Prefecture caught the attention of many media outlets, whose reporting increased the number of visitors to Nakagawa Town. Already, more than 3,000 people have come to the area to see the works, which has given a boost to the local restaurant and lodging industries. Additionally, the company now runs an "antenna shop" in Nakagawa Town that sells not only hot springs torafugu but other specialty products as well. This is part of a plan to further revitalize the area as a whole.

Going forward, President Noguchi hopes to develop his franchise business. He would not only like to sell hot springs torafugu nationwide, but also to send advisors and provide consulting services to other areas like his own that are suffering from falling birthrates.

President Katsuaki Noguchi of Yume Sozo

A torafugu nursery pen in a closed school building

[Observations from the case]

Success factors

One success factor in this case is that President Noguchi saw his town declining and started thinking about ways to revitalize the local economy. Drawing upon his knowledge and skills, he considered the use of hot springs water as a local resource.

A key point is that he emphasized business considerations as he worked to use local resources. For example, he

understood that he would also have to do a thorough study of the profitability of raising and selling torafugu. He did comparative studies of the biological characteristics of several types of fish, considering rate of growth and ease of raising, among other factors. He ultimately decided that the torafugu was best suited for his nursery.

Solutions to local problems: Using one's own knowledge and skills to take advantage of local resources

Nakagawa was created in 2005 by the merger of Bato and Ogawa towns in Nasu District. Its population had been in long-term decline even before the merger. Recently it counted a population of 17,891 (as of March 1, 2015). Meanwhile the aging of the population has made stimulation of the local economy a big challenge. Thinking of ways to stimulate the local economy, President Noguchi started up Yume Sozo to run a business using local resources with an idea that was flexible and unprecedented. The company resulted in new jobs and a rising number of visitors to Nakagawa Town, giving a boost to the local restaurant and lodging industries.

The company name means "Dream Creation." President Noguchi chose the name to reflect his thinking that a person needs both to have a dream and to create something in order to achieve things. He had a strong desire to stimulate the local economy by starting a new business.

Future issues

Issues that Yume Sozo will have to continue dealing with are funding and labor. The business uses classrooms from a closed elementary school and a lot that once held a swimming school, and has gradually expanded. To make a profit, however, Yume Sozo has to overcome a cash flow problem, because it takes one to two years from start of business to sale of mature fish. Getting enough manpower is also a difficult problem, because many young people dislike the physical nature of the work of aquaculture and its long hours.

Case 3-1-12 Naruden Inc.

Operating a home appliance store that the community has come to depend on and always takes the customer's point of view

Naruden Inc. (employees: 6; capital: ¥5 million), based in Wakayama City, Wakayama Prefecture, is engaged in many businesses. Among them, it sells and repairs home electronics, sells and installs equipment for all-electric buildings, sells and installs solar power systems, performs general remodeling, rents and sells caregiving and assistive technology products as an assistive technology rental business designated by Wakayama Prefecture, and does home repairs.

The company started up in 1971 under the name Naruden Shokai. Its hope was to play a useful role for people's lifestyles by selling home appliances. It opened a home appliance retail shop in a facility shared with a cleaning service agency that was even more rooted in the life of the community.

The business was fully committed to selling products from the customer's point of view. It was constantly going to the various manufacturers' product announcements and classes so it could keep up with the performance of home appliances and how they are used. Its sales approach included advising people how to use products in their households in ways that took account of maintenance and other costs. Naruden President Shizuo Naruse comments that "Customers let staff from local appliance shops into their house–anywhere from below the floor to up on the roof–to install equipment. Building a trusting relationship with customers can lead to other businesses besides sales, such as remodeling, solar power, and caregiving and assistive technology equipment."

The arrival of volume appliance sellers is one of the challenges making business difficult for smaller local retailers. To survive in this challenging environment, Naruden went back to business fundamentals to educate consumers about the price gap between itself and volume sellers. For one thing, it explains that while bigger shops may offer lower prices, its own shop emphasizes service that the big shops cannot provide. Its caregiving and assistive technology business has been certified by Wakayama Prefecture as an assistive technology rental business. In this field, it partners with care managers, government agencies, and the local community to provide exacting service for each user.

President Naruse says that this business helps local people live healthier, safer, and happier lives. He also adds that environmental awareness is rising as a result of the company's efforts. President and Mrs. Naruse's children, who grew up watching them at work, have come to understand the role that the company plays in the community and are taking part in management as their parents' heirs. President Naruse has also contributed to the development and sale of new products by listening closely to what customers want and passing the ideas along to manufacturers.

He looks forward to continuing to provide service to his customers and expanding the business as an appliance retailer that the community depends on. He also hopes to serve as a pipeline between customers and government agencies.

President Shizuo Naruse of Naruden

An event sponsored by Naruden

[Observations from the case]

Success factors

One reason for the success of Naruden is that, when business challenges appeared such as the arrival of volume appliance sellers, the company went back to business fundamentals to educate consumers that while bigger shops may offer lower prices, its own shop emphasizes service that the big shops cannot provide. By actively explaining to customers why their own products are more expensive than those found in bigger stores, Naruden has eased customers' minor concerns and built a sustainable service model generating adequate sales and profits.

Solutions to local problems: A business based on face-to-face relationships of trust

The population of Wakayama City has been declining since 1984, when it peaked at 402,906. As this has been going on, the center of the city has become characterized by many elderly people living alone and a declining birthrate. This has had all sorts of impacts on people's lifestyles and the community in general.

Under these circumstances, President Naruse, working with his wife, has dealt with the local community very sincerely. As a result, they decided to start handling caregiving and assistive technology.

Naruden works from the customer's point of view to do things that only a small business can do. President and Mrs. Naruse's children grew up watching their parents work, learning firsthand how they run their business. They are expected to continue running a community-based business as an appliance store that the community depends on. They will continue to deal with such changes as loss of population and falling birth rate in the area as well as changes in customer needs.

Future issues

Through its caregiving and assistive technology business, Naruden has begun to form relationships with government agencies such as the city and prefecture of Wakayama. The company looks forward to continuing its partnership with customers and government to make a more livable community. For example, while Naruden rents electric scooters for the elderly, it feels that such scooters will be more useful when their elderly users have an environment in which they can use the scooters with confidence. To make sure this happens, the company feels that it is necessary to promote the idea to local governments. Naruden would also like to run a business providing personal monitoring with IT in its quest for a more livable community. Such a business, however, needs a network environment that works with personal computers. So one of the issues the company faces is enhancing IT knowledge and skills.

Case 3-1-13 Island Company

An island tofu shop discovering value in everyday lives and occupations and creating a variety of businesses

Island Company (employees: 11; capital: ¥100,000) is based in the Koshikishima Islands, located in the East China Sea about 26 km west of the Port of Sendai in Satsumasendai City, Kagoshima Prefecture. There are three islands in the chain: Kami-Koshikishima in the north, Naka-Koshikishima in the middle, and Shimo-Koshikishima in the south. The three islands have a combined population of about 5,000 people. Even today, the chain has natural landscapes that can be seen nowhere else, including magnificent sea cliffs, unique lakes and marshes, habitat for the kanoko lily, and virgin broadleaf forests. In March 2015, the area became a quasi-national park.

Company President and founder Kenta Yamashita was born and raised in the islands, then left them to go to high school. After graduation, he went to work for a traditional Japanese clothing and accessory wholesaler in Kyoto. While he was working there, he was involved in planning and managing the Koshiki Art Project, an arts event held on Kami-Koshikishima. During this time, he felt a sense of crisis that the old landscape of the hometown he loved was being lost. Up to that point, his attitude was that he would live on the mainland and build relationships to the islands. Then, he decided he would reverse his policy and live on the islands while building relationships to the mainland.

In 2010, Yamashita took up farming, starting with rice and Satsuma sweet potatoes. He soon realized that sometimes farming brought in no revenue at all and made it very difficult to have a steady income. Moreover, at that time, no one was selling any Koshikishima Islands souvenirs made with local agricultural and marine products. Therefore in April 2012, President Yamashita, out of a desire to really communicate the attractions of the islands to consumers, started a company that primarily engaged in mail order sales of agricultural and marine products and processed goods from the islands. The company began with its so-called "island rice project," which led Yamashita to discover the value inherent in the agricultural and fishing industries for preserving and developing the islands' simple lifestyle and beautiful scenery. The mail order business sold island rice, dry goods, and other processed goods as gift sets. The concept was to use the business to support these livelihoods. At the same time, he started Shima-navi, a tourist guide business helping visitors to see the islands' day-to-day landscapes but experience them in ways that are not ordinary at all.

In May 2013, he renovated a traditional Japanese home and built it into a shop selling tofu under the name Yamashita Shoten. In the past, people would have gathered at the tofu shop early in the morning, carrying their baskets. The act of buying tofu would become an occasion for having conversation. Such occurrences became part of the ordinary landscape of the island. President Yamashita opened the tofu shop out of a desire to revive that indelible impression today. Nowadays, once again people come to buy tofu in the morning and have conversation at Yamashita Shoten. The business not only sells tofu. It goes around the islands selling goods and taking orders.

When President Yamashita began Island Company, he was its sole employee. By November 2014, two and a half years after its opening, the shop was bringing in annual revenue of ¥40 million and had 11 employees, including part-timers. The business had grown to support Koshikishima Islands producers and create employment. It has also gotten into a series of new businesses over the years. It operates a seasonal bar in summer, makes maps of everyday scenery, and develops and sells private brand products. In October 2014, it opened a permanent shop inside Maruya Gardens, the largest department store in Kagoshima City. In the spring of 2015, Island Company plans to begin operating an island *minshuku* (Japanese-style bed and breakfast), taking over management from the current owner. It also plans to start the so-called Koshiki Terrace Project. Using an old port terminal site, the project will feature dining and retail. Island Company targets annual trade of ¥400 million with 30 employees by 2020. It will continue to develop new businesses as it seeks to protect and pass down the scenery of the Koshikishima Islands.

Yamashita Shoten, Island Company's tofu shop

[Observations from the case]

Success factors

Rural areas typically have physical resources (such as agricultural and marine products), scenic resources (the natural environment), cultural resources (such as historic properties), and human resources (the local people). President Yamashita, however, recognized the very occupations of farming and fishing as local resources for protecting and developing the Koshikishima Islands' simple lifestyle and beautiful scenery. As such, his mail order business selling island rice, dry goods, and other processed goods as gift sets is one success factor in this case. His efforts have transformed customers from mere consumers into supporters and helped to enhance resource value. This has helped his business to create loyal customers.

Additionally, when developing specialty processed goods made with island ingredients, the design process follows the concept of creating a product that conveys the islands' scenery. Island Company employs a designer to enhance the quality of the design in each business the company runs. This person works on souvenir package design, leaflet and other media design, and so on. This has helped to establish a brand for the company.

Solutions to local problems: Creating a variety of businesses in a region

Island Company runs a wide variety of businesses. Its ventures include farming, a tofu shop, mail order and traditional retail of specialty items in the islands and beyond, and a dining business. In 2015 it began a lodging business and plans to operate restaurant and retail businesses on the site of an old port terminal building. While setting up so many businesses involves risk, having multiple businesses also helps to spread the risk. If one business is not doing so well, another can make up for it. Compared to the mainland, people living on remote islands often make a living by working multiple jobs. Running a business in a limited regional economy makes it important to have multiple lines of business.

The most important point in this case was the preparedness and determination of President Yamashita. As he says, "This is what I decided to do, so I can't make excuses to anyone." After just four years since he started his business in 2010 under the conditions unique to a remote island, his company's trade has grown to ¥40 million per year and created jobs for 11 people. But Yamashita says that getting this far involved some considerable hardships. However, he overcame the hardships because he was resolved to prepare for and overcome them, since it was his own decision to go this route. The big point for anyone wishing to go into business in a rural area is preparedness and determination.

Future issues

The island rice project has done business by partnering with farmers and fishers. The Shima-navi venture is able to bring in visitors for tours because it has the understanding and cooperation of local people. The tofu shop is doing well because the local people have grown fond of it. As these cases show, the businesses that President Yamashita runs are supported in part by understanding and cooperation from local residents. Understanding and cooperation from the community will be even more important for Island Company as it runs its restaurant and retail businesses on the site of the old port terminal.

Case 3-1-14 Topriver Co., Ltd.

Practicing 'agro-management' and training farm managers for profitable agriculture

Topriver Co., Ltd. (employees: 42; capital: ¥10 million), based in Nagano Prefecture's Miyota Town (population 14,741 in 2010 Population Census, with an area of 58.78 km²), is an agricultural production corporation. Among its other activities, it produces and sells agricultural products, trains and advises farmers, launches other agricultural production corporations, and provides support that makes farms profitable. The company is engaged in businesses throughout Japan. For example, it has company farms in Chiba and Shizuoka prefectures, among other places. Part of the reason it undertakes these businesses is because the management has a strong sense of crisis about farming in Japan today. Tracing the decline of farming in Japan, there are only 2.5 million farm households today. That is only about 20% of the 12 million that existed around 1960. At the same time, advances in farming technology mean that total output has remained largely the same, about 50 million tons annually.

One of Topriver's stated targets is to turn farming into a profitable industry. Among the company's initiatives, it practices the traditional role of an agricultural production corporation, namely, the production and sale of agricultural produce. It also trains and advises farmers and offers management support relating to the entry of corporations into the field of agriculture and the launching of other agricultural production corporations. The aim of these initiatives is to raise the standard of agriculture in Japan as a whole.

The company grows crops on its own and also outsources cultivation to contract farmers. It grows mainly lettuce,

cabbage, and other vegetables on approximately 100 ha of farmland, both its own and that belonging to contract farmers. The company pursues crop safety and has implemented traceability measures to boost profitability, but there are a number of other reasons why Topriver has been able to make a profit from farming.

First, it develops direct sales outlets and trades directly with restaurants, retail chains, food processors, and others rather than shipping out through existing markets. It has about 70 business partners. It uses purchase contracts wherein it grows crops to meet individual customers' needs for a fixed price, regardless of the market price. Measures such as this ensure a stable revenue, making up for the fact that farming is so susceptible to the weather. Because delivery volume is decided in advance, Topriver is able to write "production plans," a concept that simply has not existed in agriculture in the past. In addition to production, it also makes a serious marketing effort. Topriver always has a number of marketing staff whose job it is to coordinate between the customer and the farm. Another unique aspect of this business is how it cuts costs as far as possible. Topriver does not actually own any farms. All of its company farms are on lands left uncultivated by their owners. The company also uses used farm equipment. As a result of its efforts, in 2010, a decade after its founding, Topriver had sales of ¥1.2 billion.

Topriver also trains people to run profitable farms. Trainees are recruited from all over Japan and spend about five years training on Topriver's company farms or contract farms. Skills they learn include "producing farm crops," "marketing farm crops," and "organizational management." Currently there are about 30 trainees who are regular employees of the company. About half of these are young people who have a university degree. All of them are complete novices to farming; they do not come from farming families. As regular employees, trainees receive a monthly salary of ¥150,000 or more in addition to a variety of allowances, social insurance, and other benefits. Depending on performance, they may get large bonuses. Topriver also provides "challenge opportunities." For example, starting from his or her second year, if a trainee is highly motivated and meets certain conditions, he or she can be named a "farm leader," a position that has responsibility for supervising one farm. The aim of such challenge opportunities is to develop independent "farm managers," people who are more than just farmers.

More than 50 people try to get into the training program every year, but only about five of those candidates remain after going through a short training program that precedes the longer one. It is in the short program that persons wishing to get into the long training program learn how difficult farming and farm management really are. Under this program, 19 people became independent "agro-managers[42)]" and started their own farm businesses between 2000 and 2013. Trainees who gain experience from Topriver are working in agro-management all over Japan. They include young people with sales as high as ¥800 million annually.

Topriver also provides consulting services to agro-managers and trains "agro-coordinators," whose role it is to spread schemes for profitable farming. The company also employs about 50 local residents from their fifties to their seventies to do part-time farm work. Thus it has a number of systems in place to turn farming into a profitable industry.

Lettuce being harvested

[Observations from the case]

Success factors

One success factor for Topriver is that it flexibly incorporates other industries' systems into the primary industry of farming. A unique aspect about this company is that it practices agro-management. For example, it grows crops based on a production plan and actively markets. These things are rare in the world of agriculture, but the aim

42) An "agro-manager" is an "agriculture generalist who can manage all essential aspects of agro-management, including cultivation, production, networking, sales, and business management."

is to ensure profitable farming. Up to now, agriculture has tended to be susceptible to the weather and offered farmers little in the way of stable income and vacation time. Topriver incorporates a steady salary and work system into its business, which is changing the traditional image of a farmer and encouraging more young people to try it. Representative Director Hideki Shimazaki previously worked as a salesman at a confectionery manufacturer. His application of experience from another industry to farming is a big factor behind his success.

Solutions to local problems: Training agro-managers

One characteristic of this company is that it puts twice as much effort into marketing as it does into production. At all times, there are multiple staff members whose exclusive job is to market. Their job is to coordinate between producers and customers (restaurant chains, retailers, etc.) and work constantly for their mutual profit. One reason behind this is that once the production methods and technology reach a certain level, it is hard for one farm to use those to differentiate itself very much from others. Marketing, however, makes significant differentiation possible through the originality and effort put in by the marketing staff. Up to now, most farmers in Japan have depended on agricultural co-ops and markets to handle marketing and sales. However, when producers who really know the unique features and attractiveness of the individual farming region and its produce grow more aware of marketing and sales, not just production, and when local producers put their own efforts into marketing and sales, it could lead to a revolution in regional industry.

Future issues

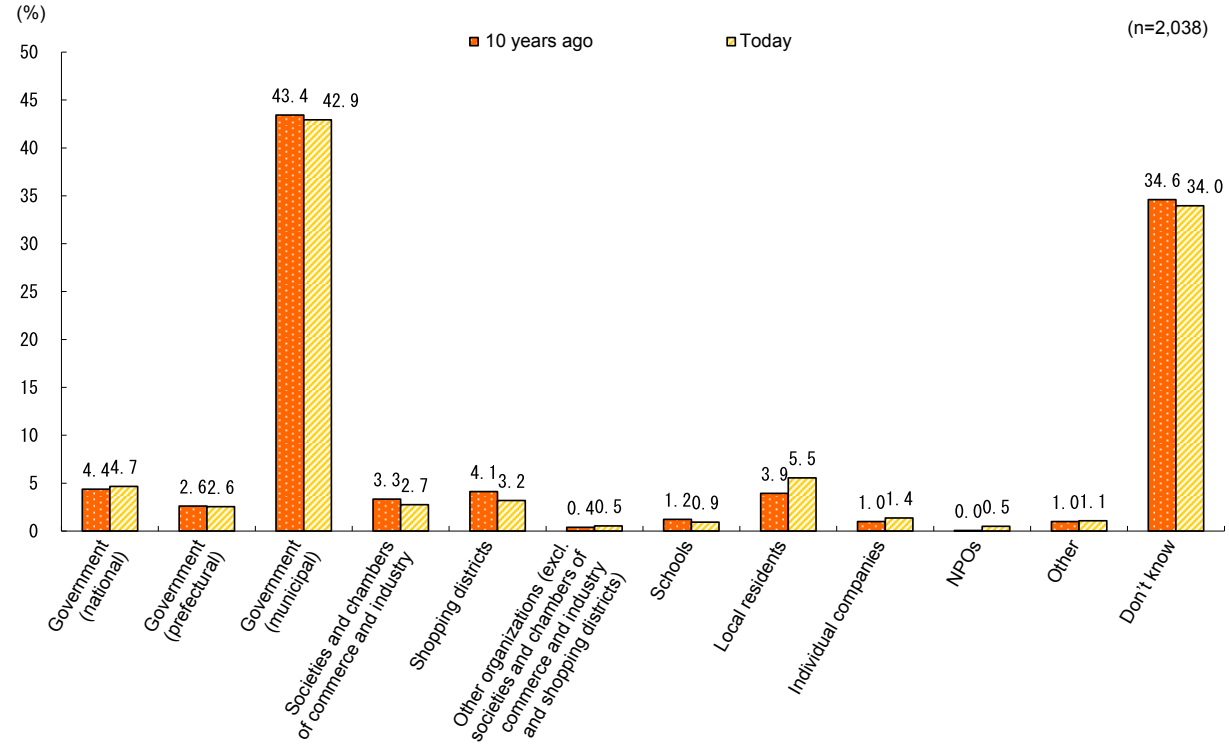
Topriver hires young university graduates as regular employees (trainees), at a salary commensurate with an ordinary listed company, to train them to be agro-managers. Trainees who become independent after a few years do not simply set up branches of the business. Instead, they launch independent agricultural production corporations in different areas. Topriver gets no direct profit from the people it trains. In other words, Topriver is a single private enterprise sharing the burden of training the future farmers of Japan. To ensure a strong farming industry in Japan in the years ahead, the nation will have to train future agro-managers. It should also provide support to enterprises who are truly motivated to train human resources so that these enterprises do not have to bear all the burden.

[2] Wide ranging support for the resolution of regional issues

Regional SMEs and micro-businesses are not the only ones working to resolve regional issues. Just as the regional areas are beset by a diversity of issues, there is a diversity of players working to address those regional issues. In recent years, in the same way that SMEs and micro-businesses have put CRSV into practice through programs with excellent business potential, we have also seen a range of other parties working to resolve regional issues. These include local residents, corporations and incorporated NPOs (hereinafter referred to as "business-oriented NPOs") who are conducting programs to resolve regional issues while also ensuring that they remain viable as businesses. Below, we take an overview of the current level of support for resolving the increasing diversity of regional issues.

We begin by looking at support for resolving regional issues from the perspective of the local residents, as shown by Fig. 3-1-32. Excluding those who responded "Don't know", many local residents chose "Government (municipal)" as the people primarily tasked with resolving regional issues. However, when compared with 10 years previously, we see an increase in the number of local residents who are aware of the activities of private-sector players such as "Local residents", "Individual companies" and "NPOs", though the percentage itself is still low. This indicates that, at same time as regional issues become more diverse, there is an increasing diversity of parties addressing those issues.

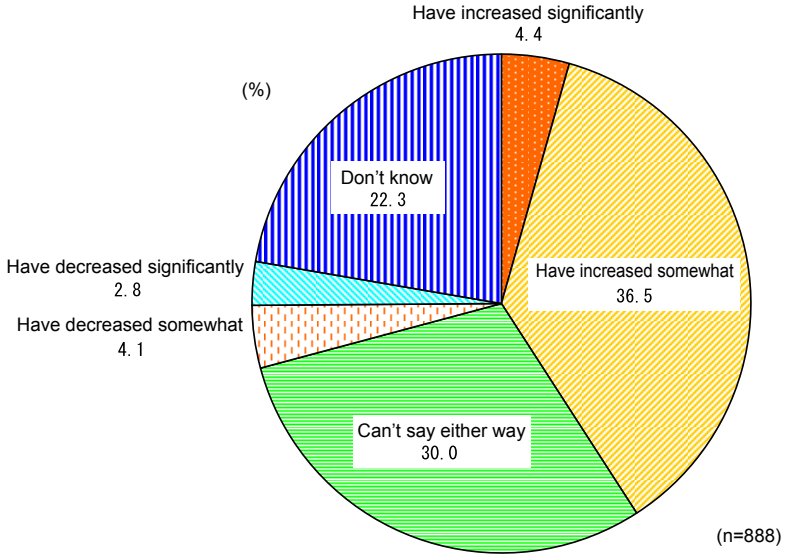
Fig. 3-1-32 Support for resolving regional issues



Source: Land Brains Co., Ltd., *Survey of Your Involvement in Your Region* (January 2015), commissioned by the SME Agency.
Note: The survey targeted people who had been resident at their current address for at least 10 years.

So, apart from municipal governments, is the number of parties working to resolve regional issues actually increasing? Fig. 3-1-33 looks at changes in the parties (SMEs, incorporated NPOs, local residents, etc.) actively working to resolve regional issues as seen by municipal governments using a comparison with the situation 10 years previously. From this, we can see that while around 40% of the municipal governments responded "Have increased significantly" or "Have increased somewhat", less than 10% responded "Have decreased significantly" or "Have decreased somewhat". Given that this suggests that in the future, a more diverse range of parties, such as SMEs, incorporated NPOs and local residents, are likely to be working to actively resolve regional issues, it is important for municipal governments to promote the development of environments that facilitate initiatives to resolve regional issues that involve multiple different regional players (by promoting cooperation, etc.).

Fig. 3-1-33 Parties actively working to resolve regional issues (compared with 10 years previously)



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Note: The figure was compiled by asking municipal governments about the changes in the parties (SMEs, incorporated NPOs, local residents, etc.) actively working to resolve regional issues faced by local governments, compared with the situation 10 years previously.

So that the various different parties working to resolve regional issues can continue to pursue their efforts, it is important for those efforts to be feasible. That is, it is important that there be corresponding payback for initiatives to resolve regional issues. As discussed above, CRSV activities undertaken by SMEs and micro-businesses create both social value through business activities (regional revitalization) and corporate value (increased company profits), thereby advancing both the community and the business. Of course, this is not to say that efforts to tackle regional issues that have low feasibility are necessarily unsustainable. However, it is important for such initiatives to have a certain level of feasibility if they are to overcome the problems seen in Fig. 3-1-31 of "Securing and developing human resources" and "Strengthening sales and marketing abilities" which face businesses undertaking programs to resolve regional issues.

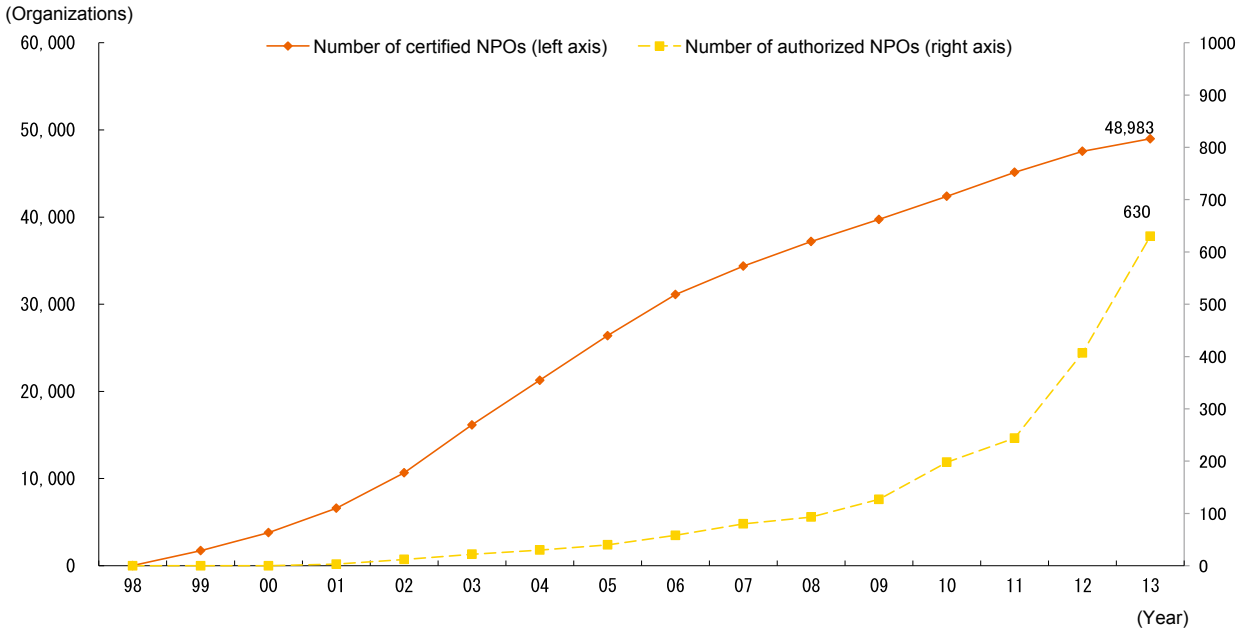
Amid this background, incorporated NPOs are making their presence felt in regional areas as a new player in the effort to resolve regional issues. Incorporated NPOs in regional areas include a range of different types, from incorporated NPOs aiming to grow their business by resolving regional issues through to those who offer various different ways of working. These include small-scale NPOs offering re-employment opportunities for women who left the work force due to marriage, childbirth or child raising, or places that can employ women who are busy raising children. There are also incorporated NPOs that provide work opportunities for senior citizens who have retired from enterprises, etc.

In this context, we are seeing instances where "business-oriented NPOs" that are capable of securing stable incomes by pursuing highly feasible business models are broadening the opportunities for employment in regional areas. Below, we take an overview of the current situation for business-oriented NPOs functioning as a new supporting player in the resolution of regional issues.

Firstly, we look at trends in the numbers of incorporated NPOs, including business-oriented NPOs, as shown in Fig. 3-1-34. This shows that, since the enactment of the Act on Promotion of Specified Non-profit Activities (hereinafter referred to as the "NPO Law"), the number of incorporated NPOs has grown steadily, with a steep rise in recent years in the number of approved incorporated NPOs[43], which are eligible for preferential treatment under the taxation system.

43) Approved incorporated NPOs, unlike ordinary incorporated NPOs, are given special treatment under the taxation system such that individuals making donations to an approved incorporated NPO can receive a tax credit or claim a deduction for the amount of the donation. Consequently, approved incorporated NPOs find it easier than ordinary incorporated NPOs to attract donations.

Fig. 3-1-34 Trends in the number of incorporated NPOs



Source: Compiled by the SME Agency from the Cabinet Office website.
Note: The NPO Law was enacted in December 1998. The approval system was established in October 2001.

So what sorts of problems do incorporated NPOs face, and what sort of support[44] do they need? The problems faced by incorporated NPOs and the support measures needed are summarized in the "Seminar on NPOs and Other Supporting Bodies for New Business and Employment — Interim Summary" (September 2014), as shown in Fig. 3-1-35.

44) The NPO Law laid the foundations for the formation of incorporated NPOs, and in the approx. 15 years since its enactment in December 1998, just under 50,000 incorporated NPOs have been established and become part of communities all over Japan. However, as a rule, SME policy has targeted support at for-profit enterprises and sole proprietorships. Incorporated NPOs, as not-for-profit corporations, have not been supported. That said, incorporated NPOs conducting business that contributes to the promotion of SME policy are covered by SME policy where any of the following generally apply: (1) they are conducting business in cooperation with SMEs; (2) they are supporting SMEs; (3) they were established primarily by SMEs for the purpose of supporting SMEs (where half or more of the voting rights at a general meeting of employees are held by SMEs); or (4) they carry out business activities that contribute to SME market expansion by creating new markets and they employ paid staff.

Fig. 3-1-35 Issues facing and support for incorporated NPOs

	Issues discussed by the study group on NPOs and other bearers of new businesses and employment	
	Issue	Support measures that have been discussed
Funding	• The status of loan provision by financial institutions, and particularly private financial institutions, is poor • When providing financing to an NPO, financial institutions require a manager's guarantee from the representative director or other top figure of the NPO	• Proper evaluation of the feasibility of businesses that aim to resolve regional issues • Addition of NPOs to the scope of SME credit guarantee schemes • Support for the initiatives of private businesses that offer diverse fund procurement methods, such as NPO banks and cloud funding
Human resources	• There is a tendency for wage levels to be kept low • Career paths after employment are unclear • There is a widespread impression that NPOs engage in voluntary work	• Support for the relaxation of requirements for receiving a business start-up subsidy and for business expansion with a view to creating employment • Promotion of pro bono initiatives and collaboration with large enterprises and governments through personnel exchanges
Support	• The development of an environment to support NPOs and the accumulation of knowhow concerning NPO support are lacking • In cases where societies and chambers of commerce and industry participate in providing support to NPOs, roles need to be divided among other related parties	• Utilization of SME support institutions such as societies and chambers of commerce and industry, and private support organizations • Presentation of the direction of such collaboration with prefectures and NPO support centers as mentioned above by the national government • Establishment of procedures for NPO support • Addition of business-oriented NPOs in the scope of the Micro-business Managerial Improvement Loan System (Marukei Loan)
Organization	• There are businesses that are puzzled by the differences in the support systems offered according to type of corporation by financial and governmental institutions • No transition is allowed from a non-profit-making enterprise to a profit-making enterprise	• Dissemination of the differences in type of corporation and the differences between a profit-making and non-profit-making organization, at the start-up of a business • Review of systems related to mergers between NPOs, the transition from a non-profit-making to a profit-making organization, and the establishment of investment-funded NPOs.

Source: Compiled by the SME Agency from the *Seminar on NPOs and Other Supporting Bodies for New Business and Employment — Interim Summary* (September 2014).
Note: Pro bono refers to volunteer activity whereby specialists in various fields provide their knowledge and experience as a contribution to the community.

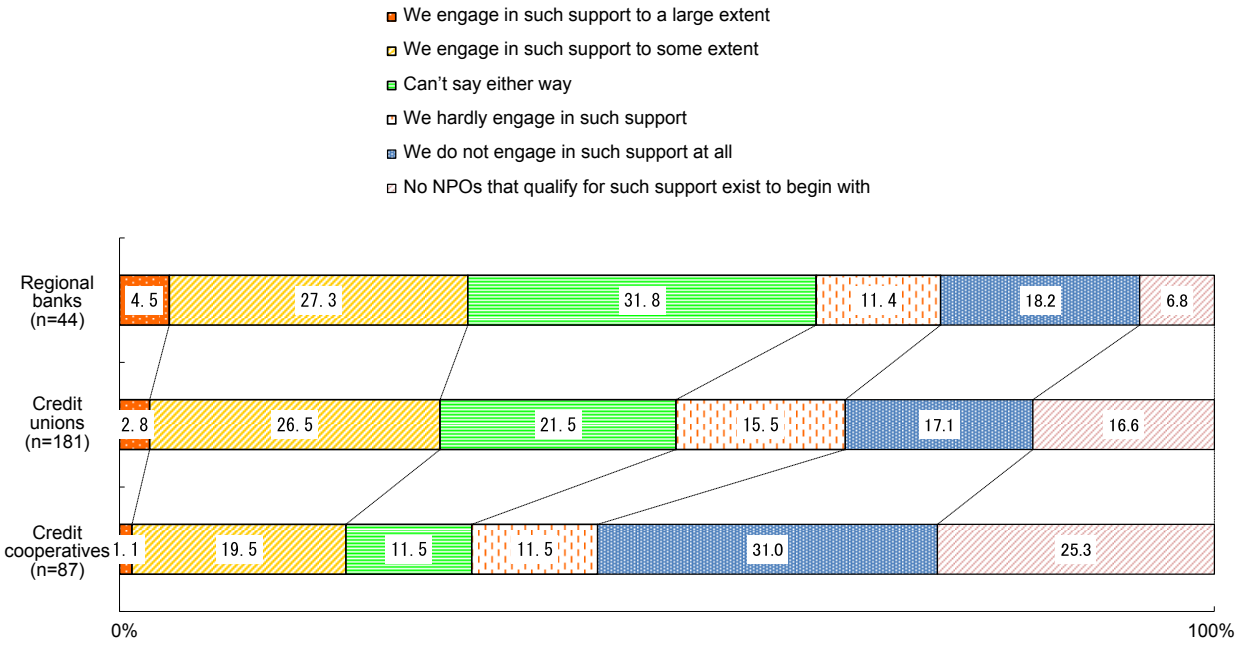
Incorporated NPOs face a wide range of issues, from funding through to organization. For example, in terms of financing, funding from financial institutions is low due to the difficulty of determining whether incorporated NPOs are viable (whether the business is profitable). In terms of staffing, incorporated NPOs are often not recognized as employers due to the widespread impression that incorporated NPOs use volunteers, and it is said that they have difficulty retaining staff. As mentioned earlier, these issues are much the same as the issues dealt with by SMEs and micro-businesses working to resolve regional issues. Based on this, it seems that incorporated NPOs operating highly viable businesses resolving regional issues are undertaking much the same activities as SMEs and micro-businesses that resolve regional issues. We can also say that because they face similar problem, there is a need in the future for more in-depth research into the way support is provided to these incorporated NPOs[45].

Up to now, we have looked at the issues facing incorporated NPOs and the required support measures, and in order for business-oriented NPOs to become a mainstay in resolving regional issues, it is important that they overcome these issues and thereby pursue sustainable initiatives. To achieve this, it is crucial that they receive support from support agencies such as regional financial institutions. Below, we look at the current situation regarding the support provided to business-oriented NPOs based on a survey of regional financial institutions[46].

45) As a financing support measure for incorporated NPOs, the "Act for the Partial Revision of the Shoko Chukin Bank Company Limited Law and Small and Medium Enterprise Credit Insurance Law" (approved by Cabinet on February 20, 2015), which stipulates the addition of incorporated NPOs to the support recipients, is already being enacted in the 189th regular session of the Diet. Under the "Small and Medium Enterprise Credit Insurance Law", when SMEs receive loans from private financial institutions, the loans are guaranteed by credit guarantee corporations, thereby supplementing the creditworthiness of SMEs.
46) The survey of regional financial institutions requested responses with respect to business-oriented NPOs that meet the following criteria: "they are (1) conducting an ongoing profit-making business (an independent business subject to taxation) engaged in specified non-profit activities; (2) using the earnings from profit-making business (1) to create employment; (3) working in cooperation with various organizations on activities that help to resolve regional issues and revitalize the local economy; and (4) are not deriving benefits from favorable tax treatment in terms of market competition".

Fig. 3-1-36 shows the situation regarding the support measures provided by financial institutions for business-oriented NPOs. This shows that, of the financial institutions, 30% of regional banks[47] and credit unions and 20% of credit cooperatives responded "We engage in such support to a large extent" or "We engage in such support to some extent".

Fig. 3-1-36 Status of support for business-oriented NPOs

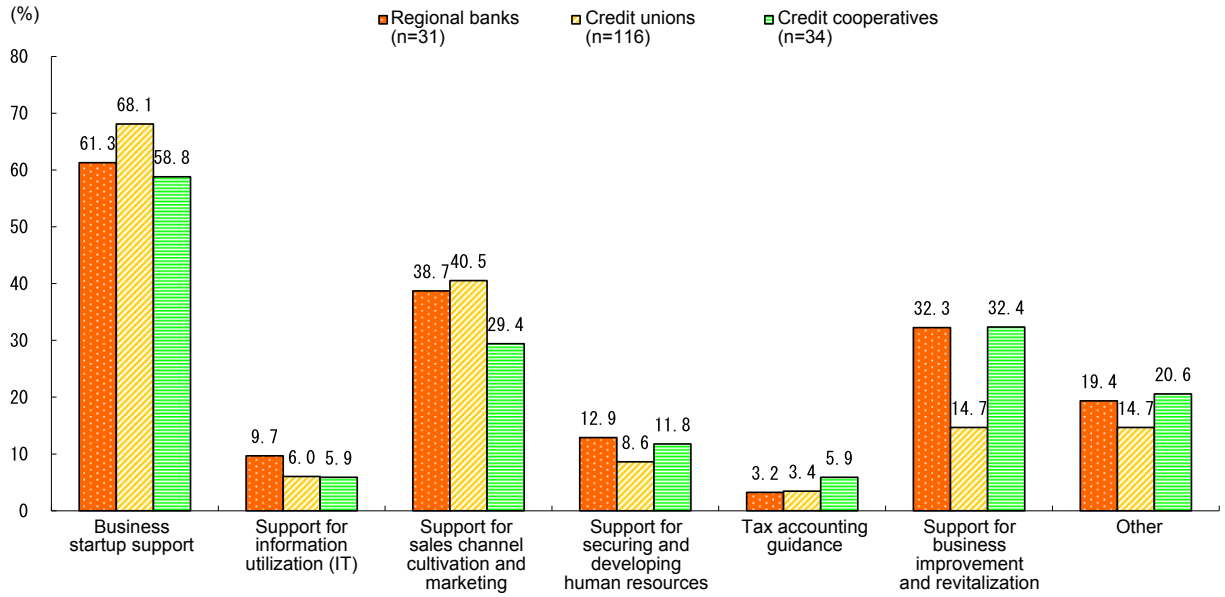


Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

Next, we look at the content of the support (other than financing) provided by financial institutions to business-oriented NPOs. The survey results show that 60% of all types of financial institution responded that they provide "Business startup support" (Fig. 3-1-37). The figure also shows a certain level of "Support for sales channel cultivation and marketing" and "Support for business improvement and revitalization". However, it also reveals that one of the issues for incorporated NPOs, that of "Support for securing and developing human resources", is in very short supply.

47) Regional banks includes both "regional banks" and "second-tier regional banks".

Fig. 3-1-37 Content of support provided to business-oriented NPOs

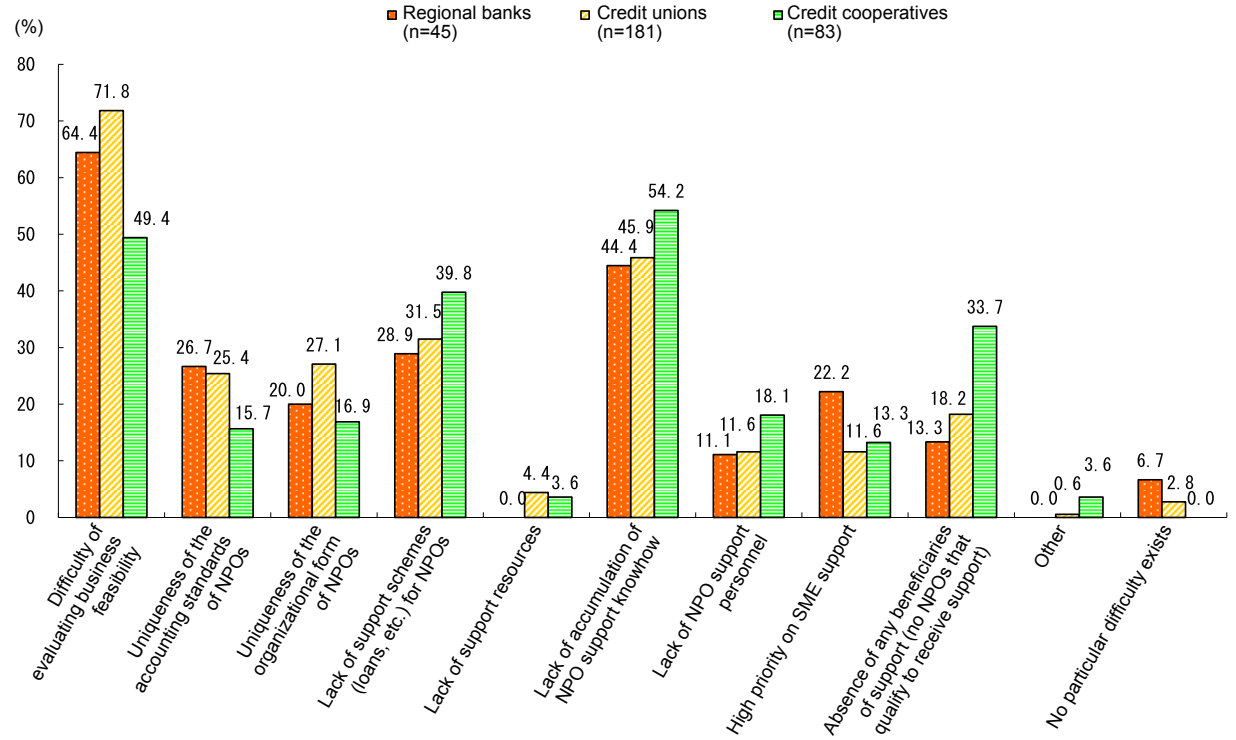


Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

Notes: 1. Regarding their support for business-oriented NPOs working to resolve regional issues, regional financial institutions were asked to choose any of "We engage in such support to a large extent", "We engage in such support to some extent", "Can't say either way" or "We hardly engage in such support" as their response.
2. The total may exceed 100 as multiple responses were possible.

So, when financial institutions support business-oriented NPOs, what sorts of issues do they encounter? Fig. 3-1-38 shows that the response most often chosen by regional banks and credit unions was "Difficulty of evaluating business feasibility", while the most frequently selected response among credit cooperatives was "Lack of accumulation of NPO support knowhow". In terms of the "Difficulty of evaluating business feasibility", the problem is similar the one that financial institutions have in grasping the details of business conducted by SMEs and micro-businesses. This can probably be overcome by accurately identifying the nature of the business from its day-to-day transactions and from conversations, coupled with an assessment of the feasibility of the business based on the business details. Evaluation criteria should also be set out to be used by financial institutions for feasibility assessments. In reality, we are now seeing financial institutions that not only assess financial feasibility, but also include the impacts on the community in their screening of business assessments for initiatives by business-oriented NPOs to resolve regional issues.

Fig. 3-1-38 Difficulties in providing support to business-oriented NPOs



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.
Note: The total may exceed 100 as multiple responses were possible.

In the above, we gathered an overview of the current situation for incorporated NPOs, and business-oriented NPOs in particular, as a new supporting player in the resolution of regional issues. While business-oriented NPOs face much the same issues as SMEs and micro-businesses, we have seen that the support provided by financial institutions is not limited to financing, but to some extent also includes support for the cultivation of sales channels and business improvement. However, because supporting business-oriented NPOs poses some unique difficulties, it is important that financial institutions and business-oriented NPOs work in the future to overcome those issues by communicating with each other.

Below, we look at a number of case studies involving the types of business-oriented NPOs we have been discussing and financial institutions who are supporting a range of organizations working to resolve regional issues.

Case 3-1-15 Association of Yamaguchi Senior Activists (AYSA)

A nonprofit that works to solve local problems by making full use of seniors with specialized knowledge and skills

The nonprofit Association of Yamaguchi Senior Activists (AYSA) (employees: 2) of Shunan City, Yamaguchi Prefecture, has senior citizen members[48] who have retired from their careers. They use their abundant knowledge, skills, experience, and personal connections from different fields to give something back to their community. The organization works to solve management problems experienced by local businesses. It also accepts work under contract and helps workers develop occupational skills. Its purpose is to motivate seniors so that they can contribute to the development of the community.

48) As of March 31, 2014, there were 105 regular members.

In 1988, AYSA Chairman Kenji Fujimoto established the private organization Hatten Salon with the goal of launching a venture business. The work was done primarily by 21 technical workers who had retired from large companies in Yamaguchi Prefecture. One problem in the mountainous areas of Yamaguchi Prefecture is that landslides cause structures to collapse. The area is covered with many retaining walls and artificial slopes to prevent such cave-ins. Hatten Salon was established to run a business venture planting vegetation on these artificial slopes. Its initial focus was to develop multifunctional filters for the vegetation work. Subsequently, as Hatten Salon branched out into other endeavors and the organization expanded, the nonprofit Association of Yamaguchi Senior Activists was founded in 2004 with its current structure of nine sections with 13 project areas.

To run a nonprofit, it is important to find and develop new for-profit projects in particular so that the nonprofit organization can stay active. AYSA has a committee whose focus is to consider new projects. The new project ideas that it discovers are then sent to AYSA's Board of Directors, which decides whether to pursue them. Currently, the organization is considering setting up a team to address the question of how to get "sixth industry" support established in the region.

The main revenue-generating activity of the AYSA is the Shunan Senior HR Matching Bank, which seeks to boost employment of seniors while supporting management of small and medium-sized enterprises in the region. So far, the matching service has created jobs for 300 people cumulatively. In addition, the AYSA Business Management School, a project to develop managers, has helped to train 266 individuals.

Asked about the key points of the projects AYSA has pursued so far, Chairman Fujimoto says, "Four things are important: dedicating yourself to community-based projects; making your activities visible to those in the community and surrounding areas; getting new personnel (that is, successors) and expanding; and establishing and strengthening your planning and management office system (head office function)."

AYSA Chairman Kenji Fujimoto

A forum for considering the "sixth industry"

[Observations from the case]

Success factors

One success factor for the AYSA as a nonprofit is that while it consists mainly of volunteers, it has a committee that focuses on considering new projects to sustain the activities of the organization. Ideas generated by the committee then go to the Board of Directors, which decides whether to pursue them. The Shunan Senior HR Matching Bank, the organization's main revenue-generating activity, and other businesses developed under the AYSA's system, have contributed greatly to stabilizing the AYSA's management. In addition, as it pursues revenue-generating projects, the AYSA is always mindful of trying to solve management problems faced by local businesses. Another distinctive feature is that it thought to make full use of the qualifications and specialty knowledge and skills of its 120 registered members and 38 specialists.

Solutions to local problems: A nonprofit that solves problems in the community

Even after AYSA became a nonprofit in 2004, it continued to do the same types of activities that Hatten Salon, its predecessor, had pursued. Initiatives include "Senior HR Matching," which exists to help solve management problems faced by local businesses; "Benriya Otasukeman," a service that offers relief to vulnerable people; "Ai SA Shiawase Angel," a service that introduces clients to potential marriage partners; services to children (a toy repair clinic and boys and girls "invention club"); and community activity services (such as a movie theater service for seniors). These and other services are designed to address a wide range of local problems.

In addition, AYSA will launch a plan for three new FY2015 projects in April.

People who developed their skills locally are carrying out these projects. This is a good example of a "cycle of human resources within the community," meaning that the special knowledge and skills people learned in the community are being put to use to solve community problems. The fact that these projects consist of revenue-generating activities makes the system sustainable. The above indicates that securing human resources and ensuring business potential are critical to a nonprofit's ability to sustain activities for solving community problems.

Future issues

The AYSA has many years of business experience, and over this time the number of members has gradually increased. However, continuing its projects over the long term could be difficult in that, as the organization tries to run revenue-generating projects, it may have trouble matching its personnel to its projects, since it is not a business organization. And as far as the need for human resources is concerned, government organizations need to provide opportunities and infrastructure for people with specialized knowledge and skills to put them to use. Furthermore, there are limits on what a nonprofit can do by itself. Thus partnering with government agencies and other organizations could be a big issue in future.

Case 3-1-16 Seibu Shinkin Bank

A local financial institution actively supporting community businesses

Seibu Shinkin Bank (employees: 1,167; capital: ¥8.6 billion as of September 30, 2014), based in Nakano City, Tokyo, is a credit union providing comprehensive support to community businesses run by a variety of parties including nonprofit organizations.

In 2003, it opened the Seibu Incubation Office to support would-be entrepreneurs. Then in 2005, it opened the Seibu Community Office on the third floor of its Ogikubo Branch as a center for local initiatives in support of community businesses. The office's services are available to parties and individuals performing social initiatives intended to revitalize the community. The office is partitioned into 10 rooms which are made available under two-year contracts with monthly rents of about ¥40,000. A separate conference room is also available. Also in 2005, Seibu Shinkin Bank started offering Seibu Community Loans, a special loan program for merchants associations, nursery schools, nonprofit organizations working to solve local problems, and some others. So far, the program has extended about ¥3.1 billion in financing to 260 organizations.

In 2008, the bank began offering eco. Term Deposit accounts as a way of encouraging environmental protection. An amount equivalent to 20% of the interest paid on accounts is donated to nonprofits and other organizations working to preserve the environment. Meanwhile, the bank donates the same amount itself. In this way, it supports organizations' activities financially in partnership with depositors. It has taken such deposits a total of eight times, bringing in nearly ¥40 billion in savings. It has given support of ¥17.02 million to 92 organizations, or about ¥200,000 per organization. In 2013, the bank started recruiting participants into its Community Building Term Deposits with The Nippon Foundation program. This represented a break away from the environmental protection initiatives framework. At a meeting for the final screening of subsidies, all applicants give a presentation. The bank also goes beyond providing subsidies to give a wide range of support to help businesses develop and stabilize. This includes business matching opportunities that bring applicants together. Another new service that began the same year is called Financing with Public Assistance and Subsidies. It helps organizations with their fundraising efforts, right up to the actual receipt of assistance and subsidies. Organizations can get funding with a notice of grant decision and written pledge.

In 2014, the bank launched a service called CHANGE: Seibu Social Business Growth Support Funding. This program is also intended to give support for entrepreneurship and business stability, with a focus not just on funding but also on support for management. The "CHANGE" in the product name has three meanings. First, the flow of funds changes from subsidies to financing. Second, the service seeks to change society by solving problems. Third, the service seeks to provide funding that will change the nature of businesses. Clients can borrow up to ¥5 million for up to seven years at a fixed interest rate of 0.1%. They have access to the support that their management resources need, such as help with human resources and advice for drafting a business strategy. This management reinforcement support comes from the Seibu Shinkin Bank Customer Support Center and the nonprofit organization ETIC, which specializes in business support for social businesses. Inspections performed under the CHANGE program include a financial inspection that is similar to that given to ordinary small and medium-sized businesses and others. However, there is an additional business evaluation that includes a look at social impact. Therefore the business model examination also looks at such perspectives as social significance, effectiveness and impact as a solution for solving problems, profitability, business feasibility, management and financial planning, and sustainability. As of January 2015, the program has already financed 24 organizations with over ¥100 million in funds.

In a number of cases, as a result, groups that received subsidies as support for their activities gradually are getting financing as they grow stronger. Additionally, there is one group that had sales of about ¥1 million at the time it was using the Community Office, but now has sales of about ¥10 million and is getting CHANGE financing and support. These support measures have been successful and are helping businesses to launch and stabilize.

Businesses qualifying for the CHANGE program, evaluation items, and measures for supporting stronger management

[Observations from the case]

Success factors

In recent years, Seibu Shinkin Bank has begun listening and offering consulting services to businesses that are rooted in the community and have management problems. At a time when other financial institutions are cutting back on their outstanding loans balance, Seibu Shinkin Bank, working as a local financial institution, is actively loaning local residents' deposits to local customers that need them. Its outstanding loans balance has increased by about ¥170 billion in the last five years to ¥1,064,800 million. It has a loan-to-deposit ratio of 71.52% as of FY2013. Of 267 credit unions in Japan, it ranks No. 2 for outstanding loan balance, and its loan-to-deposit ratio is one of the highest in the Tokyo Metropolis.

Seibu Shinkin Bank considers revitalization of local businesses to be one and the same as revitalization of its own organization. It does not start with the attitude that a financial institution is just there to support others; rather, the financial institution and other groups do business and grow together. The relationship that the bank tries to build with its customers involves more than just lending funds.

This attitude shows in how the credit union relates to nonprofits and other organizations. Inasmuch as a nonprofit's business is to solve community problems, the bank considers it no different from an ordinary enterprise. When it decides whether to make a loan, its financial assessment of all these groups is based on the same standards. Up to now, its lending decisions have been based on more than just the profitability of the enterprise. For example, the credit union may extend a loan to a business that is essential to the community, even if it is not profitable.

However, in the case of a nonprofit, the motive is not to make a profit for itself but to solve local problems. So in some cases organizations like these are not even considering profitability. In that case, the bank will give more in-depth support for the activities of the organization. The bank gives initial support in the form of subsidies and office space. It offers a special menu of financing choices and makes lending decisions based on social impact. It also continues to launch new choices for each stage of a business's life; for example, it might work side-by-side with a nonprofit to support its management. The bank has supported nonprofits and other groups who had the will to achieve things but struggled on the management side.

A local financial institution needs to pursue its essential purpose in the local community and local economy. It needs to listen closely to the needs of the community and reach out so that it can work hand-in-hand with other businesses. It is important that an institution like this should not support activities of nonprofits as another form of corporate social responsibility (CSR), but rather as its main business.

Solutions to local problems: Supporting the various parties working to solve local problems

At a time when local governments have strained budgets, and a declining population that is growing older is causing various social support services to contract, local communities face numerous challenges that must be solved. There are certain businesses and initiatives that private companies are leaving or reluctant to enter because of the low prospect of profitability. In these cases, Seibu Shinkin Bank offers subsidies and office space during the startup phase and favorable lending as the business is developing. It further offers side-by-side management support to groups with certain needs. In this manner it offers the support that each group needs at its stage of life, helping many groups to become involved in solving community problems.

To provide such support, it partners with the Tokyo Metropolitan Government, The Nippon Foundation, the nonprofit group ETIC, and others to provide subsidies and give other effective support such as studying business models.

It also has flow of fund programs that specialize in solving local problems. One example is the program Community Building Term Deposits with The Nippon Foundation. These not only provide funding for nonprofits and other groups taking initiatives; it also stimulates them and gives them a sense of responsibility knowing that

they are supported by the people of the community. The bank's activities also contribute greatly to a sense of cooperation among local citizens: when citizens see groups responding to their needs, they feel like joining in the effort.

At a time when local governments are not able to provide very much support, local financial institutions are becoming more significant for the new and central role they are playing in the public sphere.

Issues

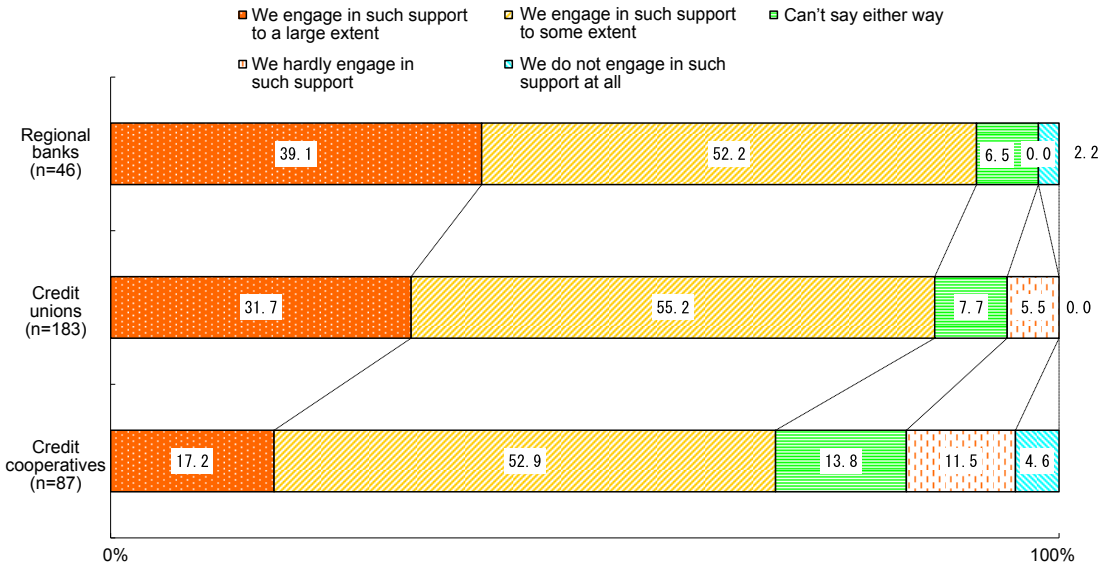
The Seibu Shinkin Bank is already working comprehensively to support its clients, although it could enhance its partnerships with other organizations to offer better support during the startup phase. It is important that the bank offer advice on stabilizing management and implementing stronger approaches to solving problems when the client is a group seeking subsidies during its initial stages, does not yet qualify for financing, or does not yet have definite business potential.

Column 3-1-4 Current situation regarding startup support provided by regional financial institutions

As we have seen in Sections 1 and 2, various different parties, including regional SMEs and micro-businesses and business-oriented NPOs, are helping to revitalize regional areas through initiatives to resolve regional issues and to revitalize regional economies using local resources. We have also looked at large numbers of case studies involving regional business startups that are helping to add new value to and thereby revitalize those regions. In case study 3-1-13 outlined earlier, Kenta Yamashita returned to his community and started up his own business in order to truly revitalize the community. To promote the establishment of regional businesses in this way, the issue of procuring funding must be addressed[49]. Below, we look at the current situation with regard to the support provided by regional financial institutions for founding and starting up regional SMEs.

Fig. Column 3-1-4 (1) shows the status of support provided by financial institutions for founding and starting up regional SMEs. The figure shows that all types of financial institution are engaged in actively supporting the establishment of new enterprises.

Fig. Column 3-1-4 (1) Status of support provided for founding and starting up regional SME



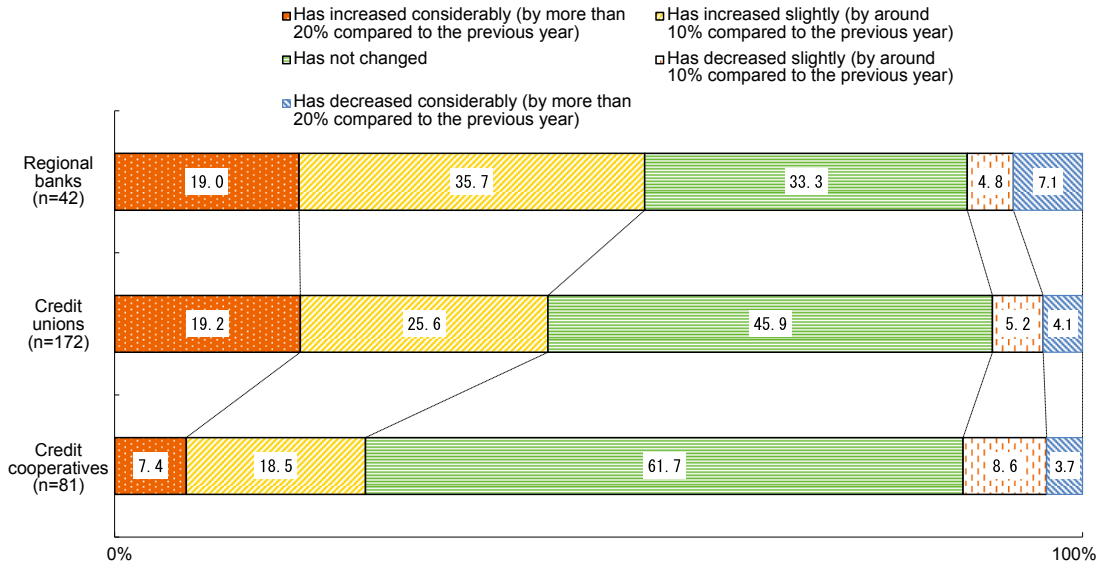
Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

If we also look at changes in startup funding results, we see an overall picture of financial institutions actively providing loans for new business startups. In terms of actual business startup funding results for the last three years, altogether between 30% and 50% of financial institutions

49) See the *2013 White Paper on Small and Medium Enterprises in Japan*, P.60. Half or more of enterprises in the germination phase, which refers specifically to the phase in which there are not yet any sales of the business's goods, products or services (initially the phase where the enterprise has reached preparation for startup), feel that "procuring funding" is an issue.

responded "Has increased considerably" or "Has increased slightly", while altogether less than 10% responded "Has decreased slightly" or "Has decreased considerably". This and the general picture of financing by financial institutions suggest that there is a growing number of regional areas where the environment for establishing and starting up enterprises is improving (Fig. Column 3-1-4 (2)).

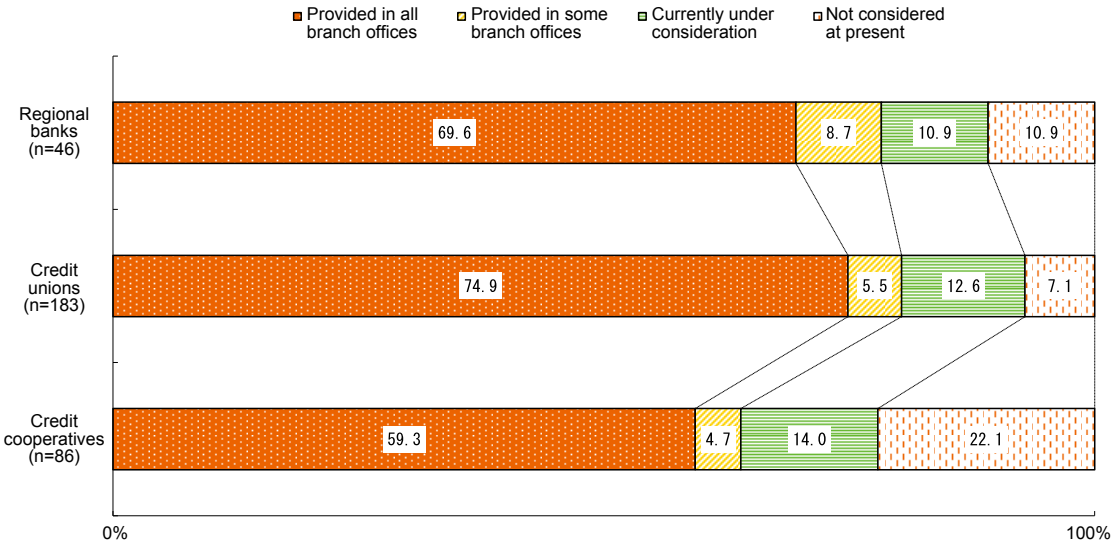
Fig. Column 3-1-4 (2) Trends in business startup funding (in the last three years)



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

Next, we look at the support systems for business startups provided by regional financial institutions. Fig. Column 3-1-4 (3) shows the results of inquiries about business startup support systems that are based on the provision (proposal) of business startup funding products. We can see that, regardless of type, many financial institutions provide business startup funding products at all their branches.

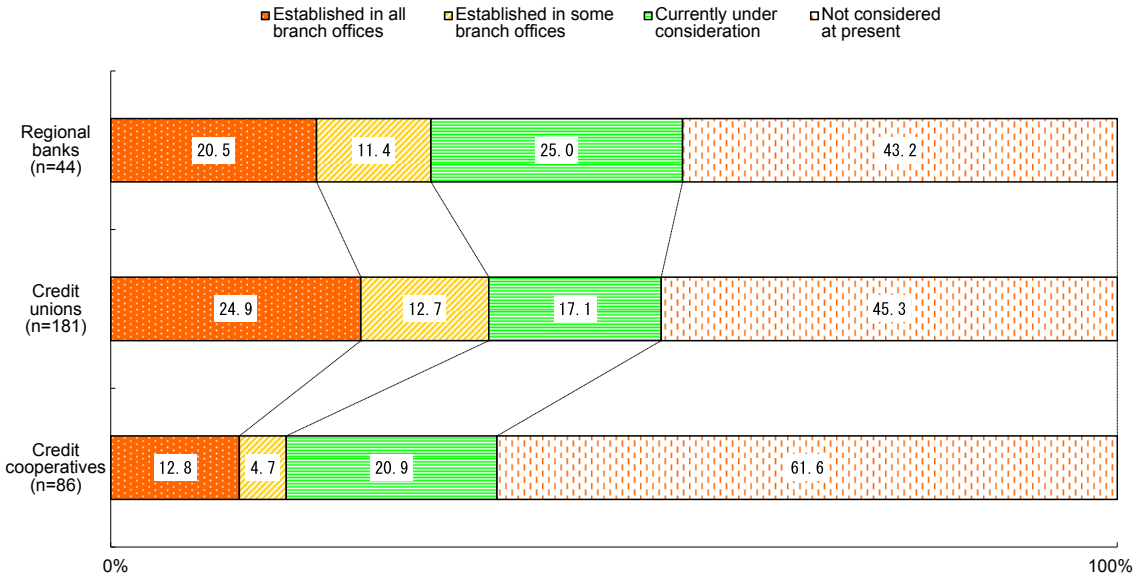
Fig. Column 3-1-4 (3) Business startup support systems based on the provision (proposal) of business startup funding products



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.
Note: Regional financial institutions were surveyed regarding their business startup support systems at each branch.

Next, we look at business startup support systems that work by setting up help desks specifically for business startups, as shown in Fig. Column 3-1-4 (4). When we combine the responses from regional banks and credit unions who selected "Established in all branch offices" or "Established in some branch offices", we can see that around 30-40% of financial institutions have set up help desks specifically for business startups.

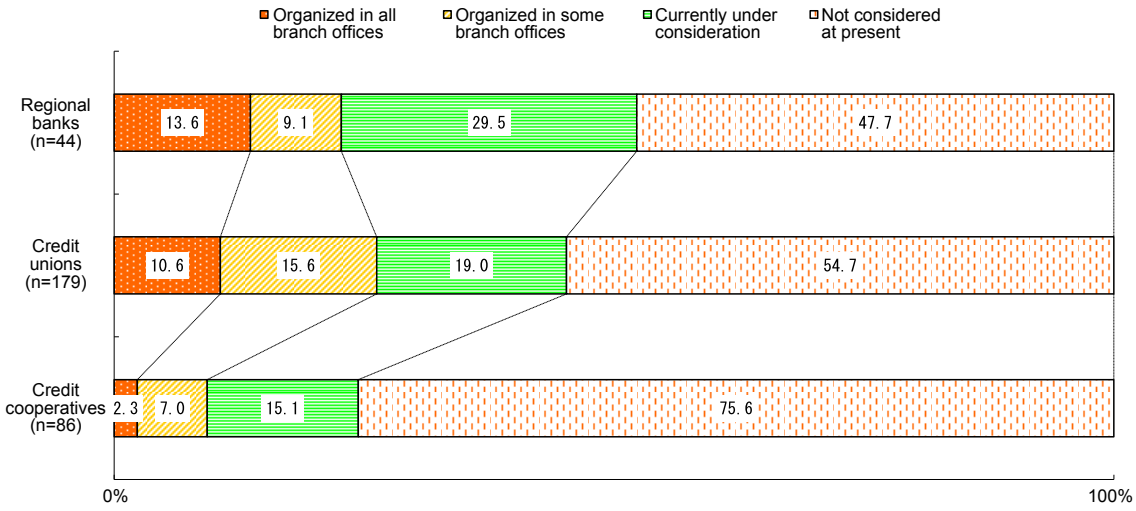
Fig. Column 3-1-4 (4) Business startup support systems using help desks specifically for business startups



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.
Note: Regional financial institutions were surveyed regarding their business startup support systems at each branch.

If we also look at business startup support systems that involve the formation of a specialist business startup support team (section) (Fig Column 3-1-4 (5)) and then combine the responses for "Organized in all branch offices" and "Organized in some branch offices", the proportions are 22.7% for regional banks, 26.2% for credit unions and 9.3% for credit cooperatives. However, we can also see that a certain number of financial institutions are currently considering establishing specialist teams (29.5% of regional banks, 19.0% of credit unions and 15.1% of credit cooperatives). From this we gather that there is a certain number of financial institutions who are working to provide more active and targeted support for business startups by forming specialist business startup support teams (sections).

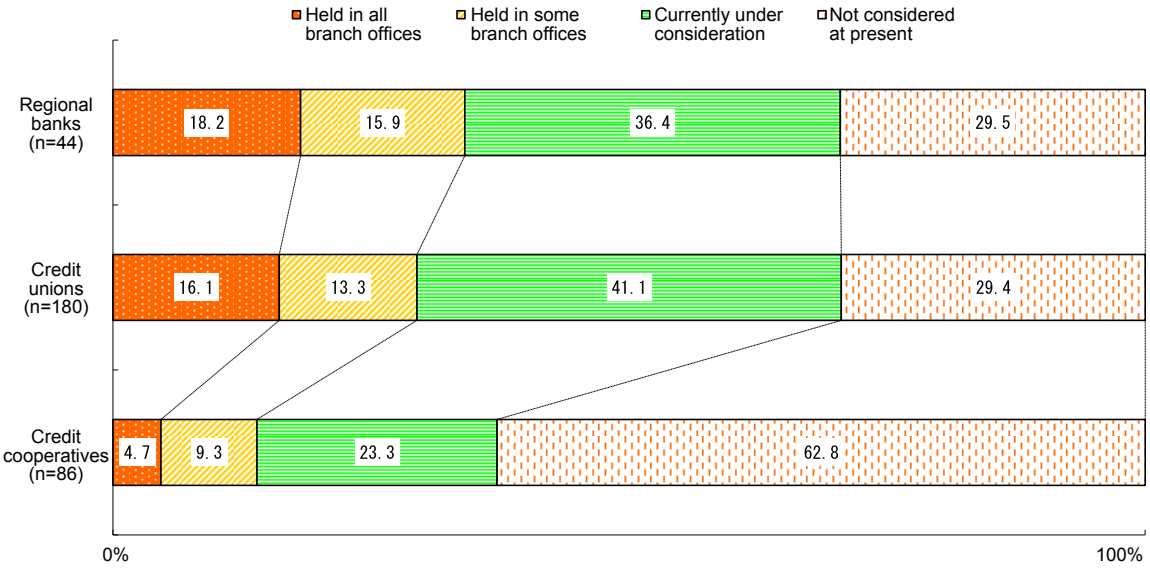
Fig. Column 3-1-4 (5) Business startup support systems working through the formation of specialist business startup support teams (sections)



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.
Note: Regional financial institutions were surveyed regarding their business startup support systems at each branch.

Finally, we look at business startup support systems that hold (or sponsor) events such as seminars on starting up a business, as shown in Fig. Column 3-1-4 (6). When we combine the responses from financial institutions who selected "Held in all branch offices" or "Held in some branch offices", the proportions are 34.1% for regional banks, 29.4% for credit unions and 14.0% for credit cooperatives. At the same time, as with the formation of specialist business startup support teams (sections), it seems likely that in the future there will be growing support for business startup support systems that involve holding events such as seminars, with a certain number choosing the "Currently under consideration" response (36.4% of regional banks, 41.1% of credit unions and 23.3% of credit cooperatives).

Fig. Column 3-1-4 (6) Business startup support systems that hold (or sponsor) events such as seminars on starting up a business



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.
Note: Regional financial institutions were surveyed regarding their business startup support systems at each branch.

What we have seen so far suggests that, while there are differences between the different types of regional financial institution in terms of the business startup support systems provided by those institutions, in general they are devoting some effort to supporting business startups in regional areas and the environment for establishing and starting up businesses in the regions is improving. For the business model of resolving regional issues, there are also some cases where it is difficult to determine whether funding should be provided from the perspective of business viability (whether the business will make a profit). However, as shown in Fig. 3-1-30, it is clear that it is important for businesses engaged in resolving regional issues to deepen their mutual understanding with regional financial institutions by demonstrating strong leadership and their own commitment to the business, and showing a detailed business plan that will allow them to achieve a balance between the business and resolving regional issues.

Column 3-1-5 New key players in the resolution of regional issues

Previously, the proposed new mainstays for resolving regional issues have been "general incorporated associations" and "community associations". They each conduct initiatives tailored to local circumstances, and in the future, like business-oriented NPOs, they are likely to be active as new key players in resolving regional issues[50].

50) For a case study illustrating local residents resolving regional issues, see Case Study 1-4-2 in the *2015 White Paper on Small Enterprises in Japan*.

Case 3-1-17 ITNAV Ishinomaki

An IT foundation that wants to revitalize outlying areas by getting new industries to take root there

ITNAV Ishinomaki (employees: 9), based in Ishinomaki City, Miyagi Prefecture, is a general incorporated foundation providing places and opportunities for young people from that city to learn software development and web design. It also promotes employment by focusing on the intersection of local industry with IT and aims to create an environment where people can get job training.

Ishinomaki City sustained severe damage from the Great East Japan Earthquake of 2011. Takayuki Furuyama, now Executive Director of ITNAV, decided that while the region was in the national spotlight, the time was right to establish Ishinomaki 2.0, a community development foundation. The foundation wanted to do more than just re-create the old Ishinomaki, as the city had little industry and was losing its young people to other areas. Instead, it decided to take the opportunity to try to create a new city. As Furuyama saw it, historically, people did not purposely create cities so much as allow them to develop spontaneously. His goal was to turn community development into human development, and he sought ways in the field of children's education to do so. In January 2012 he started ITNAV, which legally became a general incorporated foundation in December 2013.

Executive Director Furuyama began by trying to set up an environment in Ishinomaki that would allow children to see the world. He was not necessarily thinking about IT at that point, but it was a good and simple way to begin. One IT company, Facebook, was a single idea that grew into a huge industry. IT can connect people to the entire world no matter where they are. Furuyama also realized that IT development was a good fit for people from the Tohoku area, who are known for having the spirit of a true artisan. Subsequently, he set up an environment in Ishinomaki that would attract young people interested in learning IT. The place he developed would bring in people, such as a vice president of Google, that locals would not ordinarily have the chance to meet. As Furuyama says, "Bringing in people like this makes the place more attractive and allows people to make connections, which can then lead to the next stage."

ITNAV initiatives for educating children currently include IT Workshops for elementary school students. The foundation also gives lectures in software development at the Ishinomaki Technical High School. Another program is the Tohoku THEC Dojo, which provides technical training to young people, inviting lecturers from Google. The aim here is a bottom-up approach to engineering in the Tohoku region. However, the biggest event that the foundation conducts in Ishinomaki City is the Ishinomaki Hackathon. This software development event is one of the largest of its kind in Japan. The event was held for the third time in 2014, with 150 people participating over the three days. ITNAV says that the problem with local information is that people dismiss it as no more than that–local information. The foundation has begun initiatives to put out information and use video content in recent years in the hope of creating stable revenue.

ITNAV currently has a staff of nine and runs activities with dozens of students from elementary school to university age. In some programs, students teach students. Those who teach children also gain a lot. The foundation hopes to establish a cycle wherein young people from Ishinomaki teach children, and those children grow up to teach the next generation of Ishinomaki children. By so doing, it hopes to establish something new and self-supporting.

ITNAV's office

[Observations from the case]

Success factors

A strong point about IT is that because it is accessible anywhere, the user can get connected to the world no matter where he is. In outlying areas, the greatest potential can be achieved by inviting interesting people to come there. ITNAV invites interesting people and holds events to create a new environment (that is, IT) and new attractions in Ishinomaki. Furthermore, contrary to what might be expected, it uses the location of Ishinomaki City in the Tohoku area to its advantage. If a Hackathon event, for example, were held in Tokyo, people may feel they can wait until the next time. But if they hear it is being held in Ishinomaki, many people probably think, "I need to go there this time." Within the IT field, design has become mainstream but development has not. ITNAV has gained some attention because it holds development events. ITNAV, using the power of IT to make location irrelevant, uses large networks that bring attractions to Ishinomaki and communicates the attractions of the city to other places, leading to new things.

Solutions to local problems: Creating new industry with IT

With IT, a single idea has the potential to create a huge industry. Moreover, if a local area produces a single outstanding developer, there is even potential for new industry to become rooted in that area. Providing a place where children can use IT to see the world has a big impact on those kids. Therefore, through the education it provides, ITNAV could potentially create new industries from the intersection of IT and primary industry. If young people started coming to Ishinomaki to learn IT, it could help new cultural assets and attractions become established in an outlying area such as this.

Future issues

One issue that ITNAV currently faces is insufficient funding. It is important that it find more revenue than it can make by getting children and young people interested in IT. Expanding partnerships with government offices is also an issue ITNAV should address.

Case 3-1-18 Sasayuri-kai of the Yunohara Town Neighborhood Council

Neighborhood council-led local management of post office, shop, and exchange facility to maintain the local living environment

The Sasayuri-kai of the Yunohara Town Neighborhood Council is located in Yunohara Town, a mountain village about 30 minutes by car from the center of Matsusaka City.[51] As of April 2014, the town was home to 82 persons living in 47 households.

In 1988, the town faced the loss of regular bus service because of its declining population, leading to a campaign to find a way to increase ridership and continue the service by getting people to take the bus from the urban area. With that goal in mind, a local women's group started an early-morning market for selling fresh-picked vegetables. This was the beginning of full-fledged efforts to revitalize the community. After that, local women got together to form Sasayuri-kai. This group began developing specialty products, selling agricultural products to shops in the city, and more.

In 1997, the Ukisatomura Management Association, which had been set up to manage a simple overnight lodging facility, opened a restaurant in a hut-like building. The project got assistance from the national and prefectural governments as well as ¥200,000 in funding from each of the participants. Currently, four members are operating the restaurant Ukisatomura. The shop closes for a holiday on Tuesdays, but other days it serves meals of udon noodles, grilled meat, fried chicken, and more. A particularly popular dish is Sasameyuki Udon, wheat noodles made with a type of jute plant called *moroheiya* in Japan. The kitchen also produces processed foods for sale in stores and supermarkets.

In 2003, the local JA Bank closed. Then in April 2007, the local post office run under contract by the city of Matsusaka closed. The Yunohara Town Neighborhood Council, a self-governing body representing the local area, started looking into contracting to run a simple post office, in part to help people who had no access to financial services since the bank had closed. It soon began making preparations and began operating the post office the month after the previous one had closed. The money needed to open the post office was raised by selling common land. Under the law, two people were needed to manage the post office. The chair of the neighborhood council, who had previously been a postal employee, served as the post office manager as a volunteer. To fill the other position, a person who had moved to the area took

51) Matsusaka City (population 168,146 in 2010 Population Census, with an area of 623.64 km²), is located in the center of Mie Prefecture. It was formed in 2005 through the merger of the towns of Ureshino, Mikumo, Iinan, and Iitaka. Extending from Ise Bay to the border of Nara Prefecture, it consists of a wide variety of regions.

training and became an employee.

Another initiative began in July of the same year to help out people without easy access to shopping. Residents each chipped in ¥10,000 to begin operating a store called the Community Ukisato Minna no Mise. It is located next to the post office in the building that had once housed the bank. The shop stocks essential food and clothing as well as a large range of farming goods such as tools and seeds. Because a number of tourists also stop in, the shop makes area maps and a large number of guides to local sites available. The shop also serves another important function: as a community meeting place. A table and chairs are set up in front of the register, and a wood stove heats the area in winter. Here, customers can chat with each other or with store employees.

Thus the center of Yunohara Town now features a simple post office and community store as places where the locals can conduct their day-to-day business as well as the restaurant Ukisatomura, where they can meet people from out of town. Now there is even a bus stop, making this truly a "small base" around which people can build their lives.

Restaurant Ukisatomura

Retail store Community Ukisato Minna no Mise

[Observations from the case]

Success factors

Ordinarily, neighborhood councils run regular projects and events and find it difficult to undertake new initiatives where it is hard to reach consensus. However, in this case, officers of the neighborhood council, including its chair, decided that they wanted to help those residents who could not easily access banking services. They led an effort to try to solve local problems. This, along with the experience of a team of women who had led efforts to undertake a variety of initiatives previously, is a success factor in this case.

At times, there have not been enough people to run the restaurant or certain events because of the population decline and the aging of the community. However, they have been able to cover for this by winning fans with strong ties to the community. From the beginning, the community had the idea of working with urban residents to raise bus ridership and thus keep the line in operation. Therefore, the initiatives have had an emphasis on exchanges among people. The neighborhood council realized that very few people would come out to the town just because of the morning market, so it recognized the importance of exchange. It created fans by handing out free bowls of breakfast rice porridge and engaging in conversation with visitors. As the number of fans grew to about 250, there was a growing desire to work with them to help revitalize the town. About 70 of those fans formed a club to pursue environmental volunteer work. The group has helped with such tasks as mowing. In addition, employees from city hall help out at a summer festival as well as a winter festival featuring the rice porridge dish *nanakusagayu* every year. There have been cases where people visiting a festival end up working as staff. More and more urban residents are becoming fans and new helpers in the revitalization effort.

Solutions to local problems: A neighborhood council working to maintain the community

The community in this case study had seen its elementary school, stores, and post office closed because of its declining population and aging citizens. In the midst of these challenges, the neighborhood council directly took charge of managing such institutions. This is not only maintaining the lifestyle standard of the community but also helping to maintain people's homes and the community itself.[52] In a situation like that, the efforts of the community alone are not enough to protect citizens' lifestyles. The unique aspect of this case is that the community used its resources to network with people from outside. As a result, they were able to provide employment and get urban residents to serve as staff, and moreover to run their projects in an enjoyable way.

Multiple organizations are involved in the operation of facilities and the running of various events in this case. In this situation, it is important that there be sufficient partnerships among organizations, that the organizers work to reduce their management costs, and that the various initiatives create synergy for each other. Partnerships with the city and enterprises are also important. For example, the neighborhood

52) Under Article 260-2, Paragraph 1 of the Local Autonomy Act, a neighborhood council can have corporate status that is limited to the rights of ownership, etc., of real estate if it has the approval of the mayor of the local government.

council is making good use of Matsusaka City employees in charge of the area. It is also taking advantage of a program unique to Matsusaka City: resident associations educate the population about "*furusato* taxes," a portion of residential taxes that taxpayers can choose to direct specifically to their locality. The payments made under this system are then distributed to the community, supporting a variety of activities.

It is also important for this community to find personnel and revenue sources that are partnership-based, overlapping, and diverse. The restaurant for example not only provides a place for people to meet each other but is also a place where citizens can enjoy a casual meal or get a boxed lunch. Partnerships with institutions like this ensure that the community has necessary lifestyle services, provide employment for community members, and bring in personnel from outside the community.

Future issues

The population in this area continues to grow smaller and older, and any events require personnel who know how to plan and manage events. People who were leaders in the effort have passed away and officers from the neighborhood council have grown older. However, the community has cooperation from the citizens they have fostered and from urban residents who have developed deep ties with the area. Therefore it is expected that the community will be able to continue operating facilities and offering lifestyle services as independent initiatives of the community. However, the falling population means that store sales, etc., are declining, which is something that the organizers have to overcome.

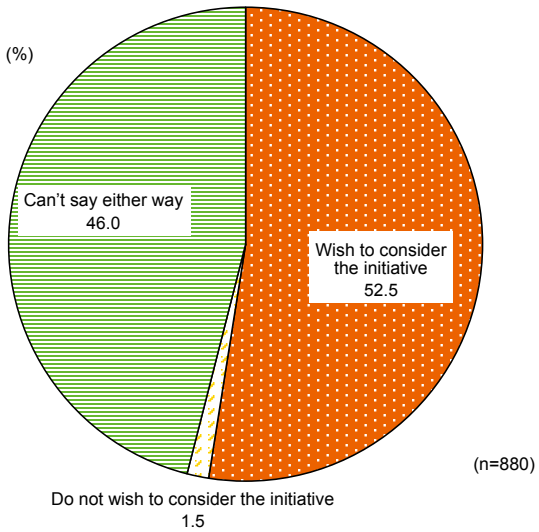
There have also been some senior citizens who wish to fix up an older home where they can live together, but this has proven difficult under the fire regulations. Moreover, even if there were urban residents wishing to move to the community, there are significant obstacles to their doing so. First, the water supply has not been developed, and only non-flush toilets (i.e., sewage must be removed regularly) are available. This is one problem that will have to be addressed in future activities.

As we have seen, regional SMEs and micro-businesses are not the only ones working to resolve regional issues. In fact, a wide range of diverse players, including business-oriented NPOs, local residents and general incorporated associations are supplementing the work done by municipal governments, who are still seen by many local residents as the mainstay in resolving regional issues.

Finally, with a view to improving efficiency, we look at municipal government awareness of approaches whereby some of the private-sector businesses, which are included among these new parties in resolving regional issues, take over the administrative services being provided by municipal governments, as shown in Fig. 3-1-39.

This indicates that roughly half of municipal governments are willing to consider ceding some of their administrative services to private-sector businesses, with no more than 1.5% of municipal governments responding "Do not wish to consider the initiative". So it seems that many municipal governments are aware of the current situation in regional areas and have already adopted the approach of seeking to work alongside regional private-sector businesses to resolve regional issues.

Fig. 3-1-39 Consideration of private-sector businesses taking over some administrative services



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Note: Municipal governments were asked about their approach to the idea of private-sector businesses taking over some of the administrative services they were providing (with a view to increasing efficiency, etc.).

Column 3-1-6 Social Impact Bonds (SIBs)

Social Impact Bond (SIBs) are a community investment model implemented by leading not-for-profit businesses who can be expected to reduce social costs. Based on public-private cooperation, the model comes with a government guarantee and returns are linked to outcomes. Schemes that use this model include the social rehabilitation of former convicts, children's homes, adoption services and the prevention of re-offending by younger criminals. The principal investors include charitable donors, aid organizations and the CSR divisions of investment banks.

Given the constraints on public-sector funding, falling public expenditure and business reviews, there is now a need to shift business carried out directly by government to the private sector. Also, with the growing level of interest among private sector investors in "social investment", SIB initiatives have now been introduced over 20 countries worldwide following the first such venture in Britain in 2010.

The introduction of SIBs allows governments to reduce their costs and because investors (the implementing organizations) are paid by government based on results and therefore must take steps that will produce definitive outcomes, such schemes are expected to yield better results than programs where funding assistance is provided up front.

Britain's first SIB program was introduced at Peterborough prison, with funding totaling around ¥800 million procured from 17 foundations and charitable donors. This social rehabilitation program for inmates was implemented over a 5-year period and its goal was to reduce re-offending rates by at least 10%. The benefits of the reduction in re-offending in terms of reduced detention and judicial system costs would result in an IRR return of 13%, and a 2013 interim assessment conducted after the program had been running for three years since its introduction 2010 found that re-offending had been reduced by almost 20% compared with the national average, indicating significant positive outcomes.

We have seen how the resolution of regional issues by a diverse range of parties, such as regional SMEs and micro-businesses and incorporated NPOs has not only helped to improve the living environments of people living in regional communities but has also helped to create new employment and added value in those communities. Many of the these initiatives to resolve regional issues have begun from a strong commitment by business people who made the decision to somehow tackle the issues facing their communities, and we have also seen that these efforts have utilized local resources and have worked closely with the community on the basis of trusting, face-to-face relationships with the local residents.

In the future, regional areas, and particularly hilly and mountainous areas, are likely to face increasingly diverse and entrenched regional issues in the form of population decline and an aging society. So that the organizations working to address regional issues, such as regional SMEs and micro-businesses and incorporated NPOs conducting highly viable programs, can continue to do so, we would like to conclude this section by pointing to the need for research into wide-ranging support measures for those organizations.

Chapter 2

Regional responses to changes in the socioeconomic structure

In the previous chapter, we looked at a number of case studies where regional SMEs and micro-businesses, in cooperation with various other organizations, have helped to revitalize regional economies through programs that utilize local resources. We also saw case studies in which programs aimed at resolving regional issues have enriched the lives of local residents. These programs, being tailored to the actual circumstances of the respective regions, have contributed to the revitalization of those regions.

However, so that local governments (prefectural and municipal governments) in those regions can revitalize their local economies through programs that cater to local conditions, it is crucial that we identify the medium- and long-term changes those regions face and accurately assess the current situation in those regions. Then, we can formulate strategies (pathways forward for the regions) based on those findings and start implementing those strategies.

On the basis of the "Act on Overcoming Population Decline and Vitalizing Local Economy in Japan"[1] enacted on 21 November 2014, a "Regional Comprehensive Strategy"[2] is being formulated by prefectural and municipal governments from every part of Japan. The Regional Comprehensive Strategy being formulated by the prefectural and municipal governments will include measures tailored to their respective local circumstances that are aimed at building richly individual and appealing local communities, providing an environment that fosters the growth of communities where people are happy to marry and raise families, and creating attractive employment opportunities. In short, formulating the Regional Comprehensive Strategy is effectively the same as creating future pathways for regional areas and providing a compass to guide communities along those pathways in the years and decades to come.

In this chapter, we will take a close look at the upcoming formulation of the Regional Comprehensive Strategy and re-assess the changes in the socioeconomic structure that the regions face from the medium- and long-term perspective. We will also introduce some case studies of local governments working on initiatives such as accurately identifying the structural changes facing regional communities, promoting regional economies and promoting regional SMEs. We will also be looking at some instances relating to the regional structural analysis that is an indispensable part of formulating the Regional Comprehensive Strategy, as well as an outline of the "Regional Economy (and) Society Analyzing System" (RESAS) developed by the Ministry of Economy, Trade and Industry (METI) to assist with regional structural analysis.

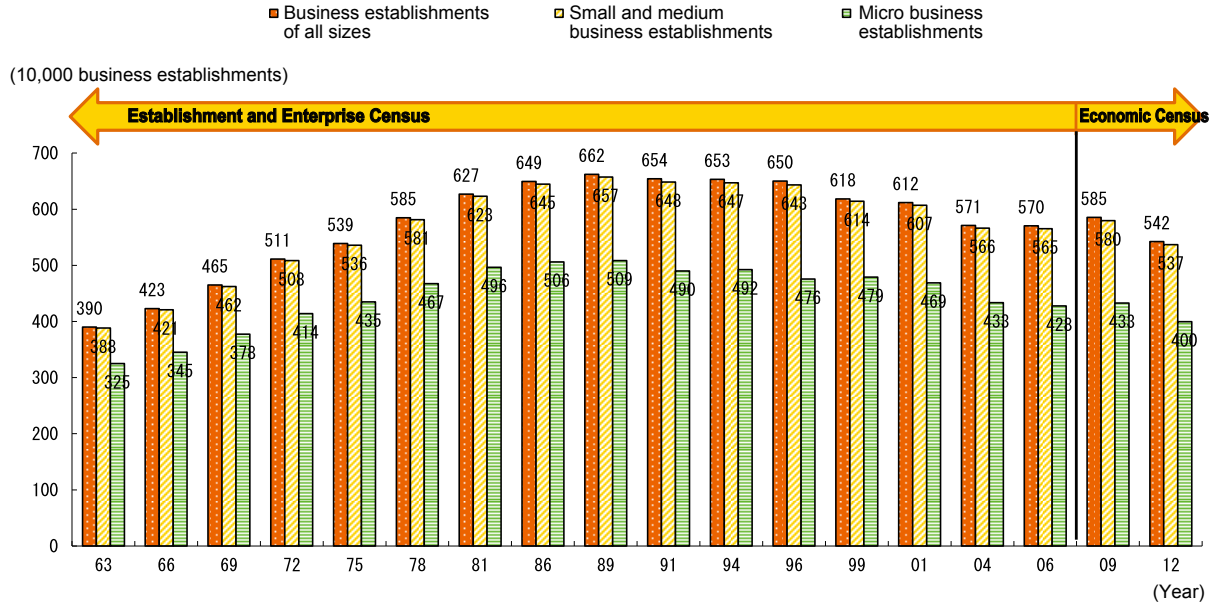
Section 1 Changes in regional economic structures

[1] Changes in the industry structure of Japan as a whole

We will begin by looking at the changes in Japan's overall industrial structure in terms of the number of business establishments. Fig. 3-2-1 shows the trend in the number of business establishments in Japan. Postwar Japan experienced a period of high growth with the number of business establishments generally rising until 1989. However, since 1989, business numbers have tended to fall[3].

1) Refer to Column 3-2-8 for detailed information on the Act on Overcoming Population Decline and Vitalizing Local Economy in Japan.
2) Here, the "Regional Comprehensive Strategy" refers to the "Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan" and the "Municipal Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan".
3) As of the 2009 survey, there is a discontinuity in the data caused by changes in the statistical methodologies when the *Establishment and Enterprise Census of Japan* was integrated into the *2009 Economic Census for Business Frame*. That said, the figure still shows that the number of business establishments in Japan peaked in 1989 before going into decline.

Fig. 3-2-1 Number of business establishments in Japan

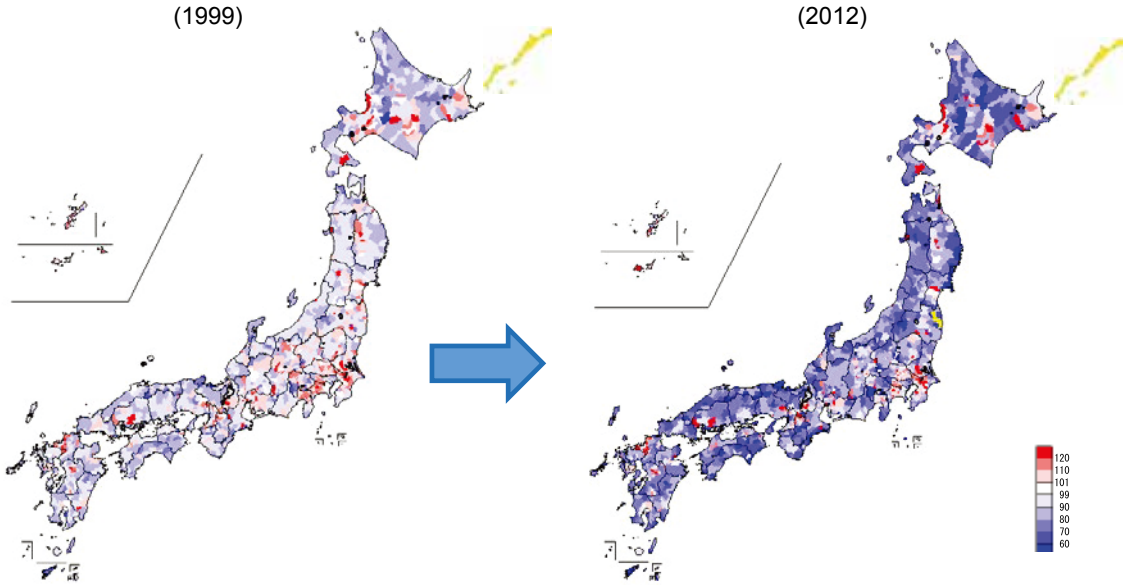


Sources: Recompiled from MIC, *Establishment and Enterprise Census, 2009 Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes: 1. The survey was conducted as the *Establishment Census* until 1991, as the *Establishment Directory Maintenance* in 1989 and as the *Establishment Directory Maintenance Survey* in 1994.
2. In the figures from 2012 onwards, designated exceptional industries are reflected in the number of SMEs and micro business establishments.

Fig. 3-2-2 shows the changes in the numbers of business establishments by municipality, when the number of business establishments in 1986 is taken to be 100. In both 1999 and 2012, we see many municipalities where the number of business establishments increased primarily in prefectural capitals, but in 2012 we also see declines in the number of business establishments in many municipalities, with particularly high rates of decline in municipalities in hilly and mountainous areas.

Fig. 3-2-2 Changes in the numbers of business establishments by municipality

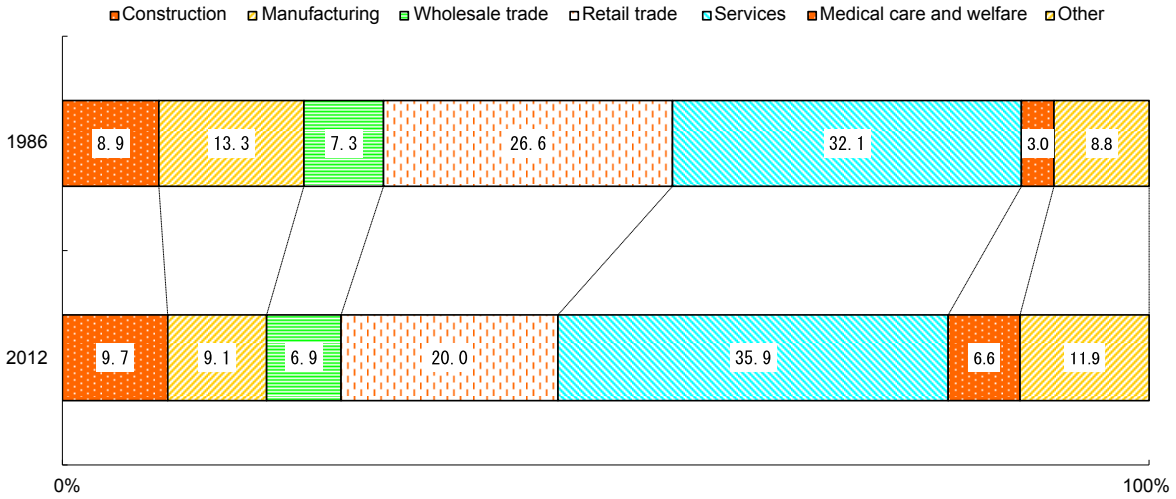


Sources: Recompiled from MIC, *Establishment Census*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes: 1. The figure charts the annual numbers of business establishments in each municipality, taking the number of business establishments in 1986 to be 100.
2. The totals are for privately operated business establishments. However, primary industries such as agriculture are also included.
3. Areas not surveyed for each year are shown in yellow.

Next, we look at the breakdown by industry of the numbers of business establishments for 1986 and 2012, as shown in Fig. 3-2-3. The figure shows increases in the proportions of businesses in industries such as services, medical care and welfare[4]. Underlying these changes are increased demand for nursing services due to the aging of the population and greater diversity in service provision resulting from the diversification of consumer needs. Conversely, we see a decline in the proportions for industries such as manufacturing and retail trade. In the case of manufacturing, the decline in business establishment numbers is most likely caused by the impacts of economic globalization, while the declines in the retail trade are probably due to falling demand as the population decreases and business closures caused by factors such as aging among the business owners and managers[5].

Fig. 3-2-3 Changes in the industry breakdown as shown by business establishment numbers

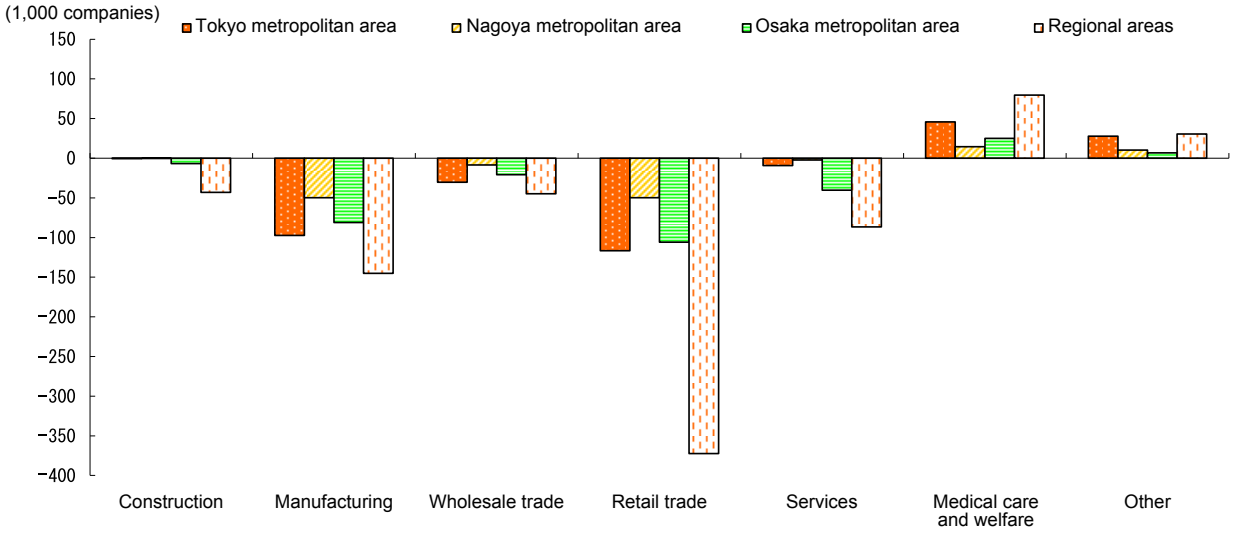


Sources: Recompiled from MIC, *Establishment Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level.
2. The Food Services and Accommodations, Education and Training Support, Compound services (excluding post offices) and Services (businesses not otherwise classified) categories are included in the Services industry.

Fig. 3-2-4 shows the changes in the numbers of business establishments by industry as they apply to metropolitan areas. This shows a significant decline in the number of retail trade business establishments in regional areas. This reveals the problems of, for instance, the increasing difficulty faced by elderly residents of hilly and mountainous areas going shopping when they have no means of transport and the loss of liveliness in shopping districts as the numbers of retailers in those shopping districts decrease and they no longer function as generators of community activity.

4) While the medical care and welfare sectors could be regarded as part of the Services industry, there have been major increases in the numbers of business establishments and of workers over the last 20 or 30 years, so medical care and welfare are shown separately.
5) Refer to Part I, Chapter 4 of the *2015 White Paper on Small Enterprises in Japan*.

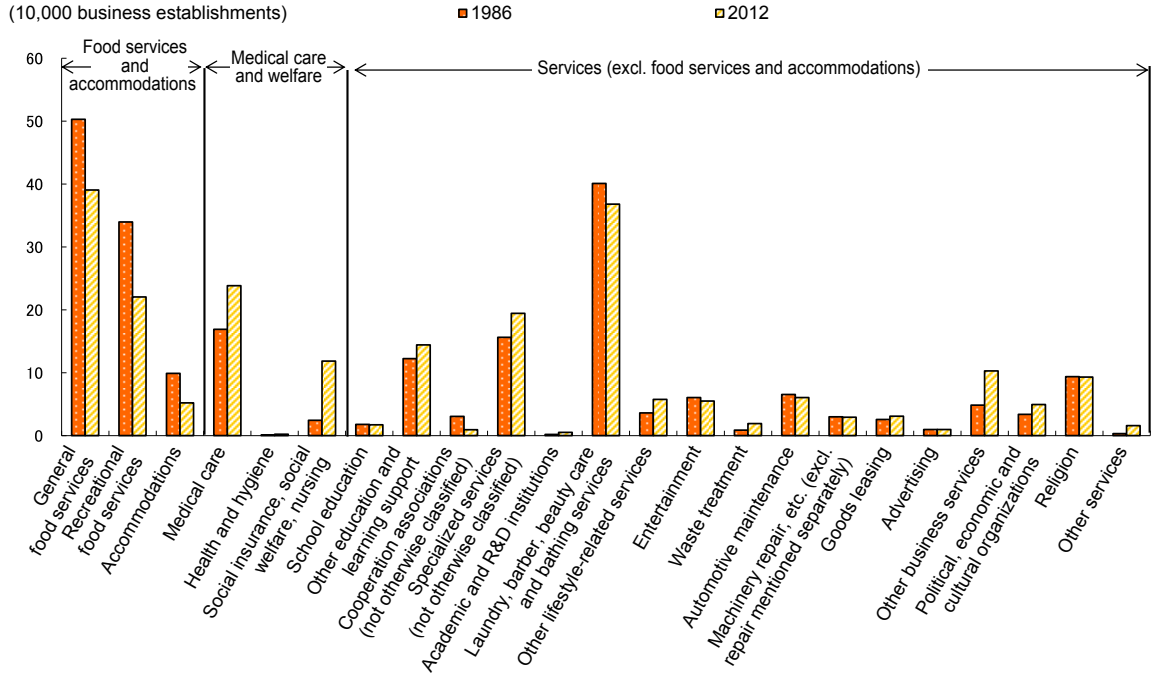
Fig. 3-2-4 Variations in the number of business establishments in metropolitan areas (1986–2012)



Sources: Recompiled from MIC, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. The Food Services and Accommodations, Education and Training Support, Compound services (excluding post offices) and Services (businesses not otherwise classified) categories are also included in Services.
2. Tokyo metropolitan area: Saitama, Chiba, Tokyo, Kanagawa Prefectures
Nagoya metropolitan area: Gifu, Aichi, Mie Prefectures
Osaka metropolitan area: Kyoto, Osaka, Hyogo, Nara Prefectures
Regional areas: areas other than the three major metropolitan areas

Fig. 3-2-5 shows a breakdown of the changes in the medical care and welfare sector and in those sectors of the Services industry where the numbers of business establishments increased between 1986 and 2012. This shows major increases in the number of business establishments in the medical care, social insurance, social welfare and nursing sectors. But we also see declines in the number of business establishments in industries that are an integral part of residents' lifestyles, including some that originally had large numbers of business establishments such as general food services, recreational food services, and laundry, barber, beauty care and bathing services.

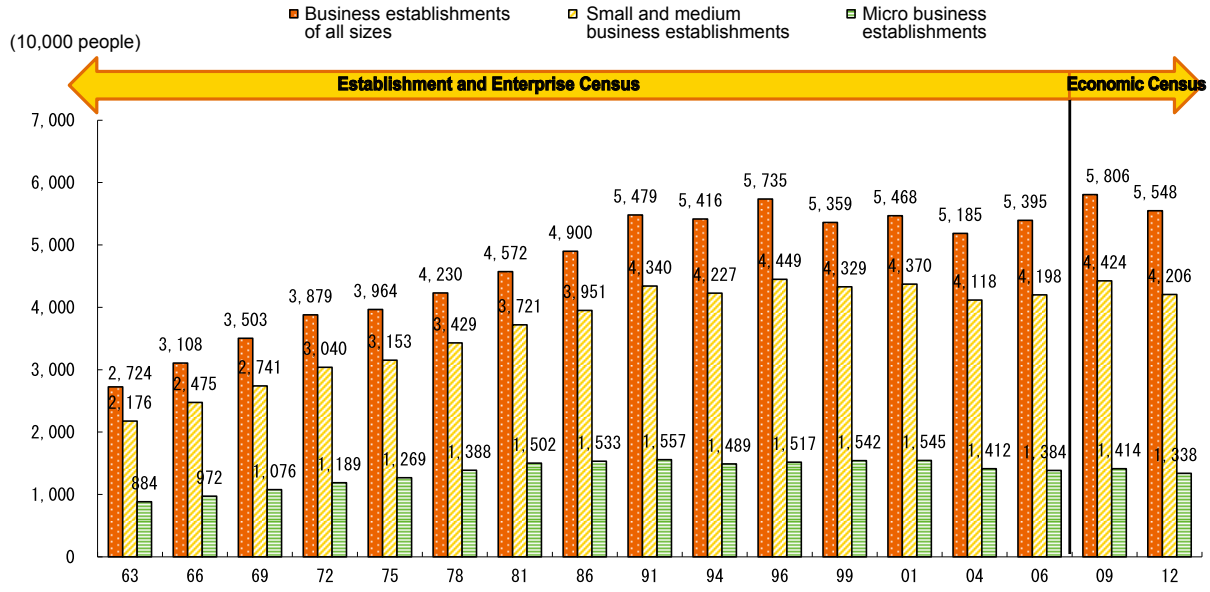
Fig. 3-2-5 Number of business establishments by industry (middle classifications of services, medical care and welfare)



Sources: Recompiled from MIC, *Establishment Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Note: The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. Note that the numbers of post office business establishments have been excluded from each year.

Next, we look at the changes in Japan's overall industrial structure in terms of the number of workers. Fig. 3-2-6 shows the trends in the number of workers in Japan. Unlike the trends in the numbers of business establishments, this figure shows steady increases up until 1996, followed by a generally flat period with slight rises and falls due to fluctuations in business conditions.

Fig. 3-2-6 Number of workers in Japan

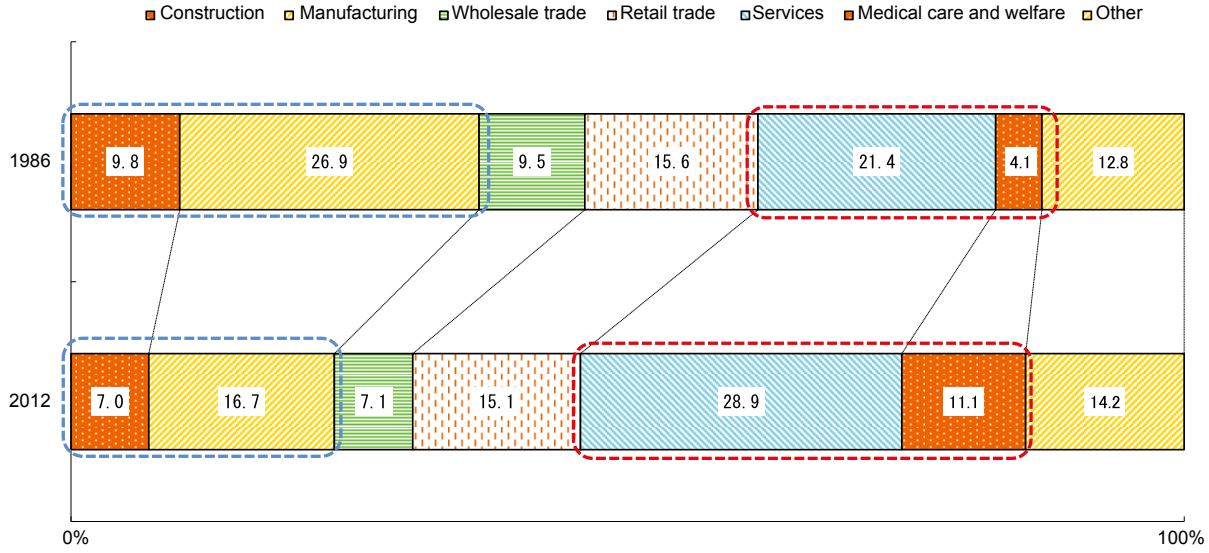


Sources: Recompiled from MIC, *Establishment and Enterprise Census, 2009 Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Worker number totals are based on business establishments.
2. The survey was conducted as the *Establishment Census* until 1991, and as the *Establishment Directory Maintenance Survey* in 1994.
3. In the figures from 2012 onwards, designated exceptional industries are reflected in the number of SMEs and micro business establishments.

Fig. 3-2-7 shows the breakdown of industries in 1986 and 2012 as indicated by the numbers of workers. The figure shows that the proportions of workers in construction and manufacturing have fallen sharply, while there have been considerable increases in the proportions of workers employed in the services sector, medical care and welfare. The variations in the numbers of workers show much the same trends as those for business establishments shown in Fig. 3-2-3, though the decreases in worker proportions are greater than those for business establishments, especially in the case of worker numbers in the manufacturing industry.

Fig. 3-2-7 Changes in the industry breakdown as shown by worker numbers



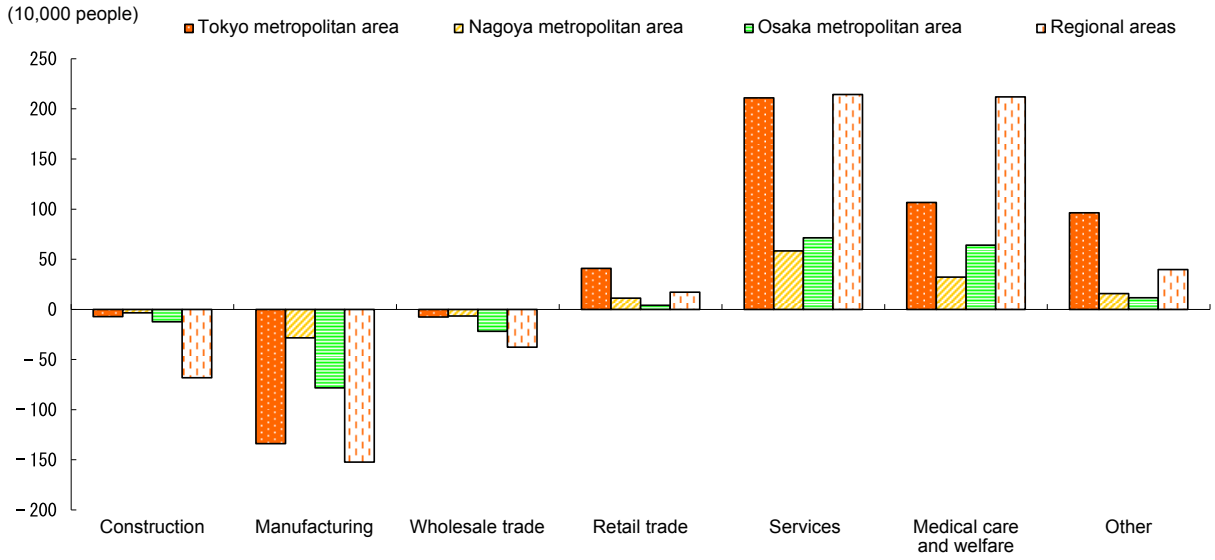
Sources: Recompiled from MIC, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. The Food Services and Accommodations, Education and Training Support, Compound services (excluding post offices) and Services (businesses not otherwise classified) categories are also included in Services.
2. Worker number totals are based on business establishments.

Fig. 3-1-2 (cited earlier) showed the changes in worker numbers for metropolitan areas. That figure shows large increases in worker numbers in the service industries in the Tokyo area and regional areas and in the medical care and welfare sectors in regional areas. It is clear that the services, medical care and welfare sectors have become important support bases for employment in regional areas where populations are falling[6].

6) About population decline, refer to Section 2 of this chapter.

(Cited earlier)

Fig. 3-1-2 Variations in worker numbers in metropolitan areas (1986–2012)

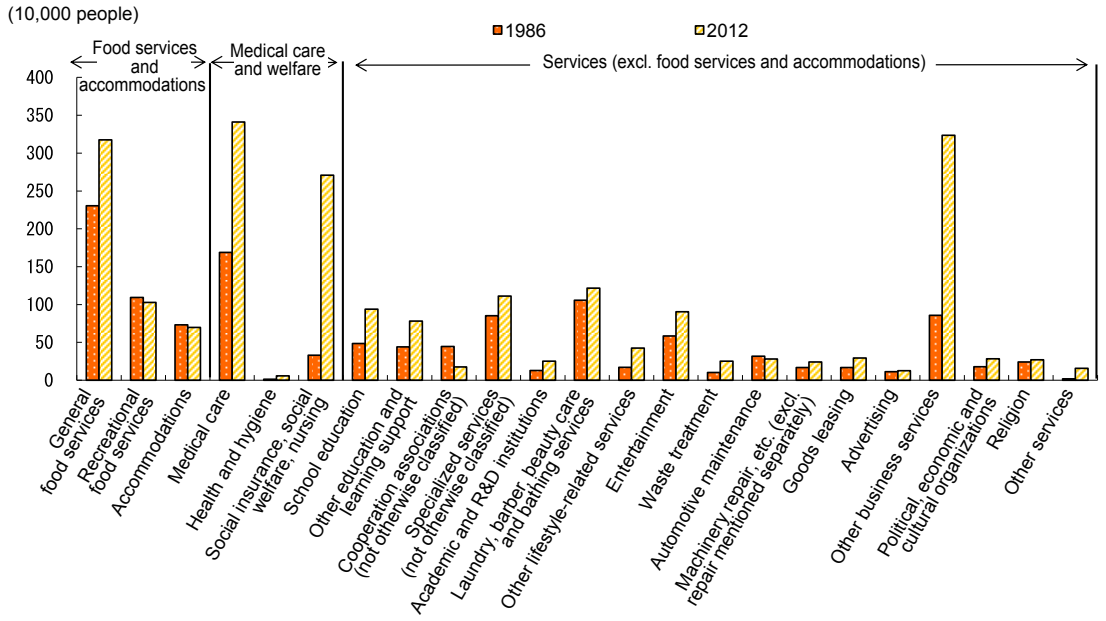


Sources: Recompiled from MIC, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. The Food Services and Accommodations, Education and Training Support, Compound services (excluding post offices) and Services (businesses not otherwise classified) categories are also included in Services.
2. Worker number totals are based on business establishments.
3. Tokyo metropolitan area: Saitama, Chiba, Tokyo, Kanagawa Prefectures
Nagoya metropolitan area: Gifu, Aichi, Mie Prefectures
Osaka metropolitan area: Kyoto, Osaka, Hyogo, Nara Prefectures
Regional areas: areas other than the three major metropolitan areas

Fig. 3-2-8 shows a breakdown of the changes in the medical and welfare sector and in those sectors of the Services industry that increased markedly as a proportion of the constituent industries in terms of worker numbers between 1986 and 2012. This figure shows that workers increased in many sectors, with particularly marked increases in the social insurance, social welfare, nursing and other business services[7], showing the same trend as the increases in the number of business establishments. However, it also shows that in the general food services and the laundry, barber, beauty care and bathing services industries where the number of business establishments fell, the number of workers actually rose.

7) "Other business services" includes businesses engaged in management or secondary economic activity, stenography, data entry and copying services, building services, security services and services not otherwise classified.

Fig. 3-2-8 Number of workers by industry (middle classifications of services, medical care and welfare)

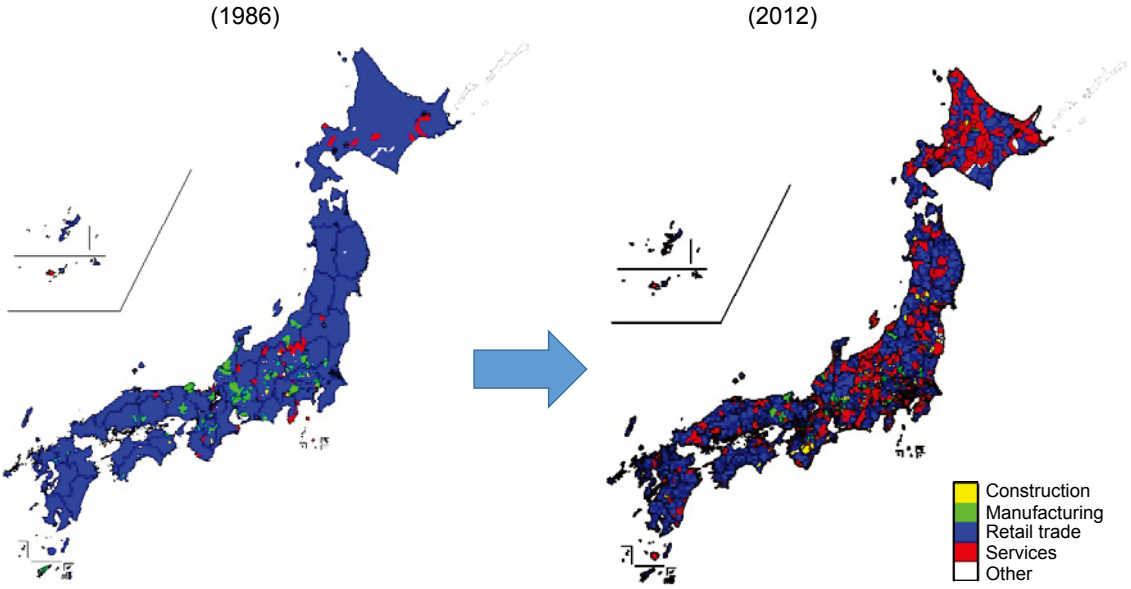


Sources: Recompiled from MIC, *Establishment Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. Note that the numbers of post office business establishments have been excluded from each year.
2. Worker number totals are based on business establishments.

So far, we've looked at the changes to Japan's industrial structure are they are reflected by the numbers of business establishments and workers. Now we will examine these same changes at the level of individual municipalities.

Fig. 3-2-9 extracts the industries with the largest numbers of business establishments in each municipality, marks the municipalities with those industries with the color for that industry and shows how that has changed. The figure shows that in 1986, retail business establishments were the most numerous in roughly 80% of municipalities, but by 2012 that proportion had dropped to 60%. Conversely, the proportion of municipalities where service industry business establishments were the most numerous increased substantially. And while this change is apparent in both metropolitan and regional areas, when we look at the changes by region, the trend is strongest in municipalities in Hokkaido and the Chubu region, indicating some trend variability according to region.

Fig. 3-2-9 Changes in regional core industries as shown by numbers of business establishments (by municipality)



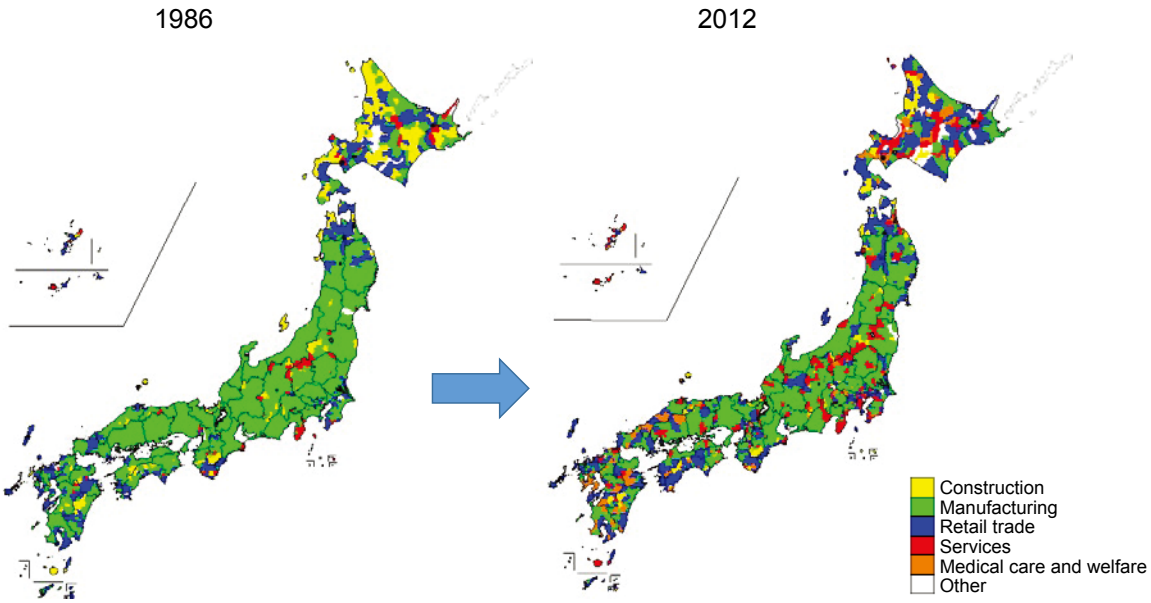
Sources: Recompiled from MIC, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. The figure extracts the industries with the largest numbers of business establishments in each municipality and then plots those municipalities by industry. Data was also extracted for primary industries such as agriculture.
2. The major categories for industry type used when extracting industry figures were based on the March 2002 revisions. The industry categories used in 1986 and 2012 are also being reorganized based on industry subcategories.
3. The plotting for Services in municipalities included the following as major categories: Food Services and Accommodations, Education and Training Support, Compound services and Services (businesses not otherwise classified).
4. Where there were multiple industries that qualified has having the highest number of business establishments by municipality, the industries were arranged in order of those having the most workers.
5. The "Other" category includes regions that were not targeted at the time of the survey.

Fig. 3-1-1 (cited earlier) extracts the industries with the largest numbers of workers in each municipality, plots the municipalities for each of those industries for each industry and shows how that has changed. In short, it shows the changes in the industries that support regional employment. The figure shows that in 1986, the industry supporting regional employment in many of the municipalities throughout Japan was manufacturing. The exception is Hokkaido, where there were many municipalities centered on the construction industry or retail trade. By 2012 however, that structure has clearly changed, with large numbers if municipalities appearing where the industries supporting employment have shifted from manufacturing towards retail trade, services and medical care and welfare.

In the Kyushu and Chugoku regions, the industry supporting regional employment is medical care and welfare, while in the Shikoku region it is retail trade and in the North Kanto and Tohoku regions it is services, showing that there are differences in the changes to the employment structure according to region.

(Cited earlier)

Fig. 3-1-1 Changes in regional core industries as shown by worker numbers (by municipality)



Sources: Recompiled from MIC, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. The figure extracts the industries with the largest numbers of business establishments in each municipality and then plots those municipalities by industry. Data was also extracted for primary industries such as agriculture.
2. The major categories for industry type used when extracting industry figures were based on the March 2002 revisions. The industry categories used in 1986 and 2012 are also being reorganized based on industry subcategories.
3. The plotting for Services in municipalities included the following as major categories: Food Services and Accommodations, Education and Training Support, Compound services and Services (businesses not otherwise classified).
4. Where there were multiple industries that qualified has having the highest number of business establishments by municipality, the industries were arranged in order of those having the most workers.
5. The "Other" category includes regions that were not targeted at the time of the survey.

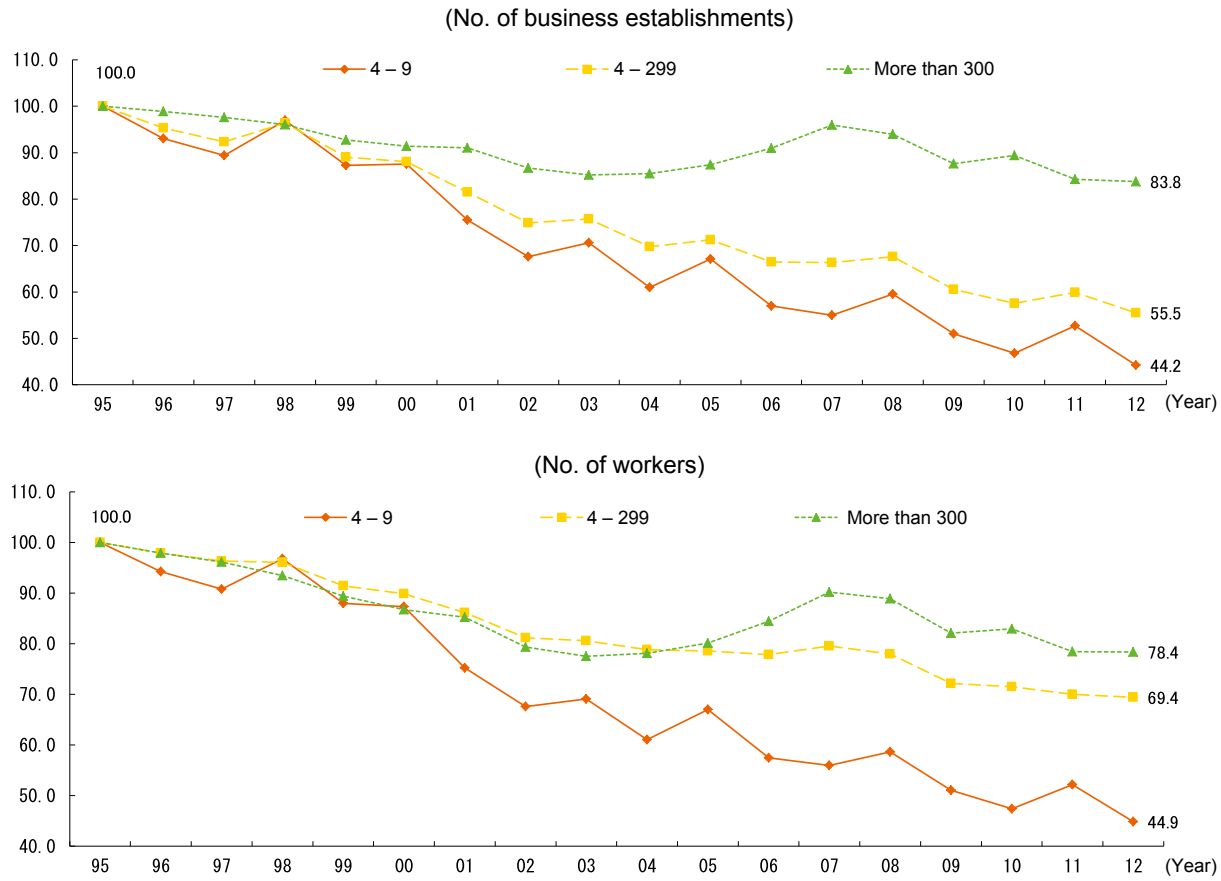
As we have seen, while there is a downward trend in numbers both of business establishments and workers throughout Japan, it is also clear that this trend is especially striking in municipalities located in hilly and mountainous areas. But this trend is not uniform. It is also clear that there are differences according to region in the industrial structure (employment structure). In ascertaining the current situation in Japan's regional areas, it is important that we go beyond just the variations in the numbers of business establishments and workers and try to identify the transitions in the industries that support regional areas and compare the different regions with each other.

[2] Changes in manufacturing

In this section, we will look at the situation by municipality in 1986 and 2012, focusing in greater detail on the manufacturing industries that employed the highest proportions of workers.

Fig. 3-2-10 shows the numbers of business establishments and workers in the manufacturing industries between 1995 and 2012. The figure shows a downward trend in the number of business establishments and workers in manufacturing in the medium- and long-term, with a particularly noticeable fall in the number of small business establishments with between 4 and 9 employees.

Fig. 3-2-10 Number of business establishments and workers (manufacturing)

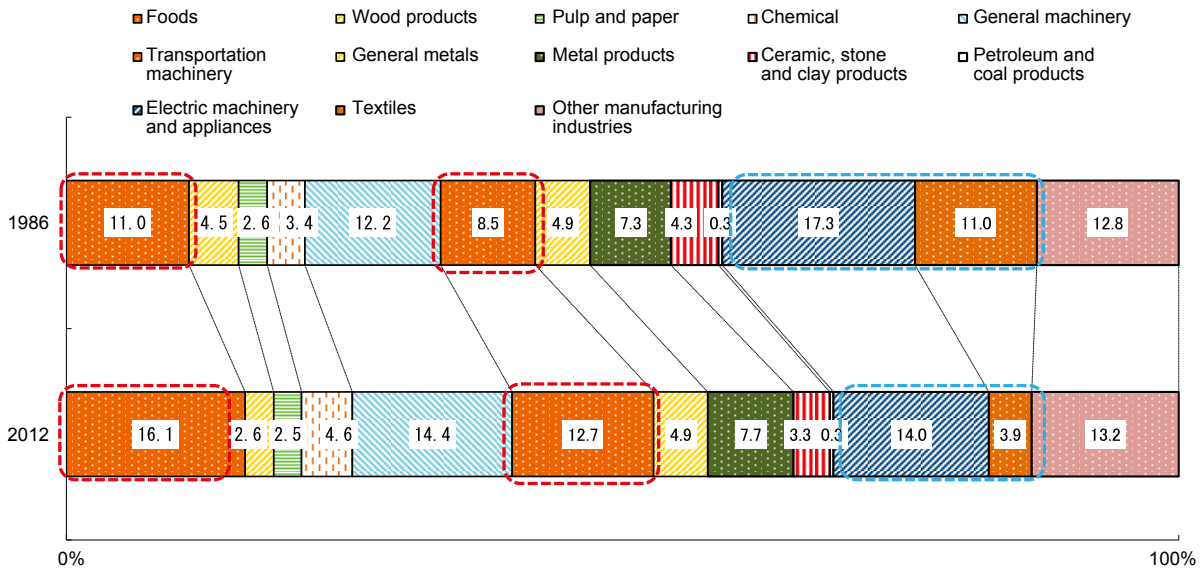


Sources: METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.
Note: The figure shows the values chronologically taking the figures for 1995 as 100. Worker number totals are based on business establishments.

Next, we look at the changes in the industry type composition based on the middle classifications for manufacturing, as shown by worker numbers (Fig. 3-2-11). The figure shows the decline in the proportions for textiles and electric machinery and appliances due to the spread of globalization. Conversely, the proportions for foods and transportation machinery increased as they are provided by domestic producers who meet much of the domestic demand. These figures are largely influenced by variations in the import penetration ratio[8], which indicates the level of imported goods as a proportion of domestic demand.

8) Refer to Part I, Chapter 3.

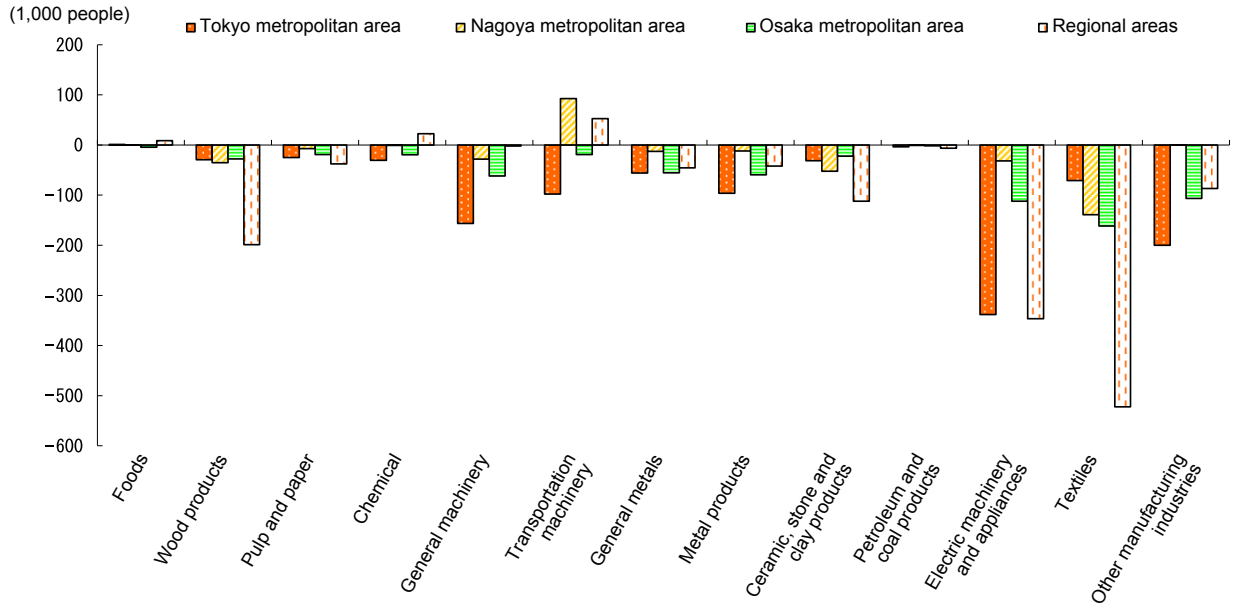
Fig. 3-2-11 Changes in the industry breakdown as shown by worker numbers (middle classification of manufacturing industries)



Source: Recompiled from METI, *Census of Manufactures*.
Notes:
1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. Also, industries such as newspapers and printing, which were recognized as manufacturing industries in 1986, are excluded in 2012 as they are part of the information and communications industry and no longer manufacturing industries.
2. The survey shows worker totals for business establishments with 4 or more workers.

Similarly, Fig. 3-2-12 shows the changes in the numbers of workers by metropolitan area based on the middle classifications for manufacturing. This shows that worker numbers are falling in many industries, regardless of which metropolitan area it is. In regional areas there are major declines in workers employed in the wood products, electric machinery and appliances and textiles industries, while in the Tokyo area the major declines are in the general machinery and electric machinery and appliances industries. On the other hand, worker numbers are increasing in regional areas in the foods, chemical and transportation machinery industries, and in the Nagoya area the transportation machinery industry is employing more workers. This shows that though worker numbers have fallen substantially in manufacturing as a whole, the variations in worker numbers are regionally specific to some extent.

Fig. 3-2-12 Changes in the number of workers in metropolitan areas (middle classification of manufacturing industries)

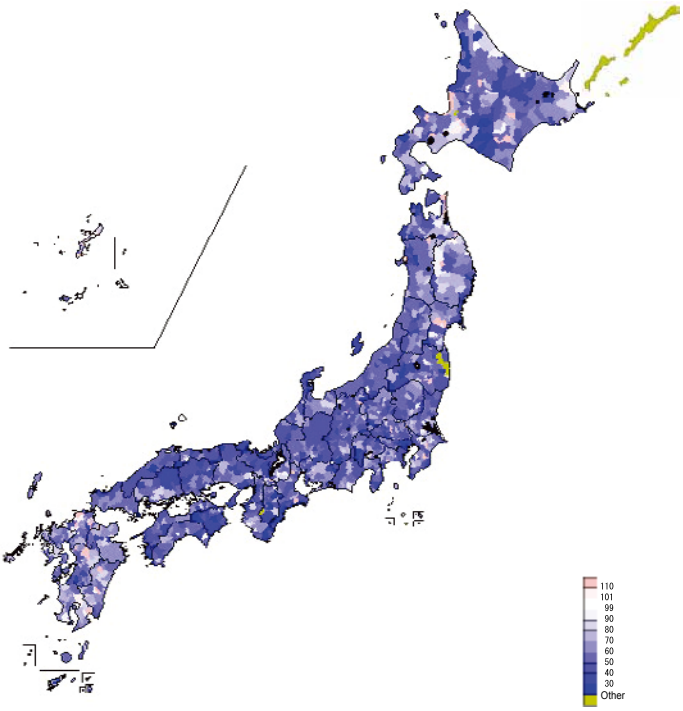


Source: Recompiled from METI, *Census of Manufactures*.
Notes:
1. The figure shows the changes in worker numbers in 1986 and 2012.
2. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. Also, industries such as newspapers and printing, which were recognized as manufacturing industries in 1986, are excluded in 2012 as they are part of the information and communications industry and no longer manufacturing industries.
3. The survey shows worker totals for business establishments with 4 or more workers.
4. Tokyo metropolitan area: Saitama, Chiba, Tokyo, Kanagawa Prefectures
Nagoya metropolitan area: Gifu, Aichi, Mie Prefectures
Osaka metropolitan area: Kyoto, Osaka, Hyogo, Nara Prefectures
Three major metropolitan areas: Tokyo, Nagoya, Osaka metropolitan areas
Regional areas: areas other than the three major metropolitan areas

The next step is to dig down into these changes in the numbers of manufacturing business establishments and workers to look at individual municipalities.

Fig. 3-2-13 shows the changes in the number of business establishments in the manufacturing industries by municipality. Less than 10% of the municipalities surveyed showed an increase in the number of business establishments in the manufacturing industries, with most municipalities registering a decrease in business establishments. Looking at the changes in terms of regionality, many of the municipalities with large falls in the number of business establishments are in metropolitan areas such as the Tokyo area or Osaka area.

Fig. 3-2-13 Changes in the number of business establishments in manufacturing industries (1986–2012)

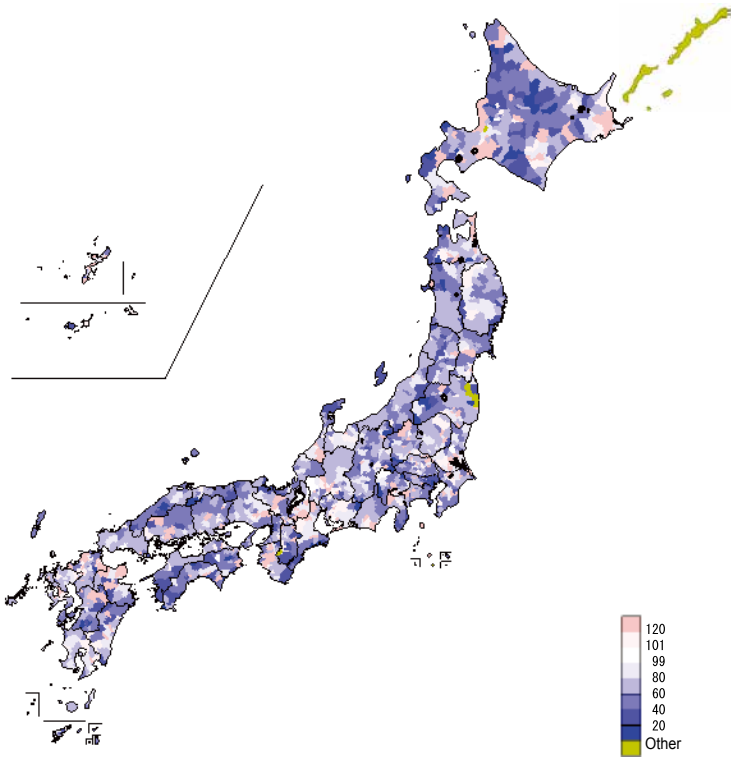


Distribution within local governments	
110 and more	80
101 to less than 110	18
99 to less than 101	27
90 to less than 99	53
80 to less than 90	105
70 to less than 80	187
60 to less than 70	266
50 to less than 60	381
40 to less than 50	322
30 to less than 40	183
Less than 30	103
Other	17

Source: METI, *Census of Manufactures.*
Notes:
1. The figure charts the number of business establishments in each municipality in 2012, taking the number of business establishments in 1986 to be 100.
2. The survey shows totals for business establishments with 4 or more workers.
3. "Other" refers to regions that were not surveyed in either 1986 or 2012, or regions for which 2012 values cannot be calculated.

Fig. 3-2-14 shows the changes in the number of workers in the manufacturing industries by municipality. In this figure, we see that around 20% of municipalities reported an increase in workers in the manufacturing industries, but as with the changes in the numbers of business establishments, the number of manufacturing sector workers decreased in most municipalities. The changes in terms of regionality also mirror those for the decreases in business establishments, with metropolitan areas such as the Tokyo area or Osaka area showing many municipalities with large falls in the number of workers.

Fig. 3-2-14 Changes in the number of workers in manufacturing industries (1986–2012)

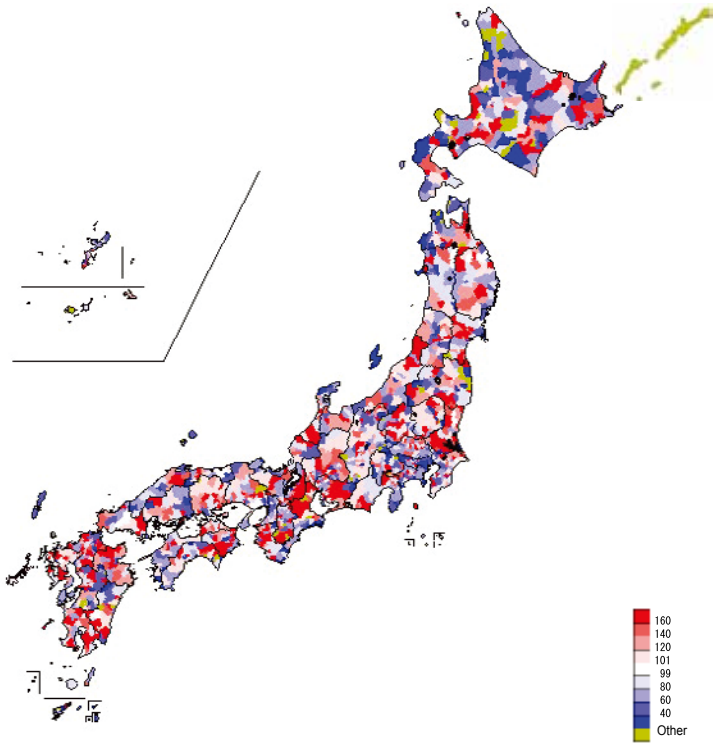


Distribution within local governments	
120 and more	226
101 to less than 120	136
99 to less than 101	13
80 to less than 99	238
60 to less than 80	451
40 to less than 60	393
20 to less than 40	205
Less than 20	63
Other	17

Source: METI, *Census of Manufactures.*
Notes:
1. The figure charts the number of workers in each municipality in 2012, taking the number of workers in 1986 to be 100.
2. The survey shows totals for business establishments with 4 or more workers.
3. "Other" refers to regions that were not surveyed in either 1986 or 2012, or regions for which 2012 values cannot be calculated.

Fig. 3-2-15 shows the changes in added value in the manufacturing industries by municipality. The figure reveals that the added value in the manufacturing industries fell in roughly half of the municipalities surveyed. Looking at the correlation with the number of workers, we can also see that in municipalities where there were large falls in the number of workers, there are also many municipalities where the added value decreased. Whereas in municipalities with small decreases in worker numbers, or those where the number of workers actually rose, there are many municipalities where the added value also increased.

Fig. 3-2-15 Changes in added value in manufacturing industries (1986–2012)



Distribution within local governments	
160 and more	349
140 to less than 160	97
120 to less than 140	160
101 to less than 120	194
99 to less than 101	29
80 to less than 99	217
60 to less than 80	279
40 to less than 60	181
Less than 40	166
Other	70

Source: METI, *Census of Manufactures.*
Notes: 1. The figure charts the added value in each municipality in 2012, taking the added value in 1986 to be 100.
2. The survey shows totals for business establishments with 4 or more workers.
3. "Other" refers to regions that were not surveyed in either 1986 or 2012, or regions for which 2012 values cannot be calculated.

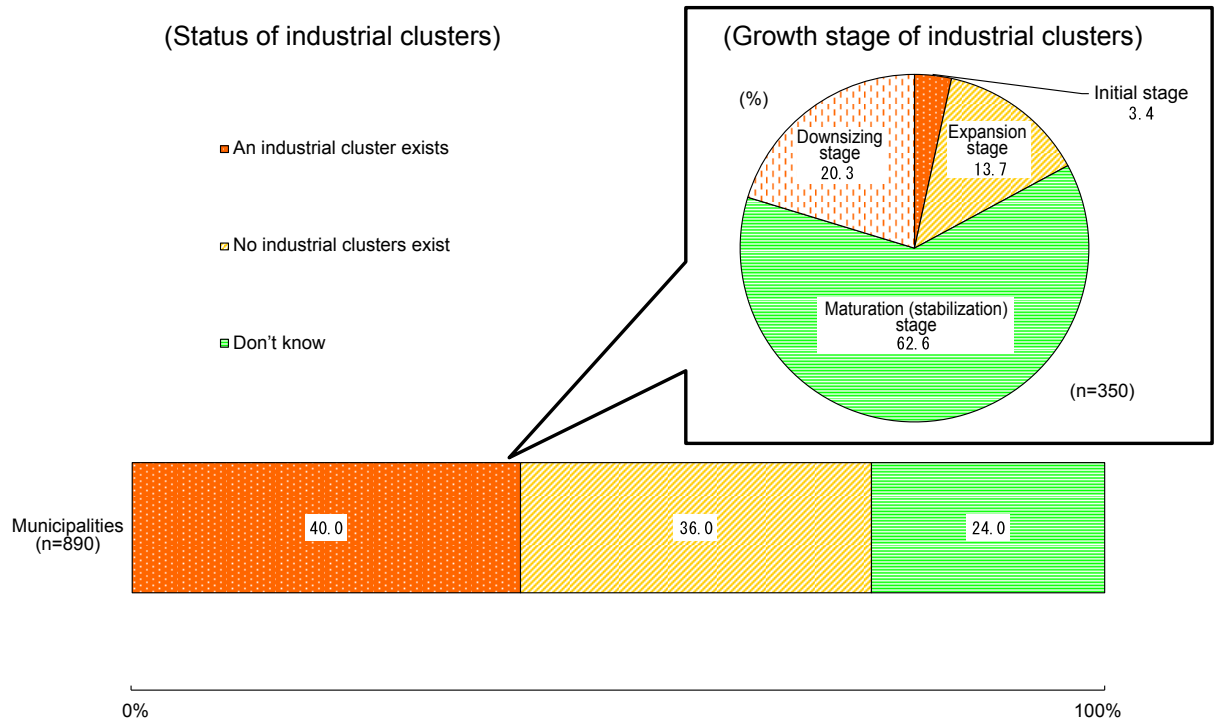
Next, we look at the current situation regarding industrial clusters[9] where groups of manufacturing business establishments are concentrated in regional areas. Some of the advantages touted for industrial clusters are that they: (1) have access to natural resources or existing transport infrastructure; (2) enjoy lower distribution and communication costs due to their geographical proximity; (3) are spurred by inter-enterprise competition within the cluster; and (4) generate technology spill-over and synergistic effects by exchanging information with the other enterprises in the cluster. Because these advantages can lead to increased productivity and allow high value-added products to be manufactured, such industrial clusters are being formed throughout Japan.

Fig. 3-2-16 shows whether municipalities have industrial clusters and the stages of development of those industrial clusters. This shows that while roughly 40% of municipalities recognize that "An industrial cluster exists", this includes some who apparently cannot decide whether an aggregation of enterprises is in fact an industrial cluster. And over 20% of municipalities responded that they "Don't know" of the existence of those industrial clusters.

However, when we look at the stages of growth of those industrial clusters, less than 20% of municipalities acknowledged that there is still considerable scope for future growth in the industrial clusters by responding "Initial stage" (3.4%) or "Expansion stage" (13.7%). In fact, more than 80% of the municipalities indicated that they saw relatively little scope for future growth in the industrial clusters by responding "Maturation (stabilization) stage" (62.6%) or "Downsizing stage" (20.3%).

9) Here, "industrial cluster" refers to a situation in which a large number of enterprises are located geographically close together in a designated area and in which there are business relationships between the enterprises, such as cooperation, information sharing and ordering among the enterprises.

Fig. 3-2-16 Existence of industrial clusters and their stages of development

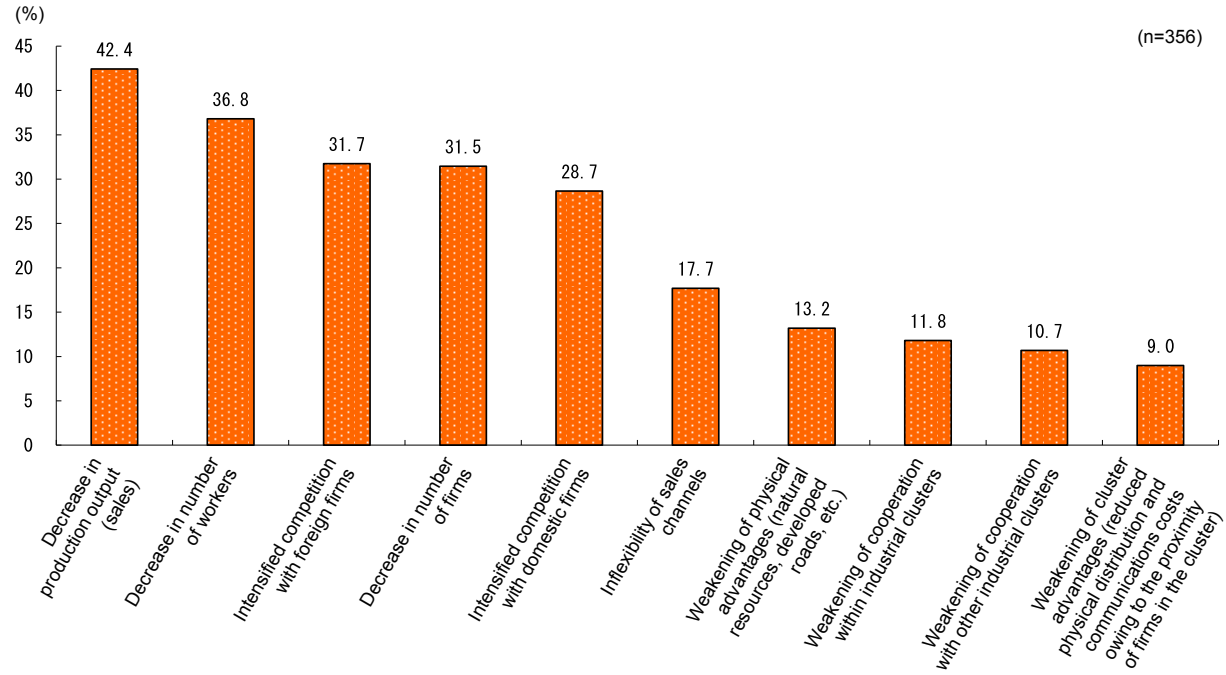


Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Notes: 1. Here, "industrial cluster" refers to a situation in which a large number of enterprises are located geographically close together in a designated area and in which there are business relationships between the enterprises, such as cooperation, information sharing and ordering among the enterprises.
2. In determining the growth stage of industrial clusters where there are multiple industrial clusters, the survey requested responses with regard to the industrial cluster with largest production scale (sales).

Now we will look at the sorts of problems raised by industrial clusters in those municipalities where industrial clusters are located, as shown in Fig. 3-2-17. High-scoring responses included those that tended to stipulate the scale of the industrial cluster, such as "Decrease in production output (sales)" (42.4%) and "Decrease in number of workers" (36.8%), while low-scoring responses included items relating to the degradation of functionality (advantages) in the industrial cluster sites, such as "Weakening of physical advantages (natural resources, developed roads, etc.)" (13.2%) and "Weakening of cluster advantages (reduced physical distribution and communications costs owing to the proximity of firms in the cluster)" (9.0%). From this, we can conclude that where regional areas face changes in the socioeconomic structure, it is recognized that the advantages of industrial clusters are being sustained to some degree. However, there are many municipalities who are seeing a contraction in the scale of the industrial clusters due to factories being moved offshore coupled with increasingly tough competition from overseas enterprises.

Fig. 3-2-17 Issues facing areas hosting industrial clusters



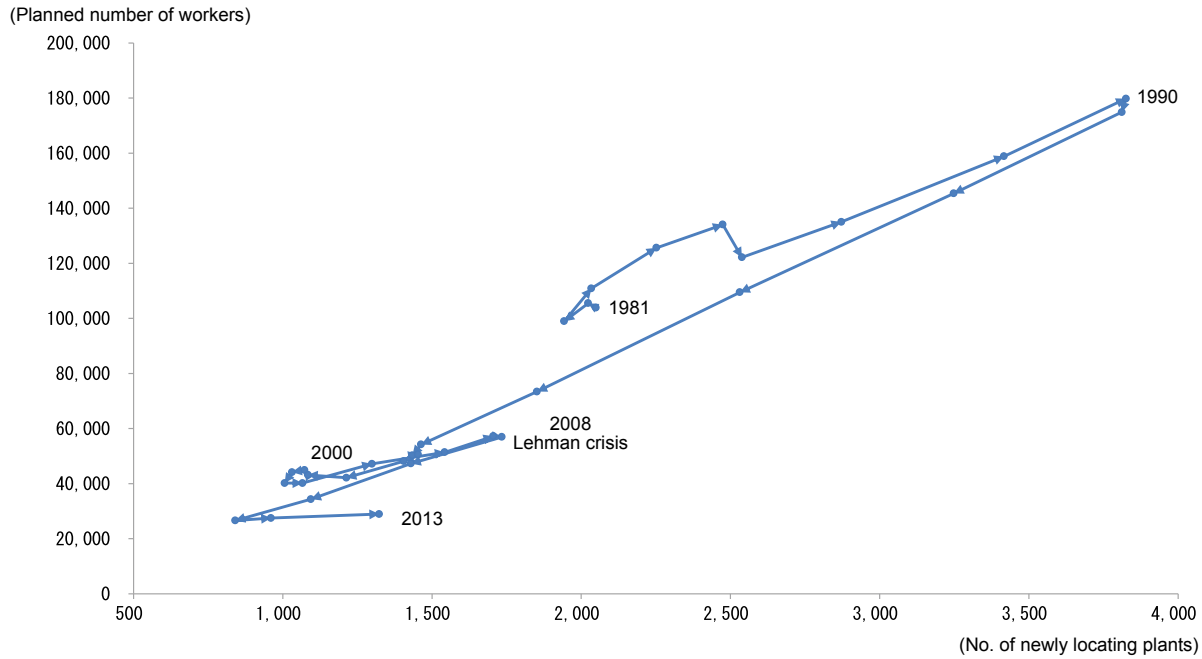
Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

Notes: 1. The survey targeted municipalities who responded “An industrial cluster exists” and inquired regarding issues raised by those industrial clusters.
2. The top three responses to the relevant items were calculated and totaled as multiple responses.

Next, we look at trends in factory locations for manufacturing industries. Fig. 3-2-18 shows the trends in the numbers of manufacturing industry factory sites in Japan and the planned numbers of workers employed. This shows that between 1980 and 1990, the number of factory locations increased together with the number of planned workers employed, but as of 1990, the trend has reversed and the numbers of factory locations and planned workers began to decline. Subsequently, the number of factory locations briefly rallied before slipping back again following the 2008 Lehman crisis, but the number of factory locations is now again rising significantly[10].

10) The number of factory locations in 2013 was 1,873, an increase of 646 (52.6%) on the previous year.

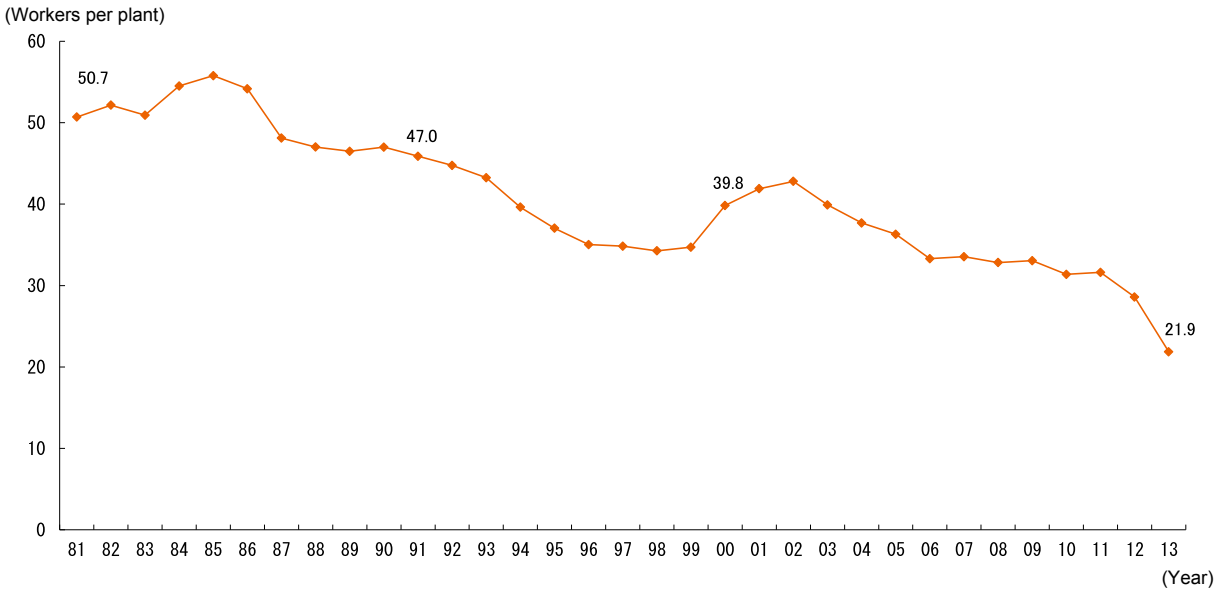
Fig. 3-2-18 Correlation between numbers of factory locations and planned workers employed



Source: METI, *Survey of Factory Location Trends*.
Notes: 1. The numbers of factory locations and planned workers employed were each calculated as moving averages for the previous 3 quarters.
2. The survey was of sites of 1,000 square meters or larger (including proposed landfill sites) that were acquired (including leasing) with the intention of constructing factories or research facilities serving the manufacturing, electricity, gas or heat supply industries.

Fig. 3-2-19 shows the trends in the number of planned workers per factory. The figure shows a long-term decline in the number of planned workers per factory. While there are various possible reasons for this, it is mostly likely due to the progressive offshoring of factories in industries that require large numbers of workers, or to reductions in worker numbers in factories where productivity has been increased substantially through measures such as the automation of production processes.

Fig. 3-2-19 Trends in planned workers per factory



Source: METI, *Survey of Factory Location Trends*.
Notes: 1. The numbers of factory locations and planned workers employed were each calculated as moving averages for the previous 3 quarters.
2. The survey was of sites of 1,000 square meters or larger (including proposed landfill sites) that were acquired (including leasing) with the intention of constructing factories or research facilities serving the manufacturing, electricity, gas or heat supply industries.

So far, we have looked at the medium- and long-term changes in Japan's industrial structure, and the changes in the manufacturing industries that contribute to regional areas by supporting regional employment despite those changes in the industrial structure. Below, we outline some of the community-based measures introduced by prefectural and municipal governments to promote regional economies trying to cope with those changes.

Case 3-2-1 Takizawa City, Iwate Prefecture

A local government that has developed a base for IT industries as a measure for creating new businesses and employment through industry-academia-government collaboration

Takizawa City, Iwate Prefecture (population: 55,063 (registered in the Basic Resident Register as of April 2014); area: 182.32km^2) is located northwest of Morioka City, commanding a majestic view of Mt. Iwate, rising to a height of 2,038m in the northwestern part of the city, and roughly bordered by the Shizukuishi and Kitakami Rivers. As a commuter town to residents who mainly commute to work and school in Morioka City (population: 14,255), it has a day-to-nighttime population ratio of 0.86. With a population reaching 50,000 in 2000, Takizawa became the largest village in Japan in terms of population. Further aspiring to become a leading city of resident self-government in Japan, it became a municipality on January 1, 2014.

As a research university city that is home to two universities and a junior college, Takizawa City has the lowest rate of aging in Iwate Prefecture (rate of aging in Takizawa: 18.7%; national rate: 23.3%; prefectural rate: 27.3%). However, most graduates of these universities and college leave the prefecture after graduation. For example, 70% of the students of Iwate Prefectural University (IPU) in the city are from within the prefecture, but a large percentage seek employment outside. More than half of them wish to return and find employment in Iwate, but there are a few job openings. Takizawa City is seeking to solve this issue by developing a base for IT companies and creating new businesses through industry-academia-government collaboration.

In May 2009, Takizawa City collaborated with Iwate Prefecture and IPU to establish the Takizawa IPU Innovation Center, equipped with office-type research laboratories for rent, on a site adjacent to the IPU Regional Cooperation Center. IPU's Faculty of Software and Information Science has turned out some 160 software engineers every year. Thus, by taking advantage of the abundance of such human resources and the Innovation Center, Takizawa City is actively inviting IT companies based mainly in the Tokyo area to locate in its city. Owing to this initiative, the number of newly-locating firms has increased since the opening of the IPU Innovation Center.

Takizawa City offers several corporate incentives. They include an employment subsidy to newly-locating companies

that employ U/I-turn personnel, and a support system for local companies engaging in joint research with the aim of achieving corporate growth and creating employment, such as the Takizawa Joint Research System and Takizawa Joint Research Subsidy.

Diverse businesses have emerged from these schemes. For example, the government, which sought to sell local products, and a company possessing Internet shop know-how, collaborated in uncovering local products, setting up an Internet shop, and selling the products through the local tourist association. Additionally, to promote the branding of watermelons, which are a local specialty, a handy, non-destructive watermelon saccharimeter has been developed, and field demonstration tests are being conducted in the city.

Since the opening of the Takizawa IPU Innovation Center, the Takizawa Innovation Forum has been held every year, featuring lectures on themes related to industry-academia-government collaboration and cross-industrial cooperation and emphasizing the importance of networking among people from all walks of life. The Innovation Center itself also promotes inter-company collaboration by providing a public space within its facility. Such initiatives by the city are receiving widespread approval even from non-locating companies, owing to the reputation spread by companies that have located in the city, as well as to the broad-ranging promotion activities by city employees (e.g., 198 corporate visits were made and 172 corporate visitors were received last fiscal year).

Takizawa City aims to create a Silicon Valley in Takizawa, or a "Takizawa Valley," so to speak, based on its industrial cluster mainly of IT industries and capacity for human resource development. By building an industrial base and increasing new businesses, it is shedding its role as a commuter town to Morioka City, and making it possible to create jobs, secure employment and reside in the city. As mentioned earlier, the city is aspiring to become a "leading city of resident self-government in Japan," where residents personally participate in creating a comfortable living environment, openly display feelings of consideration and cooperation, and gain the greatest sense of satisfaction and well-being in Japan by being involved with their community and fellow residents. This sense of satisfaction and well-being that comes from improving the comfort of living in the city is expected to be achieved through the Takizawa Valley concept.

Opening of the Second Innovation Center
(May 2014, new opening)

Signing ceremony with newly locating companies

[Observations from the case]

Success factors

As a commuter city to Morioka City, Takizawa has pursued community development and succeeded in increasing its population from this standpoint. However, from the long-term perspective, there were strong concerns that the city's population would decrease as a result of an out-migration of young people due to the lack of job opportunities, and that the city would fall into decline. Such concerns have led to an awareness of the need for the city to shed its role as a commuter city and make independent efforts to promote businesses. Toward this end, the city chose to enter into collaboration with industry and academia, and this became one of the factors for its success.

With respect to academia, the city focused on IPU's Faculty of Software and Information Science as a local source of manpower, and aimed to create an organic node of industry-academic-government collaboration by establishing a base for IT companies. Its focus on IT was also effective in creating new businesses, because in a highly sophisticated information society, new businesses are readily created by combining IT with various other industries. However, Takizawa City does not necessarily believe it has succeeded owing to its local resources or to its focus on IT. Rather, it operated under the belief that the networking of diverse entities is foremost important in the creation of new businesses, and these networks are supported by the very efforts of the city's employees, as they travel throughout Japan to hold business negotiations and daily respond to inquiries and requests from companies via SNS and email.

Responses in consideration of changes in the local economic structure: Creation of new industries through industry-academia-government collaboration

During the years from 2008 to 2010, business activities slumped due to the Lehman crisis, and manufacturing industries anticipated a dwindling trend. However, even given this situation, Takizawa City did not feel that the conventional company promotion measure of offering a subsidy to attract manufacturing plants, as has been adopted by many local governments, would be effective. In fact, there have been cases of companies pulling out after the subsidy period had ended, so the city had realized the need to also explore schemes other than inviting manufacturing plants to locate in the city.

At the same time, the city was also aware that its advantage of being able to provide cheap labor in an area only 2 hours and 20 minutes away from the Tokyo area did not have an edge over local governments that were located in closer proximity to Tokyo, and that labor costs could not even compete with costs overseas.

Based on the above-mentioned awareness of its economic environment, Takizawa City chose to create new businesses through industry-academia-government collaboration. It provides a case example of how the approach to creating employment by creating new businesses became a main business promotion measure in place of the trend toward securing employment by inviting the location of plants.

Future issues

One of the benefits to companies locating in the Takizawa IPU Innovation Center is the availability of advanced human resources, such as from IPU's Faculty of Software and Information Science. The city is thus seeking to prevent the out-migration of manpower by requesting Tokyo-based IT companies to allow employees who wish to make a U-turn to Takizawa to work in an office (branch office) in the IPU Innovation Center after honing their skills at the Tokyo head office. However, since IT alone cannot generate as large an employment as the location of plants would, the city needs to accelerate the process of establishing cross-industrial collaborations from cross-industrial interactions and ultimately creating new businesses.

Case 3-2-2 Suzaka City, Nagano Prefecture

A local government which took the opportunity provided by the downsizing of a large company to revitalize its city through SME collaboration

Suzaka City, Nagano Prefecture (population: 52,168 (2010 population census); area: 149.84km^2) became a center of the electronic parts manufacturing and assembly industries, created by companies that evacuated to Suzaka during the Second World War and chose to remain in the city thereafter.

As a large majority of them were contract manufacturing companies and largely made up the city's industries, the downsizing of a large plant in 2002 brought a severe impact on the local economy. Product shipments fell to one-half, and employee numbers decreased by 20%. In response to this situation, the Suzaka Industrial Revitalization Strategy Council (hereinafter, Strategy Council) was organized in September 2004 by the cooperation of local companies, financial institutions and learned individuals in the city. It aimed to create new industries through technical innovation and conversion of business category while exploiting existing technical capabilities, and launched a multifaceted study toward the development of a new business model based on industry-academia-government collaboration and regional revitalization.

Composed of a total of 18 members, and includes managers of local companies, banks and farmer representatives, the Strategy Council examined the possibility of creating new industries from the perspectives of five different themes, and formulated the Industrial Revitalization Strategy Empowerment Project (hereinafter, Empowerment Project) in September 2005, as a declaration of action by which members of the Strategy Council take action to revitalize industries and seek large numbers of cooperators.

To realize the initiatives set forth in the Empowerment Project, the Second Industrial Revitalization Strategy Council was organized in 2008, with the addition of a number of organizations, including the chamber of commerce of industry, JA Sukou and the local tourist association, and learned individuals from among the residents of Suzaka City. The Second Strategy Council is working to promote the Empowerment Project through industry-academia-government collaboration, provide human resources training, create and strengthen interactive events, perform demonstration tests, etc., in relation to such areas as industrial development, community revitalization, health and fitness, and renewable energies.

A number of products have been developed from ideas discussed in the Strategy Council. These products have two characteristics. One is that they were developed in response to a local issue. A specific example of this is the work assisting tool for grape cultivation. Grapes are a local specialty of Suzaka City, but with the rapid aging of society, an increasing number of farmers had begun to worry about the long hours of work they need to put in during the growing and harvesting seasons. In response to this situation, an assisting tool that minimizes workers' burden was developed under the leadership of an industrial coordinator, with development support from an academic institution and other organizations. The tool was launched on the market in 2009, and has been rated highly by farmers and academic research institutions not only in Suzaka, but nationwide as well.

The second characteristic is that the products were realized through a collaboration of participating members of the Strategy Council. A specific example of this is the demonstration test of a solar generation system in a grape field. Grapes are readily influenced by rain and sunshine during their growth period, and their quality tends to drop easily. As a countermeasure to this problem, solar panels were installed above the grapevine trellis with the cooperation of a local company that engages in the development of solar energy generating systems and members of the Strategy Council. In addition to increasing grape quality and yield, the initiative aims to improve and bring stability to farm incomes by selling surplus power. It is producing steady results, and has recorded 2,626kwh of electricity generation so far (2013 performance figure).

Suzaka City intends to hereafter direct its efforts to developing successors so that initiatives like those mentioned above could be continued. For example, a course that offers work experience and practical training at local companies is scheduled to be established in a high school slated to open in the city in April 2015, and a number of companies in the

city have announced their interest in providing cooperation. In the future, it is hoped that larger numbers of graduates will work and live in Suzaka City.

A meeting of the Suzaka Industrial Revitalization Strategy Council

[Observations from the case]

Success factors

The downsizing of a large plant had wide-ranging implications not only for manufacturing industries in the city that depended on subcontracts from the plant, but also the tertiary industries that had been supported by the consumption activities of the plant's personnel.

In response to this situation, Suzaka City deserves recognition for its efforts to develop the city as a whole by reexamining its resources from diverse perspectives that include tourism, agriculture and health, instead of resorting to inviting the location of new plants or promoting industries in certain sectors only. The fact that local companies and research institutions play a leading role in this initiative and the city office devotes itself to playing a coordinating role, could also be considered a factor that promotes the development of specific products and the expansion of business.

A look at the trends in product shipment amounts and employee numbers reveals significant drops between 2000, the year in which downsizing occurred at the large plant, and 2005. That is, product shipments dropped from ¥278.1 billion to ¥118.9 billion (57.2% drop from 2000), and the number of employees dropped from 7,651 to 6,256 (18.2% drop from 2000). However, product shipments and employee numbers both entered a stable trend after the Strategy Council launched its initiatives, with product shipments standing at ¥113 billion (5.0% drop from 2005) and the number of employees at 5,915 (5.5% drop from 2005) in 2010.

Additionally, it is worth noting that the role and members of the Strategy Council were varied between the project examination and formulation phase and project implementation phase. Not only were these changes extremely significant adjustments that allowed the project to be operated effectively, but the fact that the Council members were aware of the importance of making such changes from the beginning is a particularly salient point of this initiative.

Responses in consideration of changes in the local economic structure: Response to local needs

Product development born from the Strategy Council characteristically focused on local needs (niche needs), and addressing them, in effect, led to the acquisition of demand from outside the city. As there are numerous common needs throughout Japan, such as the needs of an aging society, products that appear to satisfy a niche need in one city could attract external demand with proper PR activities outside the city. This is evident in the above-mentioned case of the work assisting tool for grape cultivation.

It is also important that such initiatives respond flexibly to requests from companies and customers while receiving lateral support from the government. For example, the Industry Division initially acted as the secretariat of the Strategy Council, but it changed its name to "Industrial Cooperation Development Division" in 2012 in response to a request for a better name that matches the needs of the times, as it would be necessary in the future to cross-sectorally develop new products across all industries. An industrial cooperation promotion officer was also newly appointed to the division. Such concerted response by the private and public sectors is particularly important.

Future issues

One of the initial concerns of the Strategy Council was in sharing a common understanding of its objectives among all members, and in recognizing and assessing issues. The majority of the members belonged to manufacturing companies. However, from the perspective not only of industrial promotion but of community revitalization involving the entire city, the council also included members from the agricultural and commercial sectors. Thus there were naturally differences in the members' problem awareness and concerns. To address this issue, the council first aimed to share a sense of purpose, of pursuing regional development through the revitalization of Suzaka City's industries as a whole instead of individual industrial sectors, through continuous meetings and discussions.

When setting a broad theme, it is important to first unify all participants' awareness. In order to do so, it is considered effective to have a coordinator (government) act as a third party and organize a forum for discussion and call for the participation of relevant parties.

Case 3-2-3 Akita Prefecture

A local government that provides comprehensive individual support to core businesses that drive the local economy

Akita Prefecture (population: 1,036,861 (registered in the Basic Resident Register as of October 2014); area: 11,636.32km^2) is located on the coast of the Sea of Japan, bordered by Iwate Prefecture to the east, across the Ou Mountains, by Yamagata and Miyagi Prefectures to the south, and by Aomori Prefecture to the north, across Lake Towada National Park. Marking the largest population decline and the highest percentage of elderly people in Japan, Akita is strongly aware of the need to address the issues from a long-term approach by strengthening child-support programs and enhancing economic and industrial infrastructures.

Within this situation, Akira Prefecture is pursuing the Core Manufacturing Business Creation Project with the aim of creating core businesses that seek broad-based demand and would play a large role in driving the local economy. The project involves offering individual support, such as in the form of a subsidy, to manufacturing SMEs with the potential to expand their business using their own technologies and management knowhow.

By offering such individual support, the project aims to create a model case of core businesses that create new business dealings and employment in the region and set a good example of production activities. It also aims to promote active management efforts by SMEs. However, the screening process for individual support requires businesses to not simply apply for a subsidy, but also recommends them to submit a business plan and strategy that looks three to five years into the future. The adequacy of their management strategy is then screened before individual support is approved. Furthermore, the subsidy itself is divided into several phases, namely the technical development phase, mass production phase, marketing channel development phase and further stepup, and a different amount of subsidy is provided in accordance with the situation in each phase. Akita Prefecture hopes that by granting phase-specific subsidies to businesses that promise to be core businesses, these businesses will become core business candidates and ultimately develop into core businesses.

Between fiscal 2010 and 2014, a total of 55 businesses have been approved for individual support in Akita Prefecture. The effect of the project is measured by whether five core businesses emerge annually within three years of receiving the support. A business is deemed a core business when it has achieved 100 or more employees or ¥1 billion in sales. If a business had already achieved either of these conditions at the time of application, it is deemed a core business when it has achieved its target sales amount or number of employees that it has set to achieve in three years.

API Co., Ltd. (employees: 17; capital ¥80 million), based in Daisen City, Akita Prefecture, is a software design and development company that has been approved for the FY2010 Core Manufacturing Business Creation Project. Its array of products includes the walking environment simulator Watari Jozu Kun (joint development with Akita University), the surgical needle detector Needle Hunter (joint development with the Research Institute for Brain and Blood Vessels Akita) and the Smart Electronics White Cane with sensor (joint development with group company Akita Seiko Co., Ltd. and Akita Prefectural University). The company made a switch from being a mass-production manufacturing company to a software design and development company based on industry-academia-government collaboration in 2010, and in the same year applied for and was approved as a beneficiary of the Core Manufacturing Business Creation Project.

In addition to receiving a subsidy from the project in the technical development phase, API also received a subsidy to cover part of its operating expenses and trade fair participation fees. By participating in the 3D & Virtual Reality Fair, it received extensive coverage by a TV station, and the exposure led to an increase of orders. Watari Jozu Kun, in particular, continues to receive large orders from the National Policy Agency and other such institutions.

The company's framework of collaboration with industry and academia is bearing fruit in the form of promoting joint studies with universities at the development stage, and providing employment to university graduates. Its initiatives to develop products in the prefecture and capture demand from outside are steadily attracting profits to the prefecture, securing employment for young people, and revitalizing the local economy, as designed by the project.

Mr. Tetsuo Suda, President of API Co., Ltd. (beneficiary of Akita Prefecture's support project)

[Observations from the case]

Success factors

Akita Prefecture's success may be attributed to its accurate analysis of its situation, that the steady development of an environment for business promotion would be important in anticipation of changes in the industrial structure. It focused on supporting the manufacturing industries, which compose the prefecture's key industries, based on the awareness that most of the manufacturing companies in the prefecture are SMEs, and that the existing industrial structure needs to be revitalized in order to raise the economic level of the city. It also stood on the belief that nurturing SMEs that are deeply rooted in the region and have no intention of leaving the prefecture would be the most effective in taking a long-term approach to revitalizing the local economy.

Akita Prefecture's individual support to SMEs is not a uniform subsidy system; it is characterized by a procedural method in which businesses are required to voluntarily submit their management strategy and follow rigorous steps as would be required with a management innovation plan. As businesses go through an open process at its own initiative, and the system supports their initiatives in phases, not only is the local government free of any problems regarding fairness, but the success of beneficiary businesses could be expected to have an impact on other businesses that are not in the project by providing a model for them to follow.

Responses in consideration of changes in the regional economic structure: Support for core SMEs in the prefecture

Of all businesses in the prefecture, 99% are SMEs, with manufacturing industries making up the majority. Most are labor-intensive subcontractors and manufacturing and assembly plants that are easily affected by economic fluctuations. During the economic recession following the Lehman crisis, many of these businesses faced a business crossroads, and the local economy flagged as a result. API Co., Ltd., featured as a case example, had also had to make the decision to cut off its manufacturing division and make a new beginning with its development division, notwithstanding its status as a group company of Yuri Kogyo Co., Ltd., a leading electric machine and appliance manufacturing company in the prefecture.

In order to revitalize the flagging economy, it was necessary to explore new economic revitalization measures, since conventional business attraction schemes could not be expected to bring a comparative advantage over foreign competitors. Born from an awareness of this situation, the Core Manufacturing Business Creation Project was launched as a local economic revitalization measure for bolstering the existing industrial structure in which SMEs make up the majority of manufacturing industries.

By providing phased support to create core businesses that seek broad-based demand and have the potential to stimulate demand outside the prefecture, is expected to increase the number of businesses that bring profit to the prefecture, revitalize the local economy, and improve the employment situation. As a result, young people would remain in the region and contribute to mitigating the issues of a declining and aging population.

Future issues

API plans to hereafter direct its efforts to strengthening its network. In anticipation of an increase of orders in the future, owing in part to the media exposure it gained from participating in a trade fair, the company realizes the need to build a wider network in addition to the existing framework centered on industry-academia-government collaboration. Akita Prefecture is also expected to implement even more comprehensive business promotion initiatives through collaboration schemes, such as with existing business matching support systems.

Column 3-2-1 Support for the core SMEs in regional areas

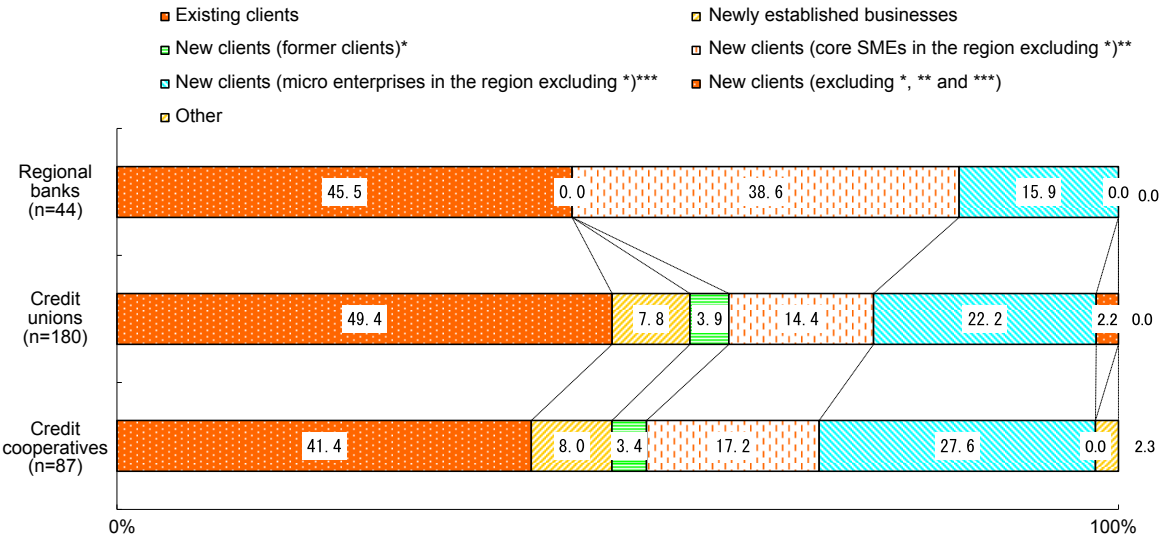
As we saw in case study 3-2-3, there are regions where prefectural and municipal governments are providing support to core local SMEs with a view to revitalizing the local economy. These sorts of measures could be provided by other support agencies as well as by prefectural and municipal governments, and this Column outlines programs provided by such regional SME support agencies. Specifically, we look at the current situation with regard to the support provided by regional financial institutions to core regional SMEs.

Fig. Column 3-2-1 (1) shows the responses when financial institutions were asked about the sort of presence they would like to emphasize in the future. This shows that, regardless of the type of financial institution, the most frequently selected response was an emphasis on approaches to "Existing clients".

Presumably, many of the financial institutions understand that their existing clients are important and want ongoing relationships with those clients because they have an existing track record with them and can readily access information about their companies (business and financial details) through everyday communications, etc.

However, regional banks[11] responded that, after existing clients, they would emphasize approaches to "New clients (core SMEs in the region excluding former clients)"[12] (38.6%), while credit unions and credit cooperatives would emphasize "New clients (micro enterprises in the region excluding former clients)" (22.2% and 27.6% respectively). This indicates that the client approaches that would be prioritized differ depending on the type of financial institution[13].

Fig. Column 3-2-1 (1) Presence to be emphasized in approaches to future clients



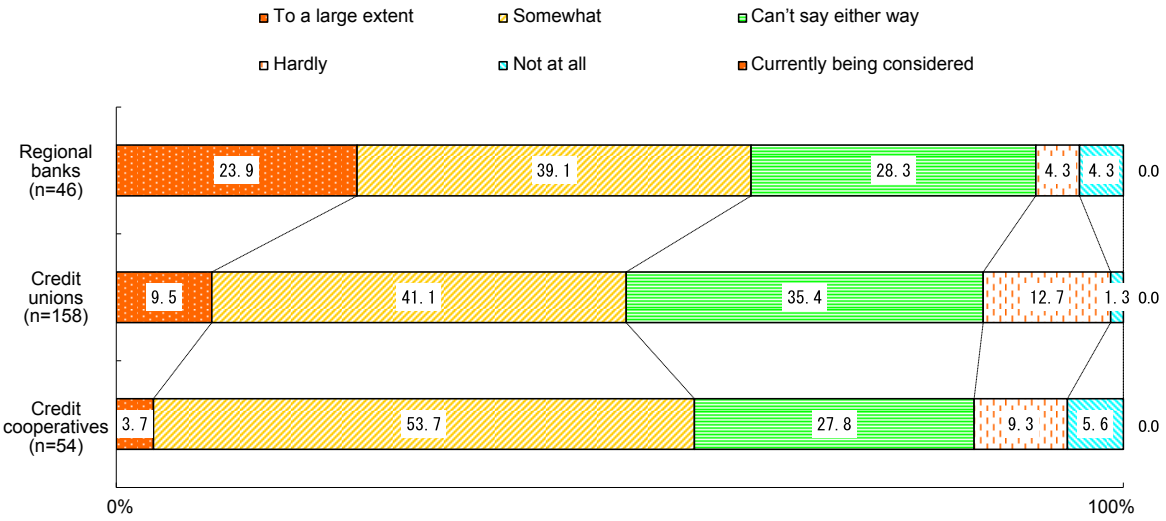
Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

Notes:
1. Of the responses that were ranked 1st to 3rd for presence to be emphasized in approaches to future clients, those ranked 1st were totaled.
2. Here, "existing clients" refers to clients with whom there is already a business relationship (involving financial transactions) at the time of the approach.
3. Here, "core SMEs" refers to SMEs that underpin regional economies.

Next, we look at the situation regarding the provision by financial institutions of "individual assistance" to core SMEs, as shown in Fig. Column 3-2-1 (2). Regardless of type, over 50% of financial institutions responded that they provide individual assistance "To a large extent" or "Somewhat" to core regional SMEs with a view to revitalizing the local economy. In the case of the "To a large extent" responses in particular, we can see that regional banks tended to provide this response more often than credit unions or credit cooperatives.

11) In this chapter, "Regional banks" refers to both regional banks and second-tier regional banks.
12) "Regional core SMEs" refers to SMEs that underpin regional economies.
13) Differences according to financial institution type can also be seen among the credit unions and credit cooperatives who responded that they want to prioritize approaches to "Newly established businesses" (7.8% of credit unions, 8.0% of credit cooperatives and 0% of regional banks). In Fig. Column 3-2-1 (1) we inquired about the presence that financial institutions most wanted to emphasize in future approaches to clients, and clearly it is not necessarily the case that regional banks don't prioritize approaches to newly established businesses. For the situation regarding support by regional financial institutions for newly established businesses, refer to Fig. Column 3-1-4 (1) shown previously.

Fig. Column 3-2-1 (2) Status of individual assistance provision to core SMEs

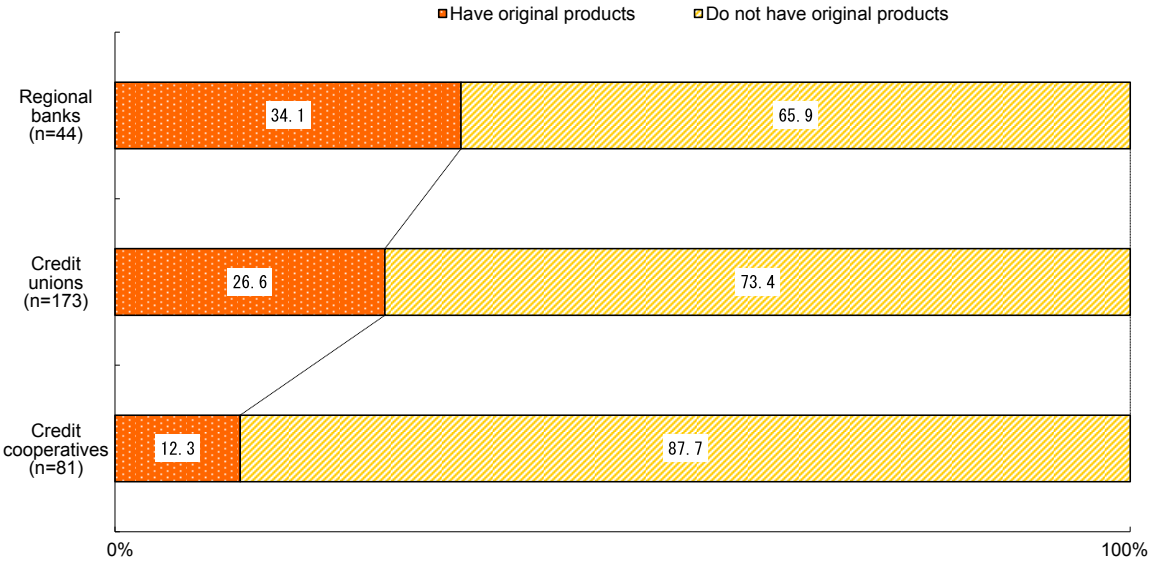


Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

Notes: 1. The survey targeted regional financial institutions who responded "Many are included" or "Hardly included at all" with regard to core regional SMEs among their clients (borrowers), and inquired about the current state of "individual assistance" being provided to those enterprises.
2. Here, "individual assistance" refers to assistance provided with a view to efficiently revitalizing regional economies by providing targeted support to core SMEs in the local economy that make a highly significant contribution to the region.

In terms of whether financial institutions offer "original products"[14] for core SMEs, 34.1% of regional banks, 26.6% of credit unions and 12.3% of credit cooperatives do so, which indicates that regional banks are the most active in supporting core SMEs (Fig. Column 3-2-1 (3)).

Fig. Column 3-2-1 (3) Availability of "original products" for core SMEs



Source: Land Brains Co., Ltd., *Survey on the Status of Support for SMEs by Regional Financial Institutions* (December 2014), commissioned by the SME Agency.

14) Many respondents cited products such as preferential interest rates for high-performing enterprises, but there were also some financial institutions who cited individual assistance through programs such as "financing coupled with the compilation of an Intellectual Asset Based Management report".

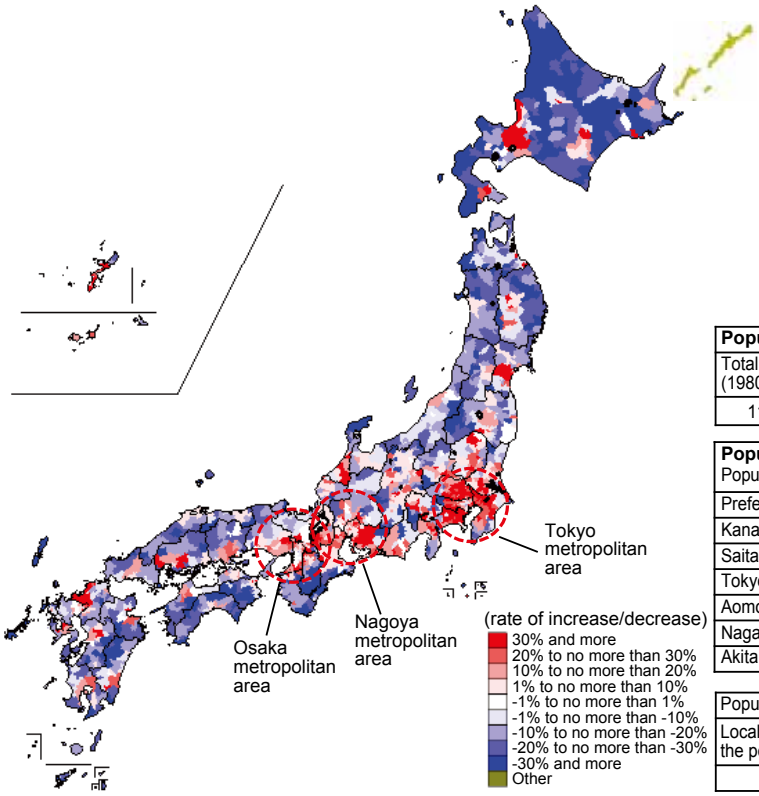
Section 2 Changes in regional social structures

[1] Current state of population decline in regional areas

We begin by looking at population changes in regional areas as they relate to changes in Japan's medium- and long-term social structures. Fig. 3-1-3 (cited earlier) shows the variations in population by municipality from 1980 to 2010. This shows that although the overall population of Japan increased by around 11 million over that 30-year period, the majority of that increase took place in urban municipalities centered around the prefectural capitals in each prefecture. But there were also many municipalities where the population fell, especially in hilly and mountainous areas. Japan's population went into actual decline in 2011 and is expected to continue to decline in the future[15]. Because a falling population will lead to declines in regional demand, regional areas need measures that will awaken the latent demand in those regions if they are to deal with future declines in demand.

(Cited earlier)

Fig. 3-1-3 Population changes in Japan by municipality (1980–2010)



Population increase/decrease in Japan as a whole

Total population (1980)	Total population (2010)	Increase/ decrease	Rate of increase/ decrease
117,058,537	128,059,362	11,000,825	9.4%

Population increase/decrease by prefecture
Population (top 3 prefectures, bottom 3 prefectures, 1980-2010)

Prefecture	Changes	Rate of change
Kanagawa	2,123,983	30.7%
Saitama	1,774,076	32.7%
Tokyo	1,541,107	13.3%
Aomori	-150,568	-9.9%
Nagasaki	-163,785	-10.3%
Akita	-170,748	-13.6%

Population increase/decrease by municipality

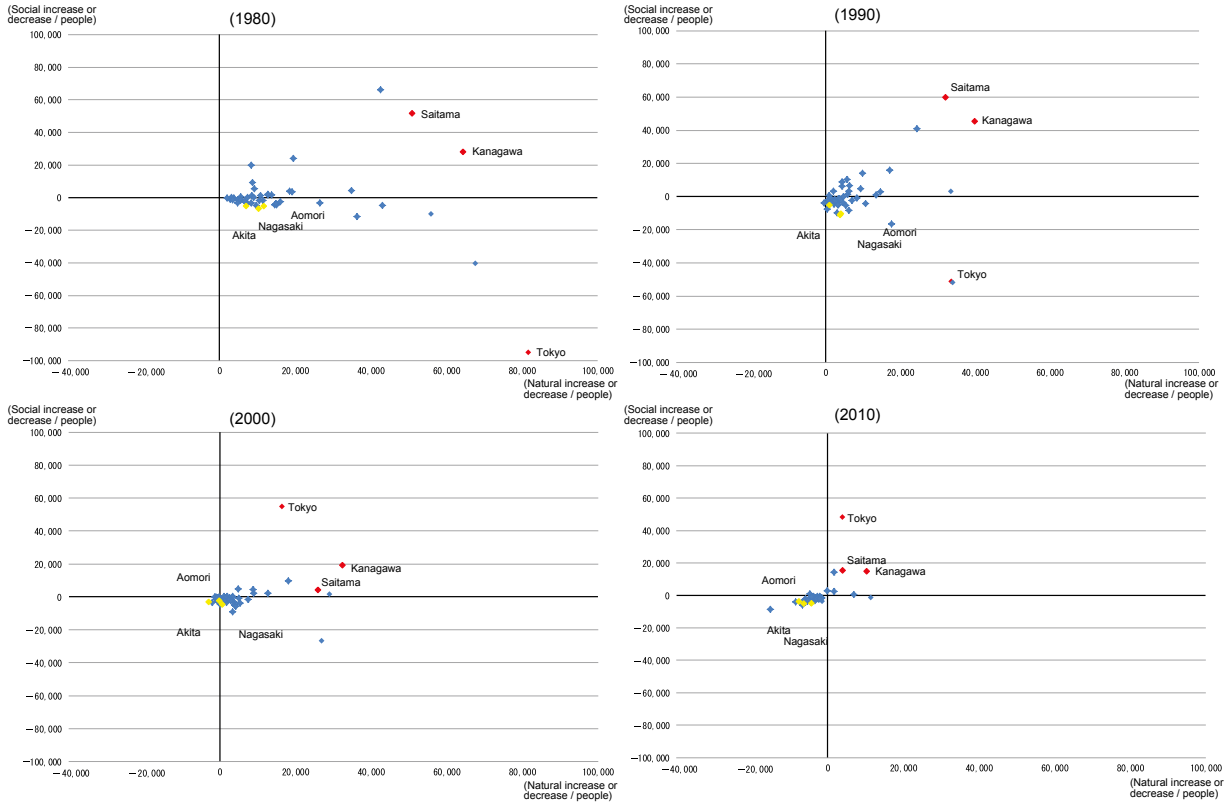
Local governments where the population is declining	Local governments where the population is increasing
1,038	704

Source: MIC, *Regional Statistical Database*.
Notes: 1. The figure plots population numbers by municipality for 2010, taking the 1980 population level as 100.
2. "Other" indicates regions not included in the survey.

15) Refer to the *2014 White Paper on Small and Medium Enterprises in Japan*, P.56 & 60 (Fig. 2-1-7).

So, what are the factors that drive these population declines in regional areas? Fig. 3-2-20 separates the factors contributing to population decline[16] into natural increase or decrease and social increase or decrease, and plots the changes for each prefecture over time. Here, we will focus on the trends in three prefectures ranked top and bottom in terms of population increase in the period from 1980 to 2010.

Fig. 3-2-20 Variations in natural and social increase or decrease (1980–2010)



Source: Formulated by the SME Agency based on MIC, *Counts of population, vital events and households derived from Basic Resident Registration*.

We can see that in 1980, the population was growing naturally in every prefecture. We can also see that while there was significant social increase in Saitama and Kanagawa prefectures, there was social decrease in Akita, Aomori and Nagasaki prefectures, and substantial social decrease in Tokyo.

In 1990, we are starting to see prefectures where population is also decreasing naturally, while in Akita, Aomori and Nagasaki prefectures natural increase was just barely sustained. However, while there are no significant changes in social increase or decrease trends in Saitama, Kanagawa, Akita, Aomori and Nagasaki prefectures, we see that the significant downward trend in Tokyo is weakening.

In 2000, there is natural decrease in Akita and Aomori prefectures, and noticeable natural decrease in the other prefectures also. On the other hand, we see that Tokyo has gone from social decrease to social increase, with its numbers exceeding those for Saitama and Kanagawa prefectures.

By 2010, many prefectures are in natural decline, and only six prefectures are still experiencing social increases in population. Akita, Aomori and Nagasaki prefectures are suffering both natural and social decreases and we can see that their populations are declining at an accelerating rate.

Next, we look at the long-term trends in social increase or decrease and natural increase or decrease by prefecture, as shown in Fig. 3-2-21. For this, we single out Tokyo, Kanagawa, Akita and Nagasaki from the six prefectures discussed above, as the figures for those prefectures lend themselves to a comparison of their trend characteristics.

In Tokyo, the trend up to 1966 was for both social and natural increase, but transitioned to social decrease and natural increase from 1967 onwards. The rate of social decrease then continued to grow, reaching a peak in 1973,

16) Population increases and decreases are shown as the totals for natural increase or decrease (number of births minus number of deaths) and social increase or decrease (people moving in minus people moving out).

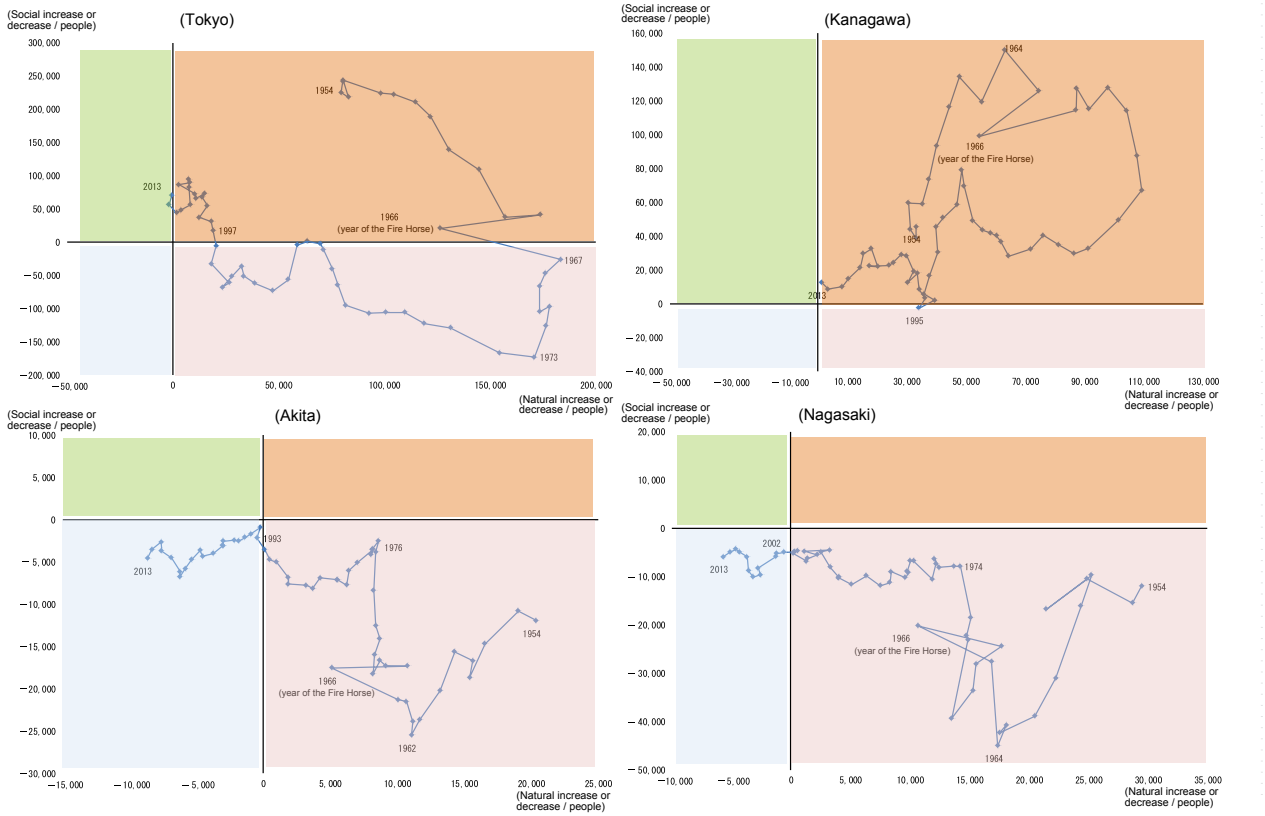
and it wasn't until 1997 that social population movement went back into positive territory.

In Kanagawa prefecture, the trend has been social and natural increase every year except 1995. However, currently the rates for both social and natural increase are very low.

In Akita and Nagasaki prefectures, there was a trend for both natural increase and social decrease for many years. However, this changed to both social and natural decrease in 1993 in the case of Akita prefecture and in 2002 in Nagasaki prefecture.

In 1966 (the year of the Fire Horse), we can see that rate of natural increase in all the prefectures was low compared with the previous year.

Fig. 3-2-21 Trends in natural and social increase or decrease (1954–2013)



Source: Formulated by the SME Agency based on MIC, *Counts of population, vital events and households derived from Basic Resident Registration*.

From the above, it is clear that the reasons for population increases and decreases differ by region. If we can identify the factors that influence population in the different regions and understand the extent to which those factors play out, we should be able to predict future regional population levels to some extent. This will also assist us in predicting future levels of demand in those regions.

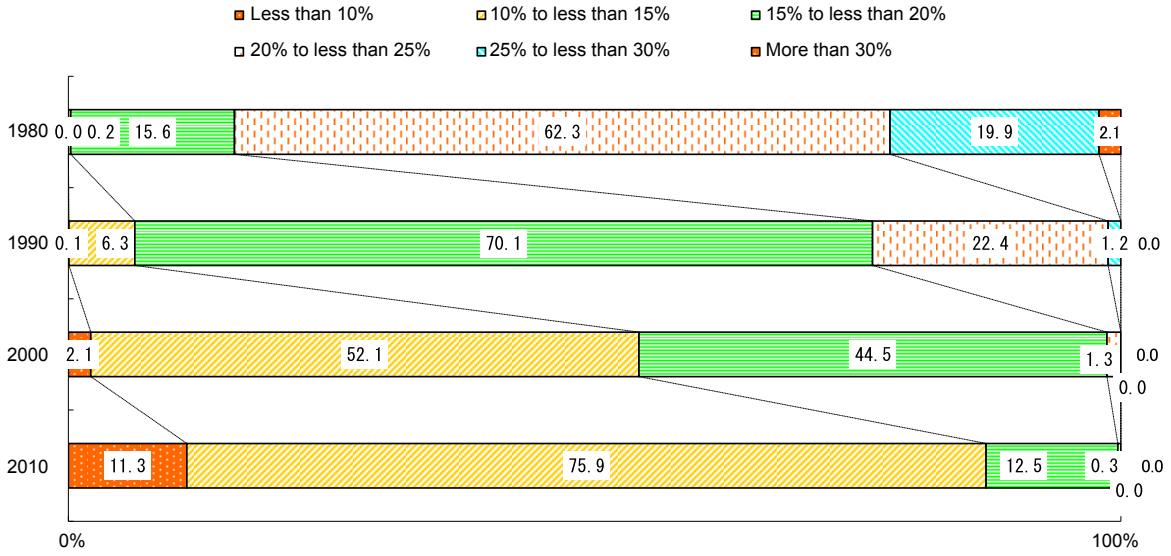
[2] Current declining birth rates and aging populations in regional areas

Next, we look at the current situation regarding declining birth rates and aging populations as factors driving population decrease in regional areas. First, we will look at the current situation of declining birth rates in the regions.

Fig. 3-2-22 shows the changes in municipality

proportions as indicated by the ratio of young population[17]. The figure shows that in 1980, 80% or more of the municipalities surveyed had a ratio of young population of at least 20%. But by 2010, there were hardly any municipalities with a ratio of young population of 20% or more. Also, the fact that close to 90% of municipalities had a ratio of young population of less than 15% indicates that the ratio of young population has fallen in many municipalities and that birth rates are dropping.

Fig. 3-2-22 Changes in municipality proportions as seen in the ratio of young population

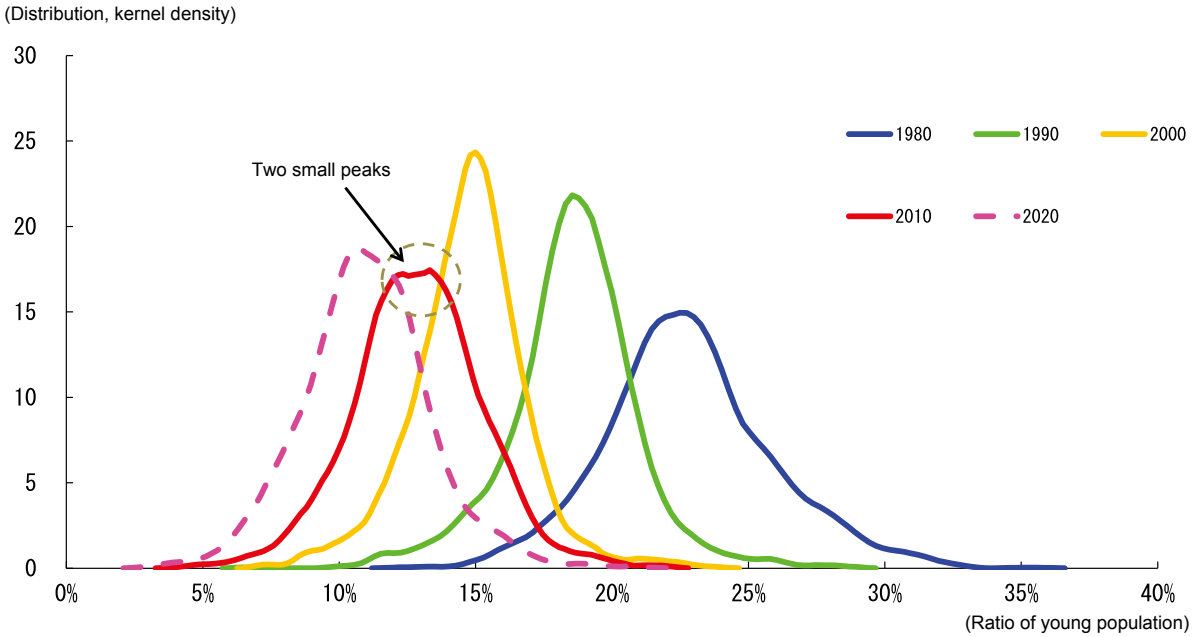


Source: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*.
Note: The figures for 2010 exclude Miyakemura in Tokyo.

Next, we look at the distribution of current declining birth rates in regional municipalities as shown by the ratio of young population[18] (Fig. 3-2-23).

17) "Ratio of young population" refers to the ratio of people aged less than 15 relative to the total population.
18) Histograms are a common means of checking the shape of data distribution, but the difficulty in terms of analysis is that the distribution shape differs depending on where the class boundaries are set. In this case, the distribution shape is checked by using kernel density estimation in which population distribution is estimated independently of class boundaries. When checking the distribution in subsequent analysis, kernel density estimation should be used for the same reasons.

Fig. 3-2-23 Changes in municipality distribution as seen in the ratio of young population



Sources: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*, and the National Institute of Population and Social Security Research, *Regional Population Projection for Japan*.
Note: The figures for 2010 exclude Miyakemura in Tokyo.

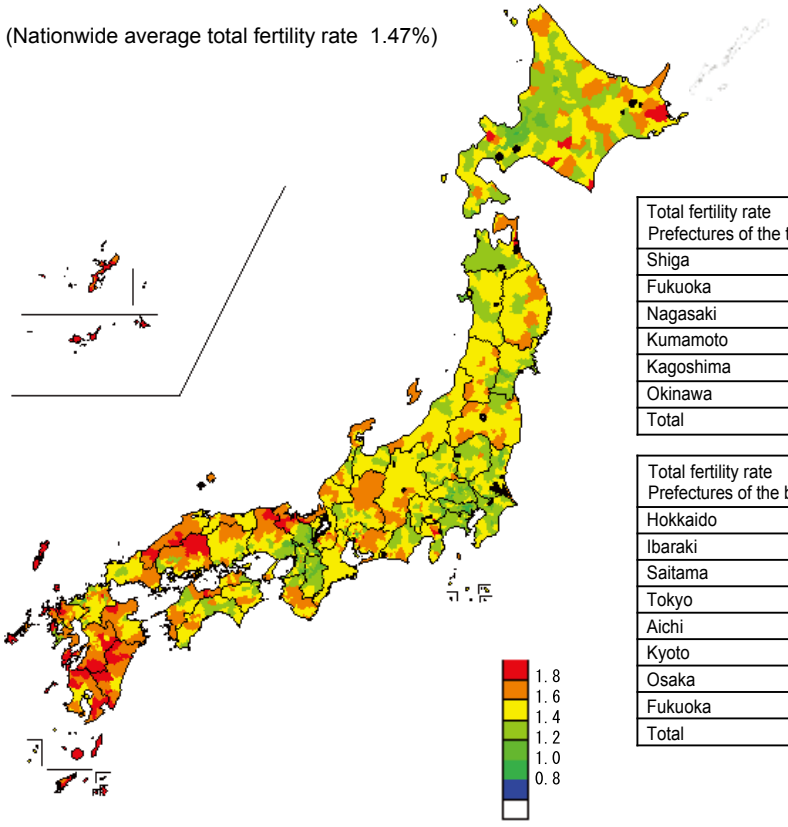
As well as showing a decrease in the ratio of young population across all municipalities between 1980 and 2000, the figure also shows that the distribution peaks have grown higher, indicating that the variations in the ratio of young population in each municipality lessened. This shows that the ratio of young population is declining at a similar rate in most municipalities.

However, like the trend between 1980 and 2000, the distribution of the decline in the ratio of young population across all municipalities between 2000 and 2010 shows lower peaks and more gentle rises and falls, indicating that the variations in the ratio of young population in each municipality increased. What is interesting in these figures is that the distribution peaks up until 2000 showed a single summit (unimodal), while in 2010, the distribution peak has two summits (bimodal). This implies that in 2010, municipalities were divided into two groupings, one with a relatively high ratio of young population and the other with a relatively low ratio of young population. Bearing in mind the decreasing amount of variability in the ratio of young population among municipalities up until 2000, it is difficult to see the shape of the 2010 distribution as resulting from the simple continuation of the situation in 2000. It is more natural to think that it is a result of individual measures taken by individual municipalities. It is likely that regions where early steps were taken to address the changes in social structures resulting from population declines, lower birth rates and an aging population have successfully raised their ratio of young population or slowed its decline by measures such as improving the total fertility rate (TFR).

Column 3-2-2 Total fertility rate (TFR) viewed per municipality[19)]

When we look at the TFR per individual municipality[20)], we see clearly defined regionality. Fig. Column 3-2-2 shows the TFR per individual municipality. The figure shows a trend for there to be large numbers of municipalities in the Kyushu and Chugoku regions with high TFRs. However, it also shows a trend for large numbers of municipalities with low TFRs in urban municipalities, principally in the Tokyo and Osaka areas. Differences in living costs (housing costs, transport costs, etc.) and in the employment situation in regional areas may well be influencing the TFR, but other regionally specific factors such as differing childbirth and child-raising environments may also impact on the TFR. One example where such factors are present in the case of Isen Town in Kagoshima prefecture (with Japan's highest TFR from 2008-2012) described in Case Study 3-2-5 below. In Isen, the residents have nurtured a climate in which children are highly valued by the entire community and generous assistance with child care is provided by the town. It may be difficult to quickly eliminate low birth rates and aging populations in regional communities simply by boosting the TFR, but sustained efforts by local residents and municipal governments are important in providing regional environments that are conducive to childbirth and child-raising.

Fig. Column 3-2-2 TFR by municipality (2008-2012)



Total fertility rate Prefectures of the top 30 municipalities	
Shiga	1
Fukuoka	1
Nagasaki	2
Kumamoto	3
Kagoshima	12
Okinawa	11
Total	30

Total fertility rate Prefectures of the bottom 30 municipalities	
Hokkaido	3
Ibaraki	1
Saitama	2
Tokyo	13
Aichi	1
Kyoto	4
Osaka	5
Fukuoka	1
Total	30

Source: Formulated by the SME Agency based on MHLW, *Vital statistics by public health center and municipality, 2008 – 2012*.

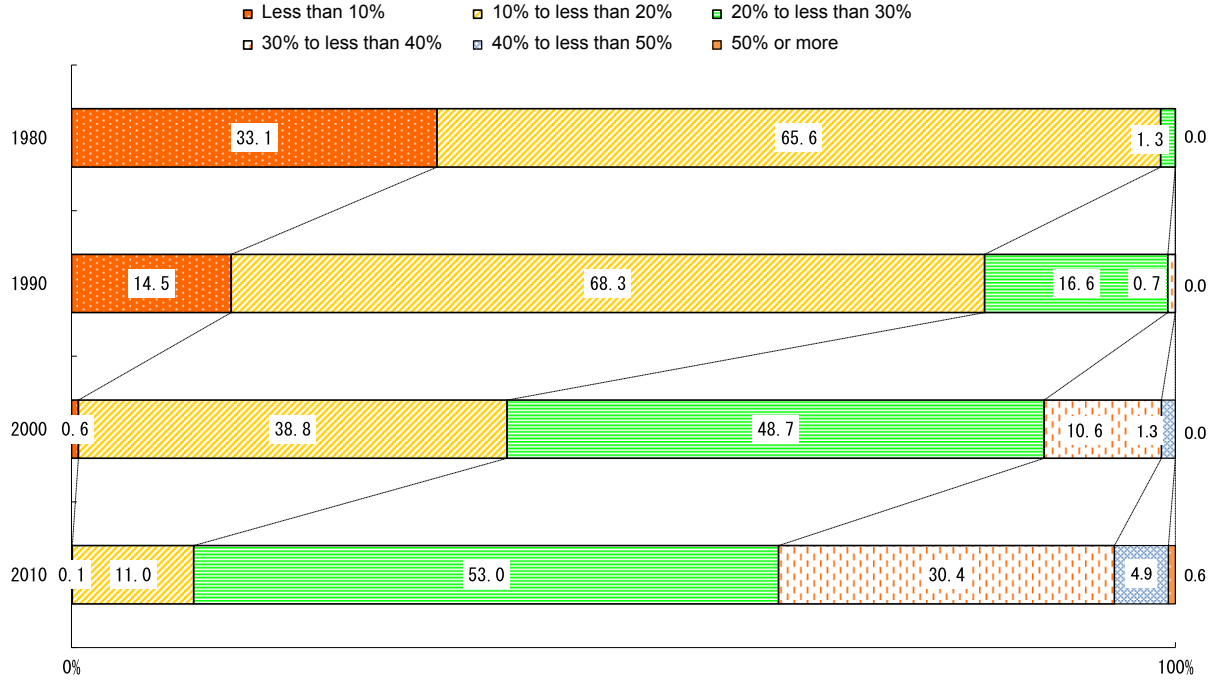
Notes:
1. Bayesian estimates are used in the TFR.
2. Regions for which no values were published have been left blank.
3. TFRs were plotted down to district units, except in Sagamihara, Okayama and Kumamoto cities, where they were plotted in city units, not district units.

19) "Total fertility rate (TFR)" refers to the average number of children born during the life of one woman. This is the total for the "age-specific birth rate" calculated by dividing the number of children born to women in an age group between 15 and 49 by the number of women in that age group. It is argued that the progress of population decline can be halted by raising the TFR, but because the population of women in the 25 to 35 age group, which is the age group with the highest birth rate, will not increase over the next 25 years, simply increasing the TFR somewhat will not lead to a rapid rise in the number of births. Population estimates based on this have been used to calculate that by 2060, Japan's total population will be close to 80 million. (Refer to P. 54-61 of the *2014 White Paper on Small and Medium Enterprises in Japan*.)

20) Here, the published data for each municipality has been used. However, because there is no district-based data for Sagamihara, Okayama and Kumamoto cities, city data was used for those cities.

Next, we look at the current situation regarding population aging in regional areas. Fig. 3-2-24 shows the changes in municipality proportions as indicated by the ratio of elderly population[21]. The figure shows that in 1980, almost every municipality had a ratio of elderly population of less than 20%, and around 30% of municipalities had a ratio that was less than 10%. But by 2010, around 90% of municipalities had a ratio of elderly population of 20% or more, with some municipalities (around 5%) having a ratio of 40% or more. This demonstrates the progress of both declining birth rates and population aging in many municipalities over that 30 year period.

Fig. 3-2-24 Changes in municipality proportions as seen in the ratio of elderly population

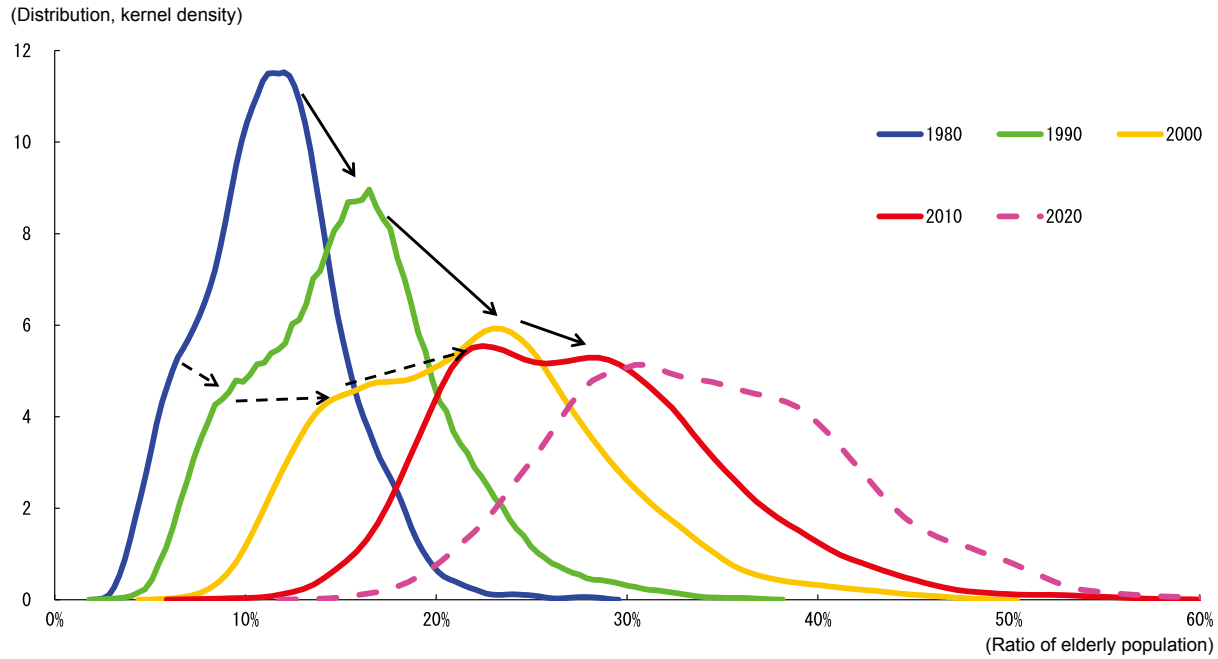


Source: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*.
Note: The figures for 2010 exclude Miyakemura in Tokyo.

Next, we look at the distribution by municipality of current population aging in regional municipalities as shown by the ratio of elderly population (Fig. 3-2-25). The figure shows that from 1980 onwards, there was a steady rise in municipalities with increasing ratios of elderly population. Typically, as population aging progressed from 1980 onwards, the distribution peaks became lower and there are greater variations in the ratio of elderly population. Unlike the variations in the ratio of young population distribution, which became more pronounced between 2000 and 2010, there were already large disparities in the distribution of the ratio of elderly population between 1980 and 1990. Also, the regional differences in the ratio of elderly population early on are more conspicuous than those for the ratio of young population. What is particularly interesting at this point are the changes in the shapes of the distribution peaks. We can see that in the distribution curve for 1980, there are slight swellings in the left side of the curve that are quite apart from the peak. In the curves for 1990, 2000 and 2010, the distribution peaks become smoother over time, and the small swellings observed in the 1980 curve become more pronounced. In other words, there are two groupings of municipalities, one group with relatively high ratios of elderly population and the other with relatively low ratios. The existence of groups with low ratios of elderly population is particularly striking. On the other hand, the group with relatively high ratios of elderly population features a broad lower slope to the right of the peak, showing that there are many municipalities where population aging is progressing and that there is a striking difference between municipalities where population aging is progressing and those where the progress of population aging has been slowed.

21) "Ratio of elderly population" refers to the ratio of people aged 65 or older relative to the total population.

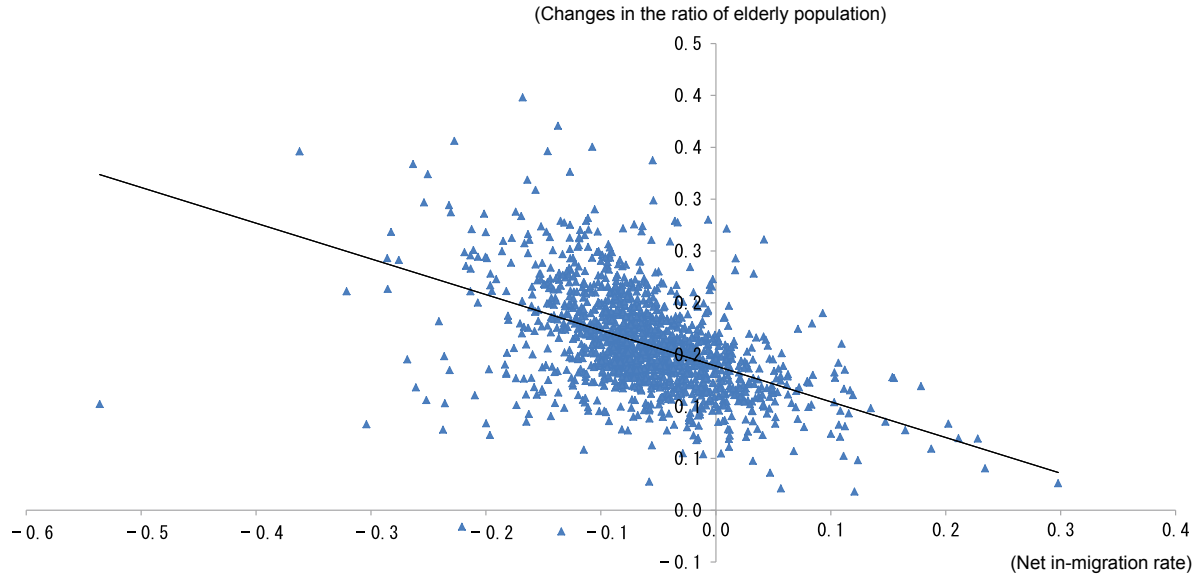
Fig. 3-2-25 Changes in municipality distribution as seen in the ratio of elderly population



Sources: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*, and the National Institute of Population and Social Security Research, *Regional Population Projection for Japan*.
Note: The figures for 2000 exclude Miyakemura in Tokyo.

So, what are the factors driving these regional differences in the ratio of elderly population? If we look at the correlation between the changes in the ratio of elderly population and the net in-migration rate by municipality, we see tendency for municipalities with higher net in-migration rates to also have lower increases in the ratio of elderly population (Fig. 3-2-26). In municipalities where the amount of in-migration to communities is high, the population flowing into the communities is relatively young and this lowers the overall ratio of elderly population.

Fig. 3-2-26 Correlation between changes in the ratio of elderly population and net in-migration rate by municipality

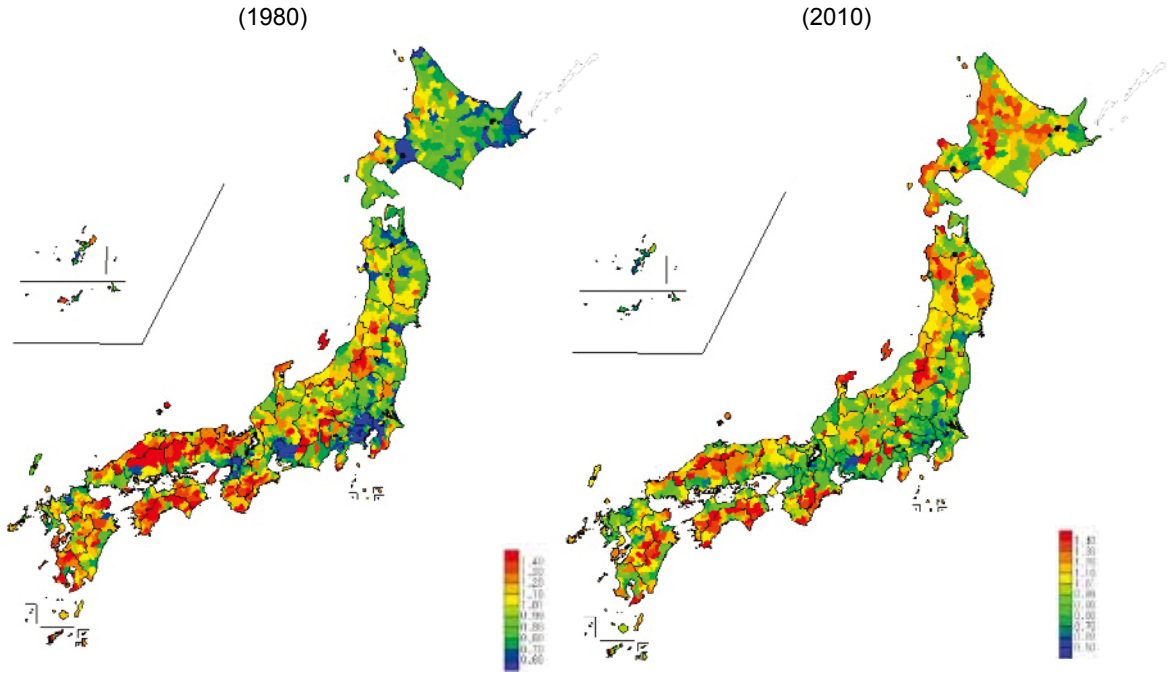


Source: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*.
Notes:
1. Net in-migration rate (net in-migration in 2000 - net in-migration in 2010)/population in 2000
2. Ratio of elderly population = population aged 65 or older/total population
3. Change in the ratio of elderly population = 2010 ratio of elderly population - 1980 ratio of elderly population.
4. The figure only shows municipalities for which the net in-migration rate can be calculated.

Column 3-2-3 Progress of population aging viewed by municipality

Now, we look at the problem of population aging faced by Japan by municipality to reveal its progress in terms of regionality. Fig. Column 3-2-3 (1) shows the deviation between the ratio of elderly population by municipality and the nationwide average ratio of elderly population in each year. The figure shows that the rate of population aging in municipalities in regional areas such as Chugoku and Shikoku is higher than the rate in urban municipalities in both 1980 and 2010. However, in 2010, the deviation from the nationwide average ratio of elderly population had fallen in municipalities in the three major urban areas, including the Tokyo area, indicating that population aging was progressing at much the same rate as in regional areas.

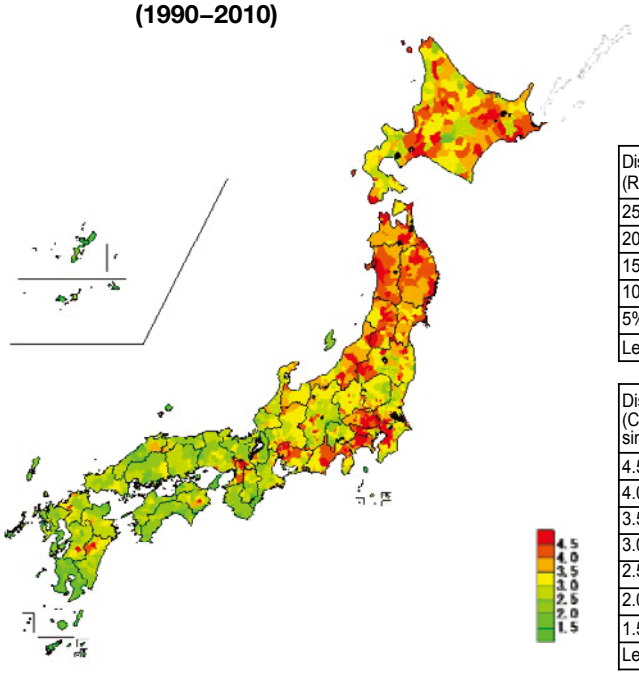
Fig. Column 3-2-3 (1) Progress of population aging in Japan (1980–2010)



Source: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*.
Notes: 1. The figure plots the value for the ratio of elderly population for each municipality in each year, taking the average ratio of elderly population by municipality for each year (population aged 65 or older/total population) to be 1.0.
2. Regions for which no value can be calculated have been left blank.

Progressive population aging has also increased the proportions of elderly single-person households and elderly couple households (Fig. Column 3-2-3 (2) and Fig. 3-2-3 (3) respectively). The proportion of elderly single-person households increased markedly in municipalities in the Hokkaido and Tohoku regions, while at the same time they also increased significantly in the three major urban areas of Tokyo, Aichi and Osaka prefectures. The trends for changes in the proportions of elderly couple households were similar to those for elderly single-person households.

Fig. Column 3-2-3 (2) Changes in the proportions of elderly single-person households (1990–2010)

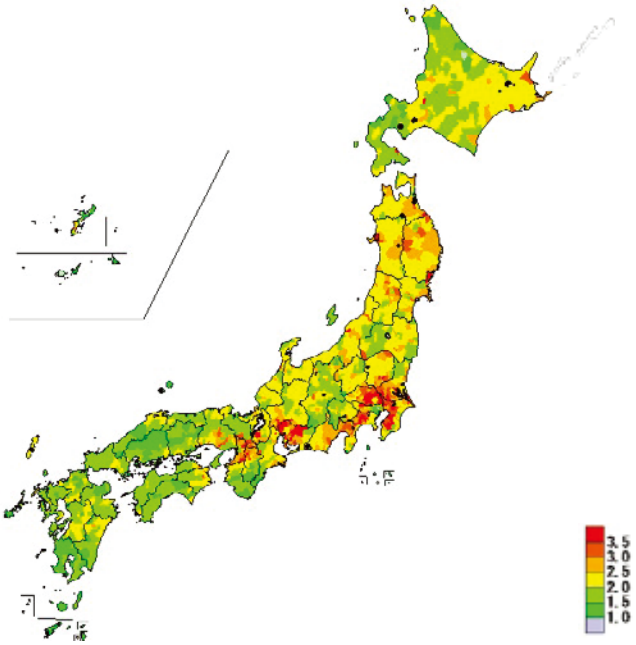


Distribution among municipalities (Ratio of elderly single-person households)	
25% or more	8
20% to less than 25%	56
15% to less than 20%	206
10% to less than 15%	546
5% to less than 10%	868
Less than 5%	58

Distribution among municipalities (Changes in the ratio of elderly single-person households)	
4.5% or more	239
4.0% to less than 4.5%	181
3.5% to less than 4.0%	252
3.0% to less than 3.5%	294
2.5% to less than 3.0%	370
2.0% to less than 2.5%	261
1.5% to less than 2.0%	104
Less than 1.5%	41

Source: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*.
Notes: 1. Proportion of elderly single-person households (%) = No. of elderly single-person households/No. of ordinary households
2. The figure charts the figures for the proportion of elderly single-person households in each municipality in 2010, taking the proportion of elderly single-person households in 1990 to be 1.0.
3. Regions for which no value can be calculated have been left blank.

Fig. Column 3-2-3 (3) Changes in the proportions of elderly couple households (1990–2010)



Distribution among municipalities (Ratio of elderly couple households in 2010)	
25% or more	10
20% to less than 25%	60
15% to less than 20%	350
10% to less than 15%	850
5% to less than 10%	468
Less than 5%	4

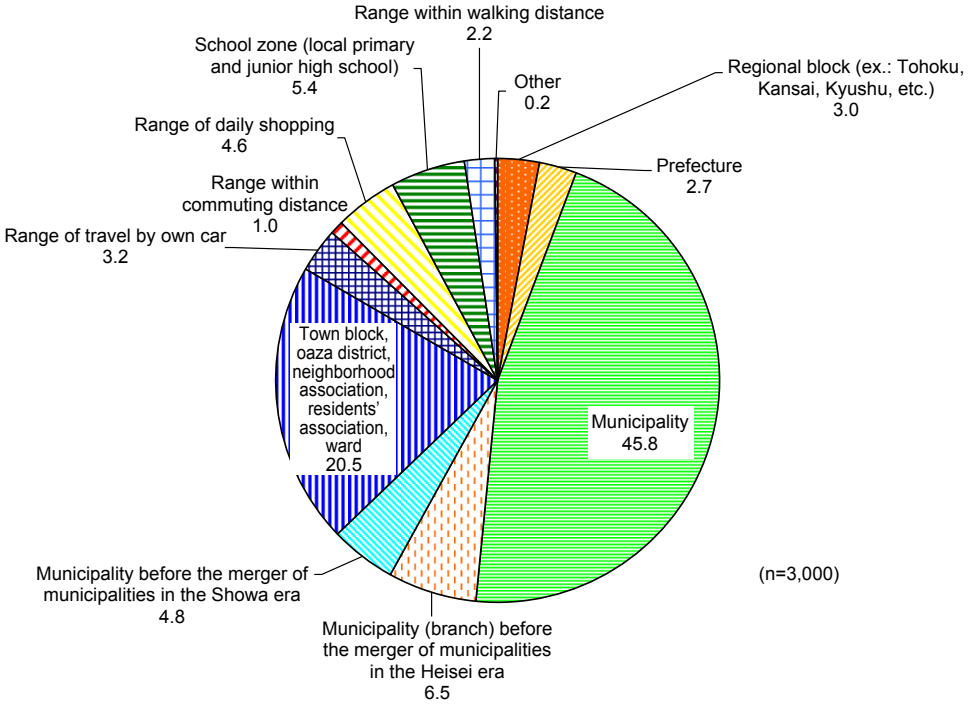
Distribution among municipalities (Changes in the ratio of elderly couple households)	
3.5% or more	137
3% to less than 3.5%	137
2.5% to less than 3.0%	261
2.0% to less than 2.5%	528
1.5% to less than 2.0%	507
1.0% to less than 1.5%	153
Less than 1%	18

Source: MIC, *Regional Statistical Database*.
Notes: 1. Proportion of elderly couple households (%) = No. of elderly couple households/No. of ordinary households
2. The figure charts the figures for the proportion of elderly couple households in each municipality in 2010, taking the proportion of elderly couple households in 1990 to be 1.0.
3. Regions for which no value can be calculated have been left blank.

Column 3-2-4 What local residents consider to be a region

So far, we have discussed the changes to regional economies and social structures primarily on the level of individual municipalities. But what image does the word "region" actually bring to mind for local residents in the first place? Fig. Column 3-2-4 (1) shows the images that local residents have of a region. This shows that nearly 60% of local residents see a region as being a municipality (including municipalities before they were merged). It also shows that some 20% of the respondents responded "Town block, *oaza* district, neighbor-hood association, residents' association, ward", indicating that they see a region as being even smaller than a municipality[22].

Fig. Column 3-2-4 (1) Images of "region"



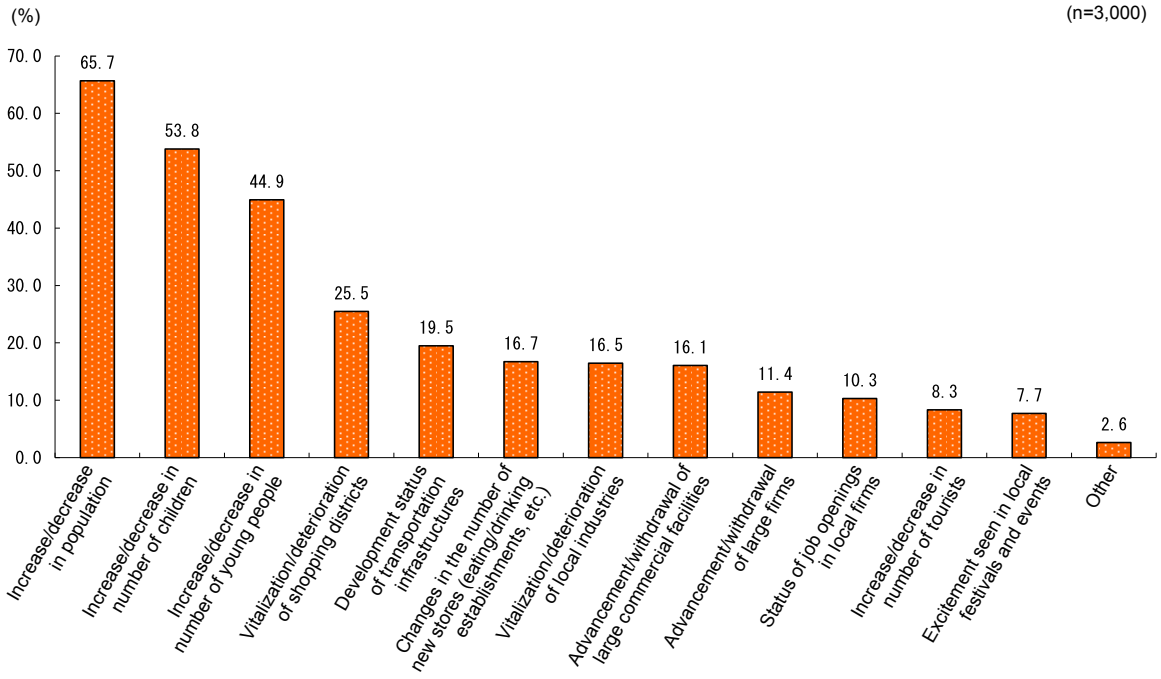
Source: Land Brains Co., Ltd., *Survey of Your Involvement in Your Region* (January 2015), commissioned by the SME Agency.

But to what extent are local residents aware of the factors that determine whether a region grows or falls into decline? Fig. Column 3-2-4 (2) provides some answers. This shows a strong tendency for people to see factors that relate primarily to rises and falls in population as determining whether regions develop or decline, with 65.7% responding "Increase/decrease in population", 53.8% choosing "Increase/decrease in number of children", and 44.9% opting for "Increase/decrease in number of young people".

Conversely, the low proportions for "Vitalization/deterioration of local industries" (16.5%), "Advancement/withdrawal of large commercial facilities" (16.1%) and "Advancement/withdrawal of large firms" (11.4%) suggest that there is only a slight tendency for people to see industry-related factors as determining whether regions develop or decline. The survey targeted residents living in municipalities with a population of 50,000 or less, so its findings cannot really be said to characterize the views of all Japan's residents, but it does show that residents in communities with a small population tend to see factors relating to population increases and decreases as determining whether regions develop or decline. So it is probably safe to conclude that local residents see those factors as being the regional issues.

22) It must be noted that this survey targeted residents of municipalities with a population of 50,000 or less.

Fig. Column 3-2-4 (2) Factors determining regional development or decline



Source: Land Brains Co., Ltd., *Survey of Your Involvement in Your Region* (January 2015), commissioned by the SME Agency.
Note: Responses were for the top three factors determining regional development or decline.

So far, we have looked at the current situation regarding population increases and decreases, declining birth rates and aging populations in regional areas. Below, we will introduce some regional programs that have provided flexible responses to the changes faced by regional communities as social structures change through falling population, declining birth rates and the aging of the population.

Case 3-2-4 Shimojo Village, Nagano Prefecture

A local government that promotes financial reform and a relocation policy for young people (countermeasure to a declining birthrate)

Shimojo Village, Nagano Prefecture (population: 4,200 (2010 population census); area: 37.66km^2) is located at the southern end of the prefecture, approximately 30 minutes by car from Iida City. Mountains and forests cover roughly 70% of the land area of the village, and a mere 3% is available as residential land. In the past, the village thrived on the sericulture industry, and had a population of 6,410 at its peak in 1950. However, its population decreased along with the decline of the sericulture industry in the 1960s and 70s.

The village's main industry today is agriculture, but since farming land is limited, fruits and buckwheat are grown in small lots. Close to half of all villagers engage in secondary and tertiary industries, but they commute to neighboring Iida City, because there are no large companies and offices in Shimojo Village. With hardly any source of revenue in the village, its financial capability index stands at 0.214 (FY2012). These conditions alone suggest that Shimojo Village is a small local government that is typically found in hilly and mountainous regions. However, it has produced a number of achievements through many years of financial reform initiatives.

Just as many local governments have been beset by a decline in the population of young people, Shimojo Village also saw its population decrease to 3,859 in 1990. However, it picked up and increased to 4,024 in 2000, surpassing the 4,000 mark. The Japan Policy Council's estimates of municipal populations from 2010 to 2040 show that the rate of population change among women in their twenties to thirties goes beyond -70% in a number of local governments, but stands at -8.6% in Shimojo Village. Furthermore, the village's total fertility rate of 1.86 (2008-2012 village estimate, where the nationwide average was 1.41 in 2012) largely surpasses the nationwide rate, and indicates an increase in the number of young families with children.

Behind these differences with other municipalities lie the concerted efforts of the village and its residents to promote

financial reform and a relocation policy for young people. These initiatives originated in the Villager Doubling Plan proposed by Kihei Ito, who became village mayor in 1992.

First on the reform agenda was to promote changes in the mindset of village office personnel and reduce personnel numbers. All personnel were required to receive customer service and sales training at a private-sector home improvement center to raise their awareness regarding the service industry. As a result, they acquired cost-consciousness and speed in regard to the work they do. At the same time, the number of personnel was naturally reduced by not employing new personnel. The number has decreased almost by half to 37 as of the present (including nursery staff and people on childcare leave), and the ratio of personnel expenses to total expenditure has dropped to 14.2% (according to the FY2013 financial statement). Another item on the agenda that has played a large role in the village's financial reform is the "materials issuance program." Under this program, road improvement projects that have been implemented by the government to enhance the living environment of local residents are instead implemented by the residents themselves with the village supplying the necessary materials. Where previously local residents one-sidedly petitioned to the village office to have any type of road work done, the program encouraged them to take active initiative, and succeeded in significantly reducing the village's public works spending. The joint efforts by the residents have also contributed to revitalizing the community.

The finances generated by such financial reform initiatives are being used to promote measures against the declining and aging population. In 1997, the construction of apartment complexes for in-migrants was begun, and by inviting in-migrants on the certain conditions—i.e., that young couples who have children or plan to marry, they participate in village events after moving in and also join the fire brigade—the village succeeded in attracting "good-quality" young people and creating a community that embraces both local villagers and in-migrants.

The village has furthermore developed an optimal child-raising environment by providing such benefits as free medical care to children until they graduate from high school, reduced child daycare fees, school lunch subsidies, a new childcare support fund, money gift for children entering school, and money gift for newborns. As a result, the population ratio of children below the age of 14 reached 15.3% (as of October 2013), and ranks the fourth highest in Nagano Prefecture.

Residency promotion homes for young people

Nursery school

[Observations from the case]

Success factors

Shimojo Village is highly evaluated for establishing a village management system that is based on the concerted efforts of the village and its residents, by promoting a change in the awareness of local government personnel and residents. Moreover, by using the finances it generated through financial reform to actively promote measures against a declining and aging population, it succeeded in attracting young in-migrants, with the result that the village's fertility rate between 2008 and 2012 reached 1.86 (2012 nationwide average: 1.41) and largely surpassed the nationwide average.

Responses in consideration of changes in the regional economic structure: Change in awareness of local government personnel

Given the prospects of a nationwide population decline, local governments are facing a decline in tax revenues, and their administrative management capability is being called into question.

Shimojo Village was able to pursue fiscal management that accords with its reality by changing the awareness of its personnel in regard to administrative operations from an early period. It particularly achieved the sound financial status it enjoys today by also promoting a change in the way local residents depend on the government. As a result, it is able to direct its efforts to actively promoting countermeasures to the issue of a declining and aging population.

As a measure against the declining and aging population, the village began to build housing lots and apartment complexes for in-migrants in 1997 (rent: 2LDK <including parking space for two cars>: ¥33,000-34,000/month; approximately half the rent of similar properties in Iida City). The construction of apartment complexes intended for young people was undertaken as an independent project, to be able to lease them on certain conditions—i.e. that young couples who have children or plan to marry, they participate in village events after moving in and also join the fire brigade. This conditional invitation of in-migrants allowed the village to attract "good-quality" young people to the village, develop a community that embraces both local villagers and in-migrants, and create a virtuous cycle in which local villagers also welcome in-migrants to their community.

The village furthermore developed an optimal environment for raising children, by providing such benefits as free medical care to children (until their graduation from high school), reduced child daycare fees (to less than half the government standard, according to income level), school lunch subsidies (50% in primary and junior high schools), a new childcare support fund (support for families with small children from a fund worth ¥700 million), money gift for children

entering school, and money gift for newborns.

Today, as many as 124 residences have been built for young in-migrants, but there are already some young married couples on the waiting list. Furthermore, the number of households, which had bottomed out in 1990, increased by 300. There was a large increase particularly of young people, such that the population of children below the age of 14 now totals 622, corresponding to more than 15% of the village's entire population. The numbers of students have also recovered, with 274 students now enrolled in primary school in the village (as of May 2014; the total number of classes fell to 10 at one time, but increased once again to 12), 109 in nursery school, and 137 in junior high school. Owing to the above-mentioned initiatives, the village's total fertility rate between 2008 and 2012 reached 1.86 and largely surpassed the nationwide average.

Future issues

Shimojo Village's policies to build residences for young in-migrants and provide childcare support since 1997 have resulted in an increase in the young population and total fertility rate.

As part of its countermeasure to the dwindling number of children, the village has also begun to embark on changing school education from the perspective that "village development is people development." For better education, it introduced village-financed instructors (teachers) to primary and junior high schools, and launched an overseas training program for junior high school students. For all practical purposes, Shimojo Village has entered the next phase of initiatives. However, it should be noted that the it was under the leadership of Mayor Ito, who is now serving his sixth term since first being elected in 1992, that village personnel were able to realize the various policies with a strong awareness and local residents cooperated with concerted effort. Going forward, the question is how well the village's reform initiatives could be continued in response to changes in the times. The village warrants continuous attention as a role model for other small local governments throughout Japan.

Case 3-2-5 Isen Town, Kagoshima Prefecture

A local government that aims to build a town of long life and many children

Isen Town, Kagoshima Prefecture (population: 6,844 (2010 population census); area: 62.7km^2) is located in the southwestern area of the island of Tokunoshima (area: 248km^2), roughly 480km from the Kyushu main island. It is well known as the hometown of Mr. Shigechiyo Izumi and Ms. Kamato Hongo, who were respectively named the world's oldest person by Guinness World Records. The town is also garnering attention from throughout Japan for maintaining a high fertility rate. For instance, when looking at total fertility rate by municipality, Isen Town marked a rate of 2.47 between 1998 and 2002 (fourth highest of all municipalities in Japan), 2.42 between 2003 and 2007 (highest of all municipalities in Japan), and 2.81 between 2008 and 2012 (highest of all municipalities in Japan).

The high birthrate in Isen Town is founded on the island's spiritual culture that values children as a "blessing of all people," and supports child raising through the collective care of all parents, families, relatives and the community. It is a culture that attaches importance to elder care, children's school events, childbirths, funerals and other such life events, much more so compared to the working styles and role-sharing of family members in large cities.

In conjunction with this regionally unique cultural background, Isen Town has launched various measures since fiscal 2005 to build "a town of long life and many children" by harnessing the town's vitality. It has created an environment where parents can leave their children in someone's care and go to work with an easy mind. In fact, there are three licensed nursery schools, five rural childcare centers and eight primary schools in the town.

As one of its key childcare support programs, Isen Town launched a childcare subsidy system in fiscal 2006 and gave out ¥100,000 for each third child and on (with half the amount issued as regional money coupons). In fiscal 2009, the system was expanded to issue ¥50,000 to each first child, ¥100,000 to each second child, and ¥150,000 to each third child and on. Moreover, in fiscal 2012, the town responded to its residents' request for the money gifts for senior citizens to be used for the benefit of children, and thus reduced the money gift amount and allotted the reduced amount to the childcare subsidy system. In addition to the subsidy, the town has also established a support framework to allow families to have and raise children without undue worries. Under the framework, house visits are made and foods for maternal and child nutritional support are offered to all families of newborns.

In addition to childcare support, Isen Town also implements initiatives for promoting permanent residency and creating local employment. In regard to living services, it has attracted the location of food stores and convenience stores, and built the Tokunoshima Community Interaction Center—Horaikan (health promotion facility) and the adjacent "Really Healthy Farmers' Market—Hyakusai" that promotes local production for local consumption. To promote permanent residency, the town has built additional public housing in school zones to maintain its small-sized schools, promotes a vacant home bank system, and is endorsing the construction of private residences on town-owned land under an interest-free loan. For local employment, it has attracted the location of a private company that mainly manufactures satellite components, and secured employment for around ten people in its first year, with the aim of creating employment for close to 100 people in the future. Additionally, to increase agricultural production and support the town's key industry, the town built a processing center for Isen Town specialty products (interest-free loan to a private business). The center has created employment for approximately ten people in its first year, with the aim of creating employment for close to twenty people in the future.

By offering an environment where families can have children without undue worries and providing employment and a place of permanent residence through the above-mentioned initiatives, Isen Town is now gradually attracting young people making a U-turn or I-turn from other cities.

Health promotion event for town residents held at the Horaikan community center

[Observations from the case]

Success factors

Isen Town deserves high recognition for setting the goal of "building a town of long life and many children" in fiscal 2005 amid an advancing decline and aging of its population, and actually creating a vision of a town where families can have children without undue worries by implementing comprehensive initiatives for creating an environment where young people of the next generation can have and raise children.

It has also established a framework for child-raising support. For example, it operates facilities that support mutual interactions among residents and provide childcare and shopping support, such as the "Tokunoshima Community Center—Horaikan" (health promotion facility) and the "Really Health Farmers' Market—Hyakusai," takes measures to sustain small-sized primary schools and childcare centers in each school district, makes home visits to families of newborns and provides foods to promote maternal and child nutrition.

Furthermore, in fiscal 2009, Isen Town relaxed the requirements for receiving childcare subsidy, and succeeded in boosting its total fertility rate from the 2.40 level to an even higher 2.81 after fiscal 2009. With regard to population changes (FY2010 – 2014), Isen Town marked the smallest decrease in population among the island's three towns, with a decrease of 283 people, while the population of Tokunoshima Town decreased by 574 and Amagi Town by 422. Isen Town's comprehensive initiatives also worked to an advantage in attracting the location of new businesses.

Responses in consideration of changes in the regional economic structure: Thorough support for children

When considering Isen Town's location on a remote island, out-migration accompanying school enrolment and employment outside the town is an inevitable part of its social structure. However, as a result of comprehensive initiatives to create an environment for having and raising children, the town became able to provide a more favorable child-rearing environment compared to large cities, and is thus seeing a large number of people returning to the town to have children or making a U-turn or I-turn from the large cities.

The social dynamics in fiscal 2006, the year after launching the comprehensive initiatives, was such that there were 346 in-migrants and 429 out-migrants, for a social decrease of 83 people, but in fiscal 2013, there were 320 in-migrants, 310 out-migrants, marking a social increase of 10 people.

Isen Town has succeeded in satisfying internal demand for child raising, shopping and social welfare, and has in effect succeeded in attracting the location of new businesses.

Future issues

Most of the young families that have returned to Isen Town to have children are offsprings of farmers in the town, and make a living by helping with the farm work. In this sense, it can be said that their return to town has also led to an assurance of successors to family farms. Additionally, with the gradual establishment of childcare and welfare support frameworks, future issues would be in securing care hands and enhancing their skills level.

On the other hand, Isen Town is also inviting the location of new businesses by providing plant facilities, but this type of business attraction could be expected to have a limit. Under this awareness, more focus should perhaps be placed on the fact that young people are recently beginning to turn their interest to business startups, where no such interest existed in the town in the past. It can thus be said that greater support will be sought for new business start-ups in the future.

Section 3 Identifying the current situation in regional areas from data and instances of regional analysis

[1] Examples of regional analysis

As we have already seen, the changes in the economic and social structures that regional areas face are not uniform. As was noted at the beginning of this chapter,

in order for regions to implement programs tailored to the particular conditions of that region and thereby revitalize regional areas, it is important to first identify the changes to the economic and social structures that those regional areas face and to gain a clear picture of the current situation in each region. In terms of the economy, the current situation covers factors such as the region's industry composition, the entry and exit rates for enterprises, the business structures of regional enterprises and trends in regional tourism. In social terms, it includes population shifts, the population composition, in- and out-migration, the status of traffic infrastructure, the number of schools and the number of hospitals and clinics, etc.

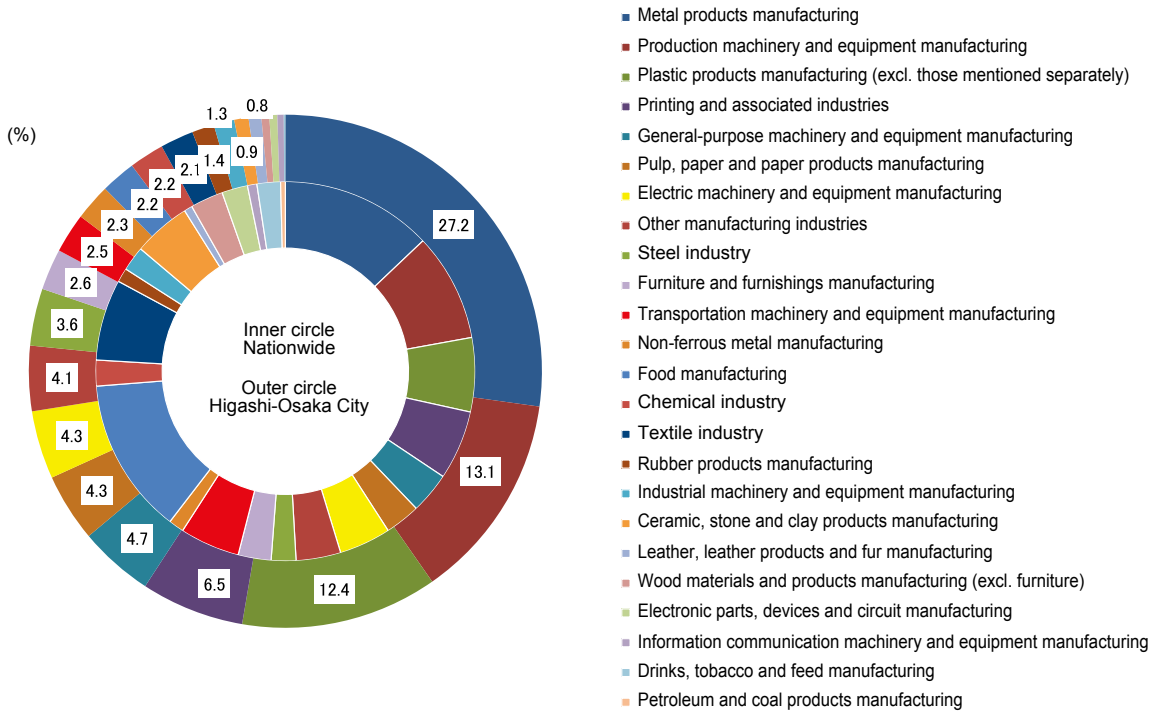
The five local governments discussed in Sections 1 and 2 all faced the changes in their economic and social structures head on, ascertained the current situation in their regions and then, through their resourcefulness and ingenuity, achieved a degree of improvement in their outcomes by implementing programs matched to their local circumstances (e.g. programs that utilized regional strengths). Below, we analyze the regional areas to identify their local circumstances as preparation for implementing programs tailored to those local circumstances. In this section, we will analyze three regions: (1) Higashi-Osaka City (Osaka prefecture), (2) the Kobe Biomedical Innovation Cluster (Hyogo prefecture) and (3) the Konan region (Shiga prefecture).

Regional analysis (1): Higashi-Osaka City — Leveraging the merits of a manufacturing cluster to achieve high value-adding—

Higashi-Osaka City (population: 509,533 (2010 Population Census), land area: 61.81 km²) is located in the center of the Kawachi plain and is the third largest city by population in Osaka prefecture after Osaka City and Sakai City. Many different manufacturing business establishments are concentrated in the city, particularly in the metals and machinery related industries, but is also home to many plastics and printing businesses (Fig. 3-2-27).

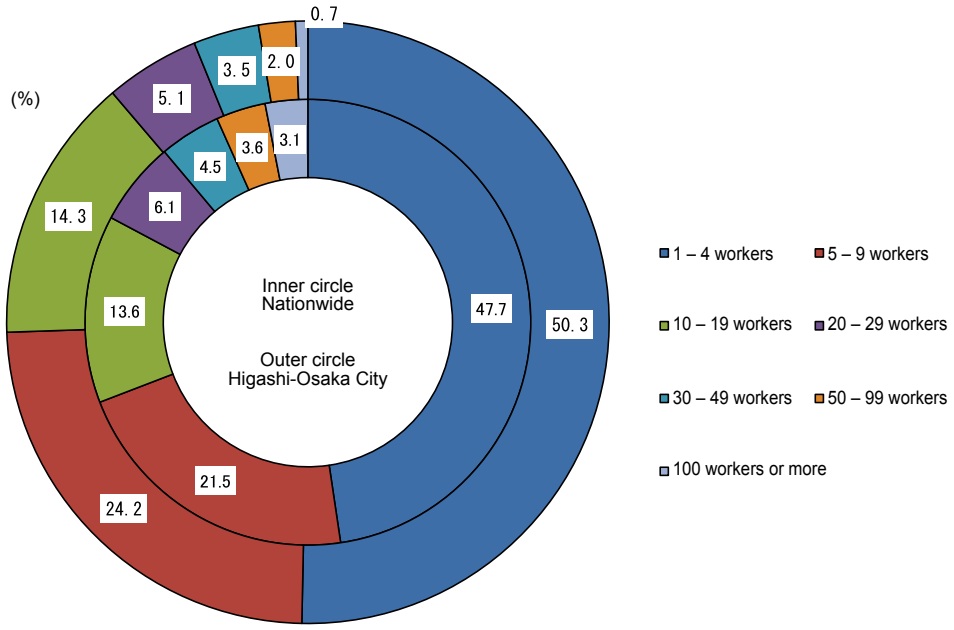
Compared to Japan as a whole, the city also has a particularly high proportion of small business establishments (Fig. 3-2-28). While there are independent enterprises with their own products, there are also primary, secondary and tertiary subcontractors and enterprises engaged solely in piecework in the form of metal plating and sheet metal processing. In terms of its density of manufacturing business establishments, it is Japan's leading area, vying with Ota City in Tokyo and Osaka City (Fig. 3-2-29).

Fig. 3-2-27 Proportion of manufacturing industries in Higashi-Osaka City by number of business establishments (manufacturing middle classification)



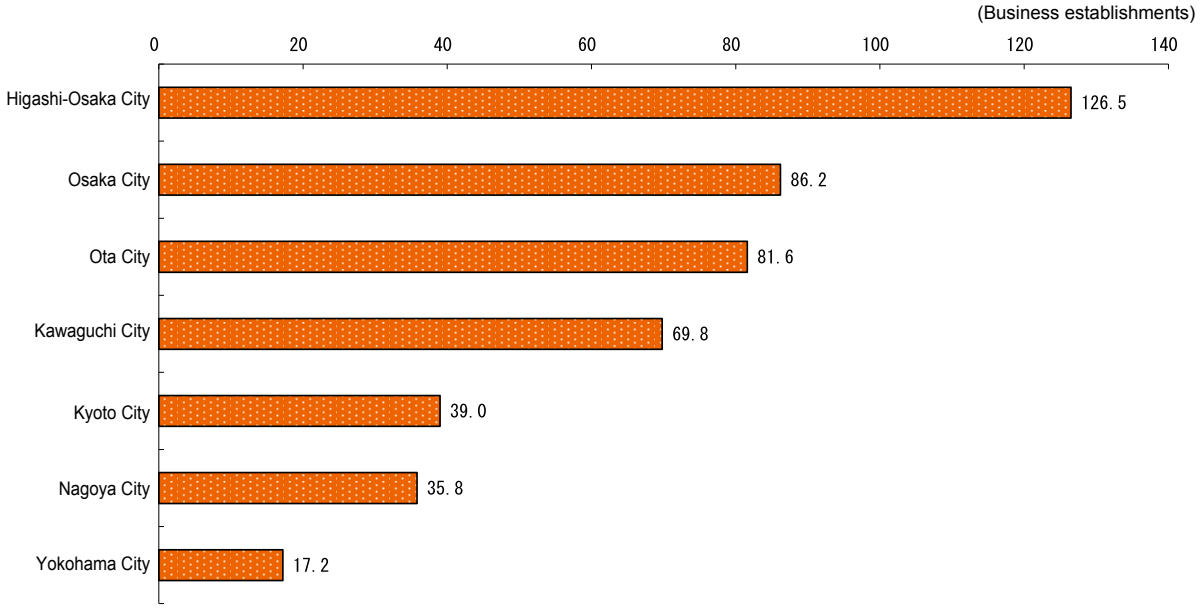
Source: METI, *2012 Census of Manufactures*.
Note: The survey shows totals for business establishments with 4 or more workers.

Fig. 3-2-28 Proportion of manufacturing business establishments in Higashi-Osaka City viewed by number of workers



Source: MIC, METI, *2012 Economic Census for Business Activity*.

Fig. 3-2-29 Comparison of manufacturing business establishment density



Source: MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. Manufacturing business establishment density: No. of manufacturing business establishments per square kilometer (habitable land area).
2. Compared with cities with 4,000 or more manufacturing business establishments.

The following is an overview of the historical background to the formation of this type of diverse manufacturing cluster. We begin by examining the miscellaneous goods industry (celluloid products such as toothbrushes, buttons and stationery). Starting in the Edo era, the cotton industry flourished in Higashi-Osaka

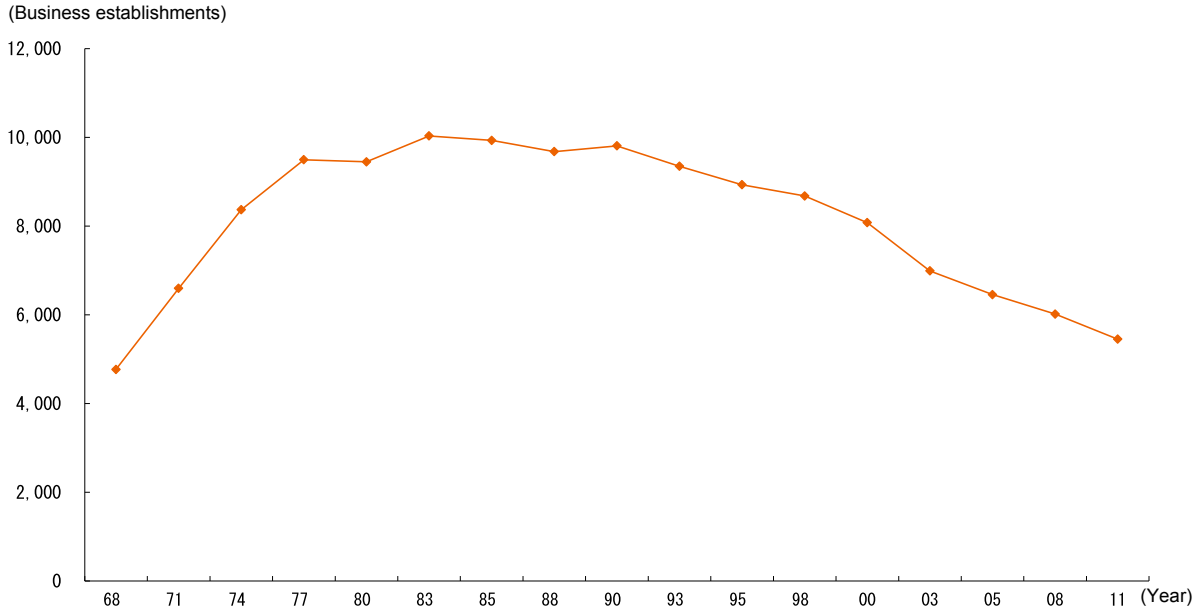
region producing what was known as Kawachi cotton. However, during the Taisho era through to the beginning of the Showa era, the introduction of modern spinning from Europe and the US resulted in the collapse of cotton production. The workers made unemployed as a result went on to build up the miscellaneous goods industry making products such as buttons and brush bristles.

The next industry to consider is parts manufacturing for machinery and shipbuilding. The manufacturing industry grew by using casting techniques handed down through the Edo era to make products such as farming tools, cooking pots and kettles. Later, the First World War triggered a transition to parts manufacturing in which the main products were parts for use in the shipbuilding, machinery and munitions industries. The local wire-drawing industry was initially concentrated in the foothills below the mountains because the source of the power used to produced steel and copper wire was waterwheels driven by the rivers flowing down from Mt Ikoma. With the introduction of electric power, the wire-drawing industry moved into the lowland areas and the wire was used to make pins and wire mesh. This then expanded further into downstream secondary wire products such as screws bolts, nuts and rivets and the industry grew rapidly. With the rollout of roads and other urban infrastructure, there was also a rapid increase in enterprises such as metal-related businesses who relocated from Osaka City to take advantage of the low land prices in Higashi-Osaka City.

After the Second World War, the city's industries recovered quickly from the damage inflicted by the war and the post-war special procurement orders boosted activity. During this period of high economic growth, the electrical appliances industry came to the fore and SMEs devoted themselves to producing components for this industry, which further cemented their role as subcontracting enterprises. The construction of the Central Belt Line (*Chuokanjo-sen*) coupled with the availability of leasehold factories due to the conversion of farmland also provided fertile ground for the establishment of independent business startups by experienced tradespeople. The miscellaneous goods industry transformed into a wide-ranging plastic goods industry, and the region also became a focal point for the molding and machining industry.

In the years that followed, the number of manufacturing business establishments increased rapidly as they rode the crest of the period of high economic growth, leading to an increasing concentration of manufacturing until 1974, when the trend leveled off, peaking in 1983 at a total of 10,033 business establishments. From that point on, the trend was downward (Fig. 3-2-30).

Fig. 3-2-30 Number of manufacturing business establishments in Higashi-Osaka City



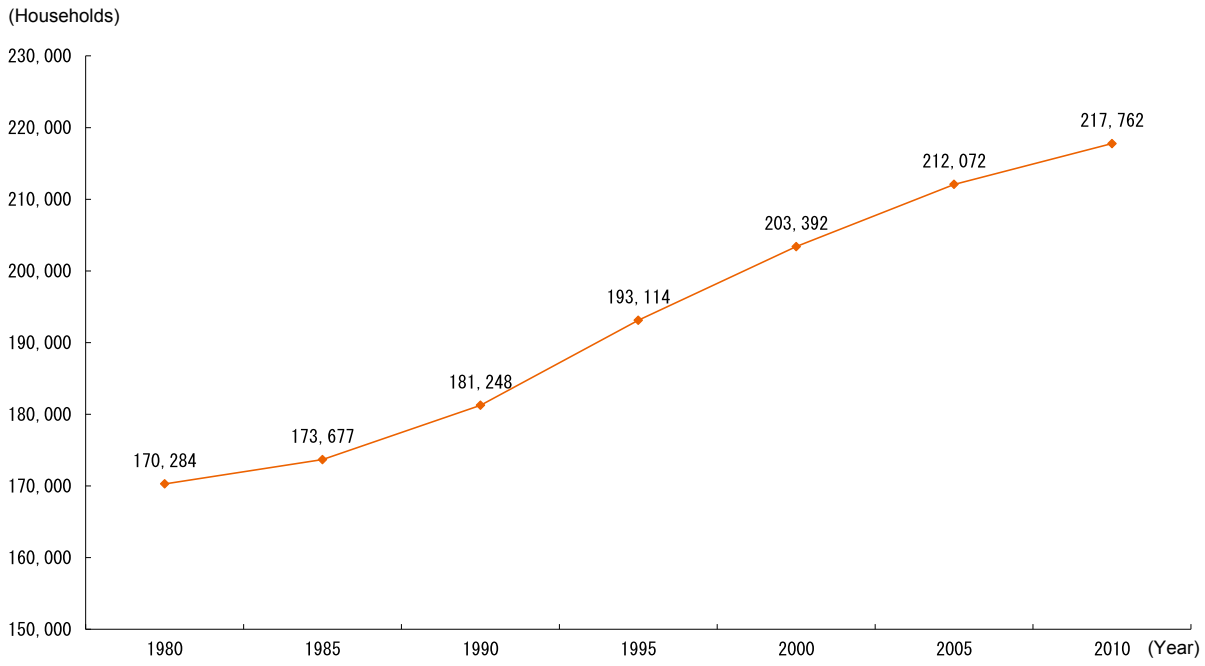
Sources: Recompiled from METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. Based on the *2012 Economic Census for Business Activity* for 2011, and on the *Census of Manufactures* for all other years.
2. The number of business establishments in 2011 is the total number for all manufacturing business establishments minus overseas companies and non-incorporated bodies.

Thus far, we have briefly studied the historical background to the formation of a manufacturing cluster in Higashi-Osaka City. Below we will consider the reasons for the decline in manufacturing business establishments in that city.

Through the rise in the value of the yen that followed the Plaza Accord 1985, the collapse of the bubble economy and the accompanying Heisei recession, business bankruptcies and closures have increased. This was only exacerbated by the rapid rise in the value of the yen in 1995 and the number of manufacturing business establishments fell precipitously as a result. The rise in the value of the yen after the Plaza Accord was a particularly destructive blow to local industries such as wire drawing, which was heavily dependent on net exports. There were also many cases involving subcontractor enterprises where the principal contractors shifted to overseas production, leading to a substantial decrease in incoming orders and making bankruptcies and closures inevitable.

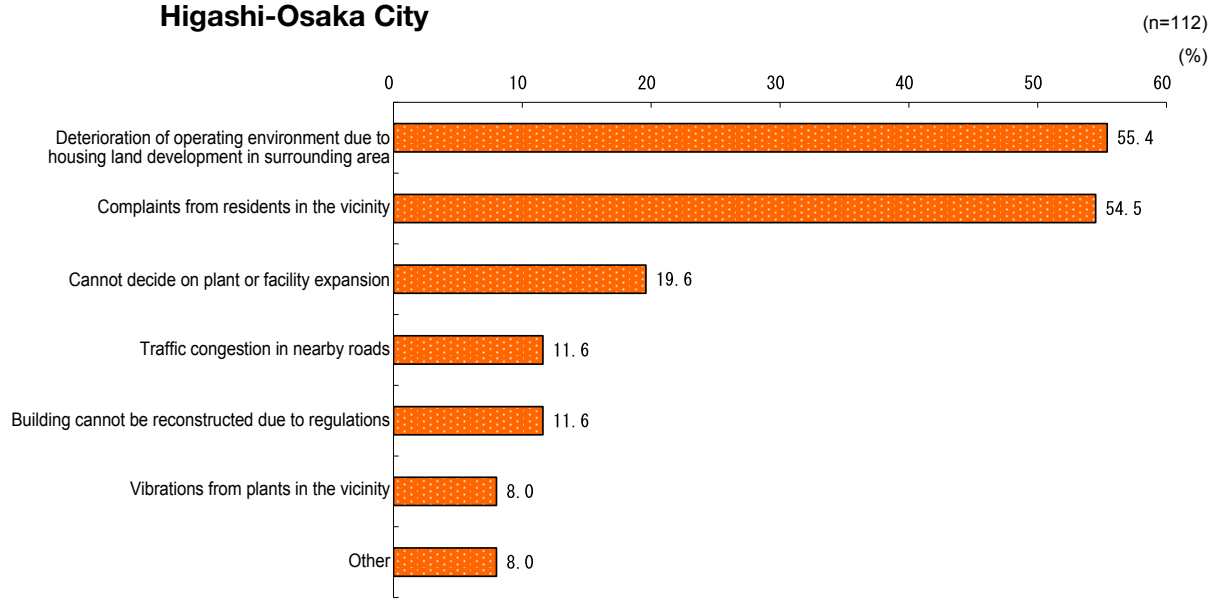
And among second-tier enterprises, many factories were relocated to regional areas due to high land values and regulatory measures such as laws restricting factories, etc. The vacant sites left by relocated factories and closed business establishments were used to build houses, apartment blocks and commercial premises. This resulted in neighborhoods where houses and factories are side by side, which led to problems in the relationships between the businesses and nearby residents. The upshot was that the environment in the city became less conducive to operating factories, and this prompted further factory relocations (Fig. 3-2-31, Fig. 3-2-32).

Fig. 3-2-31 Number households in Higashi-Osaka City



Source: Formulated by the SME Agency based on the MIC, *Regional Statistical Database*.

Fig. 3-2-32 Details of the problems and concerns with manufacturing businesses in Higashi-Osaka City

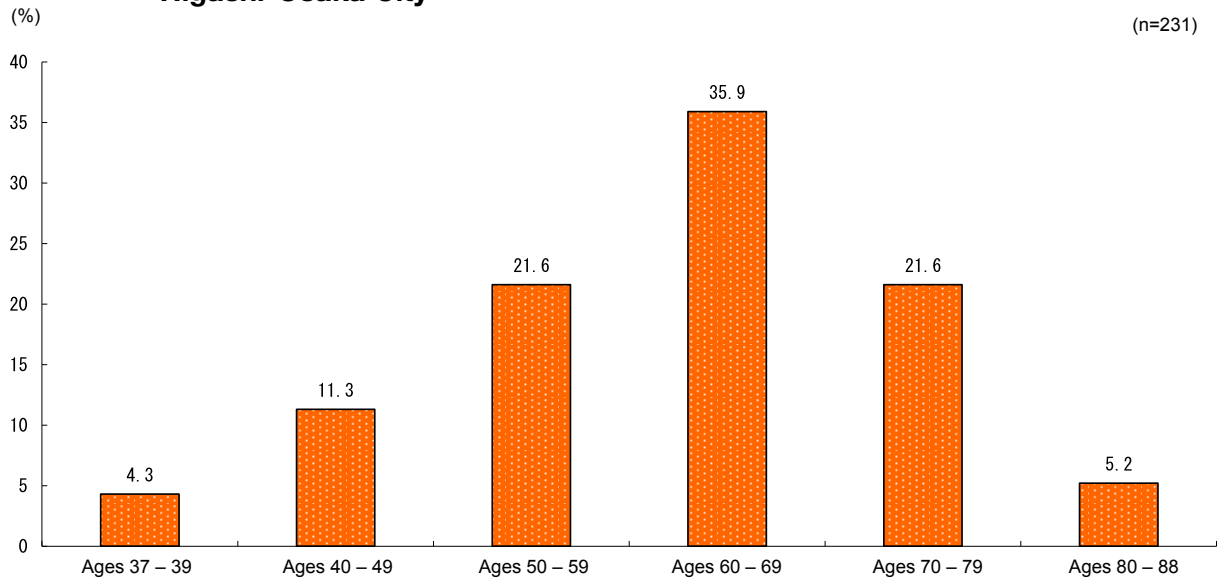


Source: Formulated by the SME Agency based on the Higashi-Osaka City *Survey to Consider Town Planning Regulations for Shared Residential-Industrial Living in Higashi-Osaka City* (September 2012).

Notes:
1. The survey singled out regions within the Higashi-Osaka City area where progress has involved a mixture of industrial and residential development and where it is likely that there would be a number of problems due to the increasing co-existence of factories and residential dwellings. Manufacturing business establishments located in those regions were then surveyed.
2. Where respondents cited problems or concerns regarding the operation environment, the survey requested details of those problems or concerns.
3. The total may not be 100% as multiple responses were possible.

Also, given the greater prevalence of aging among management in recent years and problems such as the difficulty of finding suitable successors, many SMEs and micro-businesses have had no option but to close down, which is another reason for the declining number of manufacturing business establishments (Fig. 3-2-33).

Fig. 3-2-33 Distribution by age bracket of managers running manufacturing businesses in Higashi-Osaka City

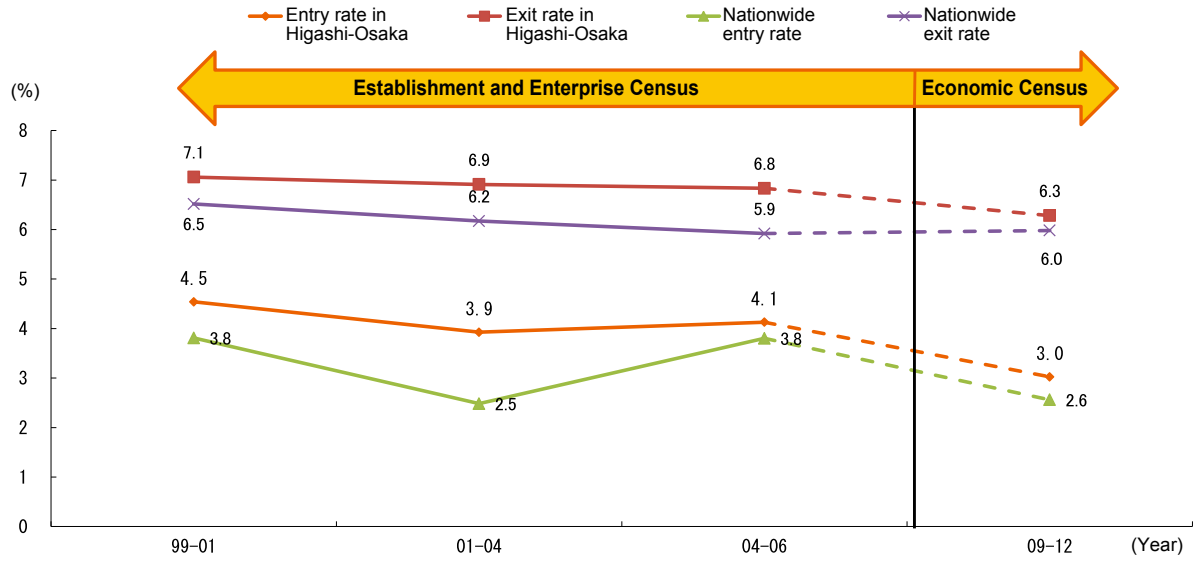


Source: Formulated by the SME Agency based on the Higashi-Osaka City *Survey to Consider Town Planning Regulations for Shared Residential-Industrial Living in Higashi-Osaka City* (September 2012).

Note: The survey singled out regions within the Higashi-Osaka City area where progress has involved a mixture of industrial and residential development and where it is likely that there would be a number of problems due to the increasing co-existence of factories and residential dwellings. Manufacturing business establishments located in those regions were then surveyed.

As a result, the exit rate for manufacturing business establishments in the city has trended above the entry rate (Fig. 3-2-34).

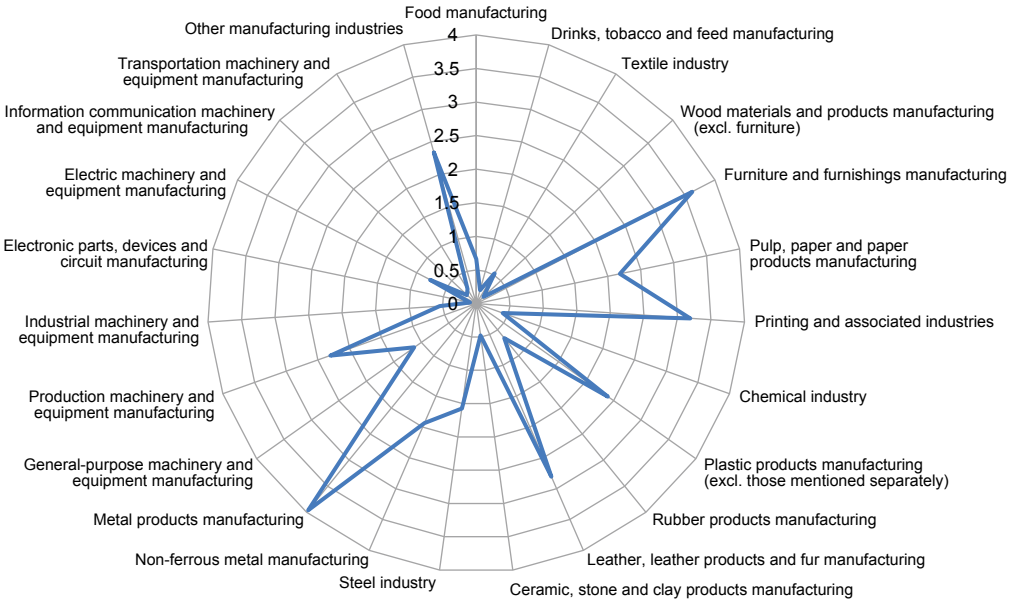
Fig. 3-2-34 Startup and closure rates for manufacturing business establishments



Sources: MIC, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. Entry rates and exit rates were grouped into the following periods: 1999–2001, 2001–2004, 2004–2006, 2009–2012.
2. Because the survey period differs depending on the year, the variability was corrected so that "12 months" = 1 year.
3. Entry rates and exit rates were calculated as (No. of startups or No. of closures)/No. of business establishments at the start of the period.
4. Business establishments that did not appear in the previous survey but do appear in the next survey are counted as "startups", while business establishments that appeared in the previous survey but do not appear in the next survey are counted as "closures".

Despite this fall in the number of manufacturing business establishments in Higashi-Osaka City, it continues to be Japan's leading manufacturing cluster. If we look at the 2012 manufactured product shipment value for each industry (middle classification) by specialization coefficient, the values in the city are high for industries such as "Metal products" (3.96) and "Production machinery and equipment" (2.30), indicating a degree of specialization in machinery and metals-related industries that are the underlying technologies for manufacturing (Fig. 3-2-35).

Fig. 3-2-35 Specialization coefficient by industry in Higashi-Osaka City (manufacturing middle classification)

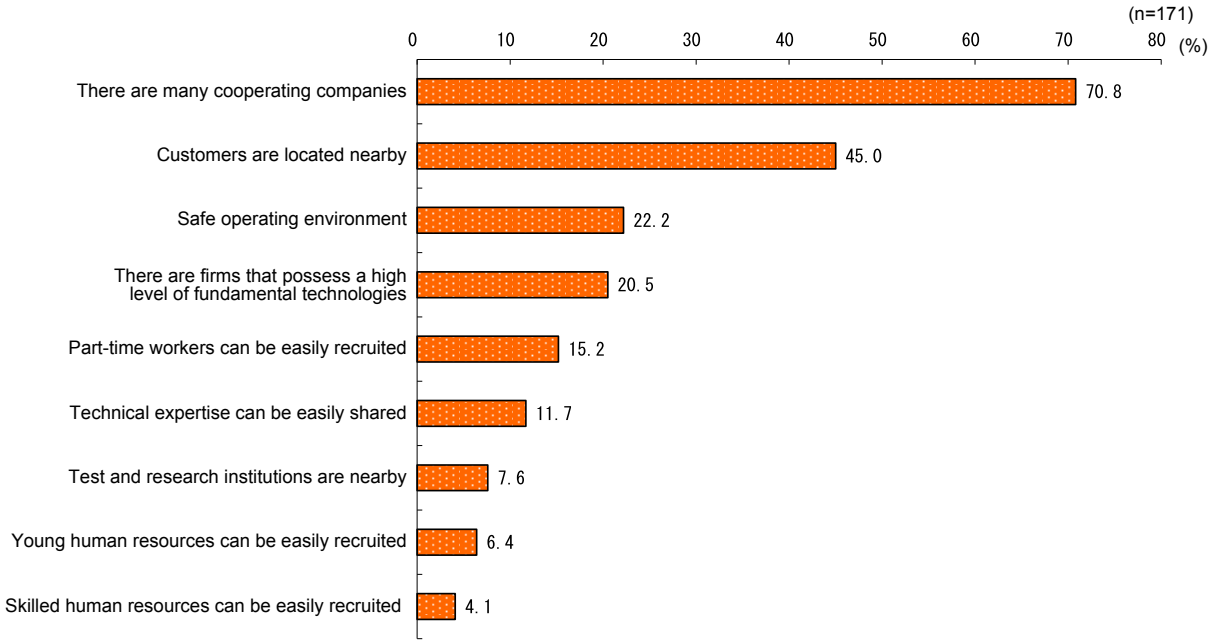


Source: Recompiled from METI, *2012 Census of Manufactures*.
Notes: 1. The specialization coefficient for each industry is calculated as the manufactured product shipment value for that industry as a proportion of the Higashi-Osaka City manufacturing industries divided by the manufactured product shipment value for that industry as a proportion of all of Japan's manufacturing industries.
2. The survey shows totals for business establishments with 4 or more workers.

Let's look now at the reasons why this manufacturing cluster has persisted despite the declining numbers of manufacturing business establishments.

The machinery and metals-related industries require processes that span multiple production stages from materials procurement onwards, including trial manufacturing, mold design, fabrication, machining, sheet metal working, heat treatment, welding, surface treatment and assembly. A labor-division system has been built in Higashi-Osaka City that is capable of handling customer orders appropriately using a diverse network (called "*yoko-uke*") in which enterprises in the machinery and metals-related industries work together using their respective specialist technologies. In this sort of labor-division system, SMEs and micro-businesses commission other enterprises to do work in fields they are not equipped to handle and focus on their own areas of expertise. This has allowed those enterprises to build up original technologies and expertise (Fig. 3-2-36).

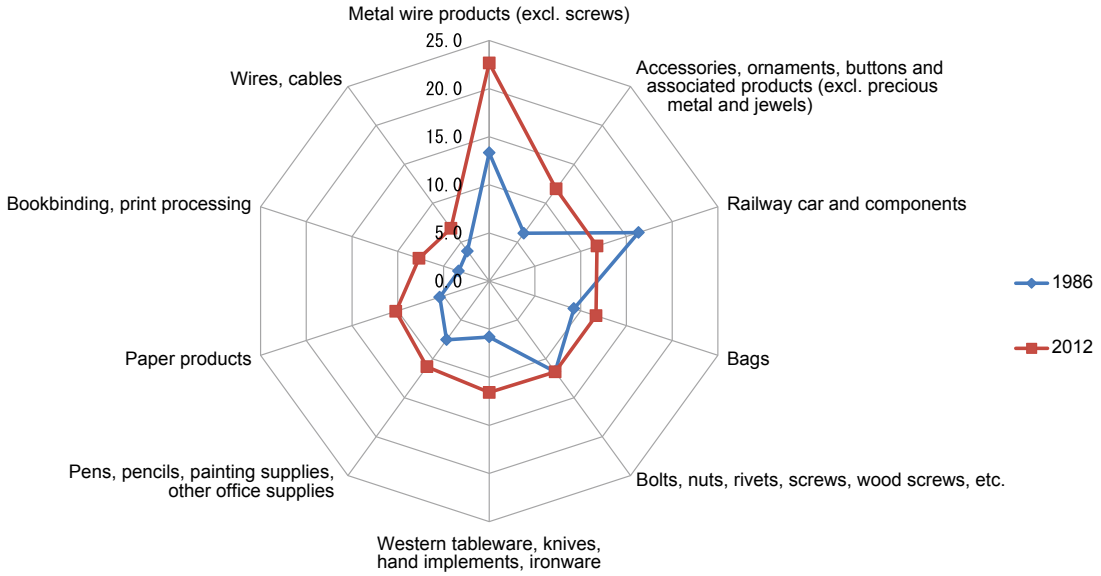
Fig. 3-2-36 Advantages of being located in Higashi-Osaka City (manufacturing industries)



Source: Formulated by the SME Agency based on the Higashi-Osaka City and Small and Medium-sized Enterprise City Liaison Council Assembly, *Report on the 2008 Joint Survey by Higashi-Osaka City and the Small and Medium-sized Enterprise City Liaison Council Assembly*.
Note: The survey targeted people who responded that there were advantages as manufacturing businesses to being located in Higashi-Osaka City.

When we look at the 10 top-ranked industries (subcategories) in terms of specialization coefficient of manufactured product shipment value, in addition to the metals-related categories of "Metal wire products" (22.7), "Bolts, nuts, rivets, screws, wood screws, etc." (11.7) and "Western tableware, knives, hand implements, ironware" (11.6), they include the "Accessories, ornaments, buttons and associated products" (11.8) and "Pens, pencils, painting supplies, other office supplies" industries (11.0), showing that the local industries that support the region have a greater prominence than is the case in other regions (Fig. 3-2-37). The changes over time also show that those industries are becoming even more concentrated in the region. In local industries of this type, the fact that they use relatively few processes to manufacture their products means that they are better placed to trial their own ideas and directly develop their own products. In particular, the fact that the city is located close to its market provides an environment that makes it easy to assess customer needs and that favors the development of new technologies and original products that are different from competing products while addressing those needs.

Fig. 3-2-37 Changes in the specialization coefficient by industry in Higashi-Osaka City (manufacturing subcategories)



Source: Recompiled from METI, *Census of Manufactures*.
Notes:
1. The specialization coefficient for each industry is calculated as the manufactured product shipment value for that industry as a proportion of the Higashi-Osaka City manufacturing industries divided by the manufactured product shipment value for that industry as a proportion of all of Japan's manufacturing industries.
2. The survey shows totals for business establishments with 4 or more workers.
3. The 10 industries with the highest specialization coefficients for 2012 were extracted.
4. The industry categories accord with the industry categories used as of the 2008 survey.

In this way, as well as maximizing the advantages of factors such as its concentration of manufacturing industries and offering short delivery times, diversified products and small-scale production, Higashi-Osaka City has turned out market-leading enterprises and unique enterprises that have sought out niche markets and developed original products and technologies. For example, in the metals-related field, FUSERASHI Co., Ltd. use heading technology to develop precision nuts for use in automobiles and have also introduced an original product system that provides a quick and efficient cycle from design development through to product delivery. This gives them the ability to produce many different product types.

Another example located in Higashi-Osaka City is TAKENAKA SEISAKUSHO Co., Ltd., which has successfully developed corrosion-resistant bolts using its original surface treatment technology based on fluorocarbon polymer resin. These bolts offer the high levels of corrosion resistance required in sites such as bridges, petroleum plants and marine structures.

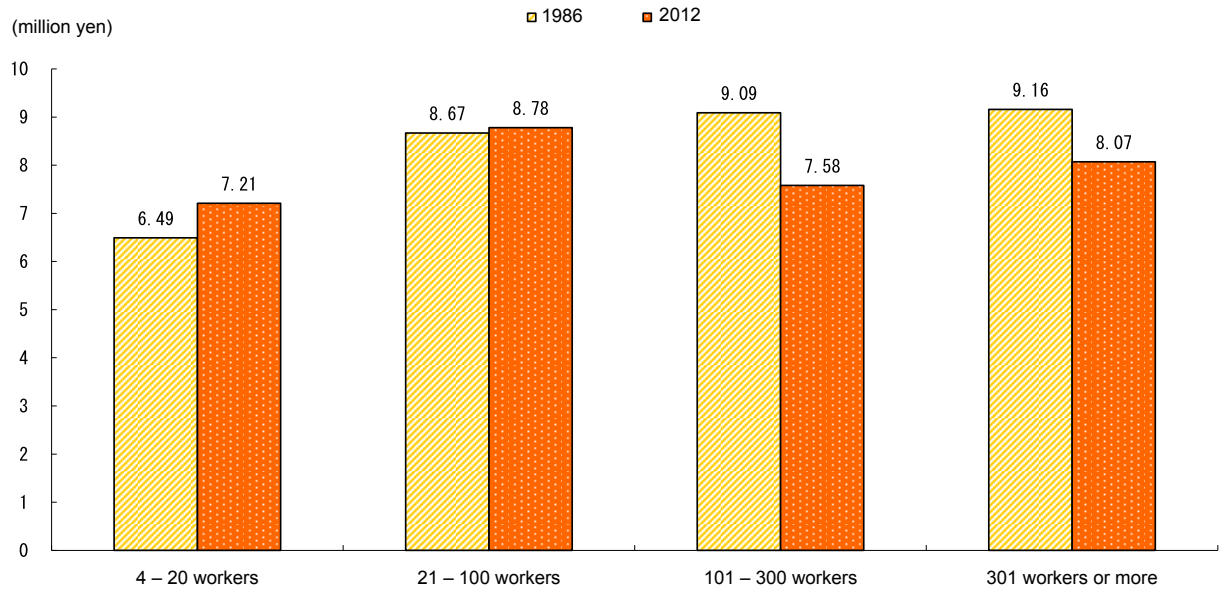
There is a growing number of SMEs of this sort that have effectively addressed market needs by quickly developing original products and/or technologies, and this has enabled them to break out of the subcontractor role and become enterprises that supply high value-added products and services. Looking at the changes in the added value component ratio for different Higashi-Osaka City enterprise sizes as shown by the number of workers, the ratio for business establishments with 101 workers or more is falling, while for business establishments with between 21 and 100 workers, the ratio rose from 37.9% in 1986 to 47.5% in 2012 (Fig. 3-2-38).

Fig. 3-2-38 Changes in the added value component ratio for different Higashi-Osaka City manufacturing enterprises sizes in terms of number of workers

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

The labor productivity of these sorts of business establishments is also rising, with the level in 2012 being higher than that of business establishments with 101 workers or more. Furthermore, while the labor productivity for business establishments with between 4 and 20 workers is lower than the level for business establishments with 21-100 workers, it rose from ¥6.49 million in 1986 to ¥7.21 million in 2012, and is expected to grow into the future (Fig. 3-2-39).

Fig. 3-2-39 Changes in the labor productivity for different Higashi-Osaka City manufacturing enterprises sizes in terms of worker numbers



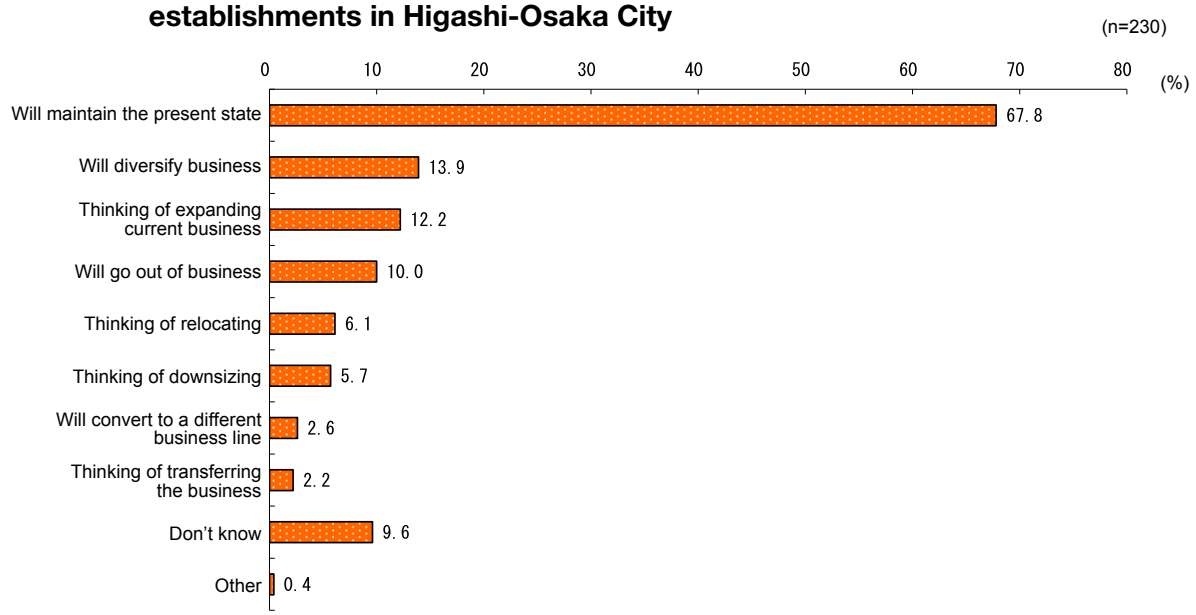
Source: Recompiled from METI, *Census of Manufactures*.
Note: Labor productivity is calculated as the added value divided by the number of workers.

Thus far, we have looked at the changes over time in the manufacturing industries in Higashi-Osaka City and the current situation. Below, we consider future issues.

According to the *Survey to Consider Town Planning Regulations for Shared Residential-Industrial Living in Higashi-Osaka City* (September 2012) conducted by Higashi-Osaka City, the majority of enterprises intend to continue in their current business, with 67.8% responding "Will maintain the present state", 13.9% choosing "Will diversify business" and 12.2% opting for "Thinking of expanding current business". However, there were also many who responded "Will go out of business (10.0%), "Thinking of relocating" (6.1%) or "Thinking of downsizing" (5.7%), leading to concerns that the number of manufacturing business establishments will fall in the future and that this will lead to a degradation of the networking and other functions that are the advantages of a manufacturing cluster (Fig. 3-2-40).

This led to the formulation by Higashi-Osaka City of the *Town Planning Regulations for Shared Residential-Industrial Living* in April 2013 to address the deepening problem of industrial and residential co-existence. To assist with town planning for shared residential and industrial living under these regulations, areas to promote manufacturing are designated as industrial or quasi-industrial districts and there are set procedures that must be followed for any residential construction. And when factory locations are determined, there are also preferential support measures to promote factory location.

Fig. 3-2-40 Future directions in the administration of manufacturing business establishments in Higashi-Osaka City



Source: Formulated by the SME Agency based on the Higashi-Osaka City *Survey to Consider Town Planning Regulations for Shared Residential-Industrial Living in Higashi-Osaka City* (September 2012).

Notes: 1. The survey singled out regions within the Higashi-Osaka City area where progress has involved a mixture of industrial and residential development and where it is likely that there would be a number of problems due to the increasing co-existence of factories and residential dwellings. Manufacturing businesses to be located in those regions were then surveyed.
2. The total may exceed 100% as multiple responses were possible.

In facing the transitions in the region's industrial structure in response to the changing times, it is important for enterprises to leverage the advantages offered by a manufacturing cluster to utilize their original technologies and expand into growth sectors. Specific measures we have seen include moves to build new networks aimed at developing products in growth sectors. In one such initiative, enterprises such as SMEs, in cooperation with the Osaka City University Faculty of Medicine and its associated Graduate School, established the Craftsmanship-Medicine Consortium (CMC) with the aim of developing new medical treatment equipment. To ensure the future growth of SMEs, there is a need to use networks to progress the development of new products, including innovative and unique products, and to develop markets both in Japan and overseas.

In Higashi-Osaka City, support is being provided for the "Higashi-Osaka City Techno-Messe" exhibition (sponsored by the Higashiosaka Chamber of Commerce and Industry) to publicize the technology offered by SMEs, and products originating in the city are authorized to use the Higashi-Osaka brand. Other measures being considered include support for new product development by regional SMEs through business linkups with major trading companies.

Regional analysis (2) Kobe Biomedical Innovation Cluster (Hyogo prefecture)
—A region that uses the ongoing attractions of a concentration of medical treatment-related organizations to promote employment and the establishment of enterprises—

● The concept behind the Kobe Biomedical Innovation Cluster

The concept of the Kobe Biomedical Innovation Cluster was first considered in 1998 as a restoration project for the Port Island in Kobe City's Chuo ward in Hyogo prefecture following the Great Hanshin and Awaji Earthquake (1995). The project was the brainchild of the city councilors and the industrial sector[23].

● Background to the development so far —Towards the autonomous growth stage as of 2006—

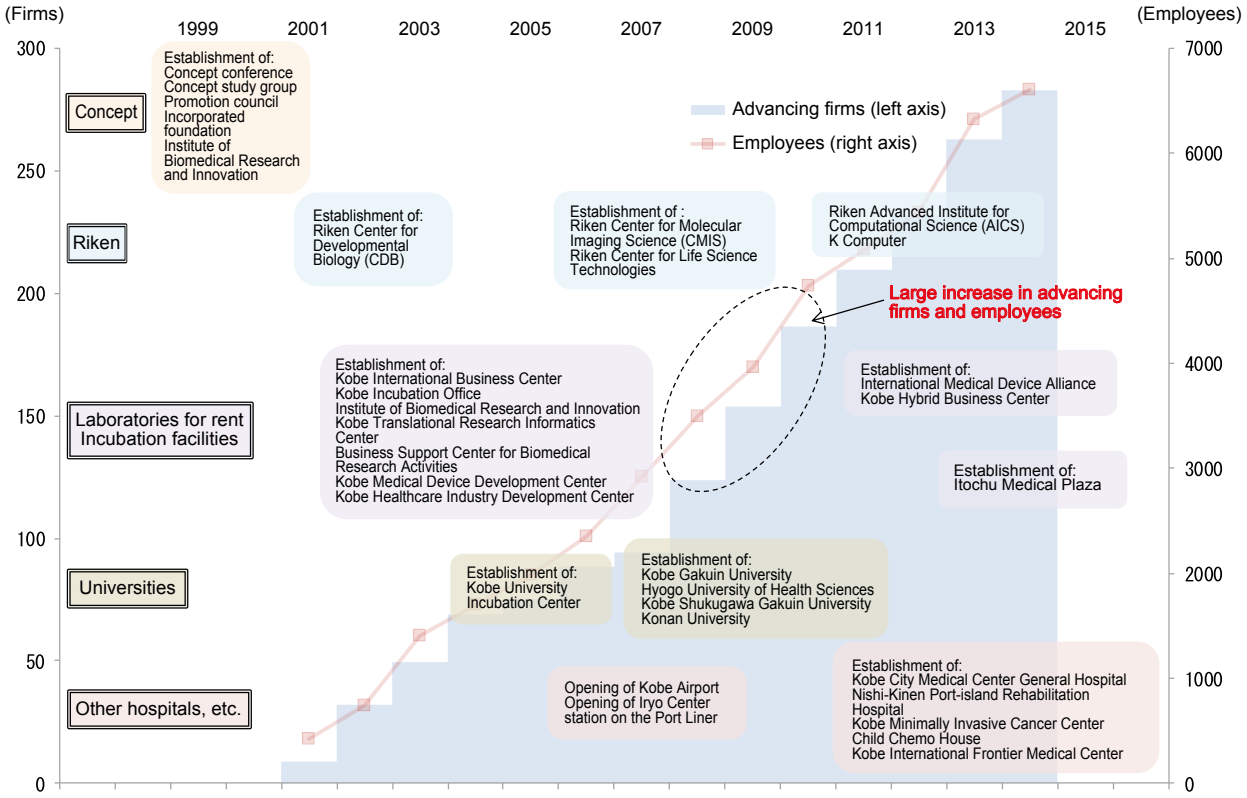
In 2000, two years after the concept was first raised, the Foundation for Biomedical Research and Innovation (now a public interest incorporated foundation) was founded as the core organization for making the concept a reality. In addition, the RIKEN Center for Developmental Biology (CDB)[24], first established in 1992, also began work on realizing the concept. In the same year, the Kobe International Business Center (KIBC) was opened with the aim of attracting enterprises to the region. In 1993, the Institute of Biomedical Research and Innovation (IBRI) became fully operational, working on R&D for medical equipment and supporting clinical applications of regenerative medicine and clinical testing for new drugs. In the same year, the Kobe Translational Research Informatics Center (TRI) was established as Japan's first inclusive information hub in order to assist in bringing together basic research and clinical applications, effectively accelerating the expansion of the region's enterprises.

In 2006, following on from the CDB, RIKEN established the Center for Molecular Imaging Science (currently the Center for Life Science Technologies). And with the setting up of a next-generation supercomputer facility in the same year, the appeal of the Kobe Biomedical Innovation Cluster as a research hub was boosted, putting the cluster firmly on the track to autonomous growth[25]. In response to this, educational facilities such as Kobe Gakuin University, the Hyogo University of Health Sciences and Kobe Shukugawa Gakuin University opened campuses[26], and the R&D divisions of major corporations expanded into the Kobe Biomedical Innovation Cluster (Fig. 3-2-41).

In February 2015, some 17 years after the concept was first floated, the Kobe Biomedical Innovation Cluster has grown to be Japan's leading cluster of medical enterprises, home to 288 companies with upwards of 6,700 employees.

23) Source: *Kobe Biomedical Innovation Cluster Strategy (Foundation for Biomedical Research and Innovation)*, 2011, etc.
24) Now renamed as the RIKEN Center for Developmental Biology.
25) The highly fortuitous timing of infrastructure progress must also be remembered, with Kobe Airport and the Iryo Center station on the Port Liner both opening in 2006.
26) Kobe Gakuin University relocated the 3rd and 4th years of its Law, Economics and Business Administration faculties and the 2nd year onwards of its Pharmaceutical Sciences faculty. The Hyogo University of Health Sciences and Kobe Shukugawa Gakuin University were newly established.

Fig. 3-2-41 Progress of change in the Kobe Biomedical Innovation Cluster



Sources: Formulated by the SME Agency from various published materials.

● **Quality improvement—Focusing on translational research—**

Along with its concentration of research and educational facilities and medical-related enterprises, the other notable strength of the Kobe Biomedical Innovation Cluster is the extent to which efforts have been targeted to "translational research". That is, the series of research processes that link new medical R&D to actual day-to-day medical treatment via clinical applications.

However, in order to conduct translational research, clinical sites must also be freely available. So the new General Hospital was relocated and opened in 2011 to provide advanced standard medical care, followed by the opening of specialist clinics such as the Kobe Minimally Invasive Cancer Center in 2013, forming a cluster of advanced medical centers to conduct R&D. The gathering of such highly specialized medical facilities has gradually built up a system aimed at successfully conducting translational research[27]. Tangible results achieved through this effort came in September 2014, when CDB team leader Masayo Takahashi carried out the world's first successful operation to transplant a retinal pigment epithelium sheet made from induced pluripotent stem cells (iPSCs) into a patient. This success drew a great deal of worldwide attention as a trial that linked cutting-edge research with clinical practice, and there is now an ongoing program being implemented to make this technique part of everyday treatment.

Recent years have also seen the arrival at TRI of specialists in the field of biostatics and data systems management, an area that is becoming an increasingly important part of medical research. This is leading to further qualitative growth in the Kobe Biomedical Innovation Cluster.

● **Reasons for success**

The reasons for the success of the Kobe Biomedical Innovation Cluster are threefold:

Firstly, a wide range of regional bodies, including industry, academia and government in particular, worked together to create a medico-industrial metropolis as a way of helping the region to recover from the damage inflicted by the earthquake.

27) Source: Talk by Hiroo Imura, President of the Foundation for Biomedical Research and Innovation, in *Kobe Biomedical Innovation Cluster Strategy (Foundation for Biomedical Research and Innovation)* 2011.

Secondly, the leadership provided by the heads of the various facilities, not least President Imura of the Foundation for Biomedical Research and Innovation, skillfully combined with the support provided by national and local governments, assisted in securing the necessary budgets and in establishing the facilities and agencies that would form the base for the region. This generated enormous forward momentum that would last well into the future.

Thirdly, through detailed negotiations, the parties involved have maintained close and amicable relations, particularly in the case of the CDB and the Kobe City administration. The three facilities[28] established in Kobe by the nationally recognized CDB have had a major impact and have undoubtedly been effective in motivating important Japanese and international companies as well as leading researchers to become involved.

- **Regional characteristics that facilitate involvement by overseas enterprises**

The regional characteristics of Kobe and of Port Island have played a role in the region's growth up to this point. The history of Kobe is one of the development of a harbor city going back many centuries and this, coupled with the low cost of office rentals compared with Tokyo and Osaka, has attracted a relatively large number of overseas companies[29]. The city also offers an ample supply of housing, international schools and hospitals that cater to foreigners, which has helped to create an image for Kobe as a city that welcomes foreigners.

In addition, the Kobe Biomedical Innovation Cluster is highly accessible, being just 3 hours from Tokyo via the Shinkansen, 15 minutes from Shin-Kobe station and just 5 minutes from Kobe Airport. With the aid of its excellent location, Kobe has attracted overseas companies from countries such as the US, China, Switzerland, Belgium and France.

- **Future expectations**

The Kobe Biomedical Innovation Cluster concept has grown from an earthquake restoration project into what is now a driving force for the future of Japan's medical industry. What is more, the concentration of medical industries is not restricted to Kobe's Port Island and is spreading further out into the region.

In December 2011, the Kansai Innovation International Strategic Comprehensive Special Zone was designated, centered in the three Kansai region prefectures (Kyoto, Osaka and Hyogo). As a result of this step, the Kansai branch of the Pharmaceuticals and Medical Devices Agency, which would become be a key facility in the medical industry, was established in October 2013 in Osaka City, and part of the branch was based in the Kobe Biomedical Innovation Cluster. This has attracted a great many consultations and the pace of future innovation is expected to accelerate still further.

- **Issues**

To address the needs of new agencies and enterprises wanting to join the cluster, it will be necessary to provide even more facilities catering to new arrivals, such as rental laboratories[30]. This does not apply only to this region, but enterprises who are looking to move into new territory generally prefer to do so gradually so as to manage the business risks, preparing the ground in the new region before committing fully to the expansion.

While there is still ample suitable land available in the Kobe Biomedical Innovation Cluster, it is necessary to understand the thinking and the requirements of such enterprises and to continue to provide the facilities that will enable further expansion.

At the same time, there has been a growing recognition of "medicine" as a growth sector in recent years and the cluster needs to continue attracting top-level personnel in order to resist competition from other locations in Japan looking to build their own clusters of medical industries.

As the synergistic effects of bringing together enterprises and personnel increase the attractiveness of the cluster, it is likely that it will lead the nation in dealing with new issues such as promoting participation and cooperation by citizens and tying advanced medical treatment to the building of new lifestyles.

Regional analysis (3): Konan region (Shiga prefecture)

—A region with continuing population increases and changing industrial structures—

This analysis looks at the changes in the population and industrial structures in the cities of Kusatsu, Moriyama, Ritto and Yasu (hereinafter referred to as the "Konan region"), which are all located in the southern part of Shiga prefecture, a region with continued population growth (Fig. 3-2-42).

28) The RIKEN Center for Developmental Biology (CDB), the Center for Life Science Technologies (CLST), and the Advanced Institute for Computational Science (AICS) "K" supercomputer.
29) Source: *Kobe Medical Industry Development Project Discussion Group Final Report*
30) Based on a telephone interview with Biomedical Innovation Cluster Promotion Department in the Planning Division of the Kobe City Assembly.

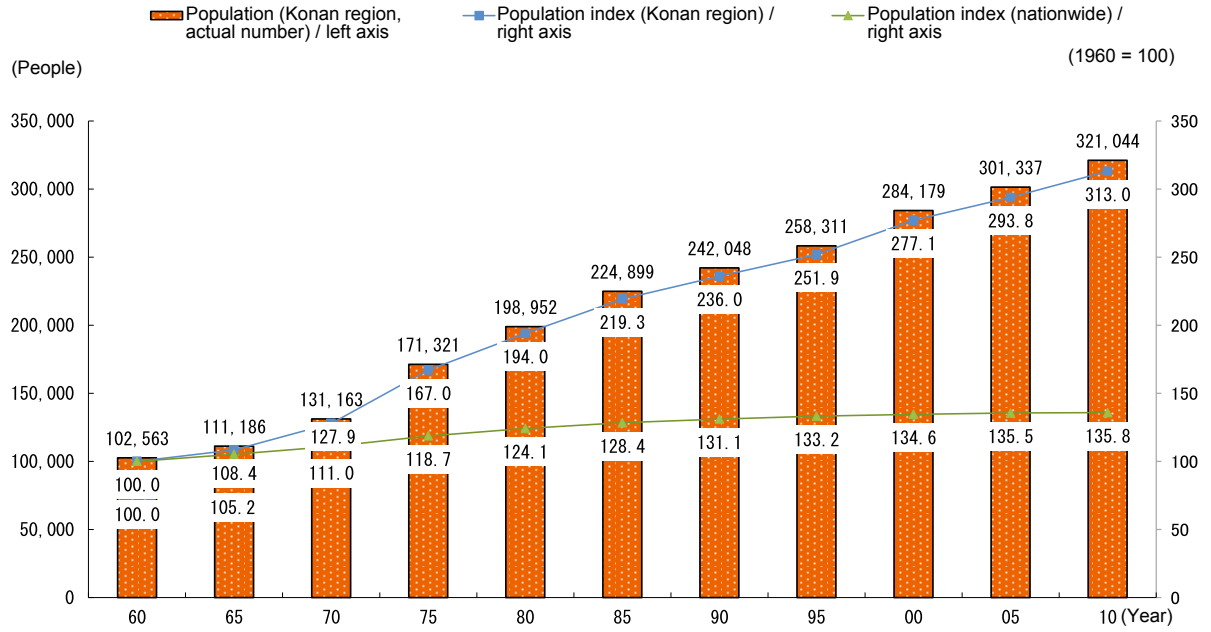
Fig. 3-2-42 Konan region in Shiga prefecture

Source: Compiled by the SME Agency from the Shiga Prefecture website.

We begin by looking at how the population of the Konan region has changed. Fig. 3-2-43 shows the long-term population trends in the Konan region. In 1960, the region's population stood at 102,563, but 50 years later in 2010, it had increased roughly threefold to 321,044, which is around 2.3 times the rate of population increase for Japan as a whole. Looked at by city, the population is 130,874 for Kusatsu (40.8%), 76,560 for Moriyama (23.8%), 63,655 for Ritto (19.8%) and 49,955 for Yasu (15.6%).

And according to the *Regional Population Projection for Japan* (March 2013 projection) published by the National Institute of Population and Social Security Research, the population will continue to trend upwards until 2035, by which time it is projected to reach 349,467.

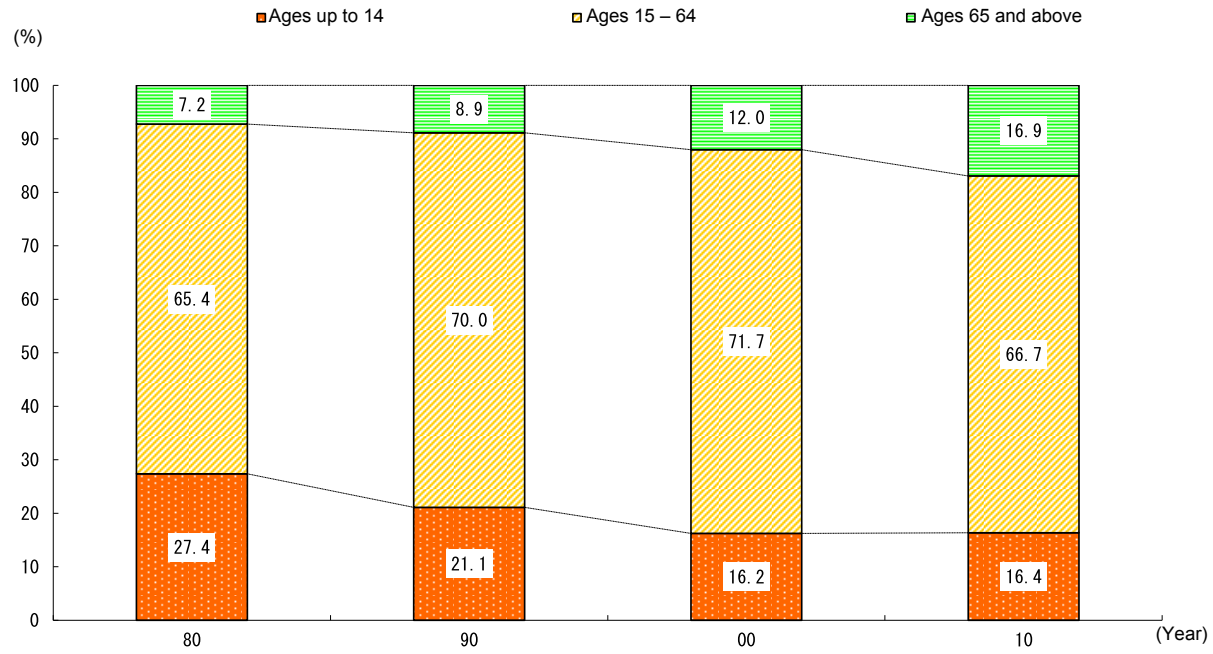
Fig. 3-2-43 Population trends in the Konan region



Source: MIC, *Population Census*.

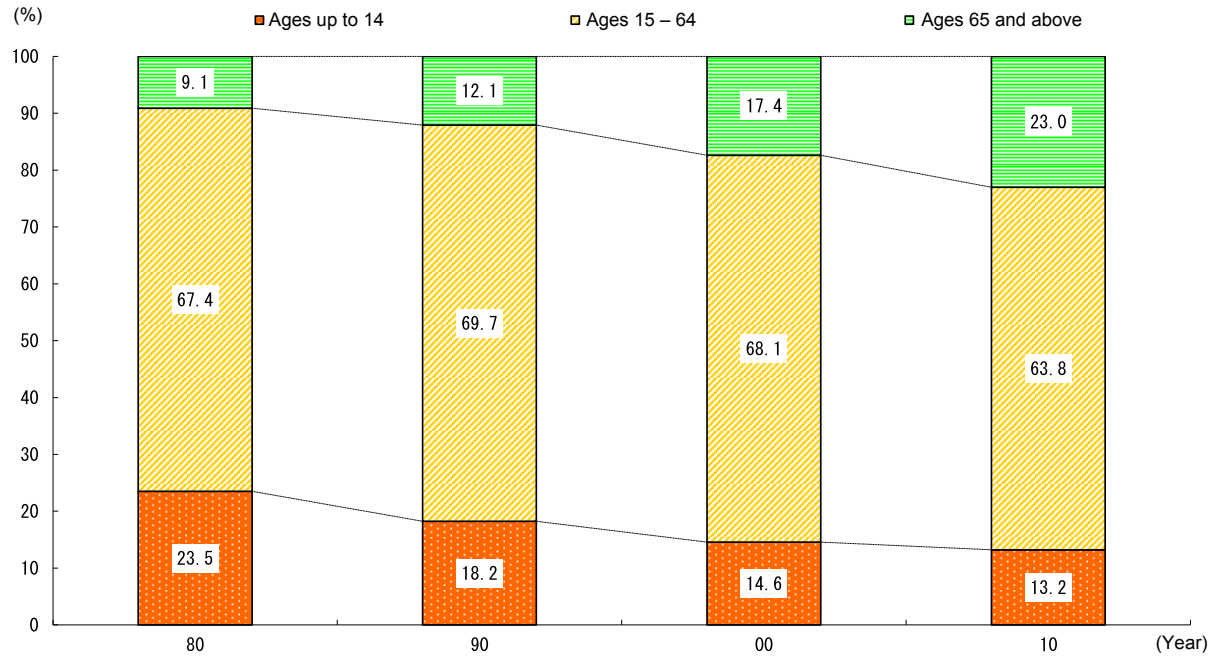
If we look at the changes in the population proportions by age group (3 groups), as shown in Fig. 3-2-44 and Fig. 3-2-45, we see that from 1990 onwards, the population of Japan as a whole in the 15-64 age group declined, but the population in the Konan region continued to rise until 2000. However, while the proportion of the Konan region population in the 65 and older age group increased uniformly from 1980 onwards, we can see that the ratio of the population in the 65 and older age group in 2010 was 6.1% lower than the national ratio, while the ratios in the 15-64 and under 15 age groups were relatively high.

Fig. 3-2-44 Changes in the population proportions by age group (3 groups) (Konan region)



Source: MIC, *Population Census*.

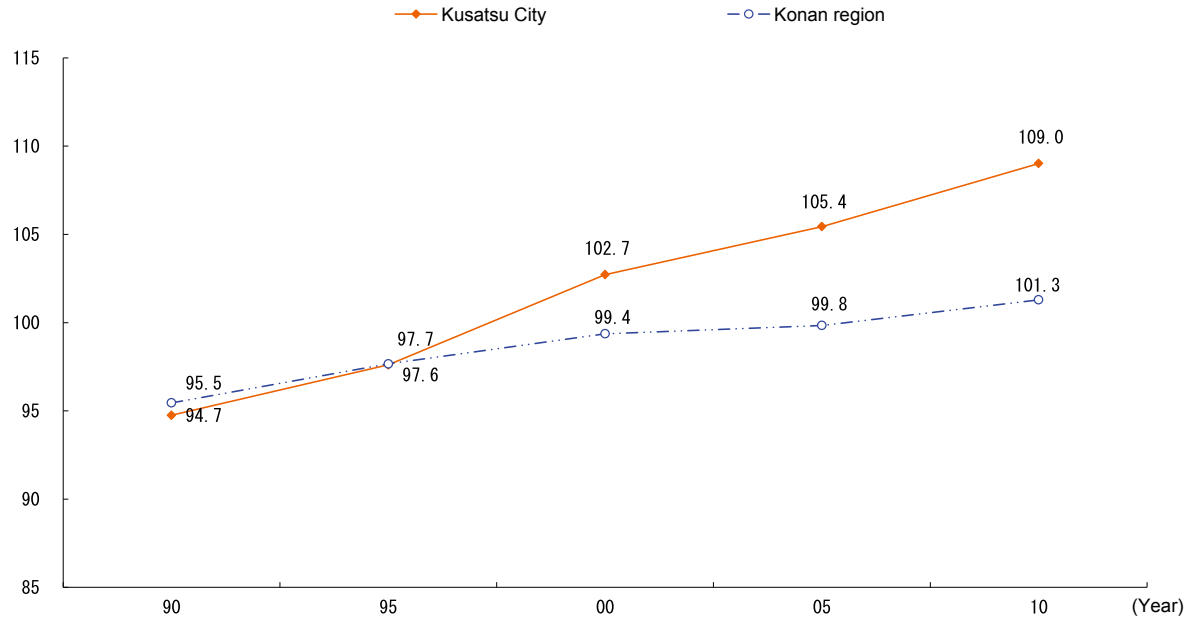
Fig. 3-2-45 Changes in the population proportions by age group (3 groups) (national)



Source: MIC, *Population Census*.

Looking at the "Daytime population ratio"[31] for the Konan region, the figure shows that the population rose steadily from 1990 onwards and topped 100 in 2010 (Fig. 3-2-46). The size of the increase was particularly marked in Kusatsu City.

Fig. 3-2-46 Trends in the daytime population ratio

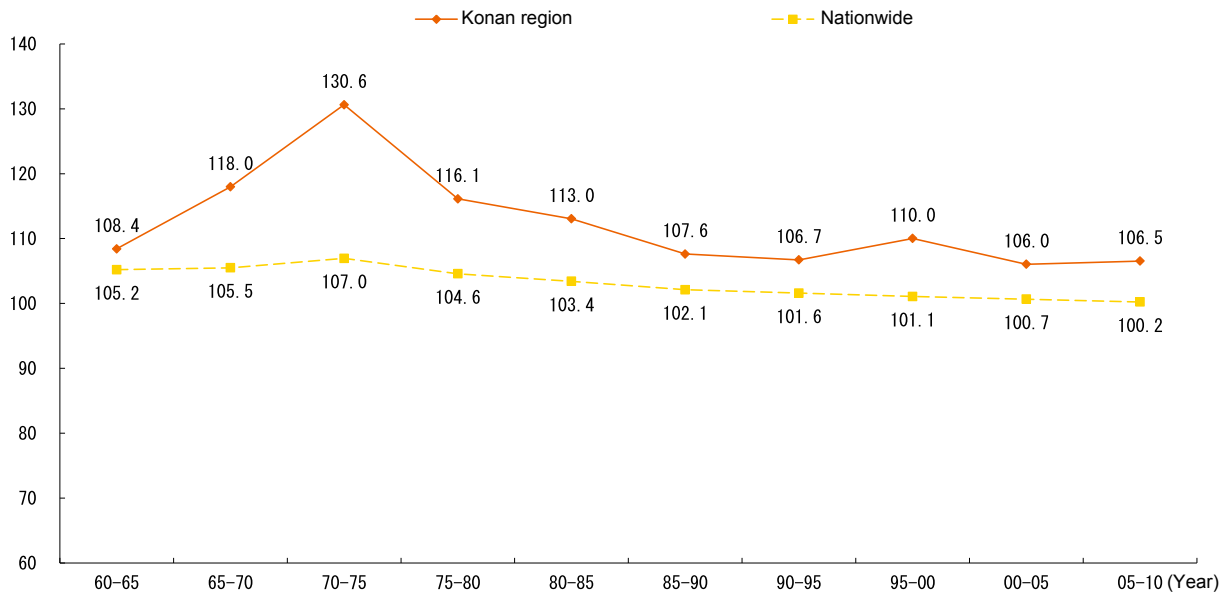


Source: MIC, *Population Census*.

We have already seen that the population of the Konan region continues to increase steadily, and the ratio for the population of working ages and ratio of young population is relatively high compared with the national level. But when we look at the rate of population increase every 5 years from 1960 onwards, we see that there was marked increase between 1965 and 1975 (Fig. 3-2-47). The story behind this is that the "Prefectural Promotion Concept" was formulated in Shiga prefecture in 1960, and this concept was used to draw up the "Regulations for Promoting Prefectural Industrial Development" which promoted the offering of inducements for industry. Subsequently, in 1964, the "Comprehensive Prefectural Development Plan" was drawn up and advanced preparations for industrial parks commenced. During the same period, large-scale transportation networks such as the Meishin expressway and the Tokaido Shinkansen were being rolled out, which accelerated the rapid establishment of manufacturing enterprises. In fact, in Ritto City where the interchange for the Meishin expressway was constructed in 1963, the number of manufacturing business establishments in 1971 had increased to roughly 7 times the number in 1960. Then, in 1971, the Japan Rail Tokaido line was extended so that the Special Rapid Service trains that ran from Nishi-Akashi station (Hyogo prefecture) to Kyoto station could run to Kusatsu station (Shiga prefecture). In 1985 it was extended to Hikone station (Shiga prefecture), significantly improving access to Osaka and Kyoto from the Konan region. These developments both created employment in the Konan region and boosted the region's population as it was brought within commuting range of Osaka and Kyoto, effectively turning the region's towns into dormitory suburbs. In the years that followed, the rate of population increase in the Konan region continued to trend higher than the national level, due in part to developments that made the region even more accessible. These included the establishment of a university in Kusatsu City and the opening of a new railway station by JR in 1994, followed in 2005 by the opening of the new Meishin expressway.

31) "Daytime population ratio" refers to the daytime population as an index when the nighttime population is taken to be 100. The daytime population is the resident population (the population as revealed by the survey method at locations (places of residence) in the surveyed area where they are resident at the time of the survey) plus the population traveling from other regions for work or study (inflow population) minus the population traveling to other regions for work or study (outflow population). The resident population as opposed to the daytime population is referred to as the nighttime population.

Fig. 3-2-47 Trends in the rates of population increase

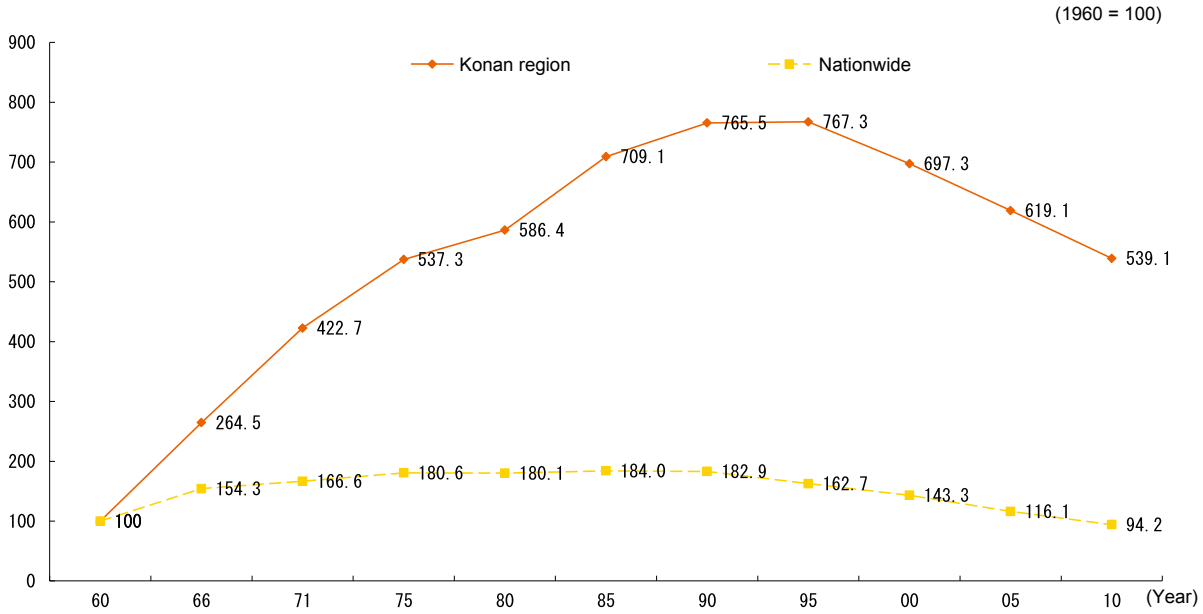


Source: MIC, *Population Census*.
Note: Shows the rate of population increase for each 5-year period.

So far, we have looked at the changes in the population in the Konan region. Now, we will consider the changes in the region's industrial structure.

Given the background to the periods discussed above, the advances of enterprises into the Konan region began in the 1960s and primarily involved manufacturing firms. Taking the number of manufacturing business establishments in 1960 as the starting point, there were roughly 5.4 times that number by 1975. In 1990 and 1995 the number had reached 7.7 times the 1960 figure, and despite a decreasing trend subsequently, the number still remained steady in 2010. Compared with Japan as a whole, it is clear that manufacturing in the Konan region expanded rapidly (Fig. 3-2-48).

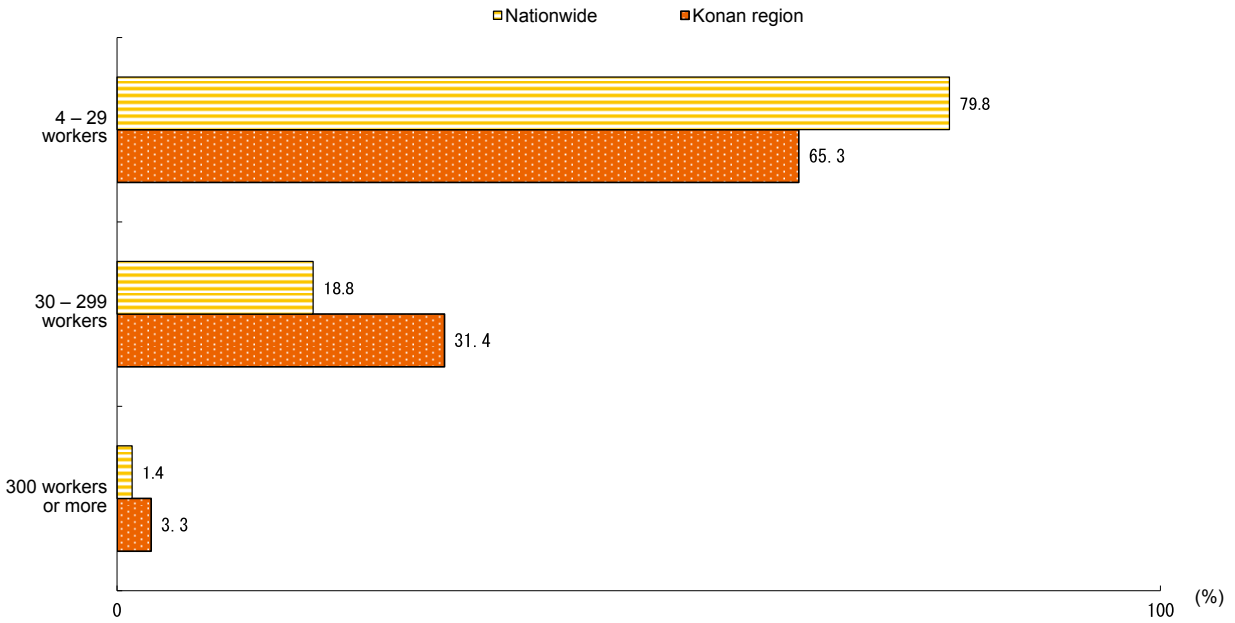
Fig. 3-2-48 Number of manufacturing business establishments



Source: METI, *Census of Manufactures*.
Notes: 1. The survey shows totals for business establishments with 4 or more workers.
2. The number of business establishments in 1960 in the former Chuzu-cho (now Yasu City) is secret and not included in the total.

Also, a comparison on the number of manufacturing business establishments with 300 or more workers in 2012 shows that the figure for the Konan region was 3.3%, compared with 1.4% nationally, showing that it was relatively large factories that located and clustered in the region (Fig. 3-2-49).

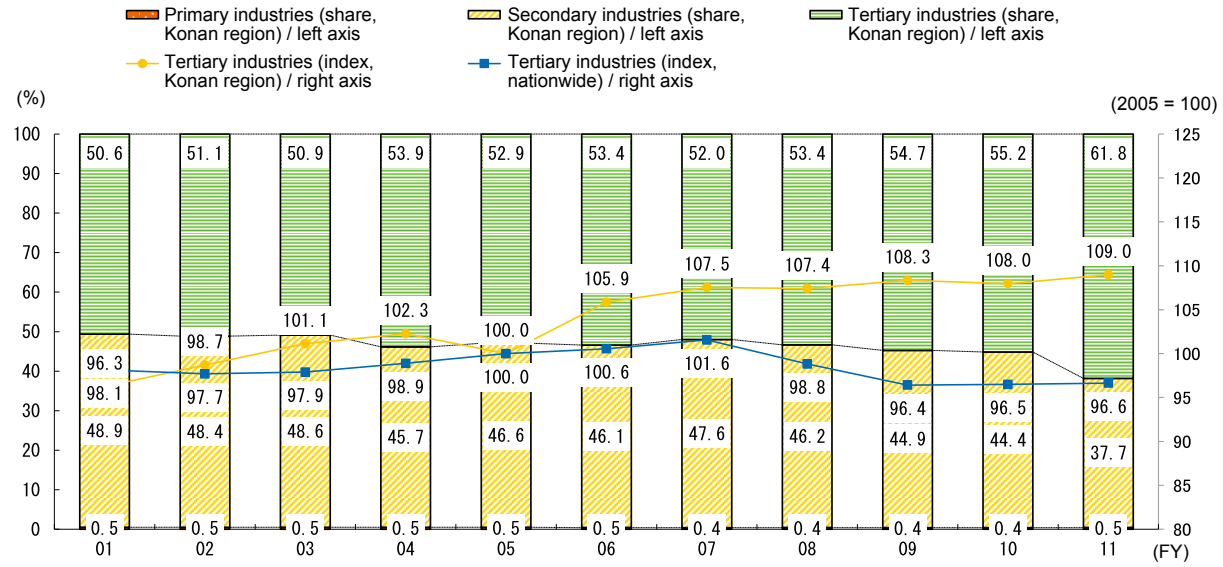
Fig. 3-2-49 Proportion of manufacturing business establishments by number of workers (2012)



Source: Recompiled from METI, *2012 Census of Manufactures*.

So far, we have seen manufacturing as the main industry in the Konan region, and now we will look at the region's industrial structure. Fig. 3-2-50 shows industry as a proportion of the total production value in the region. This shows that since 2000, the primary industry share has been at or near 0.5%, while the secondary industry share has declined and the tertiary industry share has risen by roughly the corresponding amount. The growth in the total production value for tertiary industries in the Konan region is at a higher level than that for the total regional production value for tertiary industries in Japan as a whole.

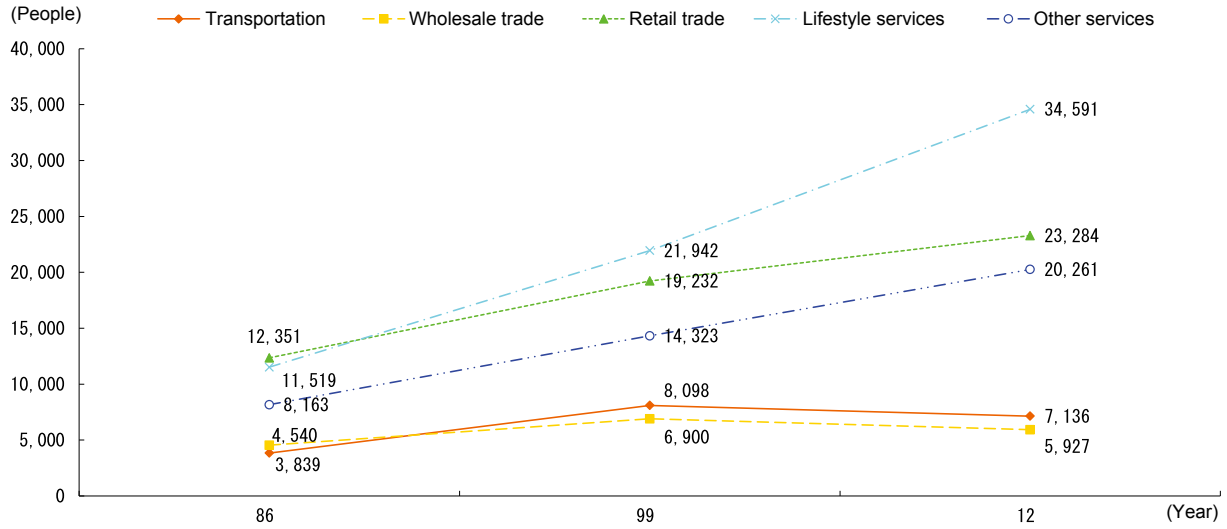
Fig. 3-2-50 The Konan region industrial sector as a proportion of the total regional production value and trends in tertiary industry production values



Sources: Formulated by the SME Agency from the Cabinet Office *Prefectural Accounts (FY2001-2011, 93SNA FY2005 Standard)* and Shiga Prefectural Government *Shiga Prefecture Municipal Accounts (FY2011 Estimates)*.
Notes: 1. "Nationwide" indicates all the prefectures in the Cabinet Office *Prefectural Accounts*.
2. All proportions and indices are calculated as nominal values.
3. Dotted lines on the graph show indexed total production values in the region for each fiscal year, taking the tertiary industry total production values in the region for FY2005 to be 100.

Next, we look at the trends in the number of workers in the "Transportation", "Wholesale trade", "Retail trade", "Lifestyle services" and "Other services" categories, which are the tertiary industries that employ the largest numbers of workers in the Konan region. Here, we see particularly marked growth in "Lifestyle services" as well as increases in the retail trade and other services (Fig. 3-2-51). These changes were most likely caused by the increases in the population (including the daytime population) in the region and the market growth resulting from those increases.

Fig. 3-2-51 Numbers of workers by tertiary industry in the Konan region

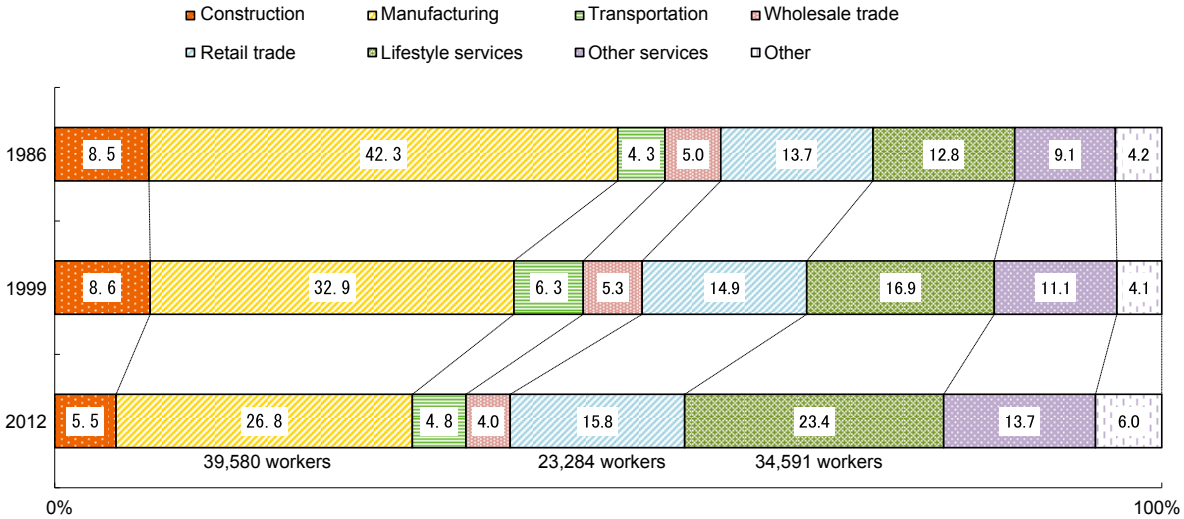


Sources: Recompiled from MIC, *Establishment Census*, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. Note that the numbers of post office business establishments have been excluded from each year.
2. In the March 2002 revisions to the industry categories, “Lifestyle services” comprises the totals for “General food services (middle classification)”, “Medical care and welfare (major category)”, “Education and learning support (major category)”, “Laundry, barber, beauty care and bathing services (middle classification)”, “Other lifestyle-related services (middle classification)” and “Entertainment (middle classification)”.
3. In the March 2002 revisions to the industry categories, “Other services” comprises the totals for “Food services and accommodations (excluding general food services)”, “Compound services (excluding post offices)” and “Services (excluding the laundry, barber, beauty care and bathing services, other lifestyle services and entertainment not classified elsewhere)”.

However, if we look at changes in the breakdown of worker numbers by industry, manufacturing makes up the largest proportion in 2012 despite its declines, indicating that manufacturing still carries a lot of weight and wields significant influence on the regional economy (Fig. 3-2-52).

Fig. 3-2-52 Numbers of workers by industry in the Konan region



Sources: Recompiled from MIC, *Establishment Census*, *Establishment and Enterprise Census*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. The industry categories are based on the March 2002 revisions. The industry categories used in 1986 and 2012 were reorganized into common categories at the subcategory level. Note that the numbers of post office business establishments have been excluded from each year.
2. In the March 2002 revisions to the industry categories, “Lifestyle services” comprises the totals for “General food services (middle classification)”, “Medical care and welfare (major category)”, “Education and learning support (major category)”, “Laundry, barber, beauty care and bathing services (middle classification)”, “Other lifestyle-related services (middle classification)” and “Entertainment (middle classification)”.
3. In the March 2002 revisions to the industry categories, “Other services” comprises the totals for “Food services and accommodations (excluding general food services)”, “Compound services (excluding post offices)” and “Services (excluding the laundry, barber, beauty care and bathing services, other lifestyle services and entertainment not classified elsewhere)”.

Thus, while the development of the Konan region has been tied to the growth of manufacturing and those industries still have a strong presence in the region, recent years have seen the growing importance to the regional economy of the retail trade and lifestyle services industries that provide support to local residents and workers commuting within the region, thereby further boosting the population.

So far, our regional analysis to ascertain the current situation in the region has been based primarily on generally available published data, namely the Population Census and industry statistics. Now, we will use "Structure analysis of the regional economy" to gain a deeper insight than is possible with the regional analysis used so far. Structure analysis of the regional economy is made up of three component analyses: (1) flow-of-funds analysis; (2) stock analysis; and (3) portfolio analysis, and is one of the analytical methods seen by local governments as an effective way in the future to grasp the current situation in the region.

Column 3-2-5 Structural Analysis of Regional Economies[32)]

In order to ensure the sustainability of regional economies, it will be essential for Japan's regions to be able to earn the revenue that they require. Where will these earnings come from? One source will be funds from outside the region, and another will be income (added value) sourced from within the region.

The former source involves the ability to attract funds to the region (the ability to export goods and services), necessitating industries which export products and are able to obtain funds from outside the region. The latter involves the question of how to promote the flow of regional funds within the region. During their circulation, at each stage these funds produce income for specific residents of the region.

The circulatory system of a regional economy functions as follows: The region identifies those resources within its bounds which possess comparative advantage, makes effective use of these resources in creating goods and services, obtains funds from outside the region through the export of these goods and services, and creates new demand and redistributes wealth in the region through the circulation of those funds within the region.

"Comparative advantage" here refers to advantage compared to other regions (absolute advantage), and advantage in relation to a diverse range of resources within the specific region itself (relative advantage). When considering a regional economy, it is important to focus on those resources that possess a relative advantage. That is, what is important for a region is that it does not import goods and services that can be provided or exist in excess within the region, but, in accordance with a principle of maintaining competitiveness and export capability, to establish a division of functions under which appropriate goods and services are sold outside the region, and goods and services which are under-developed or cannot be supplied within the region are imported.

In order for a region to create goods and services exploiting comparative advantage and to maintain or increase its ability to export and its interior flow-of-funds, it must understand its own economic capacity, and identify the resources it possesses and those it lacks, and where its interior circulation leaks to the outside.

Structural analysis of the regional economy is available as a tool to enable this. This is a tool that is not only useful when formulating regional economic policy, but can also be used in evaluating policy. Structural analysis of a regional economy is made up of 1) Flow-of-funds analysis, 2) Stock analysis, and 3) Portfolio analysis.

Number 1, flow-of-funds analysis, is a type of analysis that seeks to determine how a region is obtaining funds from outside the region, and to what extent those funds are creating revenue within the region. This type of analysis also enables us to see to what extent funds within the region are flowing out of the region. In addition to analysis of the real economy focusing on the flow of goods, flow-of-funds analyses require analysis of the monetary economy focusing on the circulation of funds. In the main, this involves credit transactions, but pension and benefit payments and the sending of remittances by companies and households, movements of funds that do not produce remuneration, are also transactions in the real economy.

Number 2, stock analysis of the regional economy, involves analysis of the available stock that generates flows, including human capital, natural capital, and social capital. While flow-of-funds analyses look at the flows within the region, stock analyses focus on the stock within the region. Taking financial statements as an analogy, flow-of-funds analyses can be considered to be analyses of profit and loss (P/L) statements, while stock analyses can be considered to be analyses of balance sheets (B/S). These analyses focus on elements including social capital, encompassing skills and networks, agricultural, forestry, and fisheries resources, roads, harbors, etc., in addition to the newness of private capital stock. By analyzing the tangible and intangible assets of a region, they assist in identifying the region's comparative advantage.

Number 3, portfolio analysis, involves analysis of whether the region is able to respond flexibly to external influences (for example, exchange rate fluctuations, structural recession, the Lehman crisis, etc.)

32) Professor Ryohei Nakamura of Okayama University provided assistance in the formulation of this column. Please refer to "Structural Reform of Community-building: Designing Regional Economic Structures", Ryohei Nakamura, Nippon Kajo Shuppan (2014), for details of the structural analysis of regional economies. The case study of Toyooka City in Hyogo Prefecture as an analysis of the industrial structure of a region is based on Professor Nakamura's text, with consideration of the latest data.

and which combinations of industry are stable for the region. Considering changes in production value by industry as return and dispersion of production value as risk, these analyses study whether risk can be minimized while identifying which combinations of industry guarantee a specific level of profitability for a region. They apply average and dispersed approaches to the selection of assets in order to study the stability of the industrial structure of the regional economy.

Three processes must be completed in advance when undertaking the analyses discussed above. These are: 1) Setting the region (zone) to be considered; 2) Surveying the status of population and income (population, labor market, income level/tax revenue); and 3) Determining the industries that support the region (basic industries, key industries, and employment-absorbing industries).

1) Setting the region (zone) to be considered: It is desirable to treat this as the regional employment (economic) zone – the commutation zone, the trading zone, etc. When conducting an analysis of cities, towns, and villages, conducting a two-level analysis in tandem with an analysis of the analysts' own region makes regional specificities clearer.

2) Surveying the status of population and income: This means understanding the foundations of the regional economy. This entails a survey of: a) Long-term trends in population (growth or decline); b) Trends in the regional labor market (working population, number of workers, unemployment rate, etc.); and c) The income level of regional residents (specification of regional consumption) and the tax revenue derived from that income (reflecting the fiscal autonomy of the region).

3) Determining the industries that support the region: This involves distinguishing between a) Basic industries, which enable the region to acquire funds from outside the region; b) Key industries, which produce the greatest amount of added value in the region; and c) Employment-absorbing industries.

Category a, industries that enable the region to acquire funds from outside the region, are industries which participate in markets outside the region (export industries), and are defined as basic industries because they are the fundamental source of regional income. Normally, the majority of these industries export goods outside the region (for example, industries in the agriculture, forestry and fisheries and mining sectors), but this category also covers the export of services, for example by attracting people from outside the region to visit (the tourist industry). If the service "design" is embodied in the goods "clothes," then the export of the goods (clothes) entails the export of the service. Via the Internet, the retail industry is able to sell to consumers outside the region (export by retail industry), and content (music, film, games, etc.) can also be exported. In addition, it is also possible to export labor services themselves, for example via crowd sourcing. In the information age, a diverse range of industries other than agriculture, forestry and fisheries or mining sector industries can become export industries. Considered from an international perspective, Japanese service industries such as the nation's food and drink services and high-tech services such as maintenance and management services are export services that earn foreign currency. Basic industries can be identified from Input-Output Tables, but in the case of cities, towns and villages for which Input-Output Tables have not been formulated, the coefficient of specialization (the ratio of the industry's revenue to regional industrial revenue, compared with the national average) can also be employed[33].

Category b, key industries which produce the greatest amount of added value in the region, are those industries which provide the region with its fundamental source of revenue. "Added value" here refers to the figure obtained by subtracting intermediate inputs from revenue (sales value/shipping value). Today, the Economic Census for Business Activity enables statistics for added value to be used for cities, towns and villages.

Category c, employment-absorbing industries, encompasses the industries that provide the greatest amount of employment in the region. In almost all regional cities, this will correspond, in addition to manufacturing industry, to the food and drink industry, the retail industry, and the service industry. Employment-absorbing industries can be identified by means of the Population Census and the Economic Census for Business Frame.

If these three types of industries can be identified, it is also necessary to consider their trends and growth potential. This means looking at factors including the total value of sales (export value), total added value, and trends in the number of employees for each industry. Identification of the links between the three types of industry and their mutual relationships is also an important aspect of a flow-of-funds analysis for a regional economy.

33) While the identification of basic industries using the specialization coefficient is methodologically simple, it entails several problems. The first of these is a problem originating in the fact that the specialization ratio is the relative value of the composition ratio for the region in question against the composition ratio of the nation as a whole. For example, in regions with a small economic scale, most industry sectors will record an excess of imports, and therefore it would be easy to imagine that the inter-regional balance of payments would be negative. However, if the relative figure within the region is high, despite the fact that the absolute figure is low, the specialization coefficient will be greater than 1.0, and the industry in question will be identified as an export industry. Focusing on the employment zone (the commutation zone, etc.) is a method of responding to this problem. The second problem is that coefficients for the region will be biased depending on whether the industry in question is an export industry or an import industry in Japan as a whole. If the industry is one which records an excess of exports, for example the automotive industry, then the specialization coefficient, which is based on domestic figures, will be underestimated. Alternatively, if the industry is one which records an excess of imports, for example agriculture, the specialization coefficient will be over-estimated. The third problem is that the specialization coefficient is affected by the degree of detail of the categorization of the industry. If the industry category is detailed, the regional specialization coefficient will naturally increase. It is desirable to stay close to categories of goods, but this raises the possibility of increasing error in relation to import and export. The fourth problem is the fact that the identification of import or export differs depending on whether it is based on employees or on production value. Because labor productivity differs between industries, caution must be used when identifying export industries using specialization coefficients based on employees.

Basic industries that bring in funds from outside the region alone may not be sufficient for the creation of regional income (added value). They may also not be sufficient for the creation of jobs in the region. In these cases, the issue is to determine how basic industries, key industries, and employment-absorbing industries are related.

1) A flow-of-funds analysis, 2) A stock analysis, and 3) A portfolio analysis will be conducted below. The discussion will first focus on a flow-of-funds analysis of a regional economy.

Flow-of-funds analyses seek to determine how a region is obtaining funds from outside the region, how the funds are circulated within the region, and in what form the funds leak outside the region during this process. The existence of Input-Output Tables[34] which show the inter-relationships between industries and between the region and its exterior are a precondition for this type of analysis.

First, the composition of demand (the industries providing essential inputs) and the level of regional and extra-regional dependence of each input industry are determined. If it is possible to increase intra-regional dependence (the rate of intra-regional procurement) in the segments for which extra-regional dependence is high in a sound and unforced fashion, this will improve the flow of funds within the region and increase regional income. Similarly, it is also necessary to identify the composition of demand and the level of intra-regional and extra-regional dependence for other industries (regional industries other than basic industries) and determine the structure of their relationship to the regional economy.

Having determined the direct structure of the relationship of each industry to the regional economy (structure of demand), it is necessary to consider the effect of each industry on industries positioned upstream and downstream. If there is insufficient linkage within the region between industries with a significant level of effect on other industries, leakage outside the region increases. There are two effects of relationships with upstream and downstream industries. One of these is an effect received by industries upstream from a specific industry; these industries enjoy a demand effect from downstream industries. The other is an effect received by industries downstream from a specific industry; in this case these industries enjoy a supply effect, benefiting from increased quality and reduced prices from upstream companies.

If the structure of the relationship between industries in a region is weak, there is a strong possibility that the economic ripple effect between the industries might flow outside the region. In order to boost the ripple effect within the region, it is essential to build linkages between industries to increase business relationships in the region.

For example, when the basic industries which enable funds to be obtained from outside the region depend on extra-regional sources for essential intermediate inputs, the following reasons should be considered: a) The specific resources do not exist within the region (i.e. inherently cannot be supplied); b) The resources exist within the region, but there are no companies able to supply them; c) Companies able to supply the intermediate inputs exist within the region, but there are issues of technology, delivery times, etc. In the case of a) the situation is difficult, but b) and c) offer scope for action by the regional administration, for example through the fostering of companies able to supply the resources within the region or the attraction of such companies from outside the region, or the provision of technical support.

The circulatory system of the regional economy can be considered from three perspectives: Production, distribution, and expenditure. Considered from the perspective of production, at the same time as funds are acquired from outside the region by extra-regional exports, funds are flowing outside the region for the extra-regional procurement of raw materials and intermediate goods. From the perspective of distribution, added value produced within the region flows outside the region as wages for workers and dividends for investors outside the region. From the perspective of expenditure, the funds that provide income are either expended in consumption or saved. If the objects of consumption are extra-regional, then the funds flow outside the region. In the case of funds dedicated to savings also, if there is insufficient demand for funds within the region, the funds will flow out of the region in order to satisfy extra-regional demand. Based on the results of circulation analyses of this type for a regional economy, it is then necessary to identify the intra- and extra-regional structures of relations that contribute to increasing the growth and sustainability of the regional economy, and to formulate and implement concrete measures towards building or enhancing these structures of relations.

Below, we will consider initiatives in Toyooka City, Hyogo Prefecture, as an example of deployment of the type of structural analysis that we have looked at thus far.

[Case study: Toyooka City, Hyogo Prefecture]

The municipality of Toyooka City borders the Japan Sea to the north and Kyoto Prefecture to the east. Approximately 80% of the city area is forested. Toyooka City has a population of approximately 85,000, and its aged population rate is 28.2% (figures based on the 2010 Population Census).

Following its creation as the result of a merger in 2005, the city conducted a structural analysis of the regional economy in order to enable the formulation of an economic growth strategy. A Toyooka City Input-Output Table (2005 version) was compiled in 2009, and an action plan was created based on an economic structural analysis and policy simulations employing this table.

Based on the Input-Output Table formulated for Toyooka City, the top seven industries enabling the acquisition of funds from outside the region were identified (Fig. Column 3-2-5 (1)). The food services and accommodations industries took the top position, reflecting the amounts flowing from outside the

34) See Appended note 3-2-1.

region for consumption, for example as a result of tourists visiting the city's hot spring resorts.

Trade was the industry in second position, reflecting the amount of shoppers visiting the city, with a total export figure of more than ¥26 billion. However, a greater amount flowed into the region from outside, giving it a negative inter-regional balance of payments.

Fig. Column 3-2-5 (1) Top Toyooka City industries with highest volume of sales in external markets

(Unit of monetary figures: million yen)

		Inter-industry Relations Table (2005)				Economic Census (2009)	
		Composition ratio of production value	Export amount	Net export amount	Specialization coefficient	Worker composition ratio	Specialization coefficient
1	Food services and accommodations	6.5%	36,041	15,991	2.56	14.9%	1.64
2	Trade	7.0%	26,413	-30,772	0.64	20.9%	1.03
3	Chemical products	3.4%	20,673	4,722	1.21	0.4%	0.54
4	Plastics	2.5%	15,157	6,762	2.29	1.7%	2.40
5	Electric machinery	2.1%	12,944	-6,392	1.31	0.4%	0.40
6	Food manufacturing	1.9%	9,958	-18,070	0.52	1.8%	0.89
7	Bag products	1.5%	8,157	7,839	30.63	3.0%	40.60
8	Electronic components	1.3%	8,049	1,579	0.80	0.9%	0.79

Sources: Compiled from Toyooka City, *2005 Toyooka City Input-Output Table (36 Industries)*; MIC, *2009 Economic Census for Business Frame*, and other sources.

The third, fourth, fifth and sixth places were taken by chemical products, plastics, electric machinery, and food manufacturing respectively. In terms of net export amount (import amount subtracted from export amount), however, bag products, in seventh position, was second after food services and accommodations. Bag products is a local Toyooka City industry, and despite the fact that its total production value is not high, its ratio to the total production value of Toyooka City is 30.63 times the national average (specialization coefficient).

Turning to the added value produced within the region (Fig. Column 3-2-5 (2)), we find the top industries to be real estate, construction, trade, and finance and insurance, in that order. Collectively, these four industries account for 46.3% of the total added value produced in Toyooka City. However, none of these industries are industries which obtain funds from outside the region. In other words, the industries which bring funds into the region as a result of economic activities do not correspond with the industries which generate the most added value within the region. In Toyooka City, the industries which support the regional economy are the industries with positive net export amounts, shown in Fig. Column 3-2-5 (1).

Fig. Column 3-2-5 (2) Top industries generating added value in Toyooka City

	Industry	Composition ratio	Cumulative percentage
1	Real estate	16.2%	16.2%
2	Construction	13.4%	29.5%
3	Trade	8.7%	38.2%
4	Finance and insurance	8.0%	46.2%
5	Public services	6.7%	52.9%
6	Medical care, health care and social welfare	5.6%	58.5%
7	Food services and accommodations	5.4%	6.39%

Sources: Compiled from Toyooka City, *2005 Toyooka City Input-Output Table (36 Industries)* and other sources.

How do the industries holding the two top positions in terms of net export amount (food services and accommodations and bag products) affect other industries in the region (Fig. Column 3-2-5 (3))?

Of the industries that provide intermediate inputs for the food services and accommodations industries, food manufacturing (at 25.8%), trade (at 15.4%), and electricity, gas and heat supply (at 12.6%) collectively account for more than 50% of inputs. If demand for food services and accommodations increases, the greatest effect will be on food manufacturing, but because the units for production demand for food manufacturing based on the import ratio shown on the Input-Output Table results in an import of 0.71, a considerable portion of the economic effect flows outside the region. In order to produce an economic effect for Toyooka City, it would be necessary to increase the rate of intra-regional procurement of inputs for the food manufacturing industry. Similarly, if we consider the industries providing inputs for bag manufacturing, we find that other manufacturing industries (19.4%), trade (18.2%), and bag manufacturing itself (14.7%) collectively account for more than 50%. Food manufacturing, which follows these at 7.3%, can be considered to be present due to the supply of leather from the livestock sector. An increase in production demand in the bag manufacturing industry would produce a ripple effect on these other industrial sectors.

Fig. Column 3-2-5 (3) Top sectors providing intermediate inputs for the food services and accommodations and bag manufacturing industries in Toyooka City

(Intermediate input in the food services and accommodations industry)

	Industry	Ratio
1	Food manufacturing	25.8%
2	Trade	15.4%
3	Electricity, gas and heat supply	12.6%
4	Finance and insurance	8.3%
5	Transportation	8.0%
6	Services for business establishments	4.4%
	Intermediate input ÷ production value	0.582

Sources: Compiled from Toyooka City, *2005 Toyooka City Input-Output Table (36 Industries)* and other sources.

(Intermediate input in the bag manufacturing industry)

	Industry	Ratio
1	Other manufacturing industries	19.4%
2	Trade	18.2%
3	Bag manufacturing	14.7%
4	Food manufacturing	7.3%
5	Plastics	6.8%
6	Textile products	5.2%
	Intermediate input ÷ production value	0.647

Sources: Compiled from Toyooka City, *2005 Toyooka City Input-Output Table (36 Industries)* and other sources.

Next, we will consider demand in Toyooka City's main industrial sectors (Fig. Column 3-2-5 (4)). This assists us to understand which industries enjoy benefits when there are technological advances or another form of progress within a specific industry. If technological progress occurs in the bag manufacturing industry, the effect is felt overwhelmingly in the extra-regional market. On the other hand, an increase in service provision or productivity in the food services and accommodations industries, which are similarly industries targeting the extra-regional market, will not only draw tourists from outside the region, but will also have an effect on final consumers in Toyooka City. A typical example of the effect on final consumers in Toyooka City would be via the medical care, health care and welfare industries.

Fig. Column 3-2-5 (4) Composition of demand in main industry sectors in Toyooka City

	Composition ratio		
	Intermediate demand	Final demand	Export
Plastics	34.0%	1.6%	64.4%
Bag manufacturing	9.8%	3.5%	86.7%
Medical care, health care and welfare	1.6%	98.3%	0.1%
Food services and accommodations	0.0%	39.2%	60.8%

Sources: Compiled from Toyooka City, *2005 Toyooka City Input-Output Table (36 Industries)* and other sources.

In this way, when production demand increases in a specific industry sector, production will also increase in the industries that provide the industry in question with intermediate inputs. However, if the extra-regional dependence of the industry's production activities is high, the economic effect occurring within the region will be restricted. If there are technological or other advances within a specific industry sector which enable better products to be supplied at a cheaper rate, industries downstream from that sector and final consumers will enjoy positive benefits.

The use of Input-Output Tables makes it possible to identify the relations between industries and apply the results in industrial policy for the region. Simulations of various measures can also be conducted. The economic effect of increasing the rate of self-sufficiency of selected industries by means of measures such as the provision of support for business matching in order to increase the amount of transactions within the city and the attraction of companies which would increase the value of transactions within the city was measured for Toyooka City using the Input-Output Table. Specifically, cases in which the rate of self-sufficiency of food manufacturing, general machinery and equipment manufacturing, trade, and services for business establishments increased by 0.2% were simulated. The effect in terms of increased added value was ¥21 million, ¥14 million, ¥46 million, and ¥23 million respectively. In other words, from the perspective of regional economic policy, preventing extra-regional flow of trade would have the greatest effect in monetary terms. It was also estimated that the effect of increasing the number of new residents of the city through promotional measures, joint company orientation sessions, etc. would, assuming 1,000 new residents, increase consumption expenditure by ¥2.3 billion and generate ¥1.8 billion in added value.

To aid in the realization of the targets of the Toyooka City Economic Growth Strategy (formulated in November 2009), further surveys and analyses were conducted in fiscal 2012, and the Input-Output Table (2010 version) was revised. Based on the results of these analyses, the following two representative effects of policy measures were determined.

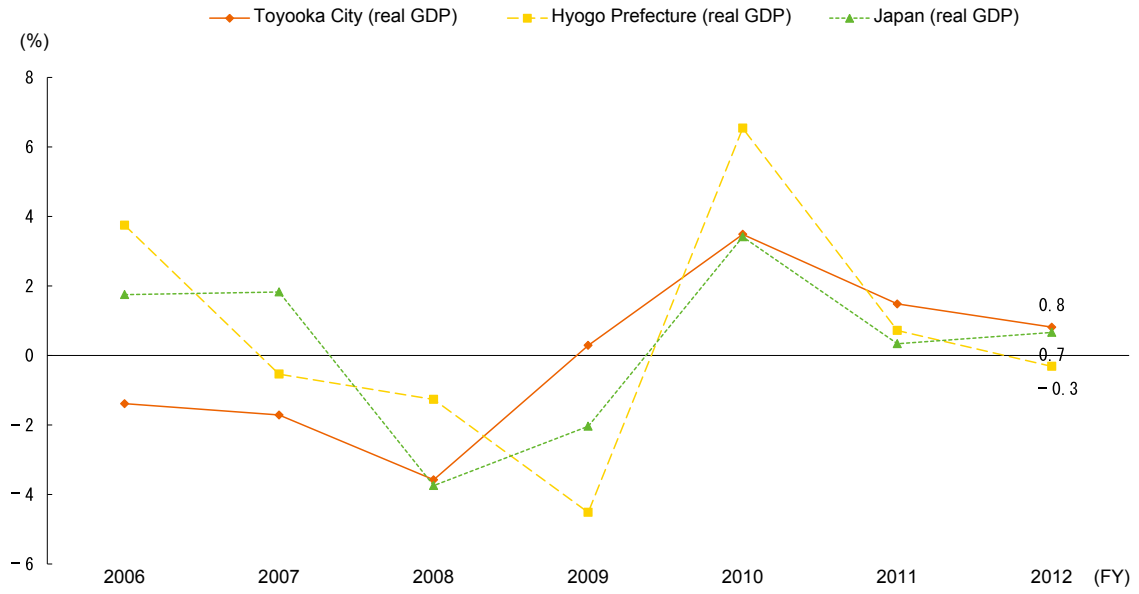
The first was an increase in the non-resident population (from overseas), which increased the extra-regional acquisition of funds. The Toyooka City Economic Growth Strategy set out a vision of increasing the non-resident population by means of PR campaigns throughout Japan and internationally, enabling funds to be obtained from outside the region. In order to do so, the city established a Tourism Promotion Office, taking staff members from JTB, Rakuten Travel, Hitachi and other companies and employing English-speaking and foreign staff members on a casual basis, and began to actively conduct tourism promotions overseas. As a result, the number of overseas visitors at Kinosaki Onsen increased sharply,

from 1,118 in 2011 to 9,584 in 2013,[35] with a significantly higher number visiting in 2014. Here, it is possible that an increase in the rate of self-sufficiency in the production of souvenir items in Izushi and the Kinosaki region further increased intra-regional economic circulation.

Another effect of policy measures was an increase in bag-related shipment value. The previous year, Kaban Artisan Avenue had been established as a specialty store for the sale of bags produced in Toyooka City (the store also operates a school to foster the next generation of bag designers), realizing a transition from the manufacture of bags to their manufacture and sale. This did not simply mean the commencement of direct sales, but rather, based on the recognition of the importance of relational structures as shown by an analysis of the regional economic structure, an initiative by regional businesses to fully cover the value chain up to the end users, where previously the distribution channel had operated through extra-regional wholesalers and retailers. This can be considered a measure to invigorate intra-regional business transactions based on analysis of the structure of the regional economy. As a result of the provision of support by the city administration for displays in department stores and other locations, the establishment of more stores for the sale of bags in Kinosaki by city businesses, in addition to the effect of an economic recovery, the shipment value for bags (based on statistical industry surveys) increased from ¥7.67032 billion in 2010, the year in which the measures were commenced, to ¥10.60268 billion in 2013.

Reflecting these increases, Toyooka City's real economic growth rate following the formulation of its Economic Growth Strategy became slightly higher than the growth rate for both Japan as a whole and Hyogo Prefecture (Fig. Column 3-2-5 (5)).

Fig. Column 3-2-5 (5) Trends in real intra-regional GDP for Japan, Hyogo Prefecture, and Toyooka City (year-on-year rate of change)



Sources: Materials provided by Toyooka City and other sources.

[2] Using data to identifying the current situation in regional areas

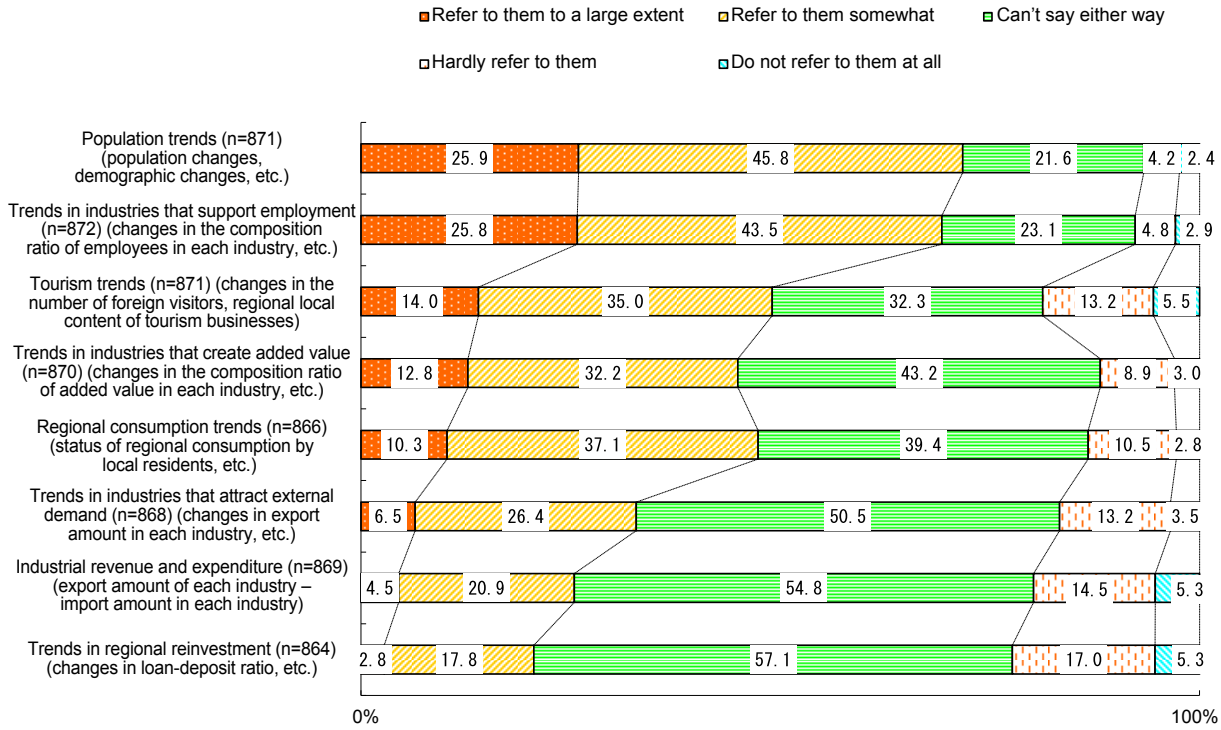
Our regional analyses so far have been based on sources such as published data. This has demonstrated that, to some extent, the current situation in a region can be ascertained through analysis using publicly available data. So, are regions making progress with their grasp of the current regional situation based on this sort of published data?

Fig. 3-2-53 shows the level of referencing of sources such as indices when municipal governments formulate industrial policy. This shows that around 70% of

35) This increase occurred prior to the trend towards the weakening of the yen and the re-examination of the system of exemption from consumption tax for foreign tourists.

municipal governments referred to "Population trends" and "Trends in industries that support employment". This is presumably because many municipal governments refer to sources such as the Population Census and the Economic Census for Business Activity when formulating industrial policy because it is relatively easy to extract data from those sources. On the other hand, around 30% of municipal governments referred to "Trends in industries that attract external demand" and "Industrial revenue and expenditure"[36]. This is probably because municipal governments need considerable amounts of money and time to collect and analyze these types of data, and due to the characteristics of the data, it is more difficult to analyze than the Population Census and Economic Census. Hence, few municipal governments refer to this data when formulating industrial policy.

Fig. 3-2-53 Level of referencing of sources such as indices during industrial policy formulation (municipal governments)

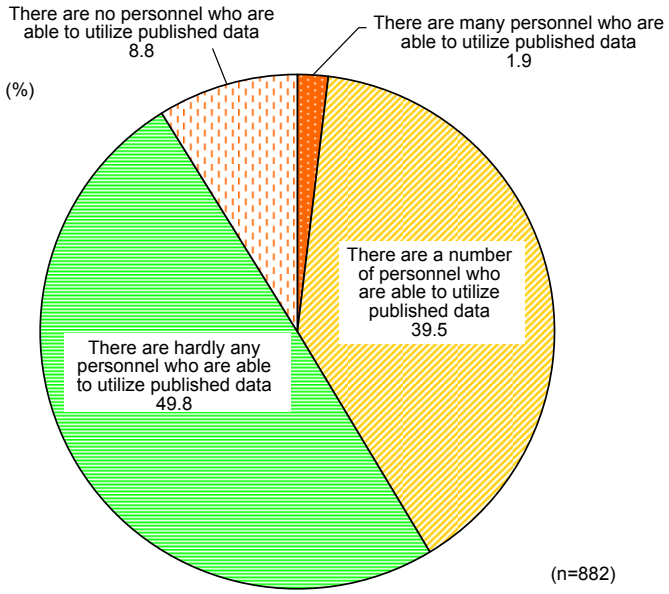


Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

However, even when municipal governments have obtained published data, if they do not have staff capable of using or analyzing that data, it may be difficult for them to make use of the published data when formulating industrial policy. Fig. 3-2-54 looks at whether there are staff capable of utilizing published data. This shows that while around 40% of municipal governments responded "There are a number of personnel who are able to utilize published data", around 60% responded "There are hardly any personnel who are able to utilize published data" or "There are no personnel who are able to utilize published data". This reveals that there are variations in the abilities of municipal governments to grasp the current situation in their regions, which may well be apparent in the differences in their policy outcomes.

36) For information on the analysis of "Trends in industries that attract external demand" and "Industrial revenue and expenditure", refer to Column 3-2-5 above.

Fig. 3-2-54 Presence of staff capable of utilizing published data (municipal governments)



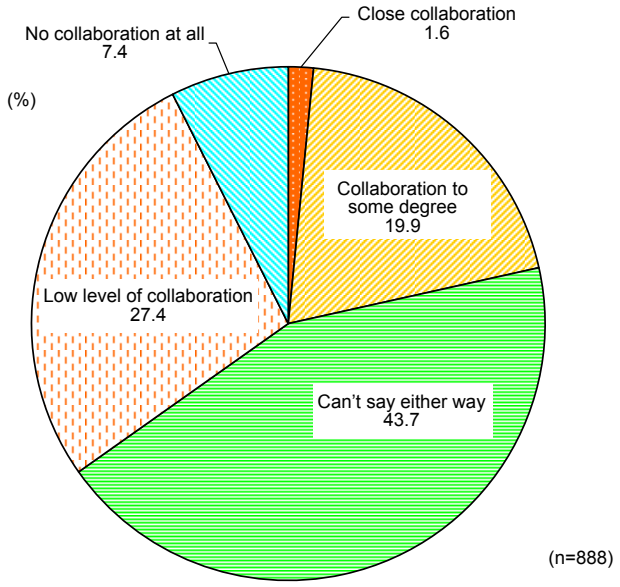
Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Note: Here, "published data" refers to sources such as the "Population Census" and "Economic Census for Business Activity", which can be referenced during industrial policy formulation.

Also, being able to grasp the current situation in one's own region does not necessarily mean that the municipal government can formulate efficient and effective industrial policy. Local governments also have limited budgets and personnel, so must work within those limitations when formulating policy. So it is likely that neighboring local governments will cooperate with each other on the research for formulating industrial policy. Cooperation between neighboring local governments when formulating industrial policy may allow them to utilize the strengths of the respective regions and compensate for each others' weaknesses.

Fig. 3-2-55 shows the level of cooperation and coordination between neighboring local governments when they are formulating industrial policy. This shows that around 20% of municipal governments are cooperating with neighboring local governments, indicating that it is not necessarily the case that neighboring local governments are actually cooperating or coordinating their efforts. There are various possible reasons for this, one of which may be that at the same time as they are failing to fully grasp the current situation in their own region, they may also be failing to fully grasp the current situation for neighboring local governments. Clearly ascertaining the current situation for neighboring local governments enables them to estimate which local government they can effectively cooperate with, and in which sectors. For this reason, it is important for local governments trying to grasp the current situation in the region to also understand the current situation for their neighboring local governments[37].

37) For information on cooperation between neighboring local governments, refer to Fig. 3-2-60 below.

Fig. 3-2-55 Cooperation and coordination between neighboring local governments when formulating industrial policy (municipal governments)



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.

We have discussed the importance of ascertaining the current status of a regional area, and now we will look at one example of a local government that has set aside a suitable budget for ascertaining the current situation in its region and has then formulated policy based on the results (data). The example introduced here is of Toyama City in Toyama prefecture, which is undertaking a campaign to turn the city into a "compact city" by analyzing population-related data.

Case 3-2-6 Toyama City, Toyama Prefecture

A local government that formulates policies based on an analysis of its urban structure and changes thereof, and seeks the cooperation of local residents and businesses in managing the progress of such policies and in building a compact city

Toyama City, Toyama Prefecture (population: 421,953 (2010 population census)) formulated the Toyama City Urban Master Plan in March 2008, in which it proposed to build a "compact, concentrated city centered on public transportation," and has launched various programs to guide people to live in areas designated as "urban districts" and "residency promotion districts along public transportation routes." Furthermore, to monitor the status of the initiative, it updates the in/out-migration situation every year by mapping the residences of all residents listed in the Basic Resident Register.

Toyama City was created in 2005 by the merging of seven municipalities. To achieve the objective of the merger of improving administrative and fiscal efficiency, the new city presented a clear vision of its urban structure as a city, and based on the realization of the importance of proper maintenance and management of social resources, it upheld the goal of creating a compact city and implemented various policies and programs toward that end.

However, to promote residency in the city, it was necessary to present future forecasts and the effects of its initiatives to date based on accurate data in an easy-to-understand manner. Thus it decided to assess and analyze in detail the status of residency in urban districts.

Among national data, the small-area population data from the population census provides the most detailed GIS data. However, the survey areas of the census does not coincide with the urban districts designated by Toyama City, and there is an inevitable time lag, with the survey being conducted every five years and taking another two years until disclosure of its data. Such as it was, the census data could not very well be applied to the PDCA cycle for examining, judging, implementing and evaluating the city's policies, so it was judged unsuited to the purpose at hand. Consequently, the city decided to collect data on its own.

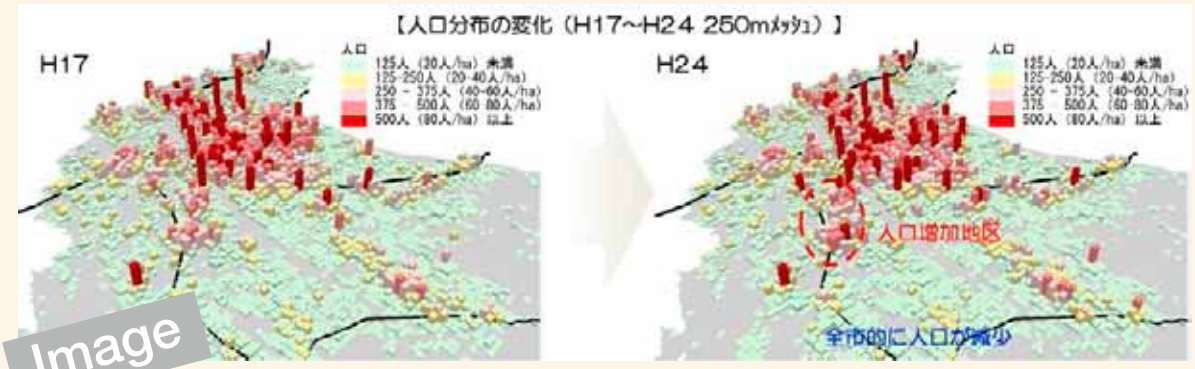
Specifically, Toyama City uses a GIS system to map the places of residence of all residents listed in the Basic Resident Register. It then updates the information every year based on the status of in/out-migrants, and analyzes the situation by overlapping various other information on the map.

The percentage of the population living along convenient public transportation routes was 28% in 2005, but the city set a target of achieving 42% by 2025. As of 2014, it has achieved a rate of 32.2%, with a residency broadly representing various age groups including young people, in spite of initial concerns that only elderly residents would be concentrated in these areas.

Toyama City also analyzes the data from the perspective of examining and adopting various policies. For example, by superimposing the distribution of elderly welfare facilities on the distribution of elderly residences, a void was found in the center of the city where no elderly facilities exist. Owing to this finding, a facility was constructed by a private enterprise, with additional construction subsidy from the city. Furthermore, by presenting information about public facilities and stores to local residents, the city communicates the message that the urban district is a convenient place to live. Through an approach that involves neither policies nor projects, the city has succeeded in acquiring the cooperation of local residents.

The data is instrumental in gaining the understanding of local residents (including city council members) by presenting the results of the city's diverse initiatives, and in promoting the cooperation of private businesses in creating a compact city by clarifying the city's objectives.

Toyama City plans to continue acquiring various data within the scope of its limited budget and to analyze them with direct relevance to appropriate measures and policies, in the effort to build a sustainable city that offers high-quality lifestyles in concert with its residents.



Analysis of changes in population distribution

[Observations from the case]

Success factors

Administrative policies, work and projects are generally evaluated using data that are easy to assess, such as data on the annual number of public facility users and number of children on the waiting list of licensed nursery schools. However, Toyama City is recognized for creating, analyzing and utilizing its own detailed database of its population as a means for involving local residents and businesses in building a compact city through the overall effort of the entire city, and allocating a concentrated budget and steadily yet boldly implementing appropriate measures toward that end.

The city's detailed data and analysis thereof, and the mayor's fervent call for cooperation have facilitated consensus-building among diverse stakeholders, including the city office, city council, local residents and businesses, and have enabled the city to make a policy change for building a compact city. Furthermore, by promptly analyzing and disclosing the progress of the policy, the city is able to maintain in focus on effective initiatives, as well as take proper countermeasures to issues based on a detailed understanding of where the problem is. Toyama City can thus be said to be in the midst of a positive PDCA cycle toward a gradual shift in its policy to create a compact city.

The clarity of this approach could also be seen as having certain effectiveness not only in promoting local residents to live in the city's urban districts, but also in prompting in-migrations from throughout Japan and the world by promoting the city.

Responses in consideration of changes in the regional economic structure: Assessment of the present state of the city based on data

Creating data that maps the residence and attributes of each resident has allowed Toyama City to grasp the present residency distribution and in/out-migration status of the city in detail and develop relevant policies. It has also proven extremely effective in convincing local residents and the city council regarding its financial inputs and calling for the cooperation of local residents and businesses. Thus, even amid a declining and aging population, it is able to take strong initiative in managing the city efficiently with limited financial resources.

Future issues

Information must be handled with utmost care. However, in Toyama City, data operations are outsourced to a business that specializes in data creation and processing, as city office personnel lack sufficient knowhow and experience in handling data.

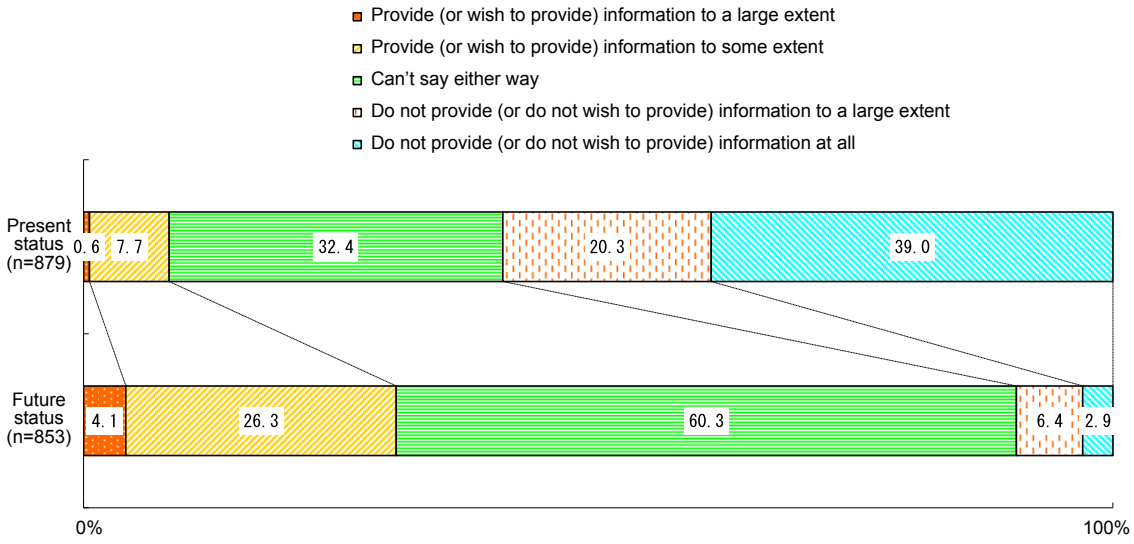
Additionally, careful survey designs and adjustments are made by the city office to ensure proper data updates and analysis within a limited budget, but it is important to avoid a survey and research type of analysis that is based on a presumed conclusion, and to analyze data that would lead directly to policy proposals and monitoring schemes. This is true for all local governments.

Presently, data is managed by the Urban Policy Division, but it is becoming increasingly necessary to incorporate data that is handled by other departments into a system. There is also a heightening need to establish a framework for data maintenance and analysis in cooperation with departments that handle statistics and information, in consideration of the increasing frequency at which the Urban Policy Division is conversely requested to analyze data from other departments.

Column 3-2-6 Local governments providing information to the regions

When local governments utilize the data they used to ascertain the current situation in the region, or the information gained by analyzing that data, it is important that they also actively disseminate that data or information in the region. By actively communicating that information, local governments can trigger initiatives by enterprises and residents who receive that information that will revitalize the region in ways that the local governments themselves would never have dreamed of. For example, providing information on consumption and demand that relates to the region's major industries can assist enterprises in new product development or new business expansion. Enterprises developing new products or starting up new business boosts the performance of those enterprises and creates new employment, resulting in benefits for the region. If we look at the extent to which local governments (municipal governments) provide or are planning to provide this sort of information on consumption and demand that relates to the region's major industries, as shown Fig. Column 3-2-6 (1), we can see that currently, less than 10% of municipal governments are providing such information. However, around 30% of municipal governments wish to provide information in the future.

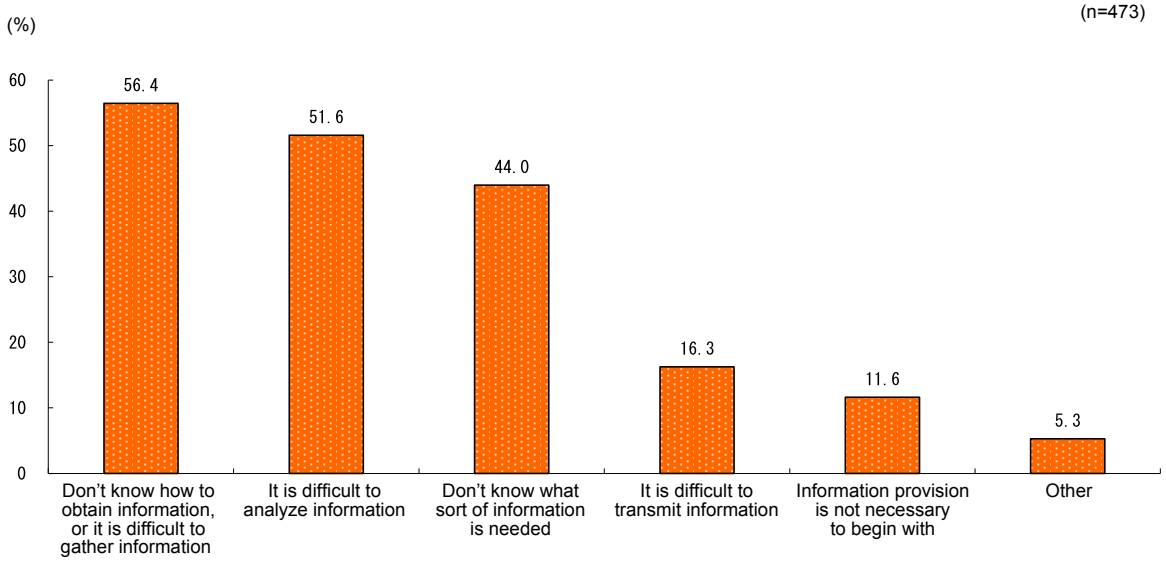
Fig. Column 3-2-6 (1) Actual and planned provision of consumption and demand information that relates to the region's major industries



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Note: The survey asked municipal governments about the extent to which they currently provide, or in the future plan to provide, information on consumption and demand relating to the region's major industries to SMEs.

Looking at the reasons why so few municipal governments are providing the community with information on consumption and demand that relates to the region's major industries, as shown in Fig. Column 3-2-6 (2), more than half the municipal governments surveyed responded "Don't know how to obtain information, or it is difficult to gather information" or "It is difficult to analyze information", while no more than around 10% responded "Information provision is not necessary to begin with". This indicates that while they understand the importance of distributing information to the community, there are many municipal governments who recognize that it is difficult to adequately supply information when budgets and personnel are limited.

Fig. Column 3-2-6 (2) Reasons of not providing much information on consumption and demand that relates to the region's major industries



Source: Land Brains Co., Ltd., *Survey of Measures for Regional Revitalization* (December 2014), commissioned by the SME Agency.
Notes: 1. The survey asked municipal governments who responded "Do not provide information to a large extent" or "Do not provide information at all" about the provision of information on consumption and demand relating to the region's major industries to SMEs.
2. The total may exceed 100% as multiple responses were possible.

Below, we present an example of a local government that promoted resident participation and permanent residency by actively distributing administrative information using the Internet.

Case 3-2-7 Miyashiro Town, Saitama Prefecture

A local government that utilizes the Internet to disclose information and thereby promote resident participation and permanent residency

Miyashiro Town, Saitama Prefecture (population: 33,641 (2010 population census); area: 15.95km^2) was the first local government in the prefecture to launch a website. It launched "Denno Miyashiro" in 1997 as a website for communicating administrative information, with the aim of revitalizing the town by sharing information with local residents and promoting their participation in town affairs. The site is updated almost daily, and provides a broad range of content, including downloadable applications forms, notification forms and newsletters; "messages from the town mayor" seeking proposals and requests from the townspeople; and videos that introduce town events.

One of the salient characteristics of Denno Miyashiro is the use of videos. By employing the services of an NPO, local volunteers (presently composed of 15 correspondents) cover cultural activities, sports events, and other such topics of interest in the town, turn them into a video, and post a new video on YouTube once a week or so. The videos spotlight activities and organizations that are normally not covered by the town's PR department, and are garnering

favorable responses from local residents, despite initial concerns that complaints of unfairness might arise from areas and organizations that have not received coverage.

Denno Miyashiro is viewed by 30,000 to 40,000 viewers per month. Since the town's population is approximately 33,000, this suggests that the website is attracting interest not only from within the town but also from outside. In the course of implementing the initiative, more than a few contents have been terminated or transferred to a new service. An example is the "Virtual Townspeople" service, which distributed local news to people registered in a mailing list. It had only about 500 subscribers, due to the trouble of having to register and the infrequency of updates, so taking advantage of the popularity of social networking services, it was transferred to Twitter. As a result, registration was simplified, the frequency of updates was increased, and the number of followers grew to some 1,500.

In conjunction with the active dissemination of town information mainly through Denno Miyashiro, the "Miyashiro Permanent Residency Promotion Strategy," a measure for increasing residential population, was announced as part of the Fourth Miyashiro Comprehensive Plan formulated in fiscal 2011. To promote permanent residency under this strategy, a website titled "Miyashiro de Kuraso" (Let's Live in Miyashiro!) was launched in collaboration with a private contractor, to provide information on daily living in Miyashiro and property information in the town. The contractor gathers information about characteristics of the town, administrative services, as well as products and services of private businesses that are not ordinarily introduced on the website of the local government, and introduces them in relation to the town's industrial policies. The expenses incurred from running the website are covered by advertising revenue, and no outsourcing expense is budgeted to begin with. The website currently carries advertisements from six companies.

As a characteristic of this website, advertisements of residential properties are posted on the site in cooperation with house builders in the town, and families who take a cue from the advertisements to purchase a property and move to the town are given money coupons to be used in the town. This initiative was begun in earnest in fiscal 2012, and has so far prompted the in-migration of 32 families.

Miyashiro Town plans to continue making steady headway with its existing projects, while also implementing new measures that place even greater focus on interactive communication with local residents.

"Miyashiro de Kuraso" (Let's Live in Miyashiro!) website

[Observations from the case]

Success factors

In Miyashiro Town, information is provided through the services of a private business or NPO in town, and not according to any conventional, standard format under the initiative of the local government. The town's effort to work together with its local residents in this way is a point that deserves recognition. Information provision with the aim of promoting residency in the town, in particular, focuses on creating a vision of actually living in Miyashiro, and employs the services of a private contractor to introduce information about individual shops and real estate properties that are rarely introduced on the local government website. The fact that this initiative has contributed to increasing in-migrants especially merits attention.

This style of information provision requires an appropriate environment within the local government. Miyashiro Town has roughly 200 employees, which is very few compared to other local governments in the prefecture in terms of the number of employees per resident. However, taking this into consideration, the town has developed a complete information system within the town office and works to increase the efficiency of daily operations. The small number of employees also helps shorten decision-making time within the town office compared to other local governments, facilitates the collection of proposals from employees, and makes it comparatively easy to actively examine and implement them. Thus, this environment is also a factor that enables frequent provision of information that satisfies local residents' underlying needs.

Responses in consideration of changes in the regional economic structure: Active provision of information to local residents

Foremost important in providing information from the government is for the government to stand in the shoes of users (standpoint of local residents). For example, Denno Miyashiro originally provided content that guides users to administrative inquiry desks by providing information about the services of each division based on an organizational

chart. However, there were opinions from inside and outside the town office that the organizational framework of the local government is not a large concern to local residents. As a result, a change was made in the structure of the website content so that local residents can more easily find the services they seek. It can be said that the accumulation of such prompt responses to the voices of local residents has in effect increased the number of visitors to the website.

Additionally, giving local money coupons worth ¥10,000 to families who have moved to Miyashiro Town based on property information posted on the "Miyashiro de Kuraso" residency promotion website could also be said to be extremely effective in terms of cost performance. The cost of operating the website is covered by advertising revenue, and no public spending is incurred. Meanwhile, since the average cost of real estate transactions in the town is estimated at ¥16.65 million based on the results of the third quarter of fiscal 2014, a significant advantage could be expected, with local real estate firms gaining approximately ¥500,000 in commission and the town gaining approximately ¥98,000 in residential tax revenue.

Future issues

The conventional structure of local government websites is almost invariably the same across most local governments. In contrast, because Denno Miyashiro is characterized by frequent updates and a unique content, feedback from local residents occasionally points out the difficulty in accessing the information they seek. In response to this situation, the website has an FAQ page of such feedback, and also provides an opinion form to communicate matters that are not posted in the FAQ to the town office.

Above, we have taken a look at local case examples to gain a perspective on the present state of municipalities, and have examined the initiatives of local governments that utilize statistical data to assess their present status and draft policy proposals, or make active efforts to disseminate information to local residents. As a means for grasping the present state of municipalities based on the data of such initiatives, the Regional Economy and Society Analyzing System (RESAS) introduced in the next section is considered effective.

Section 4 Ascertaining the current regional situation using the Regional Economy (and) Society Analyzing System (RESAS)

[1] Background to the Regional Economy (and) Society Analyzing System (RESAS)

System development at METI

With factors such as falling population causing declines in demand and in the number of SMEs and micro-businesses, Japan is now facing major problems in finding ways to revitalize its economy. Given this situation, the Ministry of Economy, Trade and Industry (METI) has used information on the business transactions among the major corporations to single out connector hub businesses[38] and has developed the Regional Economy (and) Society Analyzing System (hereinafter referred to simply as "the system" or "RESAS") equipped with functions that will plot a "hanabi map of all industries"[39], which identifies the main industries in a region, a "hanabi map of each industry", which shows the links between industries in a region, and a "hanabi map of each company"[40], which focuses on the transactions of individual companies. METI has been verifying whether these initiatives are helping local governments to formulate effective policy and thereby revitalize regional economies.

In developing and verifying the system, METI has also conducted regional industrial policy seminars using big data[41], held "ideathons"[42] and interviewed experts in the field, and then reflected the feedback from experts and local governments in the system.

38) According to the *2014 White Paper on Small and Medium Enterprises in Japan*, the "connector hub business (regional core business)" concept was proposed by Dr. Ichiro Sakata of Tokyo University. As defined by Dr. Sakata, connector hub businesses are businesses that have a high value for both Z (the rate of concentration of transactions inside a region or business sector) and P (the rate at which transactions are conducted beyond the region or business sector). However, connector hub businesses as defined in this document are those businesses that make a particularly significant contribution to regional economies. Specifically, they are businesses that make more purchases from the region and sell their products or services outside the region.

39) Referred to as "*hanabi*" (firework) maps because when the business transactions between enterprises are drawn as lines on a map, the resulting network appears to fan out like an exploding firework.

40) For details, refer to Part IV, Chapter 3 of the *2014 White Paper on Small and Medium Enterprises in Japan*.

41) Regional industrial policy seminars using big data are seminars conducted with the aim of garnering feedback that can be applied to system development. The feedback is specifically on the usability of the system and its required functions, and is sought from a wide range of perspectives, including the data users (national and local governments, etc.), the data holders and researchers. The feedback is used to develop a system that assists national and regional local governments in formulating regional and individual industrial policy by providing a spatial and chronological overview of the actual state of inter-enterprise business networks and the industrial structure in regional economies. To do this, it utilizes big data such as information on the inter-enterprise transactions held by private sector enterprises. A total of 6 seminars were held between March 2014 and February 2015.

42) The term "ideathon" combines "idea" with "marathon" and refers to a program in which people can speak freely and jointly contribute ideas on a set theme.

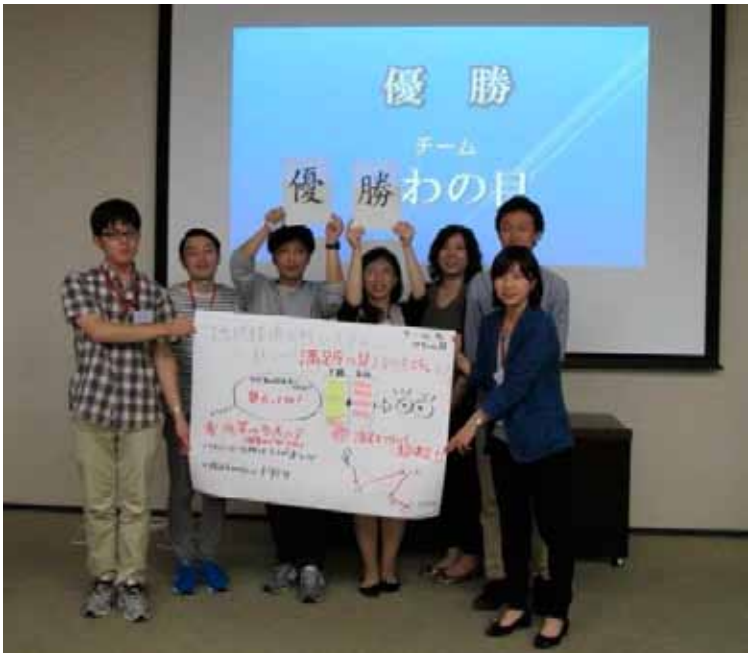
Column 3-2-7 Ideathon

On 8 September 2014, METI held an event called and "Ideathon" where they began by explaining the various functions and data format they were planning to include in the construction of the RESAS. They then asked the local government officials and other participants for their suggestions as to what was needed to improve the usability of the system and what specific functions they needed to formulate policy, so that those suggestions could be referenced during future system development.

Suggestions from the participants included "It would be good to have a function that made production more efficient by allowing us to visualize and identify where specialty products in each region are produced and where they are processed," and "It would be good to be able to use the data to automatically locate similar local governments who are concerned about a lack of successors," etc.

The winning team in the Ideathon was the "Kawanome" team, who suggested that an effective policy for the tourism industry would be to create new indices for measuring tourist satisfaction by combining subjective data (dishes, tourist sites or accommodation that tourists enjoyed, etc.) and objective data (sales, nonresident population, length of stay, etc.), so that local governments could cooperate on developing tourist routes with high satisfaction ratings.

The Ideathon can be said to have had some actual effects in that a function has actually been added to the RESAS that lists the average administrator age by local government and a function has been included that makes it easier to select a region.



Winning team: Members of "Kawanome"

Establishment of the Overcoming Population Decline and Vitalizing Local Economy in Japan

In July 2014, the Advisory Council on Overcoming Population Decline and Vitalizing Local Economy in Japan (to become the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan as of September 2014) was launched in the Cabinet Office with the aims of building autonomous and sustainable communities that capitalize on the advantages offered by the various regions. This is to be achieved through all-of-government programs that address the major issues that Japan faces, namely rapid population declines and extreme aging.

On 28 October 2014, at a press conference following the Cabinet meeting, Minister Ishiba explained that, as a result of the proposal by METI, the ability to use this system for regional vitalization means that local governments can use the RESAS to formulate a regional comprehensive strategy, and the "Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan" will then draw up plans and carry out comprehensive coordination for that strategy. Thus, the system will act as a fully fledged tool for regional vitalization.

Then, on 31 October 2014, Minister Ishiba issued a directive to the Parliamentary Vice-Ministers of each ministry asking them to cooperate in providing data for the development of the "Regional Economy (and) Society Analyzing System (RESAS)", effectively building a collaborative system with the other ministries[43].

Given these developments, in order for the RESAS to contribute to the formulation of a regional comprehensive strategy, extensive recorded data and full functionality is essential.

Specifically, the "Long-term Vision for Overcoming Population Decline and Vitalizing Local Economy in Japan" (hereinafter referred to as the "long-term vision") approved by Cabinet on 27 December 2014 notes the current and future status of Japan's population and sets out future directions to be followed. And to achieve this, data will be added under the "Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan" (hereinafter referred to as the "overall strategy"), which sets out targets, basic policy directions and detailed policies for the next five years. The data to be added includes population data that local governments consider necessary for ascertaining the current situation in their own regions.

Column 3-2-8 Act on Overcoming Population Decline and Vitalizing Local Economy in Japan

The "Act on Overcoming Population Decline and Vitalizing Local Economy in Japan", which was approved by Cabinet on 29 September 2014 and enacted on 28 November 2014, obliges prefectural and municipal governments to make sincere efforts to draw up basic plans for policies to overcome population decline and vitalize local economy that are suited to the local circumstances.

Extracts from the text of the Act are shown below.

(Aims)

Article 1 In order to adequately address the rapid spread of population aging in Japan, this Act aims to halt the decline of the Japanese population and correct the excessive concentration of the population in the Tokyo region. To ensure that the various regional areas of Japan remain attractive places to live and maintain a vibrant and active Japanese society, it is vital that we build regional communities in which people can hold on to their individual dreams and aspirations and live rich, rewarding and secure lives, and that we are united in promoting the creation of appealing and diverse employment opportunities in regional areas as well as the retention of a diverse and richly individualistic population to support regional communities (hereinafter "overcoming population decline and vitalizing local economy"). It is incumbent on the nation to implement the basic concepts of overcoming population decline and vitalizing local economy, and it is the obligation of the administration to set out a plan (hereinafter the "Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan") to comprehensively and methodically enact policies for overcoming population decline and vitalizing local economy, and it is to this end that the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan will be established.

(Basic Concepts)

Article 2 Overcoming population decline and vitalizing local economy shall take the items listed below as its basic concepts.

1. The Act shall work to provide environments suited to the respective regional circumstances that allow citizens to live rich and fulfilling lives in attractive and richly individualistic regional communities.
2. The Act shall obtain the understanding and cooperation of businesses and local residents to ensure the provision, both now and in the future, of the services that are the foundations that underpin everyday living and community life, anticipating the long-term demand for and supply of those services and taking into account the burden that will be imposed by residents in the community.
3. The Act shall take as fundamental that marriage and childbirth are based on decisions made by the individuals concerned, and shall work to provide environments conducive to the formation of communities in which people can aspire to marry and to bear and raise children.
4. The Act shall work to provide environments that allow a harmonious work-life balance.
5. The Act shall work to create attractive employment opportunities by promoting business startups and revitalizing business activity that takes advantage of the local characteristics.

43) Specifically, the active opening rate per occupation and for each "Hello Work" was received from the Ministry of Health, Labour and Welfare (MHLW), and data showing the state of population shifts between municipalities by age group and by gender was received from the Ministry of Internal Affairs and Communications (MIC).

6. In implementing the previous numbered items, the Act shall work to ensure efficient and effective administrative management through cooperation among local public organizations, as suited to local circumstances.
7. In implementing the previous numbered items, the Act shall make every effort to ensure that national and regional public organizations and local businesses liaise and cooperate with each other.

(Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan)
Article 9 Prefectural governments, while taking into account the Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan, must make every effort to finalize a basic plan for policies to overcome population decline and vitalize local economy that is matched to the circumstances of the prefectural districts concerned (hereinafter referred to as the "Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan").
2. The Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan must broadly set out the following items:
   a. Targets for overcoming population decline and vitalizing local economy in prefectural districts
   b. Basic policy directions that prefectural governments must consider with regard to overcoming population decline and vitalizing local economy in prefectural districts
   c. Any items other than those covered in items a and b above that are necessary to the comprehensive and methodical implementation of policies that prefectural governments must consider with regard to overcoming population decline and vitalizing local economy in prefectural districts
3. When finalizing or modifying the Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan, prefectural governments must make every effort to publicize the fact without delay.

(Municipal Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan)
Article 10 Municipalities (including special wards, which are taken to be identical in the clauses below) must make every effort to finalize a basic plan for policies to overcome population decline and vitalizing local economy (hereinafter referred to as the "Municipal Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan") that is matched to the circumstances of the municipal districts, while taking into account the Overcoming Population Decline and Vitalizing Local Economy in Japan (or, where an Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan has been finalized, the Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan and the Prefectural Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan).
2. The Municipal Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan must broadly set out the following items:
   a. Targets for overcoming population decline and vitalizing local economy in municipal districts
   b. Basic policy directions that municipal governments must consider with regard to overcoming population decline and vitalizing local economy in municipal districts
   c. Any items other than those covered in items a and b above that are necessary to the comprehensive and methodical implementation of policies that municipal governments must consider with regard to overcoming population decline and vitalizing local economy in municipal districts
3. When finalizing or modifying the Municipal Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan, municipal governments must make every effort to publicize the fact without delay.

Verification program for local governments

In February 2015, with the system somewhat finalized, a prototype of the RESAS was trialed by staff in prefectural and municipal governments at 10 local governments in 5 regions[44]. Feedback and impressions were collected, and in April a verification program was implemented with the aim of further improving the system prior to its full release. While the feedback included many responses along the lines of "I became more interested during the verification program" and "I'd like to actually use the system as of April 2015", there were also many people who replied "I want data on overseas business relationships" or "We need data on individual businesses". This shows that there are many people who would like to use the system, but who want more comprehensive data, and that people are looking forward to using the system.

Current development status

In terms of the current development status, the functions for the formulation of industrial policy originally developed by METI were added to as of September 2014 at the request of the Headquarters for

44) The verification program was conducted in 10 prefectures: Fukushima, Tochigi, Gunma, Saitama, Toyama, Ishikawa, Fukui, Ehime, Saga and Nagasaki.

Overcoming Population Decline and Vitalizing Local Economy in Japan with the introduction of population data, tourism data and data for comparing local governments. Development continued as feedback from critiques such as the verification program was applied, and the system came into full use in April 2015.

[2] Development menu for the RESAS

So, what are the specific options offered by the RESAS? Fig. 3-2-56 lists the functions available when the system was launched in April 2015. Items in red are limited items available only to the national and regional local governments[45]; the rest are general items.

Fig. 3-2-56 Development menu for the RESAS

1. Industry map

- 1-1 Hanabi map of all industries
- 1-2 Hanabi map of each industry
- 1-3 Hanabi map of each company

2. Population map

- 2-1 Population composition
- 2-2 Population change
- 2-3 Natural increase/decrease in population
- 2-4 Social increase/decrease in population
- 2-5 Future population estimates

3. Tourism map

- 3-1 From-to analysis (residential population)
- 3-2 Residential population ratio
- 3-3 Mesh analysis (fluid population)
- 3-4 Round-trip analysis

* Items in red are limited items available only to the national and regional local governments; the rest are general items.

4. Local government comparison map

- 4-1 Economic structure
  - 4-1-1 Number of firms
  - 4-1-2 Number of business establishments
  - 4-1-3 Manufactured product shipment value
  - 4-1-4 Added value
  - 4-1-5 Labor productivity
- 4-2 Corporate activities
  - 4-2-1 Business startup ratio
  - 4-2-2 Ratio of profit-making and loss-making firms
  - 4-2-3 Number of workers
  - 4-2-4 Average age of company managers
- 4-3 Working environment
  - 4-3-1 Ratio of job offers to applicants
  - 4-3-2 Per capita wage
- 4-4 Regional finance
  - 4-4-1 Regional tax
  - 4-4-2 Municipal tax for corporations
  - 4-4-3 Fixed asset tax

The sections below provide a detailed overview of each map, its functions and how to use it.

1) Industry maps

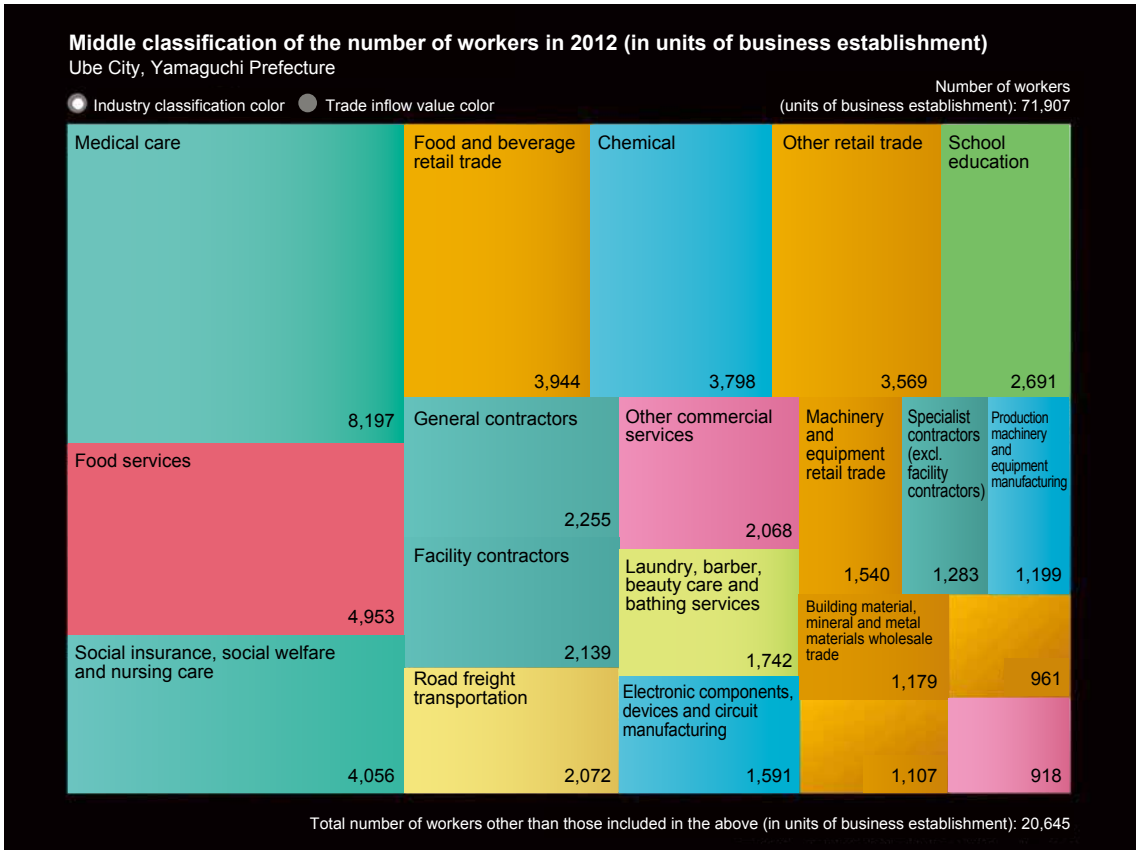
The industry maps provide functions for clarifying the overall industry structure in a given administrative area and functions for discovering the business relationships between enterprises. The main data used is economic census data, company data from Teikoku Databank, Ltd. and inter-enterprise transaction data.

- ***Hanabi* map of all industries**

The hanabi map of all industries gives a clear overview of data such as the number of enterprises, the number of business establishments, sales totals, added value and the number of workers as a proportion for each industry middle classification within a given administrative area. This makes it possible to identify the industries that support employment or that gain funding from outside the region, and to rank the key industries in the region. For example, if we look at the number of workers in Ube City in Yamaguchi Prefecture, we see that Medical care and Food services account for large proportions of the workers, while in the manufacturing industries, the proportion for the Chemical industry is also high (Fig. 3-2-57).

45) Sensitive data such as company financial data and information on transactions between enterprises are handled as limited items and can only be used or viewed by the national government or regional local governments.

Fig. 3-2-57 *Hanabi* map of all industries (Ube City, Yamaguchi Prefecture)

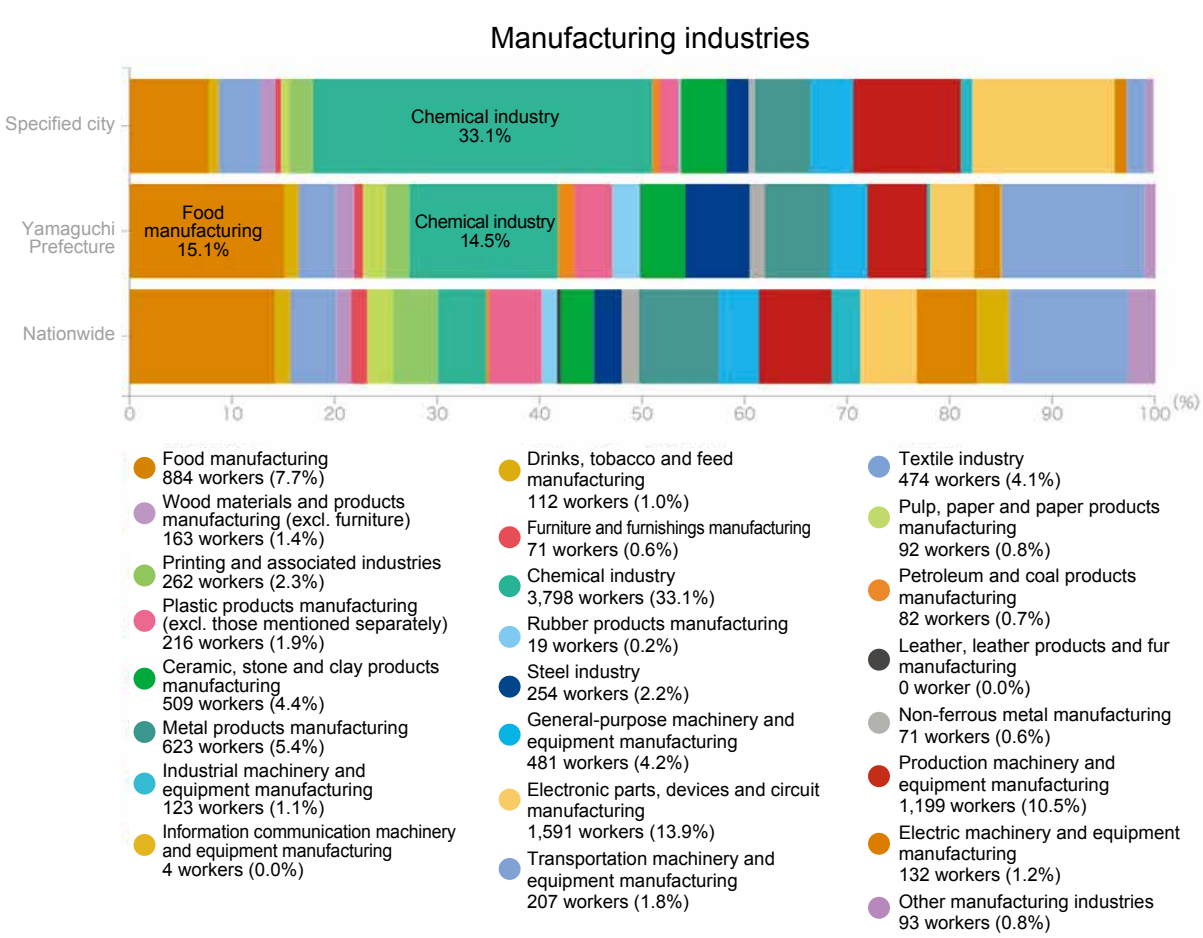


Source: MIC, METI, *2012 Economic Census for Business Activity*.
Note: Based on calculations made using the RESAS.

Also, by comparing the national average and prefectural average (for municipalities), it is possible to determine the extent to which industries in a given local government area have a comparative advantage over national and prefectural industries[46]. For example, if we look at the manufacturing industries in Ube City in Yamaguchi Prefecture, we see that the proportion for the Chemical industry is high compared with the proportions for Yamaguchi Prefecture and Japan as a whole (Fig. 3-2-58).

46) For more information on comparative advantage, refer to Column 3-2-9.

Fig. 3-2-58 *Hanabi* map of all industries (Ube City, Yamaguchi Prefecture: horizontal bar graph)

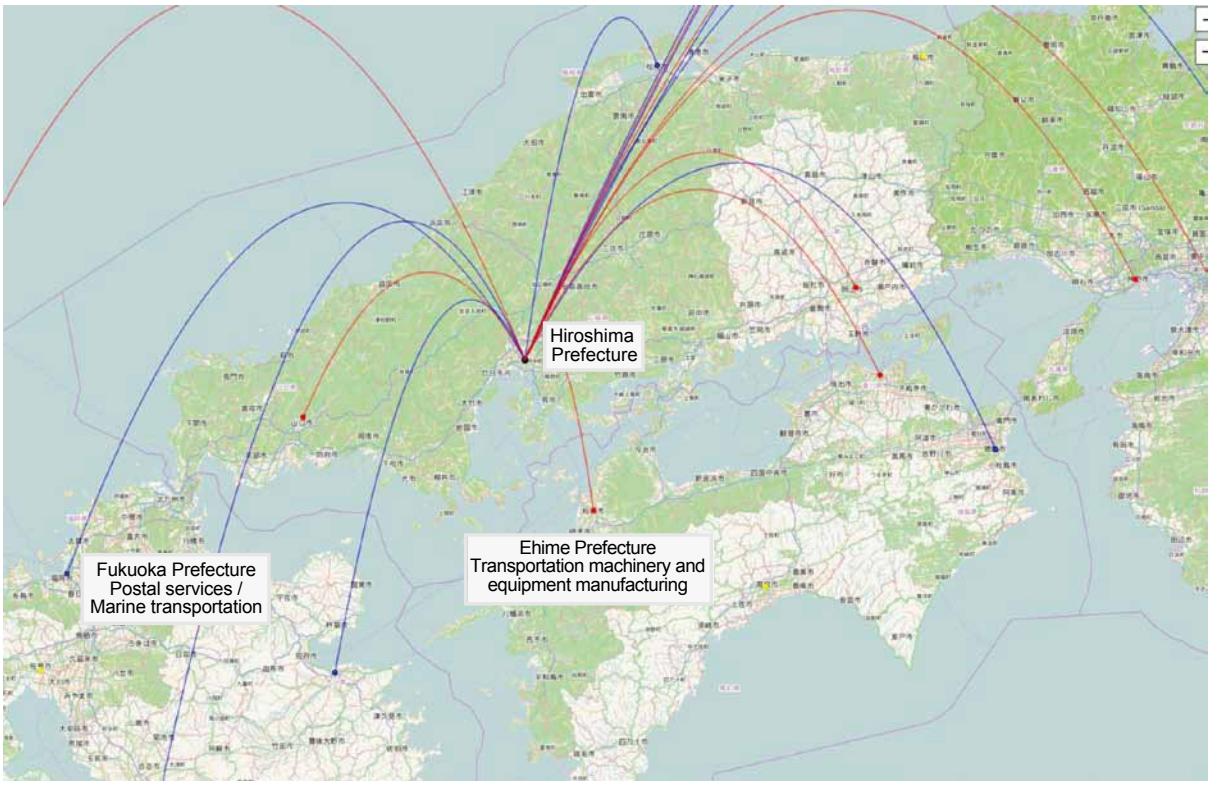


Source: MIC, METI, *2012 Economic Census for Business Activity*.
Note: Based on calculations made using the RESAS.

● ***Hanabi* map of each industry**

The *hanabi* map of each industry shows the industries in a given administrative area and makes it clear which local governments have strong ties to which industries. This is useful for understanding the administrative cooperation between local governments and identifying the supply chains for each local government. For example, if we look at the *hanabi* map of each industry (customers) for transportation equipment manufacturing in Hiroshima Prefecture, we see that there are strong ties to postal services and marine transportation in Fukuoka Prefecture and to the manufacture of transportation equipment in Ehime Prefecture (Fig. 3-2-59).

Fig. 3-2-59 *Hanabi* map of each industry (Hiroshima Prefecture: Manufacture of transportation equipment)



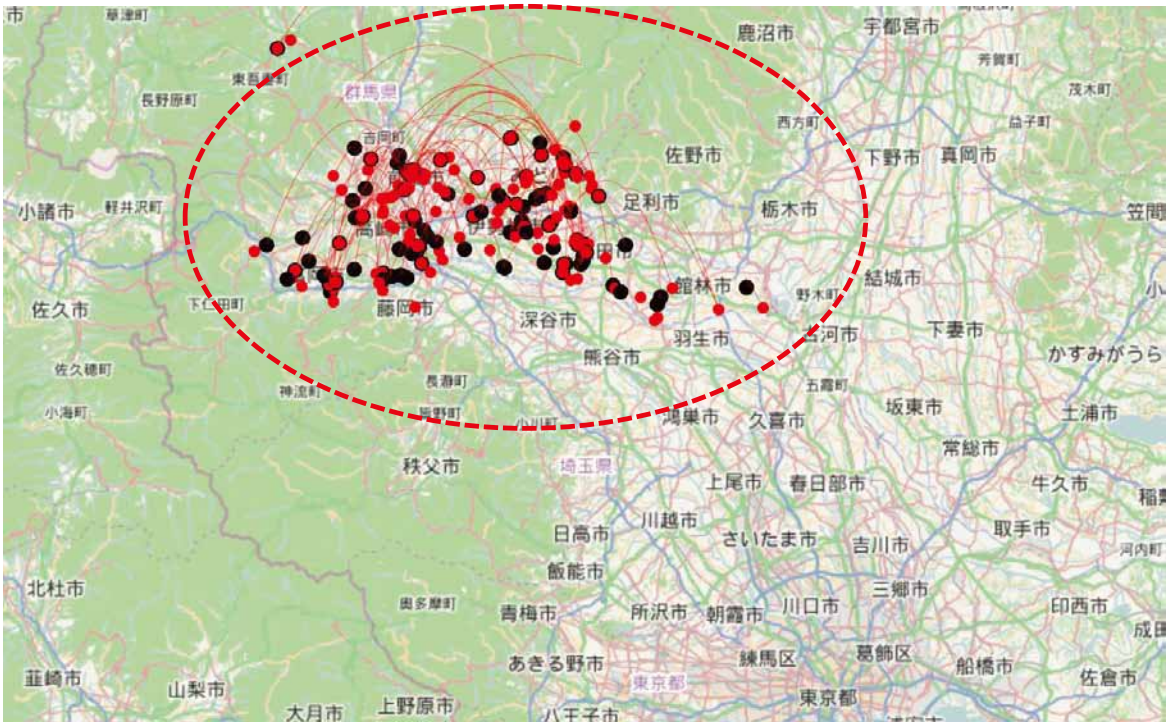
Source: Teikoku Databank, Ltd., *Inter-enterprise Transaction Information*.
Note: Based on calculations made using the RESAS.

● ***Hanabi* map of each company**

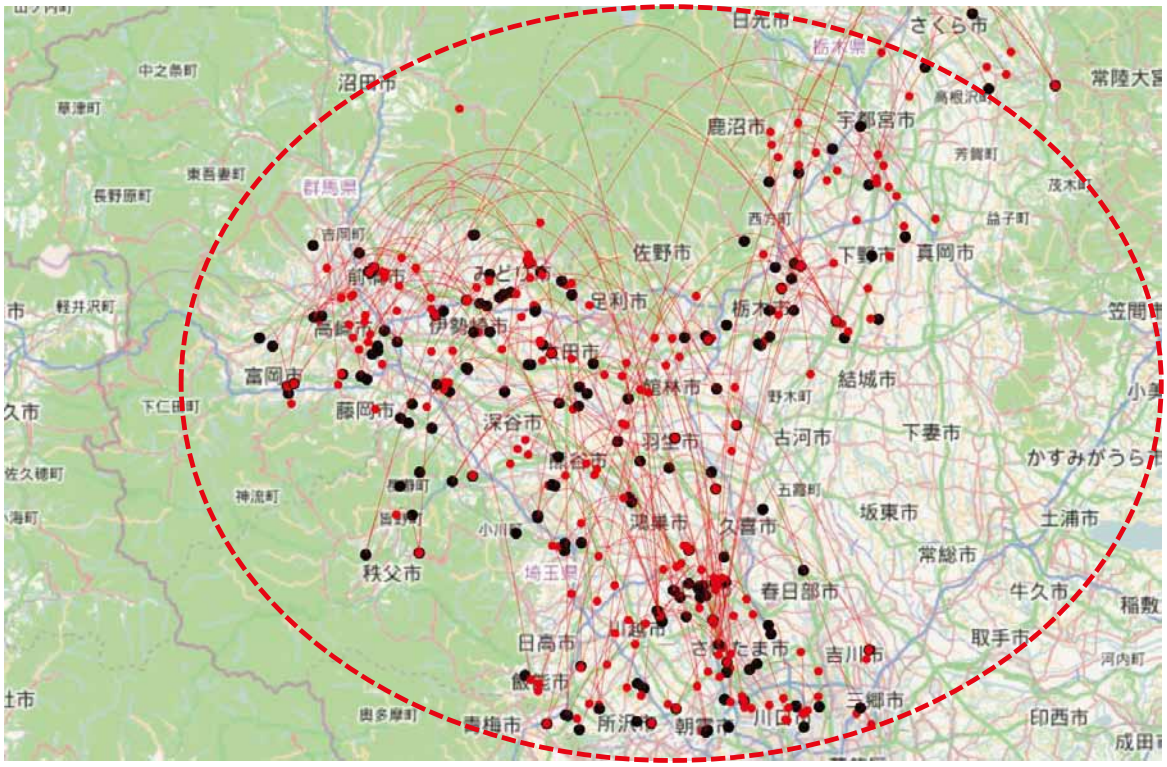
The *hanabi* map of each company reveals the business transaction relationships between enterprises. This makes it possible to see the extent to which transactions in an industry extend beyond the administrative area, and how much business is being actively transacted within the region. For example, if we look at the tie-ups in the transportation equipment manufacturing industry in Gunma, Saitama and Tochigi prefectures, which consists primarily of automobiles, we can see that the manufacture of transportation equipment in the three prefectures, and its primary clients, extend beyond the boundaries of the region. So when we are considering cooperation in the automotive industry, it is clear that it would be more effective to cooperate across the three prefectures rather than focusing on a single prefecture (Fig. 3-2-60).

Fig. 3-2-60 *Hanabi* map of each company (Gunma, Saitama and Tochigi Prefectures: Manufacture of transportation equipment)

(1) Transportation machinery and equipment manufacturing industries in Gunma Prefecture



(2) Transportation machinery and equipment manufacturing industries in Gunma, Saitama and Tochigi Prefectures



Source: Teikoku Databank, Ltd., *Inter-enterprise Transaction Information*.
Note: Based on calculations made using the RESAS.

It is also possible to extract information specific to individual enterprises. The specific information available on an individual enterprise selected from the map includes that enterprise's sales totals, net profit for the period and number of workers. But the map will also show that enterprise's suppliers and sales customers, either inside or outside the region, in a circle on the map, and compare the data with the previous year's totals to show at a glance whether sales, net profit for the period and the number of workers have increased or decreased. So if sales by the core enterprises in a given region are up on the previous year, this makes it possible to estimate the sort of impact that will have on corporate takings in the region.

It can also be used to single out enterprises that are candidates for core industries in the region. When enterprises are singled out, they can be ranked according to four measures: their connector function[47], hub function[48], employment contribution[49] and profitability contribution[50]. This allows enterprises to be sorted according to the measure considered most important when they are identified. For example, by assigning high values to connector function and hub function, connector hub businesses with high sales outside the region and high levels of procurement inside the region can be identified to assist in supporting the region's core enterprises.

2) Population maps

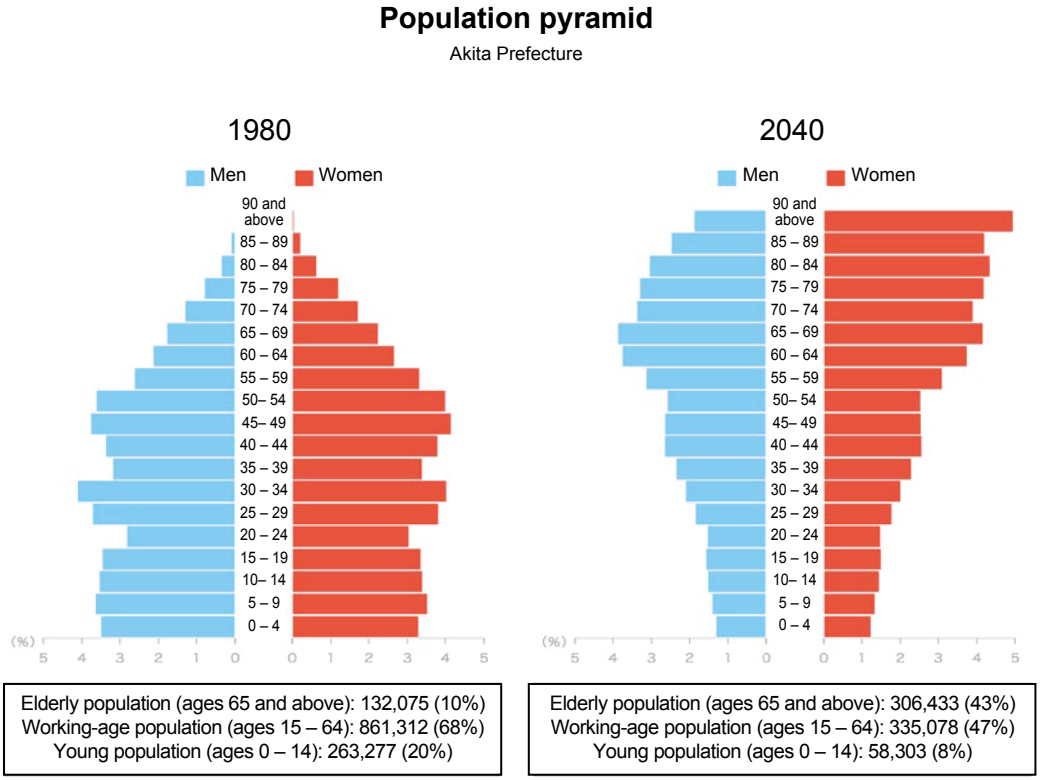
The population maps use data from the Population Census and the Annual report on the internal migration in Japan derived from the basic resident registers to provide functions such as population changes, population increases and decreases, trends in natural and social increases and decreases, and future population estimates so that the analysis of population shifts needed for formulating the Regional Comprehensive Strategy can be carried out[51]. The key functions are explained below.

- **Population composition**

The population composition can be used to identify population trends and the population pyramid for each of three age brackets[52] for the past to the present and for the present to the future. For example, the *2014 White Paper on Small and Medium Enterprises in Japan* showed that in 1980, Akita Prefecture had a pyramid-type population composition with a ratio of elderly population of 10%. However, by 2040, it will have a cocktail-glass-type[53] population composition with a ratio of elderly population of 43%, which shows the progress of population aging (Fig. 3-2-61).

47) Connector function is expressed as the amount of extra-regional sales divided by the amount of intra-regional procurement, and indicates the extent to which sales are outside the region (the extent to which foreign currency is acquired).
48) Hub function is expressed as the total amount of procurement divided by the amount of intra-regional procurement, and indicates the extent to which procurement is from within the region.
49) Employment contribution is expressed as average rate of employee increase or decrease over a five-year period and indicates the extent of the contribution to sustaining or increasing employment.
50) Profitability contribution is expressed as total net profit for a 3 year period and indicates the extent of the regional contribution through the payment of taxes.
51) The Japanese government's "long-term vision" and "overall strategy" were drafted based on the current state of the population and its future outlook, and the prefectural and municipal governments are required to make every effort to finalize a "Regional Comprehensive Strategy" for policies to overcome population decline and vitalize local economy in Japan, taking into account the overall strategy formulated by the national government. For this reason, those governments must analyze population trends and formulate a "Regional Population Vision" that indicates future aspirations, along with a "Regional Comprehensive Strategy" based on that vision that sets out targets, basic policy directions and policies for the next five years for public bodies in the region.
52) The three age brackets are the young population (ages 0-14), the working-age population (ages 15-64) and the elderly population (ages 65 and above).
53) Refer to P.102 of the *2014 White Paper on Small and Medium Enterprises in Japan*.

Fig. 3-2-61 Akita Prefecture population pyramid

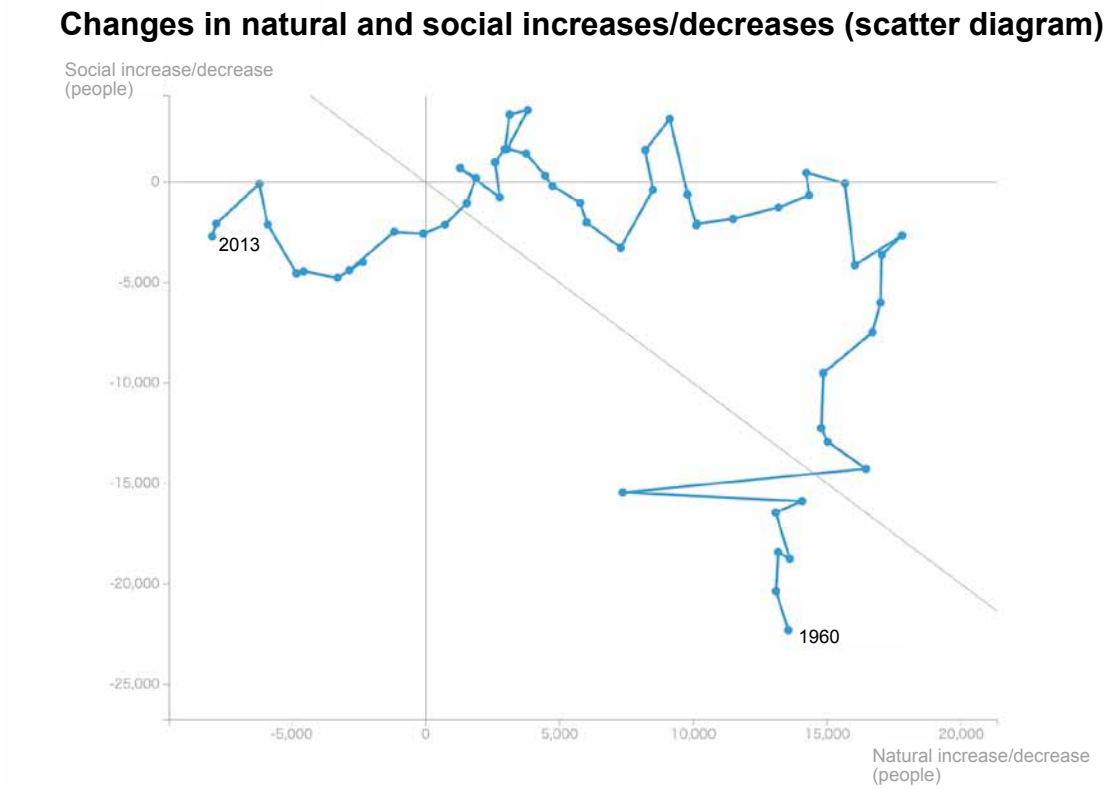


Sources: MIC, *Population Census* and the National Institute of Population and Social Security Research, *Regional Population Projection for Japan*.
Note: Based on calculations made using the RESAS.

● Population change

Population change can be understood through natural increases and decreases in the population due to the numbers of births and deaths, and social increases and decreases in the population due to trends in the numbers of people moving in (in-migration) and out (out-migration). In this way, we can identify whether past natural or social increases and decreases have contributed to population change. For example, in Nagano prefecture between 1960 and 1966, natural population increase was outweighed by social decrease and the population declined overall. Between 1967 and 2001, natural population increase exceeded social decrease and the population rose overall. From 2003 onwards, we see that natural and social population change were both negative (Fig. 3-2-62).

Fig. 3-2-62 Trends in natural and social increase or decrease in Nagano Prefecture (scatter diagram)



Source: MIC, *Counts of population, vital events and households derived from Basic Resident Registration*.
Note: Diagram created with reference to General Incorporated Association Hokkaido Intellect Tank (HIT), *White Paper on Regional Population Decline* (2014). Based on calculations made using the RESAS.

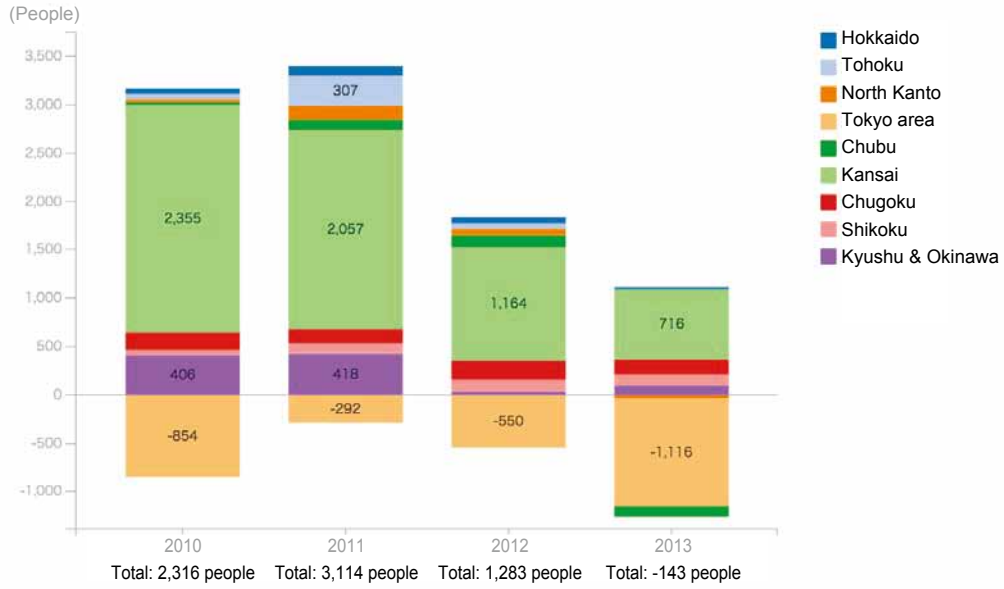
● **Social increase/decrease in population**

From social increases or decreases in the population, we can ascertain the status of population trends by region and by age group based on the Annual report on the internal migration in Japan derived from the basic resident registers. For example, in Shiga Prefecture, we can see that the population in-migrated from many regional areas, primarily the Kansai region[54], while the population out-migrated to the Tokyo area[55]. When look at the breakdown by age, the population in the 30-34 and 35-39 age brackets migrated into the region, while people in the 15-19 and 20-24 age brackets migrated out of the region. From this, we can surmise that many young people moved to the Tokyo area when they graduated from high school (and started university) or became employed. And people in the Kansai region who were at the age where they were raising children chose to move to Shiga Prefecture (Fig. 3-2-63).

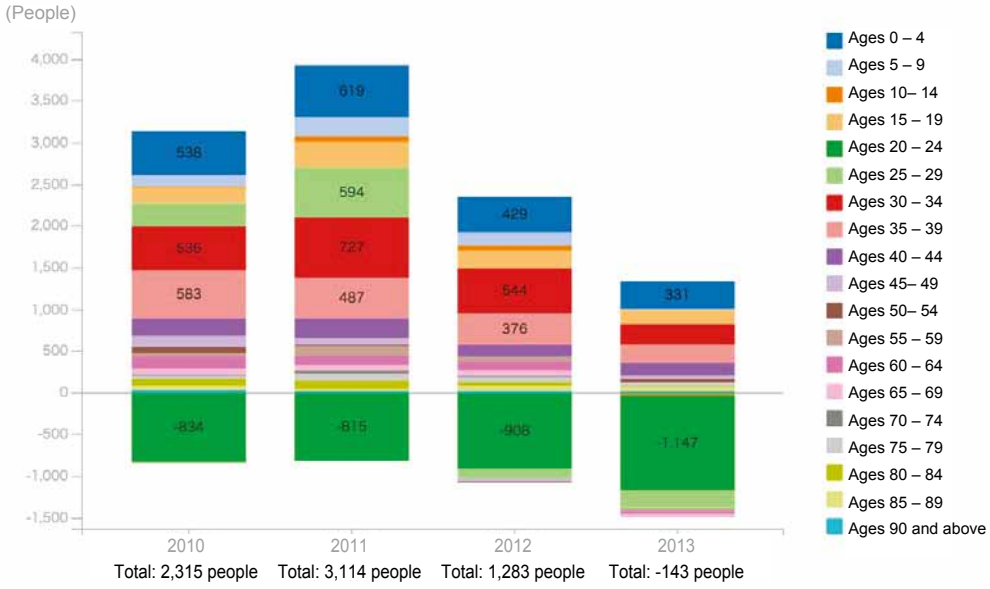
54) Here, Kansai region refers to Mie, Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama prefectures.
55) Here, the Tokyo area refers to Saitama, Chiba, Tokyo and Kanagawa prefectures.

Fig. 3-2-63 Status of social population trends in Shiga Prefecture

(1) Net migration number by regional block in Shiga Prefecture



(2) Net migration number by age group in Shiga Prefecture



Source: MIC, *Annual report on the internal migration in Japan derived from the basic resident registers*.
Notes: 1. Based on calculations made using the RESAS.
2. Hokkaido area: Hokkaido
Tohoku area: Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima Prefectures
Kitakanto area: Ibaraki, Tochigi, Gunma Prefectures
Tokyo area: Saitama, Chiba, Tokyo, Kanagawa Prefectures
Chubu area: Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano, Gifu, Shizuoka, Aichi Prefectures
Kansai area: Mie, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama Prefectures
Chugoku area: Tottori, Shimane, Okayama, Hiroshima, Yamaguchi Prefectures
Shikoku area: Tokushima, Kagawa, Ehime, Kochi Prefectures
Kyushu and Okinawa area: Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa Prefectures

● **Future population estimates**

The future population estimates are calculated using data estimated by the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan based on the estimates of the National Institute of Population and Social Security Research. For future population estimates going forward, we are analyzing which of social increases or decreases and natural increases or decreases will have a greater influence. For example, if we look at the municipal government data in Saitama Prefecture, local governments such as Ogano Town, where social increases or decreases have a strong impact, we can see that policies promoting in-migration and inhibiting out-migration would be effective in bringing about social population increases. Whereas for local governments such as Moroyama Town, where the impacts of natural increases or decreases are greater, policies that boost natural population increases (the number of births or birthrate) would be more effective. In this way, local governments can appropriately apply population policy by first getting a clear idea of which policies would be most effective for their communities (Fig. 3-2-64).

Fig. 3-2-64 Impacts of natural and social increases or decreases in Saitama Prefecture (future)

Impact of natural and social increase/decrease (future)

		Impact of natural increase/decrease (2040)					
		1	2	3	4	5	Total
Impact of social increase/ decrease (2040)	1	Ina City	Yoshikawa City, Namekawa Town	Fujimi City, Ageo City, Soka City, Koshigaya City, Toda City, Sakado City, Asaka City, Shiki City, Wako City, Niiza City, Okegawa City, Saitama City, Shiraoka City, Miyoshi Town, Kawagoe City, Kawaguchi City, Fujimino City, Tokorozawa City		Moroyama Town	22 (34.9%)
	2		Hidaka City	Kamisato Town, Tsurugashima City, Sugito Town, Matsubushi Town, Hasuda City, Konosu City, Kamikawa Town, Yashio City, Kumagaya City, Kasukabe City, Sayama City, Hanyu City, Kazo City, Fukaya City, Iruma City, Kuki City, Kitamoto City, Honjo City	Hatoyama Town, Kawashima Town, Misato Town, Ranzan Town, Miyashiro Town, Higashi Matsuyama City, Hanno City, Warabi City		27 (42.9%)
	3			Yorii Town, Gyoda City, Chichibu City, Satte City, Nagatoro Town, Minano Town, Misato City	Tokigawa Town, Ogose Town	Yoshimi Town	10 (15.9%)
	4		Ogano Town	Yokoze Town	Ogawa Town		3 (4.8%)
	5				Higashi Chichibu Village		1 (1.6%)
	Total	1 (1.6%)	4 (6.3%)	44 (69.8%)	12 (19%)	2 (3.2%)	63 (100%)

Sources: Formulated by the Secretariat of the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan with reference to HIT, *White Paper on Regional Population Decline* (2014), based on the National Institute of Population and Social Security Research, *Regional Population Projection for Japan* (March 2013 estimates).

Notes:
1. Based on calculations made using the RESAS.
2. Impact of natural increase/decrease: Sorted into the five levels below according to the value of Simulation 1 total population/Pattern 1 total population. "1" = less than 100%, "2" = 100-105%, "3" = 105-110%, "4" = 110-115%, 115% or more
3. Impact of social increase/decrease: Sorted into the 5 levels below according to the value of Simulation 2 total population/Simulation 1 total population. "1" = less than 100%, "2" = 100-110%, "3" = 110-120%, "4" = 120-130%, 130% or more
4. Pattern 1: Estimates that assume that the national migration rate in the future will be a fixed rate of contraction (compliant with the National Institute of Population and Social Security Research (IPSS) estimates)
5. Simulation 1: Simulation where the TFR rises above the replacement level (2.1 level that maintains a fixed long-term population)
6. Simulation 2: Simulation where the TFR rises above the replacement level (2.1 level that maintains a fixed long-term population) and population movement is in balance (net migration is zero)

3) Tourism maps

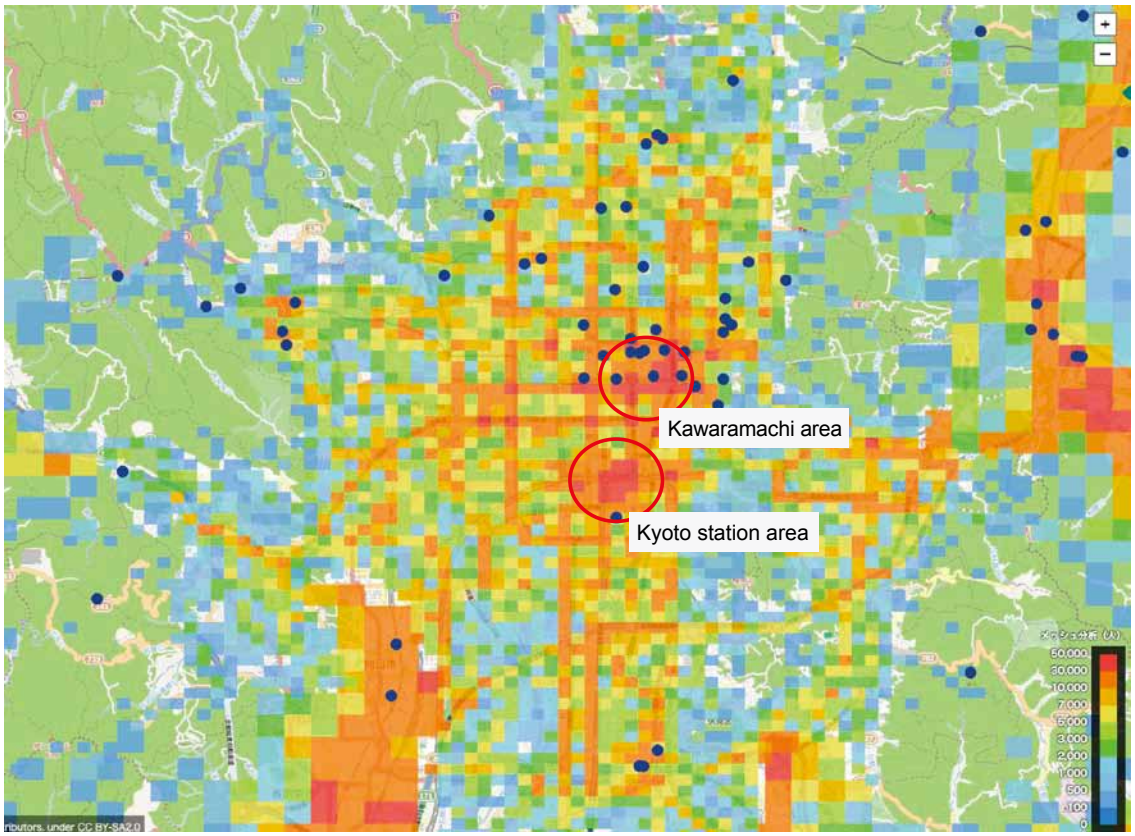
The tourism maps offer functions that make it possible to use mobile phone data to locate where people are during a given time period and to identify the route that people follow to arrive in a given location. This information can be used to analyze the flows of people near tourist sites and promote wide-ranging tourism cooperation.

● **Mesh analysis (fluid population)**

Mesh analysis (fluid population) makes it possible to estimate the size of the population within a 500-meter

mesh[56] (250-meter mesh in government-designated cities) for a particular month or time period. It can also display regional tourism assets[57] and track flows of people near tourist sites. For example, if we look at Kyoto Prefecture in April 2014, the areas around Kyoto Station and the busy shopping area of Kawaramachi are colored red, while the outskirts of the city are blue (Fig. 3-2-65).

Fig. 3-2-65 Mesh analysis (Kyoto City area)

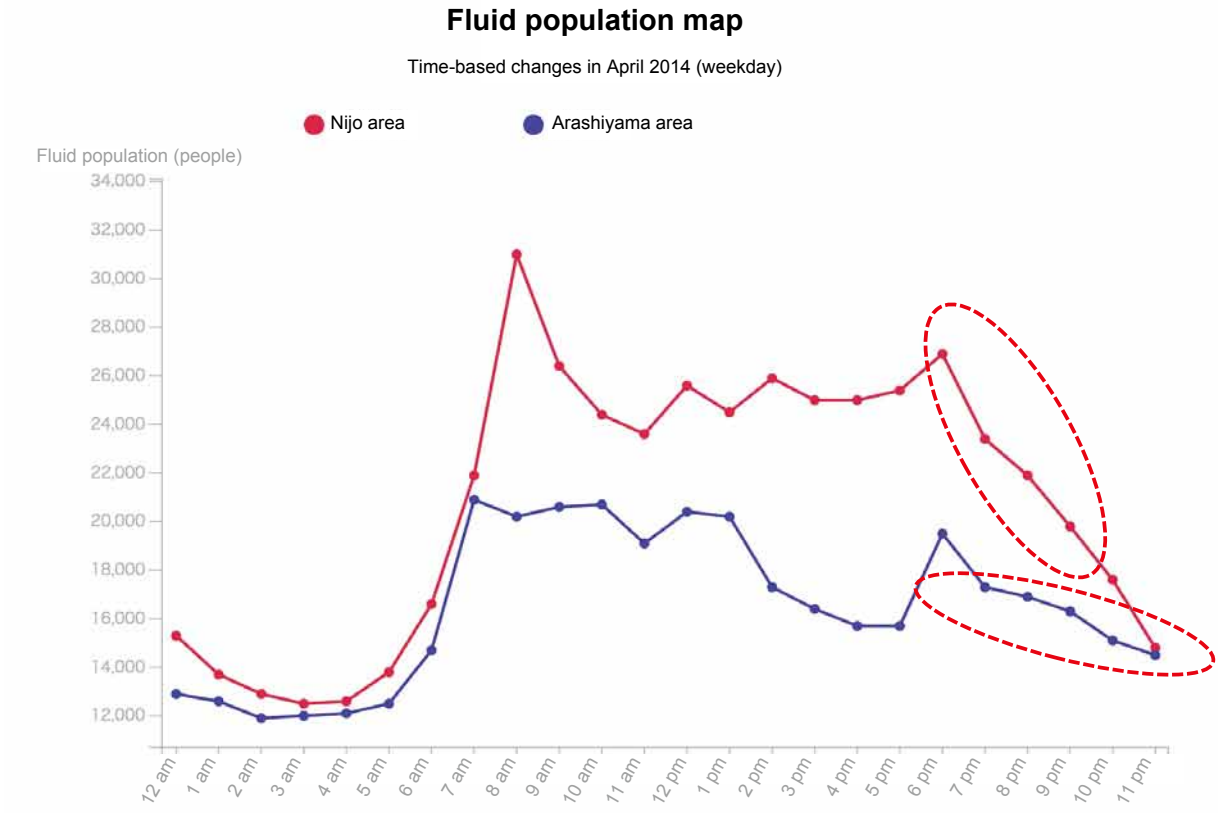


Source: Agoop Corp., *Dynamic Population Data*.
Note: Based on calculations made using the RESAS.

If we select the Nijo Castle and Arashiyama areas for comparison, the sudden decline in the number of people in the Nijo Castle area just after the Castle closes (5.00 pm onwards) compared with the Arashiyama area suggests that there is considerable scope for retaining overnight guests.

56) "Mesh" refers to the outlines of an observation grid based on latitude and longitude. A 500-meter mesh refers to observations of 500-meter squares.
57) Meshes are plotted for tourism assets with associated latitude and longitude data that are designated by prefectural governments as regional industrial resources under the SME Regional Resources Utilization Promotion Law (as of September 2014).

Fig. 3-2-66 Fluid population trends in the Nijo Castle and Arashiyama areas



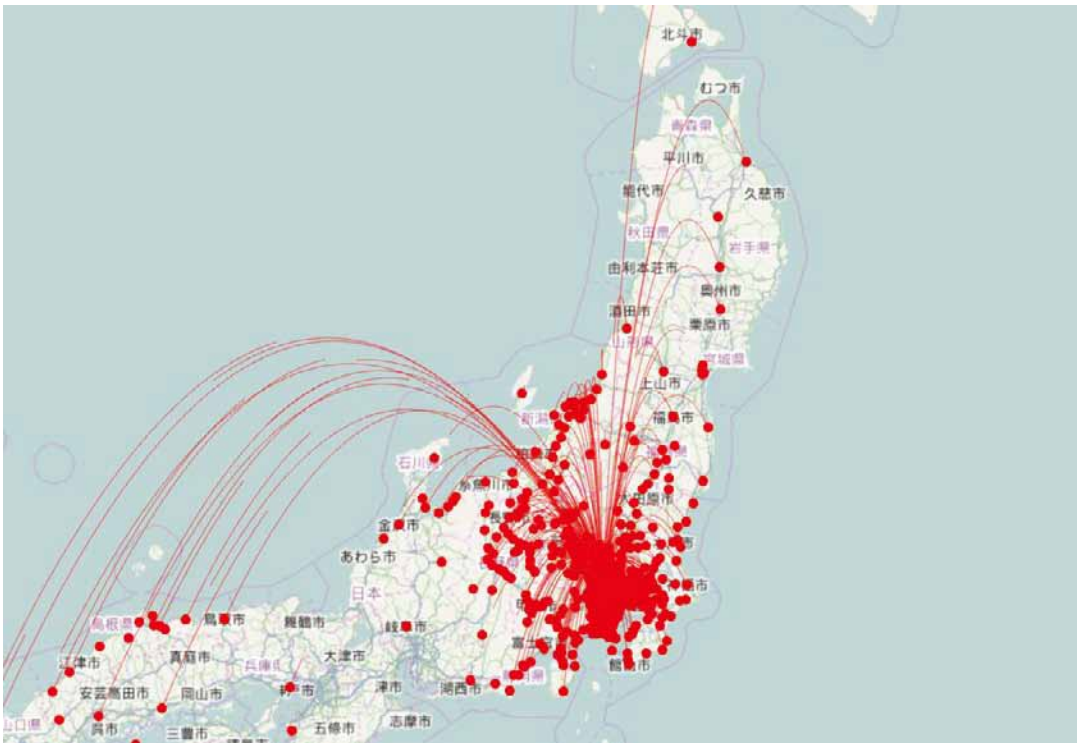
Source: Agoop Corp., *Dynamic Population Data*.
Note: Based on calculations made using the RESAS.

● **From-to map (visitor population)**

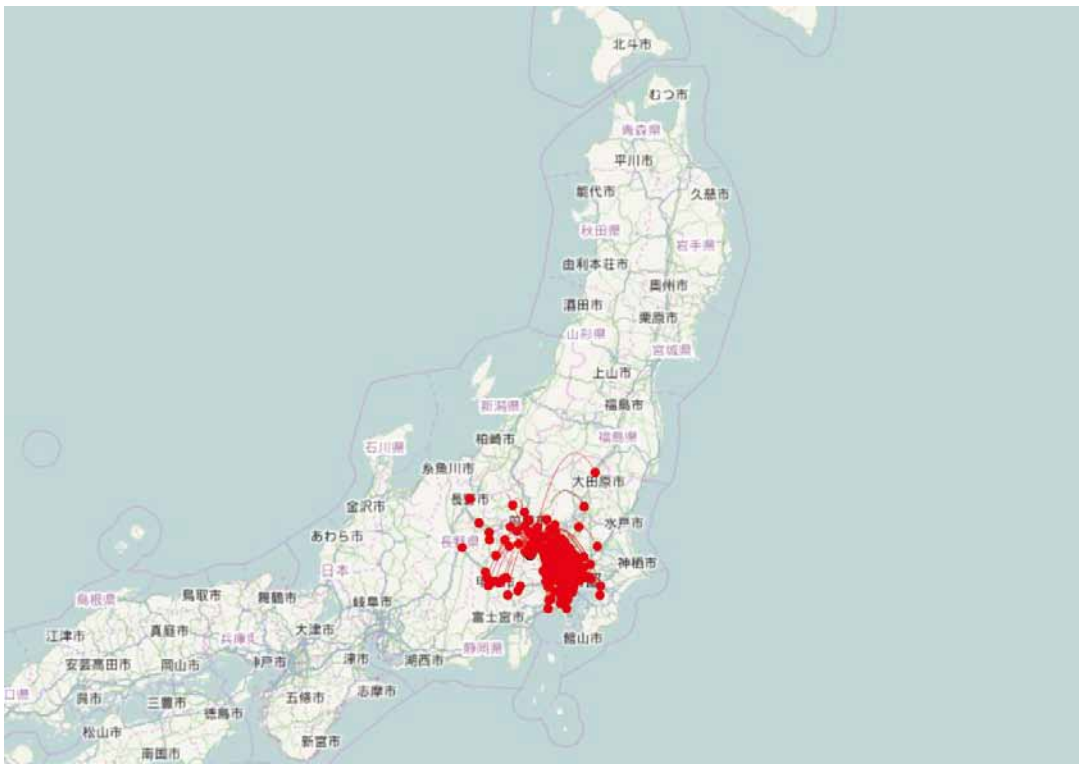
The From-to map (visitor population) enables municipal governments to determine which prefecture or municipality people in their own municipalities have come from on either weekdays or holidays. This information can then be used to develop tourism strategies such as targeting regions to which tourist pamphlets should be distributed. For example, when we compare the flows of people on holidays in the famous Saitama Prefecture tourist sites of Kawagoe City and Chichibu City, we see that access in Kawagoe City is good and it is able to attract people from a wide area. However, most of the people visiting Chichibu City are from relatively nearby areas (Fig. 3-2-67).

Fig. 3-2-67 Visitor population inflows

(1) Population in-migration to Kawagoe City



(2) Population in-migration to Chichibu City



Source: Agoop Corp., *Dynamic Population Data*.
Note: Based on calculations made using the RESAS.

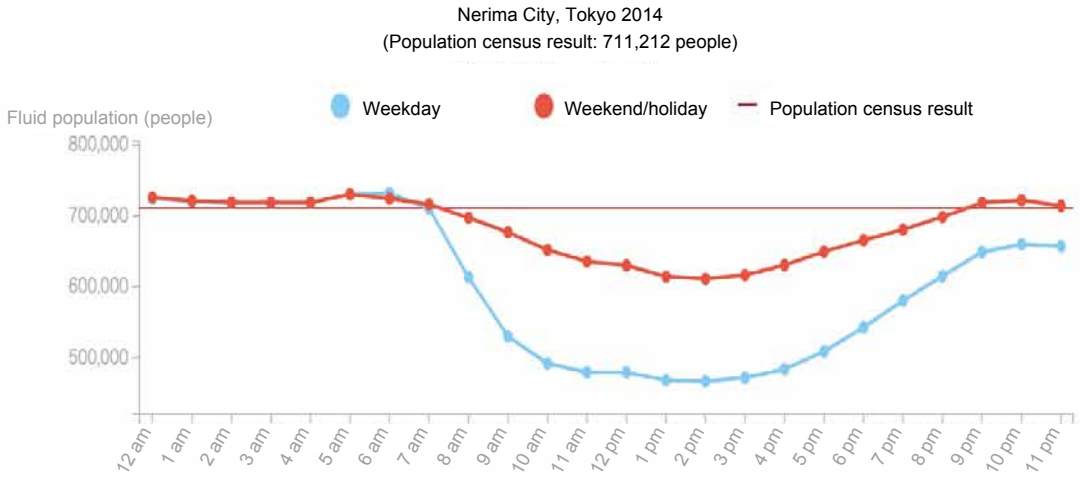
● **Visitor population rates**

Visitor population rates enable local governments to identify visitors who stay for 2 hours or more on weekdays or holidays in a given month or set period. It can also be compared with the Population Census. For example, Nerima City, which is a typical residential area, has a high population as shown in the Population Census, but a low daytime population. But we can see that districts that are made up predominantly of office buildings, such as Chiyoda City, have a very high daytime population and a very low nighttime population (Fig. 3-2-68). In this way, population movement information can be used to identify the characteristics of a region, and local governments can gain a clear picture of the characteristics of their neighboring regions before shaping the image to which they aspire for their own region.

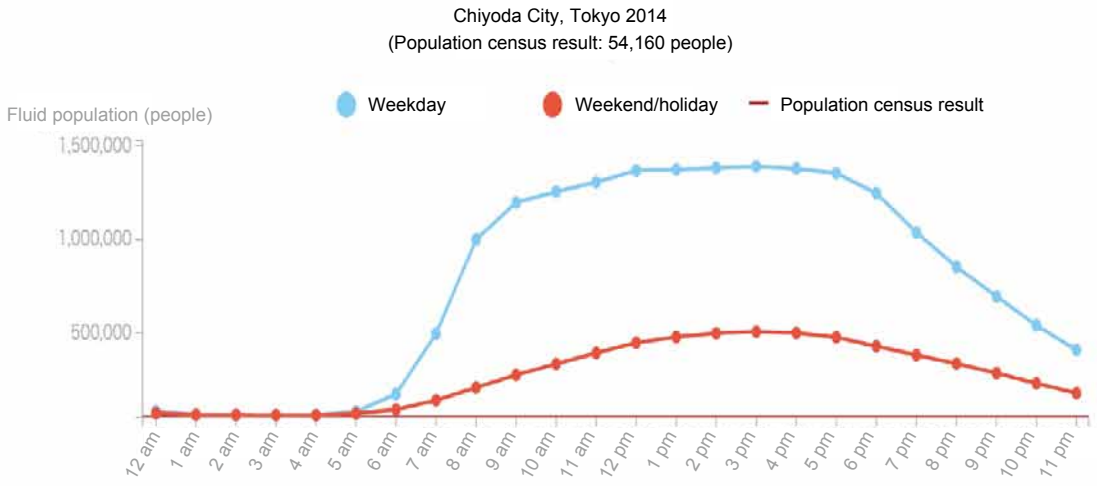
Fig. 3-2-68 Chronological comparison of visitor populations

(1) Residential population in Nerima City

By time



(2) Residential population in Chiyoda City



Source: Agoop Corp., *Dynamic Population Data*.
Note: Based on calculations made using the RESAS.

● **Round trip**

Round trip is a feature that tracks the movements of people who leave their own municipality and then return to their own municipality. Specifically, it traces the municipalities they visit en route and the municipalities where they stay overnight. This information assists in the development of tourist routes and wide-ranging tourism cooperation that spans multiple municipalities. It can also be used to research ways to attract people to municipalities that are not on the tourist routes.

4) Local government comparison map

The Local government comparison map provides functions for comparing municipalities using a range of data, including their economic structures and business activities. These can be used by prefectural and municipal governments to set target values (KPIs) for SME assistance and run PDCA cycles based on the outcomes.

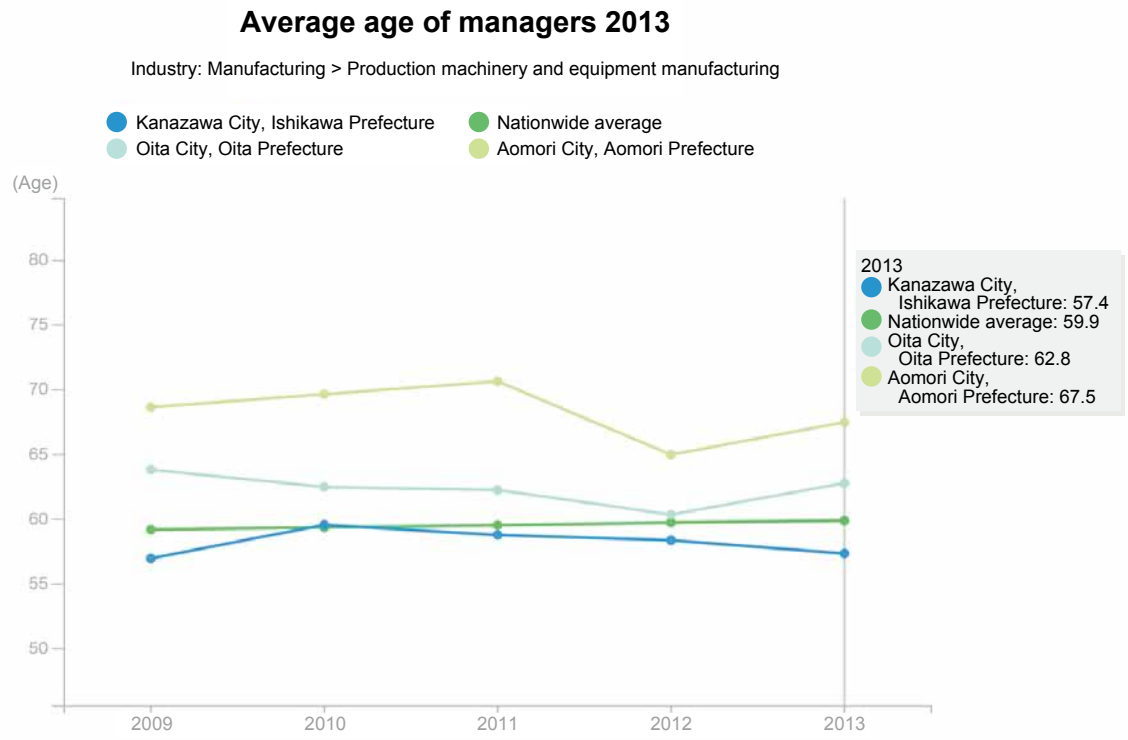
When used in conjunction with a "Policy Map[58]" that lists national, prefectural and municipal government policies, it can also be used to refer to the most highly effective policies for local governments.

Partial extracts are provided below.

● **Average age of company managers**

The average of company managers can be used to compare municipalities by industry. For example, when we compare the average of company managers in production machinery and equipment manufacturing in Kanazawa City in Ishikawa Prefecture, Oita City in Oita Prefecture and Aomori City in Aomori Prefecture, we can see that the figure for Kanazawa City in Ishikawa Prefecture is 57.4, which is younger than the national average of 59.9. However, the figures for Oita City in Oita Prefecture and Aomori City in Aomori Prefecture are over 60, indicating that managers in those cities are aging (Fig. 3-2-69).

Fig. 3-2-69 Comparison of the average of company managers



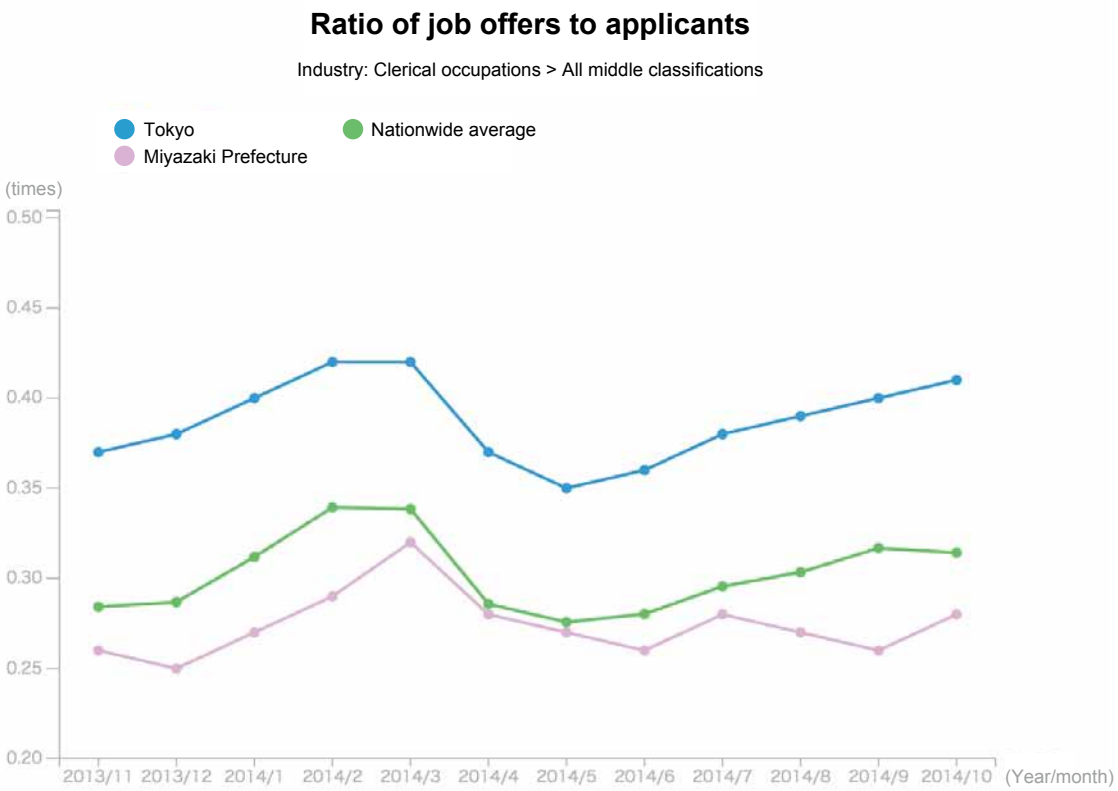
Source: Teikoku Databank, Ltd., *Corporate Outline Data*.
Note: Based on calculations made using the RESAS.

58) The Policy Map is one of the content items on the Mirasapo portal site (https://www.mirasapo.jp/) run by the SME Agency and provides a system that can be used to search through national, prefectural and municipal government policies for SMEs and micro-businesses and list and compare the results.

● **Ratio of job offers to applicants**

The ratio of job offers to applicants can be used to compare prefectures by industry. For example, if we compare the ratio of job offers to applicants in the clerical occupations in Tokyo and Miyazaki prefectures, we see that the ratio for Tokyo is generally higher than the national average, while the ratio for Miyazaki Prefecture is lower (Fig. 3-2-70).

Fig. 3-2-70 Comparison of the ratio of job offers to applicants

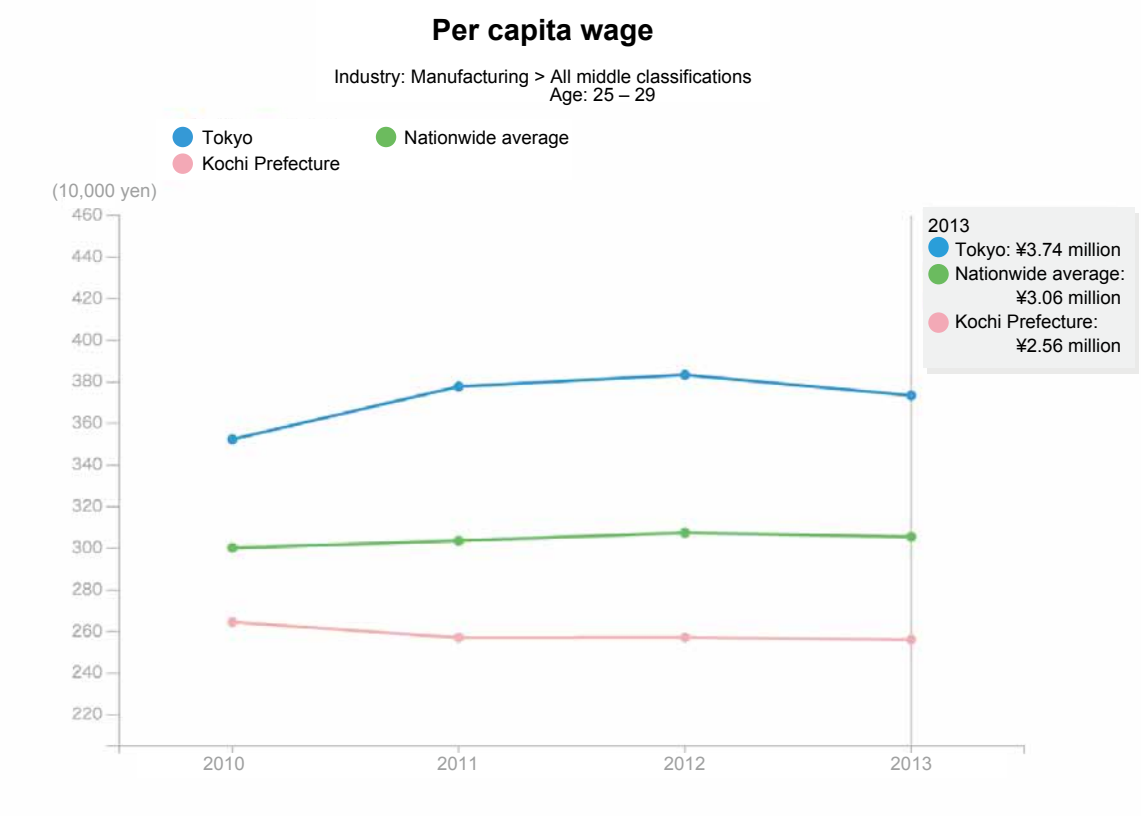


Source: MHLW, *Report on Employment Service*.
Note: Based on calculations made using the RESAS.

● **Per capita wage**

The per capita wage can be used to compare prefectures by industry and by age. For example, if we compare the per capita wages in manufacturing for the 25-29 age group in Tokyo and Kochi prefectures, in Tokyo the figure is ¥3.74 million, somewhat higher than the national average of ¥3.06 million. But in Kochi Prefecture, the per capita wage is ¥2.56 million, well below the national average (Fig. 3-2-71).

Fig. 3-2-71 Comparison of per capita wages



Source: MHLW, *Basic Survey on Wage Structure*.
Note: Based on calculations made using the RESAS.

As the above descriptions illustrate, the RESAS is broadly divided into four main spheres: the industry map, the population map, the tourism map and the local government comparison map. By skillfully combining these four maps, it should be possible to formulate more sophisticated regional industry policy.

[3] Future possibilities for analysis

1) Regional prospects as revealed by region-wide chronological analysis

While there are many different ways to analyze a region, the most frequently used methods in the existing *White Papers on Small and Medium Enterprises in Japan* have been bar graphs and line graphs for individual regions.

However, analysis does not end with analysis of single regions. By taking a wider view across all regions, the amount of data becomes vast, and by looking at that data chronologically, we can achieve a more in-depth analysis. Using the RESAS makes it easy to carry out region-wide chronological analysis and should enable more sophisticated analysis in the future.

2) Future initiatives

- **Adding new data and analysis functions**

While the system is still being developed, the four sectors of industry, population, tourism and local government have been developed and a verification program completed. But for local governments to formulate a Regional Comprehensive Strategy, systems for other sectors, specifically finance, agriculture and medical care and welfare, must quickly be developed and a verification program implemented[59].

In terms of functionality, functions for analyzing multiple sets of data simultaneously (mashup functions) and for referring to the results of other people's analysis are needed for the formulation of a Regional Comprehensive Strategy.

In FY2015, METI will cooperate with the Headquarters

59) In the description of the Overall Strategy on Overcoming Population Decline and Vitalizing Local Economy in Japan (p.8), it states that, "As of FY2015, so that public bodies in each region can implement appropriate PDCA cycles, data updates and corrections will be applied, and additional functions will be investigated in other sectors necessary to the formulation of a Regional Comprehensive Strategy, including agriculture, medical care and welfare and regional economic cycles, in accordance with the wishes of users and regional public bodies".

for Overcoming Population Decline and Vitalizing Local Economy in Japan and other government agencies to equip the system with genuinely essential data and functions.

● **Providing systems for making use of data**

During FY2015, the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan will continue to progress the planning and formulation of the RESAS. The Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan will set up regional vitalization concierge services[60] managed by each prefecture and will also assign expert personnel from the private sector who are very familiar with local economies to build a support system with in excess of 200 staff at regional bureaus of economy, trade and industry and district transport bureaus throughout Japan. It is also building a system to dispatch experts in major sectors, such as industry, tourism and population, according to the needs of local governments, and providing systems to support local governments in formulating a Regional Comprehensive Strategy.

In this section so far, we have discussed the background to the development of the RESAS and its functions, and then looked at future possibilities for analysis. The utilization of the system is expected to yield the following five outcomes:

(1) It will promote a switch from conventional decision-making systems based on experience and intuition to more objective, neutral policy decision-making systems that are based on data and more "visible" inter-enterprise transactions.
(2) It will enable governments to confirm their own "standpoint" compared with the national average and with other local governments. It will also allow the effects of adopted policies to be traced chronologically.
(3) It will allow enterprises that are likely to be regional core enterprises supporting regional economies to be flexibly singled out using local government judgment criteria. This will allow policy resources to be applied more efficiently and effectively.
(4) Because it will be possible to determine the effects of (evaluate) policies adopted by local government more quickly, governments will be able to speed up policy PDCA cycles, which will help to make policy formulation more efficient and effective.
(5) By looking at the RESAS together with the national, prefectural and municipal government policies listed in the "Policy Map", governments will be able to pinpoint the gaps between the current state of the regional economy and the policies adopted by local governments.

Column 3-2-9 Approach to comparative advantage

In general, comparative advantage is a theory based on the idea that where a country specializes in producing goods particular to that country, by adopting free trade principles, it and its trading partners will be able to produce and consume more of each others' goods, and the international division of labor under a free trade regime will generate mutual profit. This theory was first postulated by British economist David Ricardo.

For example, assume that there are two countries, X and Y, which have the agricultural and industrial labor productivity shown below.

	Agriculture (productivity per unit of labor)	Industry (productivity per unit of labor)
Country X	10	5
Country Y	20	50

60) "Regional vitalization concierge services" are mechanisms for furnishing a system to actively provide support for regional vitalization initiatives by local governments, including the formulation of a Regional Comprehensive Strategy, by appointing national government staff (a total of 871 people in 17 government ministries and agencies) who have an attachment to the region in question.

Compared with country X, country Y has higher productivity per unit of labor in both agriculture and industry (absolute advantage), but country X can be said to have a comparative advantage in agriculture while country Y has a comparative advantage in industry. In other words, whereas country X's agricultural productivity is double its industrial productivity (10/5), country Y's agricultural productivity is only 0.4 times its industrial productivity (20/50), giving country X the comparative advantage in agriculture. Also, whereas country X's industrial productivity is 0.5 times its agricultural productivity (5/10), country Y's industrial productivity is 2.5 times its agricultural productivity (50/20), which gives country Y the comparative advantage in industry. If we assume that the value of productivity per labor unit is the same for both agriculture and industry and that country X specializes in agriculture while country Y specializes in industry, the productivity per labor unit is 10 for agriculture and 50 for industry, making a total of 60. However, if we assign units of 0.5 to labor, the values are 15 for agriculture and 27.5 for industry, giving us a total of 42.5.

If we take this approach to regional economies, while there are a number of limitations to free trade, it should be possible to achieve more efficient production and consumption structures in Japan as a whole if local governments identify the industries in which their own region excels and then exchange goods with other regions.

To achieve this, it is important for local governments to accurately recognize not only their own strengths and weaknesses, but those of other regions also, before considering industrial policy for their region. The RESAS discussed above is one tool that could well be used by local governments to accurately assess both their own strengths and weaknesses and those of other regions.

However, one possible drawback to inter-regional transactions based on comparative advantage is that wealth may become unevenly concentrated in specific regions if the respective regions specialize only in industries in which they excel. Regions that do not excel in producing industrial goods are subject to the effects of factors such as the long time lags that plague technological innovation, or the impacts of climate on agricultural production, so any region that specializes in particular agricultural products is inevitably going to be faced with major uncertainties. For this reason, there is a need for regions to use this system to become aware of their own comparative advantage and to work towards supplying high value-added goods. In this way, it should be possible for regions as a whole to achieve balanced growth for the first time.

SME policies implemented in fiscal 2014

Contents

SME policies implemented in fiscal 2014

Chapter 1 Maximizing the utilization, gathering and branding of dormant regional resources

Section 1 Utilizing regional resources

1. JAPAN Brand Development Assistance Program [Fiscal 2014 budget: Included in ¥1.46 billion]

To facilitate overseas expansion by SMEs, support was provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and expansion into overseas markets. Support was provided to a total of 78 projects in fiscal 2014.

2. Assistance program to develop new businesses utilizing regional resources [Fiscal 2014 budget: Included in ¥1.46 billion]

This program provides authorization for business plans to develop and market new products and services that utilize regional industrial resources (agriculture, forestry, fisheries, industrial technology, tourism, etc.) under the Law Promoting the Utilization of Regional Assets by Small and Medium Enterprises. It also provides wide-ranging support through grants and subsidies and through financing and special exemptions for guarantees. A total of 120 business plans were authorized in fiscal 2014.

3. JAPAN Brand Development Assistance Program [Fiscal 2014 supplementary budget: Included in ¥4 billion]

This program provides support for initiatives to develop and cultivate sales routes of "hometown specialty products" using local resources, as well as for the development of producers and dissemination of information on "hometown specialty products." Additionally, a budget was allocated for supporting initiatives that aim to expand the market for such local resources overseas.

4. Assistance program for creating a network for local resource utilization [Fiscal 2014 supplementary budget: Included in ¥1.8 billion]

To revitalize regional economies by boosting the non-resident population, a budget was allocated to support the creation of a story that interweaves multiple local resources through the combined efforts of local people in different fields and outside experts.

5. Designation of traditional crafts

Under the Act on the Promotion of Traditional Craft Industries (referred to hereinafter as the Traditional Craft Industries Act), the traditional craft products listed below were designated following surveys and investigations of craft products for which traditional craft product status has been requested, subject to the views of the Industrial Structure Council.

- Tokyo "Edo Kiriko" designated on 26 November 2014.

6. Traditional Craft Product Subsidy Program [Fiscal 2014 budget: ¥1.26 billion]

(1) Based on the Traditional Craft Industries Act, the following support was provided to promote the traditional crafts industries below.

1) Subsidization of the following programs undertaken by local manufacturing cooperatives and associations:
   - Successor training programs
   - Raw materials sourcing programs
   - Design development programs
   - Partnership development programs
   - Local producer programs, etc.

2) Subsidization of the following programs undertaken by general incorporated associations and incorporated foundations under Article 23 of the Traditional Craft Industries Act:
   - Programs to secure human resources and ensure transmission of skills and techniques
   - Production district guidance programs
   - Promotional programs
   - Demand development programs, etc.

(2) The following support was provided to assist the reconstruction of government-designated traditional crafts in three prefectures (Iwate, Miyagi and Fukushima) devastated by the Great East Japan Earthquake:

1) Programs implemented in the three affected prefectures to revitalize areas of production, including the training of successors, development of demand, development of designs and the provision of information

2) Establishment and strengthening of the production base, including the development of facilities and the sourcing of raw materials, with a view to restoring traditional craft production in the three affected prefectures to its original level before the Great East Japan Earthquake

7. Program to promote the spread of traditional crafts

To promote public awareness of traditional crafts, November every year has been designated Traditional Crafts Month, and activities such as the national convention of the Traditional Crafts Month National Assembly are being held to spread and increase awareness of traditional crafts. In fiscal 2014, national convention was held in Saga prefecture.

8. **Network building program for regional resource utilization**
[Fiscal 2014 budget: ¥200 million]
This program provided support for initiatives that will assist in boosting the non-resident population in the regions and reviving consumption and investment by building new business models that unearth dormant assets in each region and then combine and network those assets.

Section 2 Revitalization of shopping districts and central urban districts

1. **Comprehensive support for the revitalization of local shopping districts**
Pursuant to the Local Shopping District Revitalization Act, support was provided for shopping district revitalization projects and similar initiatives planned by shopping district promotion associations and approved by the government.

2. **Development of human resources by the Japan Shopping District Support Center**
Support was provided in the form of personnel training and transfer of expertise by the Japan Shopping District Support Center, an organization established jointly by four SME associations.

3. **Program to support the operation of Councils for the Revitalization of Central Urban Districts**
[Included in SMRJ subsidy program]
Support was provided for the provision of advisory services, provision of information via websites and e-mail newsletters, and development of networks through organization of exchange events led by councils for the revitalization of city centers support centers established in the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) to assist the establishment and operation of such councils for the revitalization of city centers.

4. **Program to dispatch advisers for city center and shopping district revitalization**
[Included in SMRJ subsidy program]
Experts in a range of fields related to commercial revitalization registered with SMRJ were dispatched to help tackle various challenges faced by councils for the revitalization of city centers and shopping districts.

5. **Consultation and support for commercial revitalization in city centers**
[Included in SMRJ subsidy program]
In order to assist commercial revitalization initiatives being undertaken in city centers by councils for the revitalization of city centers and similar organizations, seminar planning support and instructors was supplied and advice, analyses, assistance with identification of issues, and information, etc. were provided to raise the efficacy of individual projects using the SMRJ's specialist know-how.

6. **Special deduction for income from land transfers [taxation scheme]**
Persons transferring land and similar assets to shopping center promotion associations and similar organizations approved under the Local Shopping District Revitalization Act for use in projects based on approved shopping district revitalization plans and similar initiatives were continuously allowed a special depreciation of up to ¥15 million for income from such transfers.

7. **Strategic program for central urban district revitalization (Central urban district reconstruction strategy)**
As set forth in the "Japan Reconstruction Strategy," central urban districts were revitalized ahead of schedule by stimulating private investment, and concentrated support was specifically provided to central urban districts that serve an important role in their regional economy, as a measure for supporting shopping districts in regions where the consumption tax increase is anticipated to have a serious impact. More specifically, support was provided for the development of advanced commercial facilities that are expected to stimulate business in neighboring shopping districts at the core of their central urban district, and for the implementation of feasibility studies prior to the development of such advanced commercial facilities.

8. **Program to promote independence in regional commerce**
[Fiscal 2014 budget: ¥3.9 billion]
Support was provided for measures aimed at the formation of the regional communities that are the bedrock of activity in regional economies, such as community spaces, and for measures designed to rejuvenate shopping districts in line with the needs of regional residents, such as attracting shops and providing the incubation facilities that serve to promote regional economic activity.

9. **Strategic program for central urban district restoration**
[Fiscal 2014 budget: ¥690 million]
Priority assistance was provided to private projects (development of commercial facilities, etc.) that exhibit strong commitment by local residents and the local government, and that are expected to stimulate the economy not only in the relevant central urban district but in neighboring regions as well. Support was also provided to projects that aim to create an

attractive central urban district fit to serve as a regional center, as well as for the utilization of specialist staff and other such initiatives.

10. Taxation measures to revitalize central urban districts

[taxation scheme]

Where (1) a special depreciation of 30% over 5 years applies to the acquisition of a building and any incidental structures or equipment, and (2) immovable properties are acquired under the "Specific private-sector central urban district economic activity improvement program" set up under the revisions to the Act on the Vitalization of City Centers, measures were established that halve the registration and license tax payable when immovable property ownership is registered or a transfer is registered.

11. Enforcement of the "Act for the Partial Revision of the Act on the Vitalization of City Centers"

The "Act for the Partial Revision of the Act on the Vitalization of City Centers" was put into force in July 2014.

12. Central urban district revitalization program

[Fiscal 2014 supplementary budget: ¥2.2 billion]

In line with basic plans for central urban district revitalization formulated by municipalities, support was provided to projects that are expected to have an immediate effect on revitalizing employment and local consumption and at the same time promote economic vitality in their central urban district and surrounding regions. These include projects implemented by private businesses to repair or renovate facilities that are necessary for regional central urban district revitalization (e.g., unity of cityscape/landscape to attract larger crowds). A budget was also allocated for measures that are expected to become indispensable hereafter for the promotion of compact cities, including the early development of an assistance model toward the prompt nationwide dissemination of countermeasures for underpopulated regions and countermeasures for people who are unable to go shopping.

13. Building new regional cooperation from regional core cities

[Fiscal 2014 budget: ¥130 million]

With active support from the national government, an antecedent model was created for building centers for maintaining vibrant social economies. Such social economies are expected to have an intraregional population of a certain size even within today's aging society with decreasing populations, through downsizing and networking efforts in cooperation with core cities within substantially larger regions.

Section 3 Other regional revitalization

1. Support to encourage enterprises to locate in regional areas

[Fiscal 2014 budget: Included in ¥2.5 billion]

Support was provided for action by regions to attract enterprises using their local features and to revitalize local industries under the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. (Act No. 40, 2007). Budgetary support was provided for the development of facilities resources, and institutional support was provided through special provisions under the Factory Location Act, a low-interest loan program for SMEs operated through the Japan Finance Corporation (JFC), and tax allocations to local governments taking steps to attract enterprises to their regions.

2. Assistance program for building platforms to cumulatively create new industries

[Fiscal 2014 budget: ¥850 million]

With a view to building new industrial clusters, support was given to forming industry-government-academia networks focusing on the region's core industries and matching "market seeds" with "technical needs" aimed at developing new products.

3. Network building program for regional resource utilization

[Fiscal 2014 budget: ¥200 million]

This program provided support for initiatives that will assist in boosting the non-resident population in the regions and reviving consumption and investment by building new business models that unearth dormant assets in each region and then combine and network those assets.

4. Enterprise vitality enhancement funding

[Fiscal investment and loan program]

Japan Finance Corporation (JFC) provided loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors. A total of ¥142.2 billion was loaned to 14,406 businesses in fiscal 2014 (as of the end of February 2015).

5. Comprehensive support for business creation in tourist areas

[Fiscal 2014 budget: ¥70 million]

Promotion was provided for measures for business models that develop markets for destination-based travel services where the organization itself drives efforts to create tourist areas, and that allow profits to further drive the development of destination-based

travel. In March 2014, 45 regions were selected for a survey, and support was given for building portal websites that share knowhow among regions, providing opportunities for training, holding trade fairs, etc., and independent, ongoing initiatives to build tourist areas.

6. **Subsidies for business generating regional economic activity**
[Fiscal 2014 budget: ¥1.5 billion]
Subsidies were granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This was to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.).

7. **Regional management promotion and survey programs for functional collaboration**
[Fiscal 2014 budget: ¥100 million]
Support was provided to businesses that aim to revitalize areas that generate flows of people, objects and money beyond the bounds of municipalities by building centers of industrial promotion and employment through collaboration among industry, academia, financial institutions and government.

Section 4 Human resources and employment programs

1. **Human resource countermeasures program for SMEs and micro-businesses**
The following types of support aimed at securing outstanding personnel for SMEs and micro-businesses were provided: (1) For new graduates who are not yet employed, support was provided for internships at SMEs and micro-businesses to give them with the opportunity to obtain the skills, techniques, and know-how needed for actually working at SMEs and micro-businesses; (2) For women and others who left the workforce temporarily to raise children or for similar reasons and want to re-enter the workforce, support was provided for internships at SMEs and micro-businesses to give them the opportunity to fill in gaps in their workplace experiences. An end-to-end support initiative was also provided that ranges from creating opportunities for SMEs and micro-businesses to meet students face-to-face through to employing and retaining new graduates, etc. The initiative also supported initiatives to acquire and retain senior personnel with extensive business experience, as well as initiatives to acquire and retain non-regular employees desiring to become regular employees, unemployed youths, housewives seeking employment, etc.

2. **Human resource countermeasures program for SMEs and micro-businesses**
[Fiscal 2014 supplementary budget: ¥6.01 billion]
To help SMEs and micro-businesses with few management resources acquire human resources, a budget was allocated to provide end-to-end support for initiatives to assess the needs of local SMEs and micro-businesses, excavate human resources sought by local businesses from among a diverse workforce that includes youths, women and seniors in and outside the region, and to introduce them and see through to their retention by SMEs and micro-businesses. Additionally, a "regional human resource development consortium" was organized, to develop human resources in regional enterprises through temporary transfers and joint training of human resources by multiple SMEs and micro-businesses in the region. Furthermore, efforts were made to develop human resources capable of contributing to increasing productivity in SMEs and micro-business through the development and dispatch of Kaizen activity instructors and workshops for core personnel in production sites.

3. **Human resource development program at the Institute for Small Business Management and Technology**
[Included in SMRJ subsidy program]
Training was provided at nine Institutes for Small Business Management and Technology around Japan in improving the abilities of SME support personnel, as well as training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges.

4. **Measures to maintain workers' employment**
[Fiscal 2014 budget: ¥54.52 billion]
Employment Adjustment Subsidies were provided to assist employers who were forced to downsize due to fluctuations in business conditions or other economic reasons but who have kept workers on by allowing workers to take temporary leave from work or enter training, or by transferring workers. Active steps were also taken to prevent fraudulent receipt of these subsidies, and efforts were made to ensure more appropriate disbursement by such means as actively carrying out on-site checks and publishing the names of employers who have committed fraud.

5. **Support for improvement of employment management toward the creation of attractive employment [Fiscal 2014 budget: ¥3.5 billion]**
To support initiatives by companies to improve employment management and create attractive

employment conditions, subsidies were provided to fund SME organizations (business cooperatives, etc.) in key sectors where they have implemented projects to improve their working environment. Subsidies were also provided for SMEs and micro-businesses in key sectors that introduced and implemented a new employment management system by changing their workplace regulations and labor agreements.

6. **Regional employment development fund**
[Fiscal 2014 budget: ¥3.29 billion]
To create and provide stable regional employment, employers who build or establish an office in regions, etc. where employment opportunities are particularly lacking and who also employ regional job seekers are offered regional employment development funding in accordance with the cost of their establishment and the number of workers they employ.

7. **Project for employment creation in strategic industries**
[Fiscal 2014 budget: ¥10.03 billion]
To promote initiatives aimed at creating favorable and stable employment opportunities, a project for employment creation was launched for manufacturing industries and other strategic industries. The project will supplement regional projects for voluntary employment creation, and will be implemented in conjunction with industrial policies.

8. **Extension of the tax system to promote employment**
[taxation scheme]
A tax measure was implemented that provides a tax credit of ¥400,000 for each employee receiving ordinary employment insurance in enterprises that satisfied requirements that include an increase in staffing of at least 10% and that employed at least 5 people (at least 2 people for SMEs) who received ordinary employment insurance in each fiscal year starting between 1 April 2011 and 31 March 2016.

9. **Promotion of employment shifts with no loss of employment (labor insurance special account)**
[Fiscal 2014 budget: ¥30.13 billion]
Funds to assist workers seeking alternative employment (re-employment assistance payments) were provided to business owners commissioned as private-sector employment agencies to support the re-employment of employees who unavoidably lose their jobs due to business downsizing, etc. Re-employment support subsidies (walk-in personnel training support subsidies) were also provided to business owners who conduct on-the-job or off-the-job training for workers taken on as a result of transfers or workers who fall under a re-employment support plan approved by the public employment security office.

10. **Regional human resources development program**
A program was launched to support human resources development initiatives that aim to increase employment by promoting active participation by women, young people and the elderly, and promote wage increases and other improvements in working conditions in response to regional circumstances.

11. **Employment creation program to support startups**
A program was launched to support business startups in line with policies to stimulate regional industry and employment. It focuses on creating employment for the unemployed by outsourcing initiatives conducive to securing regional employment and creating stable employment to private enterprises and similar entities.

12. **Welfare Worker Recruitment Project**
[Fiscal 2014 budget: ¥1.41 billion]
To ensure a stable supply of high-quality personnel capable of supporting services in the welfare sector (nursing, healthcare and day care), support was provided through services such as in-depth vocational counseling, job placements and counseling and advice for employers, to be provided at a "Welfare Worker Corner" set up in key "Hello Work" centers throughout the country. In "Hello Work" centers without a "Welfare Worker Corner", services including vocational counseling, job placements and employment information were provided and clients are encouraged to use a "Welfare Worker Corner".

13. **Support for SMEs and micro-businesses in raising the minimum wage**
[Fiscal 2014 budget: ¥2.75 billion, supplementary budget: ¥1.42 billion]
Three initiatives were provided to support SMEs and micro-businesses in raising the minimum wage: (1) The establishment of "Comprehensive Minimum Wage Advice and Assistance Centers" in 47 locations throughout Japan to provide a one-stop portal for consultation on management reforms and work condition management; (2) Aid for measures by industry-specific SME organizations (grants of up to ¥20 million to industry-specific organizations targeting 33 industries); and (3) Expenditure subsidies to promote workforce efficiency (job reform subsidies of up to 1 million yen for the 42 prefectures). From February 2015, the upper limit of subsidies was raised (to ¥1.5 million) in accordance with the number of workers.

14. **Regional Youth Support Station Program**
[Fiscal 2014 supplementary budget: ¥3.46 billion]
To assist young people who are "NEET" (Not in Education, Employment or Training) or similar

circumstances, "Regional Youth Support Stations" have been set up that provide a diverse employment assistance menu, including specialist advice and guidance to the appropriate agencies via networks. In fiscal 2014, support stations were operated in 160 locations throughout Japan, and coordinators were newly assigned to four locations nationwide to request and cultivate cooperation in workplace experience programs, follow up on enterprises and program users, and provide various employment assistance knowhow.

15. **Career-oriented personnel training program (universities, etc.) (Promotion of career education, etc.)**
[Fiscal 2014 budget: ¥10 million]
In an initiative targeting career consultants and core staff in career centers at institutions such as universities, courses were held to deepen their understanding of the knowledge of career consulting and the career consultants on which it depends, as well as the methods for using that knowledge. The courses also cover tools that are helpful for employment assistance and career education as well as the knowledge regarding employment and work that is available from the Ministry of Health, Labour and Welfare (MHLW). As well as promoting career education at institutions such as universities, this program aims to promote the utilization of career consultants at universities, etc.

16. **Career education program development initiative (Promotion of career education, etc.)**
[Fiscal 2014 budget: ¥10 million]
So that career education is implemented effectively, this initiative aimed to develop programs for career education that provide information on required occupations and utilize the knowledge held by labor administrations, such as career consulting tools and knowhow. It also aimed to develop educational materials relating to employment information and promotes career education in institutions such as universities.

Chapter 2 Revitalizing the restructuring of SMEs

Section 1 Business startup assistance

1. **New Business Support Fund (for businesses)**
Support was provided to cover part of the costs of starting up a business, such as equipment costs and loans for shops, for business startups (including secondary startups) that supply new goods and services that create new demand. The fund was applied to 3,124 business startups in fiscal 2014.

2. **New and Secondary Business Startup Support Fund**
[Fiscal 2014 supplementary budget: ¥5.04 billion]
A fund was set up to support business startups by women and young people, and secondary startups by business owners closing their existing business and breaking new ground on occasion of succeeding a business from a predecessor. It covers part of the loans for shops, equipment costs, and other relevant costs (and including the costs of closing the existing business in the case of secondary startups). A budget was also allocated to cover part of the costs required by businesses receiving startup assistance to implement startup support initiatives based on an approved business startup support plan under the Industrial Competitiveness Enhancement Act.

3. **New Startup Loan Program**
[fiscal investment and loan program]
Under this program, unsecured, unguaranteed loans are provided by the JFC to persons embarking on new ventures and persons who have just started up in business. In fiscal 2014, 18,808 loans totaling ¥73.1 billion had been given up to the end of February 2015, bringing the total since the program was established in fiscal 2001 up to 130,400 loans amounting to ¥451.3 billion.

4. **Program for facilitating and disseminating the restructuring of SMEs**
[Fiscal 2014 supplementary budget: ¥2.39 billion]
To help SME and micro-business managers prepare for systematic business succession or closure, a budget was allocated for organizing workshops and explanatory meetings on policies related to corporate restructuring and dispatching individual consultants.

5. **Loan Program for Supporting Female, Young, and Senior Entrepreneurs**
[fiscal investment and loan program]
To support the creation of new businesses by diverse entrepreneurs, the JFC (through its SME and Micro Business and Individual Units) provides low-interest loans to women, young people under the age of 30 and older people aged 55 or older, who have started a business within the past seven years or so. Between the establishment of the program in 1999 and the end of February 2015, the program has made 125,916 loans totaling ¥651.2 billion.

6. **New business development fund (to support global business-oriented startups)**
[fiscal investment and loan program]
Under this financing scheme, the JFC provides low interest loans to SMEs engaging in new business expected to exhibit high growth that develop their own products based on marketing (including overseas) or that develop markets in Japan or overseas. Between the establishment of the scheme in December 2011 and the end of February 2015, the fund has financed 13 businesses at a total cost of ¥520 million.

7. **Funding for renewed startups (lending-support schemes for renewed startups)**
[fiscal investment and loan program]
By assessing entrepreneurs with failed businesses to determine factors such as their qualifications as managers and their business prospects, the Japan Finance Corporation (JFC) offered loans to candidates who faced difficult circumstances in relaunching their businesses. In fiscal 2014 (as of the end of February 2015), the program has made 403 loans totaling ¥1.5 billion.

8. **Guarantees for founders**
This program aims to boost lending to startup entrepreneurs by private financial institutions. It specifically encourages credit guarantee corporations to provide guarantees to individuals who are starting up in business or who started up in business less than five years ago. In fiscal 2014 (as of the end of December 2014), the program provided guarantees worth a total of ¥46.7 billion to 10,247 entrepreneurs.

9. **Fund Investment Program (Startup Support Fund, SME Growth Support Fund)**
The creation of investment funds operated by private sector investment companies to stimulate private funds was promoted through investment by SMRJ (up to one half of the total value of the fund concerned) with the aim of expanding the range of 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 Startup Support Fund now consists of 90 cumulative funds with a total cumulative investment of ¥145.2 billion invested

in 2,327 enterprises (as of the end of March 2014). The SME Growth Support Fund now consists of 65 cumulative funds with a total cumulative investment of ¥332.9 billion invested in 644 enterprises (as of the end of March 2014).

10. Regional Startup Promotion Support Delegation Program
[Fiscal 2014 budget: ¥750 million]
Under this program, "Business Startup Schools" were established in 227 locations nationwide, and support was provided to uncover a reserve of potential startups and assist people hoping to launch new businesses in everything from acquiring basic knowledge through to formulating a business plan.

11. Program to support venture businesses addressing advanced issues
[Fiscal 2014 supplementary budget: ¥1.16 billion]
This program aims to create new businesses by providing management support to entrepreneurs with growth potential through venture capitals (VC) and persons who have started a business. A budget was also allocated for initiatives that aim to create a network among such entrepreneurs, support personnel and large enterprises, promote human resource development and business collaborations through the dissemination of knowhow on creating new businesses, and develop an environment conducive to the creation of new businesses.

12. Angel tax system
[taxation scheme]
This system assists in the financing of newly founded venture enterprises by individual investors ("angels") by allowing individual investors who invest in an SME that satisfies certain requirements to receive a preferential treatment on income tax when the individual investor makes such an investment and when shares in that enterprise are transferred. From the establishment of the system in 1997 through to the end of February 2015, the scheme has been used to invest a total of around ¥11.77 billion in 423 companies.

13. Taxation measures to promote venture investment in enterprises
[taxation scheme]
This initiative allows companies that invest in a venture enterprise through a venture fund certified by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act to accumulate provisional funding for losses of up to 80% of the amount invested and write off that fund as expenses.

14. Improving supply of "risk money" needed when starting a business
Where "risk money" was required when businesses start up or are developed, funds were supplied by making use of the Development Bank of Japan (DBJ) and the Shoko Chukin Bank, and at the same time assistance to venture enterprises was encouraged through measures such as the simplification of procedures for venture proposals by the Innovation Network Corporation of Japan (INCJ).

15. Construction of startup support system in the regions
Under the Industrial Competitiveness Enhancement Act, municipal governments worked with private-sector enterprises assisting with business startups to formulate a plan for a program assisting business startups in order to encourage startups in the regions. Where authorization has been obtained from the national government, business founders who have received startup assistance under the plan are supported through measures such as improved credit guarantees and tax incentives (reduction in registration and license tax related to the registration of incorporation of a kabushiki-kaisha), and support measures such as credit guarantees were also provided to enterprises that assist in business startups. In fiscal 2014, 186 approvals (207 municipalities) had been granted for business plan.

16. Subsidies for business generating regional economic activity
[Fiscal 2014 budget: ¥1.5 billion]
Subsidies were granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This was to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.). (cited earlier)

Section 2 Support for business succession

1. 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 help successors to acquire shares and other assets in non-listed companies approved by the Minister of Economy, Trade, and Industry, from their predecessors, whether through inheritance, gift, or testamentary

gift. The scheme works by allowing the deferral of payment of inheritance tax and gift tax and, in certain circumstances (e.g., the death of the successor), exemption from payment of the tax for a grace period. Approvals to qualify for this scheme commenced in fiscal 2009, and as of the end of February 2015, 651 approvals had been granted for inheritance tax and 346 approvals had been made for gift tax.

2. Expansion of the system of deferral of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme)
[taxation scheme]

Under the taxation system reforms in fiscal 2013, the business succession taxation system was expanded through measures such as relaxation of the applicable requirements. With some exceptions, the revisions are to be applied to inheritances, bequests or donations as of January 2015. The key points in the revisions are as follows:

(1) Whereas the system previously applied only to successors who were members of the former owner's family, it now applies also to succession outside the family.
(2) The provision that employment be maintained at 80% or higher "every year for 5 years" will now be estimated on the basis of employment at 80% or higher "for 5 years on average".
(3) When the provisions under the taxation system are no longer met and the deferral of tax payments ends, individuals are required to pay interest tax in addition to the deferred amount. However, under the revised system, the taxation rate for interest tax has been lowered (from 2.1% to 0%, which starts from January 2014). Also, if deferment ends more than 5 years after succession, 5 years of interest tax will now be exempted.
(4) The amount of deferred tax payments will now be recalculated and partial exemptions from the deferred amount will also be granted for civil rehabilitation, corporate rehabilitation or business rehabilitation by an SME Revitalization Support Council.
(5) Of the provisions that apply to the deferment of payments of gift tax, the provision that the current owner retires from office when the gift is made has been revised so that a representative retires when the gift is made.
(6) The procedure for receiving prior approval from the Ministry of Economy, Trade and Industry, which was a requirement for the deferral of tax payment, has been abolished (as of April 2013).

3. Business succession support
[Fiscal 2014 budget: ¥4.44 billion]

To support SMEs and micro-businesses that are facing problems related to the lack of business successor, etc., the "Business Succession Help Desks" established at approved support agencies in each of the 47 prefectures provided information and advice on business successions, and "Business Succession Support Centers" were established in regions with strong demand for support for business successions that have a well-developed capacity to deliver support. During fiscal 2014, "Business Succession Support Centers" were newly established in Akita, Hiroshima, Okinawa, Mie, Kagawa and Tochigi, so that they are now established in 16 locations in all: Hokkaido, Miyagi, Akita, Tochigi, Tokyo, Nagano, Shizuoka, Aichi, Mie, Osaka, Okayama, Hiroshima, Kagawa, Ehime, Fukuoka and Okinawa.
Additionally, nationwide headquarters for business succession support was established in the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ). They undertake such support activities as providing guidance and advice to Business Succession Help Desks and Business Succession Support Centers.

4. Small Enterprise Mutual Relief System
[Included in SMRJ subsidy program]

The Small Enterprise Mutual Relief System is essentially a retirement benefit scheme for micro enterprises under which sole proprietors of micro enterprises and corporate directors accumulate installments and then receive mutual relief money when they close their business or retire. As of the end of December 2014, 1,243,000 people were enrolled in the scheme, including over 57,000 new subscribers in the period from April to December 2014.

5. Comprehensive support under the Management Succession Facilitation Act

The Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises incorporates comprehensive support for business successions, involving special treatment under the Civil Code to resolve the constraints on legally secured portions of successions. By the end of February 2015, 85 confirmations of qualification for this special treatment had been granted by the Minister of Economy, Trade, and Industry.

6. Support to facilitate business successions
[Included in SMRJ subsidy program]

Business succession support networks for providing wide-ranging and in-depth support for SME business successions have been developed throughout Japan, and various events were held to provide training for SME support providers and raise SME proprietors' awareness through business succession forums.

Chapter 3 Escaping from subcontracting structures and participating independently and actively in growth sectors

Section 1 Enhancement of technological capacity

1. **Comprehensive support for enhancement of core manufacturing technologies among SMEs**
Support was delivered by such means as low-interest loans, provided by the Strategic Core Technology Advancement Program and by the JFC, offered to SMEs with approved specific R&D plans that had been formulated in accordance with the advancement guidelines under the SME Technological Advancement Law.
In February 2015, areas related to "design development technologies" were added among designated core manufacturing technologies, to support the development of technologies that enhance the added value of products.
[Results] (Fiscal 2014) * As of 28 February 2015
- Approvals of specific R&D plans: 389 (cumulative total: 4,653)
- New proposals adopted in the Strategic Core Technology Advancement Program: 150
- Plans funded: 26 (cumulative total: 626)

2. **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]
By examining their business plans, the JFC provided low-interest loans to businesses engaging in the trial manufacture and development of new products and technologies and/or market development involving the outcomes of such trial manufacture and development using the specific core manufacturing technologies stipulated under the SME Technological Advancement Law. In fiscal 2014, 36 loans were provided (cumulative total of 358 loans * as of the end of February 2015).

3. **R&D promotion tax system (for strengthening the technological bases of SMEs)**
[taxation scheme]
A tax credit equal to 12% of the total cost of testing and research expenses (not exceeding 30% of the total amount of corporation tax in the period concerned (until the end of fiscal 2014)) was made available for R&D undertaken by SMEs and micro-businesses. In addition, a measure was taken whereby enterprises can choose either (1) a tax credit equal to the amount calculated by multiplying the rate of increase in testing and research expenses to the amount of increase (not exceeding 30%) in cases where the additional amount of testing and research expenses exceeds 5%, or (2) a tax credit equal to the amount calculated by multiplying a fixed rate to the excess amount in cases where the amount of testing and research expenditure exceeds 10% of average sales (not exceeding 10% of the total amount of corporation tax in the period concerned (until the end of fiscal 2016)).

4. **Programs for promoting the creation of business collaborations in manufacturing SMEs and micro-businesses, etc.**
[Fiscal 2014 budget: ¥12.6 billion]
Under these programs, integrated support was provided for market development and research and development that has a high likelihood of assisting in product creation or that helps advance specific core manufacturing technologies (11 technologies including precision processing and solid molding), where those activities involve cooperation between SMEs and micro-businesses and universities or research institutes such as publicly funded laboratories. In fiscal 2014, 150 initiatives were adopted for implementation in line with an approved plan.
Support was also provided for seeding or mediation research that uses knowledge from large enterprises or universities and is carried out based on the judgment of specialists capable of evaluating the technology's market value. In fiscal 2014, 1 seeding project and 11 mediation research projects were adopted.

5. **Program for innovation of manufacturing, commerce and services**
[Fiscal 2014 supplementary budget: ¥102.04 billion]
To create new service and manufacturing businesses that respond to needs in and outside of Japan, a budget was allocated to supporting SMEs that engage in innovative capital investment or the development of services and trial products in collaboration with approved support agencies.

6. **Regional open innovation promotion program**
[Fiscal 2014 supplementary budget: ¥1.8 billion]
A budget was allocated to promote open innovation from the perspective of supporting the R&D initiatives of regional manufacturing enterprises and promoting their advancement into new sectors. Under this budget, support will be provided for the development of facilities and equipment in strategic sectors based on collaboration among multiple public testing and research organizations that go beyond regional blocs, the implementation of feasibility studies by medium enterprises and SMEs launching a new business, and the creation of networks by enterprise partnerships advancing into new businesses.

Section 2 Market development assistance

1. **Micro business promotion program**
[Fiscal 2014 budget: ¥1.88 billion]
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets (survey & research businesses: 87; production businesses: 83 (year 1) and 39 (year 2)).

2. **Support for cultivation of markets through exhibitions, business meeting events, and other events**
The SMRJ provided support for the development and expansion of markets for products and services developed through agricultural-commercial-industrial collaborations or by using local resources, as well as for undiscovered attractive regional products, by organizing exhibitions, business fairs, and other such events. The "SME Comprehensive Fair 2014 in Kansai" held in May 2014 attracted the participation of 301 companies and drew in 24,455 visitors. The "New Value Creation Fair Tokyo" held in November 2014 attracted the participation of 565 companies and drew in 48,550 visitors.

3. **Market Development Coordination 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 the SMRJ. Specific measures included introductions or mediation for newly developed products with trading companies or enterprises and assisting enterprises with new products or services with everything from marketing plans through to test marketing at enterprises in prospective markets in the wider Tokyo and Kinki regions. In fiscal 2014 (as of the end of January 2015), 104 projects were supported.

4. **Support program for market cultivation**
The SMRJ supported the market cultivation initiatives of SMEs and venture enterprises by promoting business match-ups between enterprises participating in SMRJ-sponsored trade fairs or concurrent events and buyers, and providing advice. In fiscal 2014 (as of the end of December 2014), 146 business match-ups were supported.

5. **J-GoodTech**
The SMRJ provided support to SMEs seeking to cultivate markets in and outside of Japan, by connecting them to major domestic manufacturers and overseas enterprises via a website that posts information about Japanese SMEs boasting top-niche and only-one technologies and products.

Section 3 Developing new sectors and businesses and collaborating with other industries

1. **Support under the Small Business Innovation Research (SBIR) Program**
The provision of central government-allocated R&D spending for SMEs and micro-businesses was expanded and the commercialization of the results of technological development activities was promoted, such as by designating specific subsidies for the development of new technologies leading to the creation of new industries, setting targets for expenditures, and formulating policies for measures to support the commercialization of development results achieved using specified subsidies. Additionally, to promote the commercialization of technology development outcomes, SMEs and micro-businesses were informed and encouraged to take advantage of the available commercialization support, such as the database of the technological capabilities of enterprises granted specific subsidies, and the low interest loans offered by the JFC. At the same time, the multistage selection process for the allocation of special subsidies was introduced and expanded.

2. **New Collaboration Support**
[Fiscal 2014 budget: Included in ¥1.08 billion]
This program provided authorization under the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises for business plans for developing and marketing new products and services through collaborations between SMEs in different sectors and the effective combination of their management resources (such as technology and markets). It also provided wide-ranging support through grants and subsidies and through financing and special exemptions for guarantees. A total of 44 business plans were authorized in fiscal 2014.

3. **Support for measures to promote agricultural-commercial-industrial and other collaborations**
[Fiscal 2014 budget: Included in ¥1.08 billion]
This program provided authorization under the Agriculture-Commerce-Industry Cooperation Promotion Act for business plans for developing and marketing new products and services through organic collaborations between SMEs and workers in the agriculture, forestry and fisheries sectors and the

effective utilization of their respective management resources. It also provided wide-ranging support through grants and subsidies and through financing and special exemptions for insurance. A total of 46 business plans were authorized in fiscal 2014.

4. **Support for the creation of new businesses**
Experts in marketing and other areas of business were stationed at SMRJ's 10 branches and offices across Japan to provide detailed, integrated support to SMEs and other entities undertaking 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. In fiscal 2014 (as of the end of December 2014), assistance was provided on 15,456 occasions, of which 2,851 were help desk consultation at branch offices, 3,540 were coaching to support approved plans by business owners, and 9,065 were follow-up support for market development, etc.

5. **Program to promote business creation through medical-engineering collaborations**
[Fiscal 2014 budget: ¥3.05 billion]
Under this program, assistance was provided for issues such as dealing with approvals for drugs, conducting clinical evaluations and carrying out development and improvements aimed at commercializing medical equipment where those issues are addressed by "medical-engineering collaborations" made up of enterprises/coordinators that oversee manufacturing and sales, SMEs with the manufacturing skills to develop and improve the products, and medical institutions that bear the burden of clinical assessment and evaluating the effectiveness of the product against the problems that arise in medical treatment facilities. In fiscal 2014, this initiative supported the realization of 53 items of medical equipment, including those continued over from development programs for problem-solving medical equipment in the previous fiscal year.

6. **Program for promoting global agricultural-commercial-industrial collaborations**
[Fiscal 2014 budget: ¥680 million]
To promote exports of agricultural, forestry and fishery products and foodstuffs, support was provided to nine demonstration projects by consortia that are building up brands in overseas markets and constructing manufacturing, processing and distribution systems (including plant factories and cold chains) using the advanced technologies and expertise of commercial and industrial businesses.

Section 4 Support for moving beyond subcontracting

1. **Stricter enforcement of the Subcontractor Payment Act**
[Fiscal 2014 budget: Included in ¥570 million]
To ensure fair treatment of subcontractors and protect their incomes, the Fair Trade Commission (FTC) and SME Agency collaborated closely to enforce the Subcontractor Payment Act. In fiscal 2014, the FTC and SME Agency carried out audits of the documentation at principal contractors.
In addition, they took steps to more rigidly enforce the Subcontractor Payment Act by collecting information relevant to violations of the Act through an information declaration reception center that provides and receives information on the particulars of violations of the Act. Additionally, in the "Subcontractor Fair Treatment Promotion Month" held in November, rigorous compliance with the Subcontractor Payment Act was encouraged by conducting special questioning. With the aim of securing the cash-flows of subcontractors as they moved into the financially busy period at the end of the year, active measures were taken to raise awareness of the Act by having the Minister of Economy, Trade and Industry and the FTC Commissioner jointly issue a statement calling for the fair treatment of subcontractors, with the statement being sent to the CEOs of principal contractors (around 200,000 companies) and the representatives of relevant business organizations (645 bodies).

2. **Strengthening consultation systems and raising awareness of the importance of fair subcontracting transactions**
[Fiscal 2013 budget: Included in ¥570 million]
Consultation services concerning SME transactions were provided by the 48 Subcontracting Help Centers set up throughout Japan (5,473 consultations and 681 free consultations by lawyers in fiscal 2014). To prevent the occurrence of violations of the Subcontractor Payment Act, a total of 151 seminars were held targeting the procurement managers at principal contractors to further raise awareness of the Subcontractor Payment Act etc., while examples of initiatives by principal contractors were presented at 8 venues around the country and symposiums and other events were held to promote broader adherence to the Subcontractor Payment Act. About the guidelines for building better business relationships between principal contractors and subcontractors (Guidelines for the Promotion of Fair Subcontracting Practices), 233 information sessions on the guidelines for 16 industries were held.

3. **Self-reliance support for SME and micro subcontractors**
[Fiscal 2014 budget: Included in ¥700 million]
Under the revisions to the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (20 September 2013), business plans designed to solve issues in collaborations between subcontracting SMEs and micro-businesses that are highly transaction-dependent on principal contractors were certified and supported in the form of subsidies, loans and special exemptions for guarantees. In regions where production centers of principal contractors have closed or downsized (or are slated to close), support in the form of subsidies was provided to subcontracting SMEs seeking to advance into new fields.

4. **Support for market expansion through subcontracting business mediation and business fairs**
[Fiscal 2014 budget: Included in ¥50 million]
Using Business Matching Stations (BMS), SMEs looking to solicit new clients were provided with information on orders for contract manufacturing issued and received between enterprises for business such as outsourced manufacturing in the SME's preferred industry and where the SME can provide the required equipment or technology. As of the end of March 2015, 26,172 companies were registered. Urgent broader regional information sessions were also held at 8 venues to support new market development.

5. **Request for consideration toward small and medium subcontractors**
[Fiscal 2014 budget: Included in ¥570 million]
Courses and other events were organized to raise awareness of the general standards (development standards) that subcontractors and principal contractors are expected to observe under the Subcontracting Promotion Act.

Section 5 Transmission of techniques and skills

1. **Program to foster personnel and support personnel for micro businesses**
[Fiscal 2014 budget: ¥470 million]
Training sessions were held throughout Japan with the objective of enabling business advisors who support micro-businesses to analyze the strengths of each micro-business and propose and implement measures tailored to those strengths.
Additionally, next-generation manager candidates of SME service businesses were given opportunities to experience the essence of successful enterprises, and measures were taken to develop community-based human resources capable of formulating and coordinating plans for revitalizing community services.

Chapter 4 Breaking into overseas markets

Section 1 Support for overseas business development

1. **Program for supporting overseas expansion by SMEs and micro-businesses**
[Fiscal 2014 budget: Included in ¥2.28 billion]
The SMRJ and the Japan External Trade Organization (JETRO) collaborated in supporting the overseas expansion of SMEs. More specifically, JETRO supported the establishment of overseas markets through initiatives such as matching enterprises up with overseas companies that have overseas market access or technology and by holding exhibitions and trade fairs in the ASEAN and other countries. Through the overseas support platform for overseas expansion by SMEs, which have been established in 17 locations in 12 countries, it also provided assistance in solving legal and labor force problems and helped with issues such as business transfers and withdrawals. The SMRJ conducted training for private-sector support agencies and other approved support agencies in how to support overseas expansion, and also provided training that allows participants to gain practical support expertise by doing internships at top-performing support agencies.

2. **Program for supporting overseas expansion strategy by SMEs and micro-businesses**
[Fiscal 2014 budget: Included in ¥2.28 billion]
JETRO and the SMRJ cooperated to support overseas expansion by SMEs. More specifically, SMRJ provided preliminary assistance to inexperienced SMEs in the formulation of overseas development strategies and the translation of brochures, etc. into foreign languages, with the aim of helping SMEs to prepare for the development of overseas operations. It also provided support at trade fairs in Japan, which receive large numbers of foreign buyers. JETRO, for its part, used its extensive network to help SMEs participate in overseas trade fairs, organize business fairs attended by foreign buyers, provide opportunities for business match-ups, and provide information and deliver wide-ranging support with respect to overseas markets.

3. **Program for supporting the establishment of overseas markets by regional medium enterprises and SMEs**
[Fiscal 2014 supplementary budget: ¥1.49 billion]
A budget was allocated to realizing the initiatives of medium enterprises and SMEs to establish overseas markets by subsidizing part of the expenses (costs of employing specialists, registration agency expenses, etc.) that are needed by medium enterprises, SMEs and micro-businesses to advance into newly emerging countries.

4. **Overseas information services**
[Fiscal 2014 budget: ¥50 million]
In order to promote industrial partnerships between Japan and Taiwan and support was given for friendship associations to collect and distribute information about Taiwanese enterprises and for seminars and business talks to promote alliances between Japanese and Taiwanese enterprises.
16 seminars and 6 business meetings were held in fiscal 2014 (as of February 27, 2015).

5. **Support for development of human resources to cultivate new markets**
[Fiscal 2014 budget: ¥1.21 billion]
In a collaboration between the government and the private sector aimed at supporting economic growth in developing countries and assisting in overseas business expansion by Japanese enterprises, managers, engineers, and similar personnel from developing countries who are employed in management, manufacturing, operations, or similar areas, training was provided to 1,332 personnel, and 71 experts were dispatched to developing countries to provide instruction, etc. in fiscal 2014.

6. **Trade investment promotion project**
[Fiscal 2014 budget: Included in ¥1.96 billion]
Two programs were implemented to secure markets in emerging countries where rapid growth is anticipated in the future:
(1) Training (16 courses) and the dispatching of 2 specialists to promote awareness of the advantages of Japan's technology with the aim of increasing the rate of infrastructure orders placed.
(2) Overseas internships in 17 countries provided to 191 young Japanese workers to foster "international industry-ready personnel" with the aim of securing infrastructure business and developing overseas markets for SMEs.

7. **Utilization of Japan Overseas Cooperation Volunteers and the private-sector collaborative volunteer program**
[Fiscal 2014 budget: ¥160 million]
The JICA Japan Overseas Cooperation Volunteers (JOCV) program was used to help match people who are very familiar with specific developing countries with the human resource requirements of enterprises, and a private-sector collaborative volunteer program

was used to dispatch employees matched to the needs of the enterprises to developing countries as JOCV Senior Overseas Volunteers in an effort to develop personnel capable of active involvement in the global community.

8. **Funding to develop overseas operations**
[fiscal investment and loan program]
Loans were provided by the JFC (SME Unit and Micro Business and Individual Unit) to assist with the cash flow of SMEs that for business reasons need to expand overseas to adapt to structural economic changes. In fiscal 2014 (as of the end of February 2015), 1,108 loans were provided totaling ¥21.3 billion.

9. **Support for overseas subsidiaries to obtain capital, etc.**
Under the SME Business Capabilities Enhancement Support Bill, where SMEs had management innovation plans approved under the New Business Activity Promotion Act, the JFC provided loan guarantees to their overseas subsidiaries for loans from local financial institutions. In fiscal 2014 (as of the end of December 2014), 40 guarantees were provided.

10. **Global Niche Market Top Support Lending Facility**
[fiscal investment and loan program]
To support strategic overseas expansion by second-tier companies and SMEs who are aiming to make a global impact by excelling in a specific field (global niche leader enterprises) and such candidate companies and SMEs, the Shoko Chukin Bank provided long-term, lump-sum repayment and successful interest payment-type loans under the Global Niche Market Top Support Lending Facility. Loans worth a total of ¥13.5 billion were provided to 112 enterprises in fiscal 2014 (as of the end of March 2015).

11. **Reduction and waiver of fees for credit checks on SMEs using trade insurance**
To support the use of trade insurance by exporting SMEs, Nippon Export and Investment Insurance (NEXI) continued arrangements to bear the cost of providing credit information on business partners required when using trade insurance. This facility was used 375 times in fiscal 2014 (as of 24 February 2015).

12. **Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)**
To promote use of trade insurance by SMEs, the NEXI website for SMEs was renewed. Additionally, in fiscal 2014, seminars and face-to-face consultation events were held nationwide under the sponsorship of NEXI, and instructors from NEXI were sent to lecture in seminars hosted by SME-related organizations and study meetings of affiliated regional banks in order to raise awareness and encourage wider use of trade insurance (85 instructors were dispatched). Efforts were also made to increase awareness and promote the use of trade insurance by making visits to 165 SMEs.

13. **Improvement of access to trade insurance**
In December 2011, NEXI launched the "SME Overseas Business Support Network" in collaboration with 11 regional banks to provide support for overseas business expansion by SMEs. In addition to the 18 banks enrolled in fiscdal 2012 and the 20 banks enrolled in fiscal 2013, collaborations were organized with 6 new banks in fiscal 2014, expanding the total network to 55 banks in all. Furthermore, a Credit Union Network was created in fiscal 2013 in collaboration with 22 credit unions, thereby creating a network of 77 nationwide financial institutions.
The creation of this nationwide network has made trade insurance more accessible to local SMEs and easier for them to use.

14. **Support for security export control**
To ensure effective security trade control based on the Foreign Exchange and Foreign Trade Act, information sessions were held in 60 locations throughout Japan. Additionally, support was provided for the development of voluntary administration structures for security trade control at SMEs that engage in export and the provision of technology, by dispatching specialists through schemes such as the one-stop general support program for SMEs and micro-businesses.

15. **Promotion of BOP business**
[Fiscal 2014 budget: ¥150 million]
To promote "base of the pyramid" (BOP) business and volume zone business, JETRO provided consistent support to more than 30 individual enterprises as appropriate to their business phase. It also reinforced its support services by assigning local coordinators to a total of 11 locations in Southwest Asia and Africa, as well as in Uzbekistan and Kazakhstan. In addition to the above, inspection tours were dispatched to Central Asia, acceptability surveys were conducted in Nigeria and Bangladesh, and business demonstration projects were operated in Africa.

16. **ODA match-up program for SME products and technologies**
[Fiscal 2014 budget: ¥4.55 billion; Fiscal 2014 supplementary budget: ¥2.22 billion]
This program aims to use apply the outstanding products and technologies of Japanese SMEs to the growth of developing countries via ODA, and thereby achieve a balance between the growth of developing

countries and economic revitalization in Japan. In fiscal 2014, 101 projects were adopted under this program. (Survey of needs: 4; Proposal survey: 51; Distribution and demonstration program: 46 (as of March 2015))

17. Support for the development and acquisition of skilled human resources abroad by SMEs
[Fiscal 2014 budget: ¥50 million]
To help SMEs and micro-businesses acquire outstanding local human resources abroad, support was provided for holding 7 local job fairs and 16 corporate culture classes in coordination with universities and technical colleges in Thailand, Viet Nam and Indonesia in fiscal 2014.

18. Program to dispatch experts to support midsize, SMEs and micro-businesses advancing into emerging countries
[Fiscal 2014 supplementary budget: ¥1.5 billion]
For midsize, SMEs and micro-businesses working to advance into emerging countries, a budget was allocated for dispatching senior human resources such as retirees from enterprises and similar individuals with abundant business experience in emerging countries and know-how, to support their advancement into emerging countries where business risk is high.

19. Cooperation with Non-Project Grant Aid utilizing SMEs
[Fiscal 2014 budget: ¥2.4 billion, supplementary budget: ¥3 billion]
Products from Japanese SMEs are donated to developing countries based on request from their governments and development needs, not only to support the development of developing countries, but also to increase recognition of such products. Specifically, lists of products from SMEs (not lists of individual brand names) were drawn up based on the development needs of the developing countries and shown to those countries in the form of packages for each of the various sectors, such as medical services, agriculture, and job training, and products were donated in accordance with the requests from the developing countries. In fiscal 2014, grants were furnished to 13 countries (12 under the initial budget + 1 under the supplementary budget) (as of March 2015).

Chapter 5 Other key issues

Section 1 SME measures with respect to the Great East Japan Earthquake

1. **Great East Japan Earthquake Recovery Special Loan**
[Fiscal 2014 budget: Included in ¥10.5 billion]
Since May 2011, there has been ongoing provision of the Great East Japan Earthquake Recovery Special Loan program, which is provided by the JFC (SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank to assist SMEs and micro-businesses affected by the Great East Japan Earthquake with their cash-flow issues. Between the start of this program's operation on 23 May 2011 and the end of February 2015, a total of 277,000 loans have been made with a total value of ¥5.8 trillion. Those measures that were created in fiscal 2011 (measures as of 22 August 2011) for implementation by prefectural-level foundations and similar institutions to effectively eliminate the burden of interest payments on loans received by SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima, and for SMEs and micro-businesses with business establishments and other assets that were completely destroyed or swept away by the earthquake or tsunami, were continued in fiscal 2014.

2. **Expansion of loan ceilings and lowering of interest rates on Managerial Improvement Loans (Marukei loans) and Managerial Improvement Loans for Environmental Health Business Loans (Eikei loans)**
[fiscal investment and loan program]
The loan ceilings for unsecured, unguaranteed and low-interest Marukei and Eikei loans provided by the JFC to micro businesses affected directly or indirectly by the Great East Japan Earthquake were raised (by ¥10 million separately from ordinary loans) and interest rates were lowered (by an additional 0.9% from the normal interest rate for each ¥10 million loaned separately, limited to 3 years from when the loan is taken out).
Between April 2014 and the end of February 2015, a total of 635 Marukei and 17 Eikei loans were made, respectively worth ¥2.37 billion and ¥60 million.

3. **Great East Japan Earthquake Recovery Emergency Guarantee**
To assist SMEs and micro-businesses affected by the Great East Japan Earthquake, a new guarantee system was established in fiscal 2011 as a separate framework from existing ordinary guarantees, disaster-related guarantees and safety net guarantees. The system continued to be implemented in fiscal 2014 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). Between the start of this program's operation on 23 May 2011 and the end of February 2015, a total of 114,404 loans were made with a total value of ¥2.4 trillion.

4. **"Special Finance for Small and Medium Enterprises in the Specified Area" affected by the nuclear disaster**
In order to assist SMEs and other businesses that have offices in regions affected by the nuclear power plant accident, long-term, interest-free, unsecured loans were offered to provide business funds (working capital and capital expenditure) required to continue or resume business in Fukushima prefecture.

5. **Waivers of advancement loans**
To assist SMEs that have suffered damage in the Great East Japan Earthquake, waivers of existing debts on advancement loans were provided to promote their smooth settlement of payments.

6. **Exemption from stamp duty related to equipment funds to micro enterprises**
In order to counter the impact of the Great East Japan Earthquake, a measure for exemption of stamp duty was introduced under the Act on Partial Review of the Act on Temporary Special Provisions of Acts Related to National Tax, in Relation to Victims, etc., of the Great East Japan Earthquake, to businesses specified in Article 129 of the Special Fiscal Aid Act, where such business have entered contracts for monetary loans using equipment funding programs to rebuild facilities.

7. **Business revival assistance from Industrial Recovery Consultation Centers and Industry Reconstruction Corporations**
[Fiscal 2014 budget: ¥3.55 billion]
In fiscal 2011, support for the revival of SMEs damaged by the Great East Japan Earthquake was enhanced by strengthening the SME Revitalization Support Councils and establishing Industrial Recovery Consultation Centers in the affected prefectures, and by establishing Industry Reconstruction Corporations to buy receivables, etc. Up to 27 March 2015, 4,081 consultations from business owners have been handled by Industrial Recovery Consultation Centers in each prefecture, including 3,900 consultations that were

carried through to completion. A key achievement was the 753 cases where organizations such as financial institutions agreed to provide financial support, including 302 cases of debt-factoring.

8. Business revival assistance from the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake

To cope with the overlapping debt problems of earthquake-affected businesses, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake provided assistance such as helping to relieve the repayment burdens for existing debts. Since it began operating on 5 March 2012, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake has so far received 2,203 consultations and in 579 of those cases has decided to support business owners to revive their businesses through measures such as debt-factoring (as of the end of March 2015).

9. Reduction of interest burden during assessment of the potential for business regeneration
[Fiscal 2014 budget: ¥18.4 billion]

This program supports the early business revival of SMEs and micro-businesses that have suffered damage in the Great East Japan Earthquake or the nuclear power plant accident in Fukushima, by reducing the interest burden of those who work with an Industrial Recovery Consultation Center to rebuilt their business. More specifically, with respect to businesses that have received assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan, the program defrays the cost of interest they incur during the reconstruction process.
The program was established in fiscal 2011 and was implemented ongoingly in fiscal 2014. (As of the end of December 2014, 434 loans worth a total of ¥2.09 billion have been provided.)

10. Lease subsidy program to support SMEs in disaster-affected areas

In order to reduce the burden of overlapping debt borne by disaster-affected SMEs, SMEs burdened with lease obligations due to leased equipment that was lost during the Great East Japan Earthquake are provided with subsidies equivalent to 10% of the cost of the new leases to re-install the equipment.

11. Post-disaster recovery project on joint facilities of small and medium business associations, etc.
[Fiscal 2014 budget: ¥22.07 billion]

In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, support was provided through the following subsidies:
(1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment; and
(2) Subsidization by the national government of (one half) the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs, and support recovery of facilities held by groups of disaster-affected SMEs and others.

12. Projects for maintenance of temporary facilities and subsidy program for the effective utilization of temporary facilities
[Fiscal 2014 budget: ¥2.07 billion]

So that SMEs affected by the Great East Japan Earthquake can resume business as quickly as possible, the SMRJ provided temporary factories and storefronts and essentially cost-free loans were provided to business owners via local governments. As of the end of February 2015, the construction of facilities has been completed at 577 locations in 52 municipalities in six prefectures. Additionally, from April 2014, subsidies have begun to be provided for costs required for the construction, relocation and removal of temporary facilities, and 5 projects have been subsidized under this program as of the end of February 2015.

13. Loans for restoration and development of facilities and equipment

Loans were provided by the SMRJ in cooperation with the prefectures to provide funds needed for the repair and development of the facilities and equipment required for the implementation of prefecture approved restoration plans by SMEs that suffered damage caused by the Great East Japan Earthquake.

14. Provision of light trucks to assist mobile vendors serving temporary housing
[Fiscal 2014 budget: ¥390 million]

In order to provide a shopping environment for victims residing in temporary housing, and to help SMEs that have lost customers or business due to the Great East Japan Earthquake to acquire new customers and resume business as soon as possible, approximately 100 mobile vending vehicles (light trucks) were deployed to the affected areas. These trucks were loaned to SMEs to help them to sell their goods to the residents of temporary housing and at various events.

15. Program to create employment that promotes business recovery
[Fiscal 2014 budget: Included in ¥195.8 billion]
In order to create stable employment in disaster affected areas, support was provided in the area of employment in accord with industrial policies.

16. Establishment of special help desks
Special help desks were set up at offices of the JFC, the Shoko Chukin Bank, credit guarantee corporations, chambers of commerce and industry, federations of societies of commerce and industry, federations of small business associations, branches of the SMRJ, and bureaus of economy, trade and industry nationwide to provide business and financial advice to SMEs and other enterprises affected by the Great East Japan Earthquake.

17. Navigation dial for SME phone consultations
To help SMEs that do not know where to go for advice, a "Navi Dial for SME phone consultations" help line with a single number was provided that connects callers to their nearest Bureau of Economy, Trade, and Industry.

18. Consideration for SMEs in disaster-affected regions by the government and other public agencies
[Fiscal 2014 budget: Included in ¥570 million]
Under the "Policy on State Contracts with Small and Medium Enterprises", which is formulated each fiscal year, consideration was again given in fiscal 2014 to SMEs and micro-businesses in areas affected by the Great East Japan Earthquake. At the same time, the following measures were also implemented:

(1) On 27 June 2014, the Minister for Economy, Trade and Industry issued a request regarding the Cabinet approval of the Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, the prefectural governors, municipal mayors, and the mayors of the Tokyo special wards (1,814 organizations), and also requested that they take steps to increase the opportunities available for SMEs and micro-businesses to receive orders.
(2) Between July and August, 51 information sessions (Councils to Promote Local Access to Public Sector Demand) were held all around Japan to actively raise awareness of the "Policy on Contracts" in regional areas.
(3) A "Guide to Contracts in the Public Sector" was produced and distributed to central and local government agencies and other commerce and industry-related organizations.

19. Support provided by NEXI
In April 2011, Nippon Export and Investment Insurance (NEXI) introduced the following measures to assist SMEs affected by the earthquake: (1) postponement of insurance policy procedures, (2) deferment, reduction or waiver of insured parties' obligations, and (3) reduction or elimination of the financial burden on insured parties. To deal with the damage caused by harmful rumors, NEXI also published specific examples of losses arising from the restriction or prohibition of import of goods on the grounds of radioactive contamination, which would be covered by trade insurance. These examples include cases of importation being limited or prohibited by the introduction of new regulations and cases of illegal or discriminatory treatment by the government of destination country. A consultation service was also set up inside NEXI to provide advice (available also to non-enrollees in trade insurance) on how to deal with harmful rumors.

20. Victims' Employment Development Subsidy Program
[Fiscal 2014 budget: ¥20.33 billion]
Subsidies were provided employers who hire workers who lost their jobs due to the Great East Japan Earthquake and job seekers living in affected areas 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. Bonus subsidies were additionally provided to employers hiring 10 or more such workers.

21. Guidance and advice on measuring radiation levels
[Fiscal 2014 budget: ¥60 million]
As a countermeasure against harmful rumors regarding industrial and other products, a project was launched for dispatching specialist teams that provide guidance and advice on measuring radiation levels. (The guidance and advice consists of measuring surface contamination on items such as industrial products, or providing information on that measurement together with guidance and advice based on various analyses.)

22. Support for business matching and product development related to industrial products
[Fiscal 2014 budget: ¥200 million]
To promote sustainable reconstruction of disaster-affected areas and the revitalization of their economies, support was provided to develop markets (business matching, product development, etc.) both in Japan and abroad for local products produced in those areas.

Section 2 Fair transaction prices and measures against pass-throughs of consumption tax

1. Countermeasure package for pass-throughs of increases in raw material and energy costs

From the concern that increases in raw material and energy costs are weighing heavily particularly on the profits of SMEs and micro-businesses, the following measures have been implemented in support of SMEs and micro-businesses.

(1) Comprehensive support and cooperation among government, labor and management to promote cost pass-throughs that take into consideration increases in purchases prices, etc.
(2) Onsite inspection of approx. 500 major, representative enterprises
(3) Issuance of a written request for fair transactions to 745 industrial organizations and 200,000 parent businesses
(4) Assignment of consultants to "subcontractors' support centers"
(5) Inspection of the status of pass-throughs of increases in raw material and energy costs by 474 "consumption tax shift inspectors"

2. Programs to enhance monitoring and inspection regimes for consumption tax imputation

[Fiscal 2014 budget: Included in ¥4.6 billion]

To ensure that consumption tax is passed through appropriately, 474 "cost pass-through inspectors" were assigned throughout Japan. At the same time, to collect information such as on refusals to pass through the consumption tax, a written survey was carried out on 150,000 businesses in conjunction with the Fair Trade Commission (FTC). Based on the results of the survey, written requests were issued and onsite inspections were carried out.

3. Office for consultation regarding measures to shift consumption tax (Program to prevent business bullies in trading)

[Fiscal 2014 supplementary budget: ¥3.74 billion]

To facilitate the increase in consumption tax and accompanying institutional changes, a budget was allocated for the implementation of various measures in collaboration with SME business associations and similar entities. These measures include the organization of educational courses and forums, establishment of consultation services and provision of detailed support by visiting specialists, and dissemination of knowledge pamphlets and other such materials.

Section 3 Policy consideration by advisory councils and similar bodies

1. "Small Enterprises" Growth Headquarters

The "Small Enterprises" Growth Headquarters, headed by the Minister for Economy, Trade and Industry, was established in February 2013 to ensure continued growth among SMEs and microbusinesses. In June of the same year, an "Action Plan" was drawn up based on direct feedback obtained from SMEs and micro-businesses and support agencies, and was reflected in the government's growth strategy, the Japan Revitalization Strategy. After the formulation of the Action Plan, follow-up meetings were held to ensure that the plan is fully implemented, and the bold initiatives of SMEs and micro-businesses, the issues they face and their policy proposals were compiled into a report.

2. Enforcement of the Basic Act for Promoting Small Enterprises and the Act for the Partial Revision of the Act on Supporting Small Business by Societies of Commerce and Industry and Chambers of Commerce and Industry (the Bill for the Small Business Support Act)

The Basic Act for Promoting Small Enterprises was put into force in June 2014, and the Act for the Partial Revision of the Act on Supporting Small Business by Societies of Commerce and Industry and Chambers of Commerce and Industry (the Bill for the Small Business Support Act) was put into force in September 2014.

Additionally, the Basic Plan for Promoting Small Enterprises, a 5-year plan that sets out the policy structure for micro businesses based on the Basic Act for Promoting Small Enterprises, was approved by the Cabinet in October 2014, and based on the Revised Small Business Support Act, the certification of management development support plans formulated by societies of commerce and industry and chambers of commerce and industry was begun in January 2015, toward creating community-based support systems for micro-businesses throughout Japan in cooperation between nationwide societies of commerce and industry, chambers of commerce and industry, municipal governments and local financial institutions.

3. Cabinet approval of the bill for partial revision of the Shoko Chukin Bank Limited Act and Small Business Credit Insurance Act

To revitalize the economy and increase employment in the regions through smooth financing to SMEs, a bill for the partial revision of the Shoko Chukin Bank Limited Act and Small Business Credit Insurance Act was approved by the Cabinet in February 2015

and submitted to the Diet. The Shoko Chukin Bank Limited Act stipulates measures for proper crisis responses, and the Small Business Credit Insurance Act adds certain NPOs to the scope of SME credit insurance.

4. Cabinet approval of the bill for partial revision of the Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises, etc. (Succession Facilitation Bill)

A bill for the partial revision of three acts were approved by the Cabinet in March 2015 and submitted to the Diet. They include the Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises, which expands the scope of the special arrangement for legally reserved portions to include outside relatives; the Small Enterprise Mutual Relief Projects Act, which reviews provisions such as in regard to increasing the amount of mutual aid money when individual business operators have leave businesses to their relatives; and the Act on the Organization for Small & Medium Enterprises and Regional Innovation, Japan, Independent Administrative Agency, which stipulates the strengthening of support for business succession.

5. Cabinet approval of the bill for partial revision of the Act on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium-sized Enterprise, etc. (SME Demand Creation Bill)

A bill for the partial revision of three acts were approved by the Cabinet in March 2015 and submitted to the Diet. They include the Act on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium-sized Enterprise, which promotes the receipt of orders from the government and other public agencies by newly established SMEs; the Act on Promotion of Business Activities by Small and Medium Sized Enterprises Utilizing Resources Derived from Local Industries, which aims to create local demand through development and market cultivation of local specialty products that capture consumer interest; and the Act on the Organization for Small & Medium Enterprises and Regional Innovation, Japan, Independent Administrative Agency, which establishes a framework for cooperation to local governments.

Section 4 Cash-flow assistance, business regeneration support

1. Detailed cash-flow assistance and business generation support

In order for SMEs and micro-businesses to secure a cash flow, it is considered extremely necessary for them to also improve their management at the same time. Based on this awareness, government-affiliated financial institutions launched a support measure that combines expanded loans with business support under the fiscal 2013 supplementary budget that was approved on February 6, 2014. More specifically, safety-net loans were provided by the JFC and Shoko Chukin Bank in amounts that surpass the fiscal 2013 performance, and refinancing guarantees were provided by the Credit Guarantee Corporation in amounts on par with the fiscal 2013 performance. The JFC furthermore promoted loans for forward-looking business expansion initiatives, such as the replacement of old facilities, increase in total salary payments and business startups, and took measures to promote the utilization of the Management Guarantee Guidelines by SMEs and micro-businesses, by holding explanatory meetings, establishing consultation centers, and dispatching specialists.

Business regeneration support was also provided to SMEs and micro-businesses under the fiscal 2013 supplementary budget. The framework of the SME Business Rehabilitation Support Co-operative in each of the 47 prefectures was strengthened to support the steady formulation of business regeneration plans by SMEs and micro-businesses, and the functions of the National Headquarters for SME Revitalization Support were expanded.

2. Safety net loans

[Fiscal 2014 budget: Included in ¥138.0 billion]

The safety net loan program provides loans worth up to a total of ¥720 million (from JFC's SME Unit and the Shoko Chukin Bank) and ¥48 million (from JFC's Micro Business and Individual Unit) to SMEs that have experienced, for example, a temporary decline in sales or profits caused by the effects of changes in the social or economic environment. Under the fiscal 2014 supplementary budget, an interest rate incentive was given to SMEs and micro-businesses experiencing cashflow difficulties amid the impacts of the high costs of raw materials and energy, in cases where their profit margin has declined or their severe business condition requires them to receive business support from an approved support agency. In fiscal 2014, 146,603 loans were made with a total value of ¥3.1 trillion (as of the end of February 2015).

3. Marukei Loans

[Fiscal 2014 budget: ¥4 billion]

[fiscal investment and loan program]

In order to provide financial support to micro businesses, the JFC provided unsecured and unguaranteed low-interest loans to micro-businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. Ongoing improvements were also implemented: (1)

the term of loans was extended from five to seven years for working capital and from seven to 10 years for capital expenditure; (2) the deferment period was extended from six months to one year for working capital and from six months to two years for capital expenditure; and (3) the ceiling on loans was raised from ¥15 million to ¥20 million. Between April 2014 and the end of February 2015, a total of 36,996 loans were provided with a total value of ¥206.9 billion.

4. **Promotion of subordinated lending**
[Fiscal 2014 budget: Included in ¥14.5 billion]
The subordinated lending program is a financing mechanism of the JFC, which solicits joint financing from the private sector to stabilize the financing of SMEs and micro-businesses by providing them with high-risk, long-term, "bullet loans" (capital funds) to enhance their financial underpinnings. Under the fiscal 2014 supplementary budget, the program was expanded to newly provide loans for business succession and overseas expansion. In fiscal 2014, 845 subordinated loans were provided, worth a total value of ¥53 billion (as of the end of February 2015).

(Note) Loans under this program are limited bullet loans. In the event that the SMEs or micro-business taking out the loan enters legal bankruptcy, its repayment precedence is subordinated to other claims. By designing the program so that the interest rate is tied to the success rate for loan repayments in each period, these subordinated loans can be taken to be equity in financial inspections.

5. **SME and micro-business management enhancement loan/guarantee program**
[Fiscal 2014 budget: ¥950 million]
On the premise that support is being provided by approved support agencies, the management of SMEs and micro-businesses was strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate, or 0.65% below the standard rate for women, young people and senior business startups) for business startups, businesses diversification, and changes of business. In fiscal 2014, the funds receivable from the JFC (lifestyle-related businesses) as additional interest-free uninsured and unguaranteed loans were increased from ¥15 million to ¥20 million.

6. **Encouragement of refinancing guarantees**
[Fiscal 2014 supplementary budget: ¥49.5 billion]
Refinancing guarantees are promoted with the aim of encouraging credit guarantee corporations to consolidate multiple outstanding debts and relieve the repayment burdens at hand. In fiscal 2014 (up to the end of February 2015), 148,824 refinancing guarantees were approved, worth a total value of ¥2.7 trillion.

7. **Safety-net Guarantees (Nos. 4 & 5)**
Safety-net Guarantee Nos. 4 and 5 call for credit guarantee corporations to provide guarantees separate from ordinary guarantees to SMEs and micro-businesses experiencing a management instability due to either a natural disaster in the case of Safety-net Guarantee No. 4 or an industrial structural slowdown in the case of Safety-net Guarantee No. 5 (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans).
In fiscal 2014, the disaster designation criteria for Safety-net Guarantee No. 4 was reviewed in consideration of the marked damage caused by the increasing frequency of short-term downpours and other changes in disaster risks. This has allowed for greater flexibility and speed in the system, such as by allowing safety-net guarantees to be approved at the same time the Disaster Relief Act is applied.
Safety-net Guarantee No. 5 was actively provided to SMEs in designated industries whose average monthly sales, etc., for the latest three months fall by a set proportion or more compared with the same period in the previous year. In fiscal 2014 (up to the end of February 2015), 20,735 guarantees under Safety-net Guarantee No. 5 were approved, totaling ¥500 billion.

8. **Program to assist with formulating management reform plans by approved support agencies**
For SMEs and micro-businesses that are unable formulate management reform plans on their own, approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) provided assistance in formulating management reform plans, as well as follow-up for those plans. Under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises, the program defrayed part (two-thirds) of the costs incurred by those activities. In fiscal 2014, 11,401 consultations were received, including 5,243 cases that were taken up by the program. This brought the total number of consultations received between the inception of the program (March 2013) to the end of fiscal 2014 to 21,928, including 7,524 cases in which the formulation of reform plans has been completed. Furthermore, the deadline for new applications, which had been set to the end of March 2015, was eliminated, in consideration of the program's function as a safety net.

9. **Training program for approved support agencies**
[Fiscal 2014 budget: ¥20 million]
Intended for approved support agencies defined under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises, training programs were held in 13 locations throughout Japan to enhance their capabilities for providing

assistance in formulating in reform plans and business improvement plans. The programs were held by instructors from business consultation companies that undertake the preparation of business improvement plans and reform plans. A total of 398 participants attended the programs by paying a part of the fee.

10. SME Revitalization Support Councils
[Fiscal 2014 budget: Included in ¥4.44 billion]
The SME Revitalization Support Councils established at the chambers of commerce and industry and similar entities in each prefecture provided SMEs and micro-businesses that had profitable businesses but faced financial problems with advice on solving their problems through consultation services, and assisted with the drafting of revitalization plans that also included coordination with relevant financial institutions and similar entities. Between April 2014 and the end of December 2014, the councils received 2,727 consultations and formulated 1,304 revitalization plans, for a total of 34,448 consultations and the formulation of 8,552 revitalization plans from their inception to the end of December 2014.
Additionally, subsidy projects were implemented to strengthen the support framework of SME Revitalization Support Councils and accelerate the assisted formulation of drastic revitalization plans by SMEs and micro-businesses.

11. SME Rehabilitation Plan through Succession (secondary companies)
[taxation scheme]
Where an SME rehabilitation plan through succession is authorized under the Industrial Competitiveness Enhancement Act and business succession occurs as set out in that plan, measures were implemented to reduce the tax burden and support financing, along with special provisions for permissible succession. In fiscal 2014, four such cases were approved, for a total of 23 cases since the system was established based on the Act on Special Measures concerning Industrial Revitalization (June 2009).

12. SME revitalization funds
In order to deliver the funds needed by SMEs to implement their revitalization plans and provide them with financing and management support, the SMRJ, regional financial institutions, and credit guarantee corporations in unison promoted the establishment and utilization of regional funds to assist local SMEs' revitalization efforts and national funds to assist SMEs' revitalization efforts over a wide area. Up to the end of March 2015, 43 funds have been established, amounting to approximately ¥136.4 billion in total. By the end of February 2015, the funds have invested approximately ¥59.3 billion in 285 companies.

13. Promotion of the use of "Guidelines for Personal Guarantees Provided by Business Owners"
To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, help desks were set up in the regional headquarters of the SMRJ in fiscal 2013, and there was ongoing implementation of the system for dispatching specialist advisors for people who want to use the guidelines. There was also ongoing implementation of financing and guarantee systems independent of business owner guarantees by public sector financial institutions created or enhanced in fiscal 2013. Additionally, to ensure the guidelines are absorbed and retained as part of financing practices, initiatives that should be widely taken were compiled into a collection of examples and published. Furthermore, explanatory meetings on the guidelines were held in 100 locations throughout Japan between November 2014 and February 2015 for SMEs and micro-businesses.

14. Enhanced management support for financial administration among SMEs
To promote support for the growth of enterprises and industries via financial administration, support for management reforms, productivity improvement and the financial standing of SMEs, financial institutions were encouraged to provide enhanced management support to SMEs. Based on the financial monitoring policy, they were encouraged to provide loans based on proper assessment (business assessment) of the business performance and growth potential of borrower companies without relying more than necessary on securities and guarantees, in addition to providing consultation services.

15. Subsidy program for equipment introduction by micro enterprises (equipment fund loans and equipment loans)
To promote the installation of equipment needed to enhance management platforms and to create micro businesses that lack credibility and borrowing power, this program provided loans for required equipment and interest-free loans for half the amount of capital expenditure via prefectural lending institutions.

16. Promote liquidity of SMEs' export receivables covered by trade insurance
To promote the financing of SMEs, NEXI collaborated with the Shoko Chukin Bank and other related agencies through initiatives such as partial waivers of certain obligations of insured parties, including the obligation to recover an insured export receivable that has been transferred from an SME to a financial institution after the insured event (i.e., the obligation to seek to recover monies even after receipting the payment of the insurance claim following the insured event).

17. **Support for SMEs in Okinawa**
[fiscal investment and loan program]
Regarding support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), ODFC operated the same range of programs as JFC and also expanded its own system of lending tailored to meet the specific needs of businesses in Okinawa.

18. **Adoption and application of "Basic procedures for SME accounting"**
The adoption and application of the "Basic procedures for SME accounting" was promoted so as to encourage SMEs to clarify their business conditions, improve the ability of proprietors to explain their business, and strengthen their ability to obtain financing. As a dissemination measure, the 0.1% discount on credit guarantee rates was continued to be provided in fiscal 2014 to SMEs and micro-businesses that adopt the "Basic procedures" as their accounting rule.

Section 5 Enhancing financial capacity

1. **Lowering of reduced tax rate for SMEs**
[taxation scheme]
The lowering of the reduced rate of corporation tax payable by small and medium corporations (applicable to up to ¥8 million of annual income) was continued from 19% to 15%.

2. **SME investment promotion tax system**
[taxation scheme]
This system continued to offer a 30% special depreciation or a 7% tax credit for the base price of the purchase of set items of machinery or equipment. A new measure was also launched under the fiscal 2014 tax reform, to allow for the immediate depreciation or a 7% tax credit (10% for corporate entities with a capital of no more than ¥30 million) for machinery and equipment that leads to productivity improvement.

3. **Special provision for inclusion of SMEs in charges against revenue of acquisition cost of petty sum depreciable assets**
[taxation scheme]
The special provision that allows enterprises such as SMEs to include in full depreciable assets worth less than ¥300,000 in charges against revenue (limited to a total of ¥3 million a year) was extended two years under the fiscal 2014 tax reform.

4. **Carryover and refund carryback of loss**
[taxation scheme]
The scheme that allows loss arising in the current business year to be deducted as a loss carried over from the amount of income in the following and subsequent business years (for not more than 9 years) and also allows businesses to receive a one-year carryback refund for losses arising in the current business year was continued.

5. **Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries**
[taxation scheme]
The tax measure that allows SMEs in the commercial and service industries that make a capital investment based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit was continued (the tax credit is offered only to SMEs and individual proprietorships with a capital of no more than ¥30 million).

6. **Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.**
[taxation scheme]
Under the revisions to the tax system in fiscal 2014, the measure that permits entertainment and social expenses incurred by SMEs to be included in charges against revenue up to the fixed deduction amount (¥8 million) was extended two years, and a measure that allows 50% of food and drink expenses to be included in charges against revenue was newly established. The two measures may be selectively applied.

7. **Investment by Small and Medium Business Investment and Consultation Co., Ltd.**
In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, the Small and Medium Business Investment and Consultation Co., Ltd. operated a number of programs to assist in SME development. These include business consultations, assistance with business successions and investment programs involving the underwriting of shares, share warrants and corporate bonds with subscription warrants. As of the end of January 2015, the investment balance was ¥78.9 billion in 2,360 companies.

Section 6 Measures to stabilize business

1. **Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)**
[Included in SMRJ subsidy program]
The Mutual Relief System for the Prevention of Bankruptcies of SMEs is a system that provides unsecured, unguaranteed, low-interest loans to prevent a chain reaction of bankruptcies when the bankruptcy of a supplier or customer has made it difficult for an enterprise to recover moneys due on account.

As of the end of January 2015, 373,000 companies were enrolled in the system, with 36,000 new subscribers in the period from April 2014 to January 2015 and new loans totaling ¥7.24 billion.

2. Special Business Stability Consultation Centers
[Fiscal 2014 budget: ¥37 million]
To assist in the resolution of the many and diverse administrative problems of SMEs facing management risks, special business stability advice centers have been established in key chambers of commerce and industry and prefectural federations of societies of commerce and industry across the country. In these centers, support was provided to initiatives such as guidance programs regarding bankruptcy prevention run by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry to facilitate management consultations in a wide range of business sectors.

3. Promotion of wider adoption of BCPs by SMEs
To support the formulation and operation of BCPs by SMEs and micro-businesses and aim to further disseminate and establish the plans, a model project for BCP formulation and operation support was implemented, BCP formulation workshops were held, manuals for BCP formulation were created, and case studies of BCP utilization were compiled. At the same time, under the fiscal 2014 supplementary budget, a support project for strengthening business continuation among SMEs and micro-businesses was implemented.
Additionally, to enhance the dissemination and support framework, support was given to BCP training and seminars for support managers operated by SME-related bodies.
Furthermore, low-interest loans were provided by the JFC for the establishment of disaster prevention facilities in accordance with BCPs formulated by SMEs and micro-businesses themselves.
[Financial results] (April 2014 to February 2015): 100 loans totaling ¥9.92 billion (including three new schemes worth ¥300 million)

4. Relief for damage caused by dumped imports
[Fiscal 2014 budget: ¥50 million]
Trade remedy measures include anti-dumping (AD) programs to provide relief to domestic industries impacted by the export of unjustly low-priced imports to Japan (dumped imports to Japan) against WTO rules, including measures to ensure equitable market competition such as by imposing extra customs duties following a petition by the affected Japanese industry and an investigation by the government. An AD investigation into Chinese manufactured toluene diisocynate was begun in February 2014, and a provisional taxation based on a tentative decision was decided in December 2014. Studies were also conducted to ensure that investigations are consistent with WTO conventions, and information sessions were held for enterprises.

Section 7 Measures concerning public demand

1. Formulation and dissemination of the "Policy on State Contracts with Small and Medium Enterprises"
[Fiscal 2014 budget: Included in ¥570 million]
On 27 June 2014, Cabinet decided to formulate a target for the contracted proportion of government/public demand going to SMEs and micro-businesses of 56.7% in fiscal 2014. Measures for increasing opportunities for SMEs and micro-businesses to receive orders included fresh consideration being given to SMEs and micro-businesses that have been newly established within the past ten years, the development of a new portal site system for information on public demand that allows micro-businesses to promptly and accurately acquire the latest information they need, and strengthening of measures for proper pass-through of consumption tax and anti-dumping measures.
The following measures were also implemented to increase the opportunities for SMEs and micro-businesses to receive orders:

(1) On 27 June 2014, the Minister for Economy, Trade and Industry issued a request regarding the Cabinet approval of the Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, prefectural governors, mayors of cities with a population of 100,000 or more, and mayors of the Tokyo special wards (1,814 organizations), and also requested that they make efforts to increase opportunities for SMEs and micro-businesses to receive orders.

(2) Between July and August, 51 information sessions (Councils to Promote Local Access to Public Sector Demand) were held all around Japan to actively raise awareness of the "Policy on Contracts" in regional areas.

(3) To publicize products developed by enterprises that have newly been established within the past ten years, support was given to 28 companies that were nominated by their prefectures to participate in New Value Creation Exhibition 2014, held from November 19 to 21 at Tokyo Big Sight. A New SME Procurement Promotion Council was also established with a membership of prefectural procurement managers, to request cooperation in revising the Government and Public Office Demand Law, promote procurement from qualified public demand associations, and publicize the Public Demand Portal Site.

(4) A "Guide to Contracts in the Public Sector" was produced and distributed to central and local government agencies and other commerce and industry-related organizations.

2. Operation of the "Public Demand Portal Site" to expand opportunities for SMEs and microbusinesses to receive orders from the public sector

[Fiscal 2014 budget: Included in ¥570 million]

A Public Demand Information Portal Site has been operated that provides SMEs and micro-businesses with one-stop access to order information posted on national government and other local public websites in order to improve access by SMEs and micro-businesses to information on public sector orders. The number of accesses had reached 261,157 by the end of February 2015. Under the fiscal 2013 supplementary budget, the portal's information gathering and search functions were enhanced and the development of a new system to help micro-enterprises gain faster and more accurate access to information was started, and test operation of the new Public Demand Portal Site commenced on August 1, 2014. As a result of adding a new feature that provides notices of new information, access to the site reached 468,179 by the end of February 2015.

Section 8 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2014 budget: ¥190 million]

In order to widely propagate respect for human rights and cultivate awareness of human rights among SMEs and micro-businesses, seminars and other awareness-raising activities were organized. Traveling consultation services and training programs were also offered to revitalize micro-businesses in regions or industries where there are particularly large numbers of micro-businesses that require concentrated support.

Chapter 6 Initiatives by industries and area

Section 1 Measures for SMEs in agriculture, forestry and fisheries

1. Promotion of diversification of primary producers into processing and distribution (sixth sector industrialization)

(1) Subsidy for sixth sector industrialization network activities
[Fiscal 2014 budget: ¥2.13 billion]
Support was provided for initiatives in which agriculture, forestry and fishery businesses and various other businesses make coordinated efforts that maximize regional characteristics and create a network to develop new products, cultivate markets and operate facilities for processing and marketing agriculture, forestry and fishery products.

(2) Support program for sixth sector industrialization
[Fiscal 2014 budget: ¥230 million]
Support was provided to programs such as those that provide machinery and infrastructure needed to build networks between agriculture, forestry and fishery businesses and various other businesses that extend beyond prefectural boundaries by developing new products, cultivating markets and adding value to agriculture, forestry and fishery products.

(3) Active utilization of the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan
Support was provided through measures such as investment for business activities aimed at sixth sector industrialization by agriculture, forestry and fishery businesses in cooperation with distribution and processing businesses through the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan (A-FIVE).

(4) Promotion of the comprehensive utilization of intellectual property
[Fiscal 2014 budget: ¥150 million]
Support was provided to initiatives such as for the dissemination of the principles of intellectual property management and the cultivation of personnel with that capacity, and measures to prevent overseas third parties from infringing on intellectual property rights.

(5) Comprehensive program to promote renewable energy to revitalize rural areas
[Fiscal 2014 budget: ¥200 million]
Growth in regional agricultural, forestry and fishery businesses was promoted by pursuing community-based initiatives to supply renewable energy and to feed the benefits of such initiatives back into local communities.

2. Support for small and medium agricultural, forestry, and fishery businesses

(1) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund
[Fiscal 2014 commitment line: ¥70 billion]
In order to streamline lumber production and distribution, loans were provided through the Wood Industry Upgrading Promotion Fund, while loans through the Wood Industry Improvement Fund were provided to implement measures such as management reforms in the forestry and lumber industries.

(2) Interest subsidy for the installation of lumber processing facilities
[Fiscal 2014 budget: ¥10 million]
An interest subsidy was provided for borrowings required for the introduction of facilities toward adding value to lumber products and diversifying management, and for dismantling facilities and equipment accompanying the introduction of new facilities.

(3) Subsidy for Establishment of the Foundation for Forest and Forestry Regeneration
[Fiscal 2014 budget: Included in ¥2.2 billion]
To promote and revitalize the forestry and lumber industries through the increased use of regional raw materials, support was provided for the development of lumber processing and distribution facilities needed to ensure a stable supply of reliably high quality, high-performing products made using local materials. Assistance was also provided for initiatives to ensure a stable supply of such products through cooperation between small and medium factories and mid-tier factories.

(4) Support for reorganization and development of the dairy industry by means of subsidies for building a strong agricultural industry and comprehensive measures for the revitalization of production areas
[Subsidies for building a strong agricultural industry: Included in ¥23.39 billion; Comprehensive measures for the revitalization of production areas: Included in ¥2.88 billion]
In addition to promoting the widespread reorganization and streamlining of dairy industry factories, support was provided for the integration of production in dairy industry facilities with advanced hygiene management standards.

(5) Support for export initiatives using programs to support the development of overseas markets for milk and dairy products
[Fiscal 2014 budget: ¥10 million]
To create new demand for Japanese milk and dairy products, assistance was provided to small and medium-sized dairy businesses that aspire to

export products but lack the necessary management resources, by providing a subsidy for the expenses they need to create an environment conducive to future full-scale exports, such as running trial exports and investigating the issues that arise with the delivery for exports.

(6) Support for raising the standard of food manufacturing process management

To improve the safety of food products and gain the confidence of consumers, financial support was provided for the following initiatives under the Act on Temporary Measures concerning Sophistication of Management of Food Manufacturing Process: (1) Provision of infrastructure and equipment for HACCP introduction; and (2) Provision of infrastructure and equipment for hygiene and product quality control as preliminary steps towards HACCP introduction (advanced platform provision). (Fund for promoting advanced quality control in the food industry)

3. Support for R&D and other cross-field activities

(1) The following programs were implemented through competitive funding and other methods:

1) Promotion of studies of scientific technologies for the agriculture, forestry, fishery and food industries

[Fiscal 2014 budget: ¥5.22 billion]

R&D initiatives were promoted at each stage of technological development, including the basic stage involving the development of the technological seeds that will lead to innovative technologies and solutions for problems in the agriculture, forestry, fishery and food industries (elemental technologies that lead to the creation of new technologies, businesses and agribusiness); the application phase involving the further development of those seeds towards R&D for practical application; and the practical application stage in which technologies meet the requirements of key national policies and address the needs of the agriculture, forestry, fishery and food industries.

In fiscal 2014, a new support was provided that utilizes the technical skills in the industrial, academic and government sectors to develop new product types that address the diverse needs of actual users.

2) Promotion of private sector research into practical applications (Newly adopted, ended in fiscal 2010)

(2) Various forms of lending by JFC

[fiscal investment and loan program]

Funding was provided to promote initiatives such as the following: (1) management improvements at specified agricultural product processors; (2) the development of new uses for specified agriculture, forestry, livestock, and fishery products and the adoption of new breeds and varieties for processed materials; (3) the development of stable business relations between food manufacturers and agriculture, forestry, and fishery businesses and the development of agriculture, forestry, and fishery facilities; (4) the improvement of dairy facilities; and (5) the strengthening of businesses in the marine product processing industry.

4. Subsidy for comprehensive measures for urban-rural coexistence and interchange

[Fiscal 2014 budget: Included in ¥2.1 billion]

To boost the interchange of populations between urban and rural areas, support was provided for a model case example of initiatives that utilize assets such as vacant stores in shopping districts as centers for distributing information on exchanges with rural areas and on the many agricultural and specialty products that are produced in rural areas.

Section 2 Measures for SMEs in the transportation industry

1. Support for the warehousing industry

Upgrading of the physical distribution functions of facilities was promoted in order to encourage third party logistics (3PL) programs and more efficient distribution under the Law for Integration and Improvement of Physical Distribution. This is aimed at meeting the need for increasingly sophisticated physical distribution services as a response to changes in the socioeconomic environment.

2. Measures for the coastal and domestic passenger shipping industries

[Fiscal 2014 budget: ¥25.4 billion]

(1) Interim measures for coastal shipping

In order to ensure the smooth and steady implementation of interim measures for coastal shipping, support was provided by establishing a separate system of government guarantees for the loans required to fund these measures.

(2) Promotion of the construction of highly efficient environmentally friendly coastal vessels using the joint shipbuilding program

[fiscal investment and loan 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 Japan Railway Construction, Transport and Technology Agency’s (JRTT) joint shipbuilding program. As of the end of February 2015, 24 super eco-ships had been commissioned and one more were scheduled for construction.

3. Measures for small and medium shipbuilders and related manufacturers

[Fiscal 2014 budget: (1) Included in ¥50 million; (2) ¥16 billion (fiscal 2013 budget; (3) ¥890 million)

(1) In addition to taking steps to develop a safety net for business stabilization, (1) [courses aimed at modernizing management techniques were held in eight locations nationwide, and a health and safety manager training course was also held in one location to help prevent industrial accidents]. Efforts were also made to enhance technological capabilities by providing support (3 cases) for the commercialization of new technologies through the Japan Railway Construction, Transport and Technology Agency (JRTT).

(2) All 37 shipyards and shipbuilders on the Pacific coast of Tohoku together suffered devastating damage in the Great East Japan Earthquake, as did many shipbuilding-related businesses. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, supported the utilization of the Subsidy for Restoration and Reconstruction of (Groups of) SMEs, and helped in the procurement of materials and equipment needed for the prompt recovery of their facilities. Additionally, to promote the reconstruction of local shipbuilding industries that make a significant contribution to the fishery industry in disaster-affected areas, funds were set aside and a subsidy program was created for groups of small and medium shipbuilding businesses that contribute to the fishery industry in areas where the industry is a core industry but face reconstruction difficulties due to ground subsidence, as well as for assisting with the costs of constructing and repairing facilities to be used jointly by the businesses and for constructing berthing facilities. (2) [Subsidy for reconstruction assistance projects in the shipbuilding industry]

(3) Subsidies were provided for 34 research and development projects (including 13 involving the participation of SMEs) for marine resource development technologies that contribute to the strategic growth of Japan's maritime industries and for world-leading marine environment technologies for reducing CO2 from vessels. (3) [Subsidy for R&D for technologies related to the maritime industry]

Section 3 Measures for small and medium building contractors and realtors

1. Management Strategy Advisory Program for Construction Enterprises, etc.

[Fiscal 2014 budget: ¥190 million]

To shore up small, medium-sized and second-tier construction companies and construction-related companies (surveying, construction consultancy and geological surveying businesses) that support local communities such as by improving, maintaining and operating social capital and contributing to disaster prevention and mitigation, management strategy help desks have been set up and advice was provided by specialists such as SME management consultants and certified public accountants to help resolve management issues such as new business development and technical issues such as construction management.

Additionally, priority support was provided to model initiatives to advance into the infrastructure maintenance sector or otherwise expand into new businesses or undergo reorganization. This included ongoing support (team advice assistance) by support teams made up of specialist advisors until certain goals, such as the formulation of a management reform plan, are reached, and partial support (step-up assistance) was provided to assist with the operating costs involved in regional problem solving using the expertise held by construction companies.

2. Financial support in the construction industry

(1) Implementation of the Local Construction Management Enhancement Loan Program

To further facilitate funds procurement by construction companies acting as the main contractor, the operating period of the Local Construction Management Enhancement Loan Program was extended to the end of fiscal 2015 to provide assistance with financial burdens such as the interest payable on loans when small and medium-sized construction enterprises or second-tier construction companies procure funding using equity such as the contract value credit from public works as collateral.

(2) Implementation of the Subcontracting Receivables Protection Support Program

The operating period of the Subcontracting Receivables Protection Support Program, which was implemented to facilitate the procurement of funding and the protection of receivables held by building subcontractors and similar enterprises, was also extended to the end of fiscal 2015. The main purpose of this program is to minimize risk and compensate for losses by small, medium-sized and second-tier building subcontractors when a receivable payable to a building subcontractor by the main building contractor for subcontracted building work is guaranteed by a factoring company.

(3) Implementation of the Financial Assistance Program to Disaster-proof the Construction Industry

The Financial Assistance Program to Disaster-proof the Construction Industry has been implemented to provide financial support for the interest payable on funding procured by small, medium-sized and second-tier construction enterprises who have entered into disaster agreements with the national government or a

regional public body when those enterprises purchase certain construction machinery using borrowed funds or installment payments.

3. **Support for overseas business expansion in the construction industry**
[Fiscal 2014 budget: ¥20 million]
Seminars on overseas expansion (seminars on formulating overseas expansion strategies) were held, and overseas visits (dispatch of missions) were organized, to support overseas expansions by second-tier and SME construction companies. Information on overseas construction and real estate markets was also introduced through free expert consultations (advisory activities) and through former members from Japanese general contractors and other private sector personnel (private attachés) who are knowledgeable about local situations.

4. **Program to cultivate craftsmen skilled in timber-framed building construction and improve technical skills**
[Fiscal 2014 budget: ¥800 million]
Support was provided for measures such as technical courses that help to cultivate new skilled carpenters and improve the skill levels of incumbent skilled carpenters.

5. **Financial measures for small and medium realtors**
Loan guarantee programs designed to provide guarantees for business loans for regional revitalization and for loans to fund joint initiatives by small and medium realtors were continued so as to supplement credit and facilitate financing of small and medium realtors.

6. **Program to enhance wooden housing production systems in the regions (local home branding program)**
[Fiscal 2014 budget: Included in ¥9.0 billion, Fiscal 2014 supplementary budget: ¥1 billion]
Support was provided for the development of long-life, quality wooden housing by groups comprising businesspersons in related fields involved at all stages from provision of materials including local raw materials through to design and implementation.

7. **Promotion of information supply in pre-owned real-estate dealings**
[Fiscal 2014 budget: ¥50 million]
The operators of real estate and housing businesses, in cooperation with other specialist business owners, supported model businesses that engage in: (1) the disclosure of property information by the vendor; and (2) the collection and interpretation of property information by the purchaser.

8. **Program for developing a framework for wooden housing construction techniques**
[Fiscal 2014 budget: Included in ¥9.0 billion]
Support was provided for the development of long-life, quality wooden housing by groups comprising businesspersons in related fields involved at all stages from provision of materials including local raw materials through to design and implementation.

Section 4 Measures for the environmental sanitation business

1. **Measures for the environmental sanitation business**
[Fiscal 2014 budget: ¥1 billion]
Subsidies were provided to environmental sanitation associations, the national environmental sanitation guidance center, and prefectural environmental sanitation guidance centers, to promote the creation of safe and comfortable lifestyle environments from the perspective of sanitation. Support was provided specifically for rehabilitating the management of environmental sanitation businesses such as the hairdressing, dry cleaning and restaurant businesses, maintaining and improving sanitation standards, and protecting user and consumer interests. Under the fiscal 2014 budget, particular focus was placed on initiatives to revitalize local communities through inter-industrial cooperation among environmental sanitation operators.

2. **Loans for ES businesses**
[Fiscal 2014 budget: ¥1.88 billion]
The JFC provided low-interest loans (environmental sanitation loans) with the aim of improving and otherwise promoting public health by providing financial assistance to environmental sanitation businesses. In fiscal 2014, the terms of the loans were improved, such as by raising the ceiling on lo managerial improvement loans for environmental sanitation businesses from ¥15 million to ¥20 million. Under the fiscal 2014 supplementary budget, loans for business startups were integrated and expanded, and loan rates were lowered for businesses that are impacted by rising costs of raw materials and energy.

Section 5 Environmental and energy measures

1. **Administrative support for the system for certifying greenhouse gas reductions by SMEs (J-Credit Scheme)**
[Fiscal 2014 budget: ¥620 million]
The J-Credit Scheme is a system for certifying the amounts of greenhouse gas emission reductions achieved through capital investment by SMEs

as "credits", and assistance was provided with administering the scheme and formulating business plans.
This program also develops the foundation for the carbon offset mechanism whereby CO2 emissions from products and services are offset with carbon credits, by taking advantage of the "visualization" of carbon emissions from products by the Carbon FootPrint (CFP) system, and promoted demand for the credits created under the J-Credit Scheme.
By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program achieved a good balance between the environment and economy.

2. **Promotion of environment-conscious business activities based on the "visualization" of CO2 emissions and carbon credits**
[Fiscal 2014 budget: ¥120 million]
Where businesses such as SMEs have used the CFP system to calculate and visualize the amount of carbon dioxide that is emitted from products throughout their life cycle, from the procurement of their raw materials to their disposal and recycling, and have offset the amount with carbon credits, support was provided to promote awareness of those products as carbon-offset products through initiatives such as dedicated labeling symbolizing government approval.
The collection of such labels has driven environmentally friendly business activities by SMEs and micro-businesses, such as by setting up schemes to return environmentally friendly products and services to schools and other local organizations and encouraging consumers to purchase environmentally friendly products. Thirty three businesses participated in this system through 53 schemes.

3. **Environment and Energy Measure Fund (for anti-pollution measures)**
[fiscal investment and loan program]
To promote anti-pollution measures by SMEs, the JFC provides low-interest loans to businesses who install pollution prevention equipment.
In fiscal 2014, the period of the scheme was extended to 31 March 2015 upon conducting a necessary review.
[Financial results] (April 2014 to January 2015)

	Projects	Funding
Atmospheric pollution related	6 projects	¥188 million
Water contamination related	4 projects	¥407 million
Industrial waste/ recycling-related	63 projects	¥2.995 billion
Automotive NOx/PM law-related	5 projects	¥114 million

4. **Anti-pollution tax system**
[taxation scheme]
The tax measures provided to support anti-pollution initiatives undertaken by SMEs included the special exemption of anti-pollution equipment from the tax base for fixed asset tax, and special depreciation for acquisitions of anti-pollution equipment. These special provisions were continued in fiscal 2014.

5. **Energy Use Rationalization Business Support Program**
[Fiscal 2014 budget: ¥41.0 billion]
Subsidies were provided for the costs required for low-energy modifications to existing infrastructure, such as improvements to manufacturing processes and the substitution of the latest low-energy equipment in factories and workplaces. From fiscal 2014, costs related to measures for dealing with peak load and reducing energy consumption using energy management systems have been newly included in the scope of the subsidies.

6. **Program to promote the installation of designated equipment to rationalize energy use**
[Fiscal 2014 budget: ¥2.4 billion]
To promote the installation of energy-saving equipment and leading devices in the industrial sector, this program subsidized the interest payments on financing received from private financial institutions. From fiscal 2014, a strong boost was also given to promote low-energy investments by regional small, medium-sized and second-tier enterprises making serious efforts to reduce their energy consumption in collaboration with regional private financial institutions.

7. **Subsidy for the introduction of energy-saving facilities by regional plants and SMEs**
[Fiscal 2014 supplementary budget: ¥92.95 billion]
A budget was allocated to support the promotion of energy conservation through the introduction of the latest energy-saving facilities and equipment or the upgrade and renovation of existing facilities in regional plants, offices and stores that are suffering from the continuing high costs of energy. SMEs will be particularly strongly supported, such as by offering a higher subsidy rate, and a platform will be created that would allow detailed regional response to consultations regarding energy conservation.

8. **Program for promoting the introduction of energy-saving measures**
[Fiscal 2014 budget: ¥550 million]
This program implemented measures such as assessments to identify potential energy savings by SMEs and similar businesses. To further support energy saving initiatives by SMEs, the program

enhanced cooperation with financial institutions to distribute information via a range of media on energy-saving technologies and case studies taken from energy assessments.

9. Taxation scheme to promote environment-related investment
[taxation scheme]
A taxation scheme has been established, which offers individuals and corporate entities that file a blue tax return a 30% special depreciation or a 7% tax credit (SMEs only) during the first year for the cost of acquiring facilities that contribute to promoting energy conservation and recycling. The system furthermore provides a taxation scheme that allows a special depreciation (immediate depreciation) of the cost of acquiring solar or wind power generation facilities in addition to the normally allowed depreciation limit, if those facilities are thereafter used for business.

10. Subsidies for rationalization of energy use (for demonstration by micro businesses)
[Fiscal 2014 budget: ¥380 million]
To promote energy-saving measures by micro businesses, support will be provided through partial subsidies for the costs incurred by micro businesses in installing highly energy-efficient equipment and facilities. Support was provided to 1,138 projects in fiscal 2014.

11. Program to create a fund to promote regional low-carbon investment
[Fiscal 2014 budget: ¥4.6 billion]
In order to call in private funding to low-carbon projects such as renewable energy projects that are likely to be profitable but lack sufficient private funding due to risks stemming from long lead times or long investment recovery periods, funding was provided from the low-carbon investment promotion fund.

12. Eco-Lease promotion program for homes and businesses
[Fiscal 2014 budget: ¥1.8 billion]
The widespread adoption of low-carbon devices was supported through a no-deposit lease scheme targeted at homes and businesses (including SMEs) that have difficulty coping with the very high initial investment costs (deposits) when installing low-carbon devices.

13. Eco-Action 21
The Eco-Action 21 scheme is an environmental management system that is readily accessible to second-tier businesses and small and medium enterprises. As of the end of December 2014, almost 8,000 businesses had been approved and registered for the scheme. Based on the Eco-Action 21 scheme, a program dedicated to CO2 reduction was operated on a test basis, and 250 second-tier companies and SMEs commenced environmental management.

Section 6 Promotion of the adoption of IT

1. Lending by governmental financial institutions for investment in IT (IT Fund)
[fiscal investment and loan program]
The JFC acted as a reliable source of lending to enable SMEs to keep up with changes in the business environment associated with the spread of and changes in IT and digital content.
In fiscal 2014 (as of the end of February 2015), loans were provided to 3,887 projects, amounting to a total of ¥42.1 billion.

2. Promotion of IT management by SMEs
[Fiscal 2014 budget: Included in ¥380 million]
In order to promote innovation by applying IT to corporate management, the development of new products and services, and collaborations between companies, best practices were collected and disseminated through the IT Management Awards for Small and Medium Enterprises.

3. Support program for demonstrating the utilization of energy-saving cloud systems by SMEs
[Fiscal 2014 budget: Included in ¥3.5 billion]
Amid growing global demand in the data center sector, support was provided for the transfer of existing on-premises information systems to an energy-saving cloud-type data center, as a measure for responding to the intensifying power demand-supply situation and for enhancing business continuity and strengthening international competitiveness.

4. SME instructor training seminars
[Fiscal 2014 budget: Included in ¥380 million]
The Ministry of Economy, Trade and Industry engaged the services of Information Technology Promotion Agency, Japan (IPA) to hold seminars intended for personnel who are in a position to provide guidance to SMEs. The seminars were held in 20 locations throughout Japan, and aimed to train instructors who can provide advice on information security. The study materials used in these seminars were widely disseminated via the iSupport information security support site.

Section 7 Measures on intellectual property

1. Surveys of technical trends of patent application
[Fiscal 2014 budget: ¥1.17 billion]
To assist in the development of R&D strategies and IP strategies in Japan's industries, trends in patent applications were surveyed and were made publicly available via such sources as the Japan Patent Office's website. In fiscal 2014, 20 technological themes were surveyed, mainly related to biomimetics and other technical sectors that are garnering social attention, and power semiconductor devices and related technical sectors in which patent applications by China are rapidly increasing.

2. International Patent Application Subsidy (support for international patent applications by SMEs)
[Fiscal 2014 budget: ¥460 million]
In order to encourage SMEs to file strategic applications for international patents, subsidies were provided to partially defray the costs incurred (such as application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) by SMEs aspiring to expand their business overseas. In addition to prefectural SME support centers, support was also provided by JETRO, which was newly included as a new nationwide regional implementation body. Subsidies have been provided to a total of 559 cases (as of the end of January 2015).

3. Promotion of the wider use of IP systems
[Fiscal 2014 budget: ¥80 million]
Information sessions were held for individuals, tailored according to their different levels of knowledge and expertise on the intellectual property system. These included sessions outlining the IP system and explaining basic knowledge for beginners, along with sector-specific sessions with more specialized content for people with some experience, looking at topics such as the examination criteria for patents, designs, and trademarks, the application of the trial system and procedures for international applications. Information sessions on legal reforms were also held, to widely explain the latest changes to IP-related laws and regulations.
In fiscal 2014, 55 information sessions for beginners were held in 47 prefectures, and 61 information sessions for working-level personnel were held in major cities throughout Japan, in addition to 15 information sessions on legal reforms.

4. Program supporting measures by SMEs to counter overseas infringement
[Fiscal 2014 budget: ¥60 million]
To promote the timely and appropriate exercise of rights overseas by SMEs, partial assistance was provided via JETRO with the costs incurred by SMEs when patents or trademarks they have registered overseas are violated, including infringement investigations to identify the manufacturer of the imitation products and their distribution channels. From fiscal 2014, the drafting of warning statements to persons responsible for the violation and costs incurred through to political exposure were also included within the scope of the program. The program provided support to 11 cases in fiscal 2014.

5. Patent strategy portal site
[Fiscal 2014 budget: ¥10 million]
The patent strategy portal site on the Patent Office's website provides online access to "data for self-analysis", which includes individual data on the number of patent applications, the number of examination requests, and the patent allowance rate over the preceding 10 years, for applicants who have applied for a password. As of the end of March 2015, approx. 1,300 companies had applied for a password.

6. Reductions in patent fees for SMEs
(1) SMEs actively pursuing R&D continued to be subsidized through the reduction by half of examination request fees and patent charges (for 10 years from the first year).
(2) Two new measures were also implemented for small and medium venture enterprises and micro-businesses. One measure reduces examination request fees, patent charges (for 10 years from the first year), and administrative charges for overseas patents (administrative charges for investigations, forwarding and preliminary examinations) by one third, and the other measure subsidizes amounts equivalent to two-thirds of the amount paid in international patent administration fees and handling fees.

7. Accelerated examination and accelerated appeal examination system
In cases where the applicant or appellant is an SME or micro-business, a system was adopted whereby examinations and appeal examinations could be fast tracked by filing an "explanation of situation for accelerated examination" or "explanation of situation for accelerated appeal examination."

8. Provision of a one-stop IP service for SMEs (General IP Help Desks)
[Fiscal 2014 budget: ¥2.19 billion]
"General IP Help Desks" have been established in each prefecture and staffed by support staff in order to

provide a one-stop service for on-the-spot resolution of IP concerns and problems encountered by SMEs in the course of business administration. The use of IP by SMEs was further promoted by such means as using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies and similar organizations, and identifying SMEs and other enterprises that are not making effective use of IP. From fiscal 2014, patent attorneys and lawyers were begun to be regularly assigned to all help desks, to strengthen the framework for ensuring prompt responses to specialized consultation matters. The number of consultations handled by the help desks reached 123,370 in fiscal 2014 (as of the end of January 2015).

9. Development of a one-stop support framework for trade secrets ("Trade secret/IP strategy consultation center—Trade secret hot line—") [INPIT subsidy]

The "Trade secret/IP strategy consultation center—Trade secret hot line—" was newly established in the National Center for Industrial Property Information and Training (INPIT) on February 2, 2015. In cooperation with the IP comprehensive support center, it responds to consultations mainly from SMEs regarding IP strategies such as matters regarding patent acquisition and confidentiality matters and the management of trade secrets, through IP experts. A framework of cooperation has also been established with the National Police Agency and Information Technology Promotion Agency, Japan (IPA), to respond to consultations regarding leakages and outflows of trade secrets, information security measures and cyberattacks.

10. Emerging Country IP Information Databank [Fiscal 2014 budget: ¥30 million]

This is an informational website aimed at legal and IP managers in Japanese enterprises doing business in developing countries and similar regions. Its purpose is to provide a wide range of IP information for various developing countries, including information on application procedures, examination and litigation procedures, licensing procedures and statistical and institutional trends.

In fiscal 2014, new content was created focusing primarily on the ASEAN and BRICs countries (mainly India, Indonesia, Thailand, Philippine and Hong Kong). (No. of content items as of the end of February 2015: 1,048)

11. Promotion of the acquisition of rights through the sophisticated use of IP information [Fiscal 2014 budget: INPIT subsidy]

To provide support directed at enabling the use of intellectual property in their overseas business expansion, experts in IP management ("Global IP Producers") were assigned to the National Center for Industrial Property Information and Training (INPIT) to assist SMEs and other enterprises with promising technologies that are likely to drive overseas expansion. This support included the formulation of IP strategies tailored to the nature of the overseas operations and factors such as the situations and systems in the target countries.

In fiscal 2014, 211 applicants were assisted by six overseas intellectual property producers (as of the end of February 2015).

12. On-site and TV interview examinations [Fiscal 2014 budget: ¥10 million]

To provide support to staff in small and medium venture enterprises throughout Japan, onsite interview examinations were held by inspectors sent to interview venues across Japan, and TV interview examinations were held via the Internet using the applicants' own PCs.

*The budget for TV interviews are included in the budget for onsite interviews, as the budget for onsite interviews is ¥10 million, and that for TV interviews is ¥2 million.

Chapter 7 Towards effective implementation of SME and micro-business policy

Section 1 Enhancement of management support

1. **Programs promoting measures to support cooperative SME organizations**
[Fiscal 2014 budget: ¥560 million]
Where partnerships or other associations were working on management innovation and/or reforms through the National Federation of Small Business Associations, which is a dedicated agency assisting cooperative SME organizations, support was provided that included partial subsidies for the costs of implementing those innovations or reforms, along with training for instructors.

2. **Support for capital investment through advancement programs integrated with business support**
Where SMEs work jointly to establish business cooperatives in order to shore up their administrative platforms and improve their business environment, the SMRJ and prefectural governments collaborated to provide diagnoses and advice on business plans together with long-term, low-interest (or interest-free) loans to fund the required capital expenditure.

3. **One-stop comprehensive support programs for SMEs and micro-businesses**
[Fiscal 2014 budget: ¥4.12 billion]
"Yorozu support centers" have been set up in each of the 47 prefectures in June 2014 to provide management advice in collaboration with various regional support agencies, while specialist advisors were dispatched to deal with advanced specific management issues. A framework has also been created to provide management consultation through the "Mirasapo" portal website.

4. **Support package programs for micro businesses**
[Fiscal 2014 supplement budget: ¥25.22 billion]
A budget has been allocated to support sustainable management in micro-businesses. This includes the provision of support through the "micro-business sustainability subsidy," which subsidizes the costs of cultivating markets in concert with commerce and industry associations and chambers of commerce industry, and support for market cultivation via specialty product fairs and antenna shops that sell products made using local resources.

5. **Program to foster personnel and support personnel for micro businesses**
[Fiscal 2014 budget: ¥470 million]
Training was carried out throughout Japan with the objective of enabling business advisors who support micro-businesses to analyze the strengths of each micro-business and propose and implement measures tailored to those strengths.
Additionally, next-generation manager candidates in small and medium service providers were given opportunities to experience the essence of successful enterprises, and measures were taken to develop community-based personnel who are capable of formulating and coordinating plans for the revitalization of local service industries.

Section 2 Promotion of surveys and public information activities

1. **Publicizing of policy**
To publicize SME policy, pamphlets and leaflets summarizing the main points were produced and distributed to local governments, SME support agencies and financial institute, etc. Further publicity was generated by staging SME Agency for a Day events.

(1) Publication of booklets
Guidebooks for utilizing SME policies have been produced, including the "Guide to the Use of SME Policy," which contains an introduction of more than 200 policies, and pamphlets on specific policies. These have been distributed to a wide range of interested parties, including SMEs, local government bodies, SME support agencies (commerce and industry associations, chambers of commerce and industry, etc.), financial institutions, and certified public tax accountants, lawyers, certified public accountants, and SME management consultants who provide support to SMEs.

(2) Publication of flyers
Summary materials that explain the fiscal 2014 supplementary budget, fiscal 2015 budget and taxation schemes for SMEs and micro-businesses were created, in addition to flyers on topics related to the fiscal 2014 supplementary budget and fiscal 2015 budget, such as "manufacturing support," "micro-business support" and "business start-up support." A total of 3.8 million copies of these materials and flyers were published and widely distributed.

(3) Explanation of subsidies and other support measures via video
Officers from the SME Agency provided explanations of 21 policies of the fiscal 2014 supplementary budget

and fiscal 2015 budget that relate to SMEs and micro-businesses via a video presentation.

(4) Organization of "One-day SME Agency" events
Co-hosted by the SME Agency and host prefectures, these events were held both to explain the latest measures to local SMEs and deepen their understanding of the measures. The events also provided a forum for exchanges of ideas and interaction, which contributed to future revisions and improvements in SME policy. These events have been held every year since 1964 and were held in Wakayama prefecture and Nagano prefecture in fiscal 2014.

(5) Online publicity activities
1) Website based publicity
The SME Agency website hosted up-to-date information on SME measures, information on public offerings, and publicity materials such as flyers and booklets. In fiscal 2014, the website received around 35 million page views for the year.
2) E-mail newsletters
The e-mail newsletter was produced in association with SME support agencies and sent out to subscribers every Wednesday. It showcased dynamic SMEs and contained policy information, local updates and information on topics such as surveys and research reports. The e-mail newsletter has roughly 85,000 registered readers (as of the end of February 2015).
3) Mobile SME Agency
The Mobile SME Agency is specifically for mobile phone users and operated as a search site for SME policy, providing information on subjects including the latest SME support policies. In fiscal 2014, the Agency received around 13,000 page views for the year. An e-mail newsletter formatted for mobile phones is also distributed every Wednesday. The mobile phone newsletter has around 2,800 registered readers (as of February 2015).

(6) J-Net21 (portal site for SME business support)
J-Net21 operated as a portal site for SME support and provided a service system that allows quick and straightforward access to required information sources.

2. Production of the White Paper on Small and Medium Enterprises in Japan and the White Paper on Small Enterprises

In order to ascertain the current situation for SMEs and the challenges that they face, an annual report (2014 White Paper on Small and Medium Enterprises in Japan) was produced in accordance with the provisions of Article 11 of the Small and Medium-sized Enterprise Basic Act. Also to ascertain the current situation for small enterprises and the challenges they face, discussions were held toward the publication of an annual report (2015 White Paper on Small Enterprises) in accordance with the provisions of Article 12 of the Small Enterprises Promotion Act that came into force in June 2014.

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-sized Enterprise Basic Act, and provided statistics concerning management and financial information such as SME sales figures and numbers of workers employed by SMEs.

4. Publication of the Survey on SME Business Conditions

The Survey on SME Business Conditions is published quarterly by the SMRJ to ascertain business trends among SMEs.

SME policies planned for fiscal 2015

Contents

SME policies planned for fiscal 2015

This section gives only a broad outline of program content and spending. Details are subject to change.

Chapter 1 Recovery and restoration of the Great East Japan Earthquake affected regions

Section 1 SMEs and micro-businesses measures with respect to the Great East Japan Earthquake affected regions

1. **Great East Japan Earthquake Recovery Special Loan**
[Fiscal 2015 budget: Included in ¥20.1 billion]
The Great East Japan Earthquake Recovery Special Loan program, which has been provided by the Japan Finance Corporation (JFC; SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank since May 2011 to assist SMEs and micro-businesses affected by the Great East Japan Earthquake with their cash-flow issues, will continue to be provided in fiscal 2015. Those measures that were created in fiscal 2011 (measures as of 22 August 2011) for implementation by prefectural-level foundations and similar institutions to effectively eliminate the burden of interest payments on loans received by SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima, and for SMEs and micro-businesses with business establishments and other assets that were completely destroyed or swept away by the earthquake or tsunami, will be continued in fiscal 2015. (Ongoing)

2. **Loan ceilings and lowering of interest rates on Managerial Improvement Loans (Marukei loans) and Managerial Improvement Loans for Environmental Health Business Loans (Eikei loans)**
[fiscal investment and loan program]
The loan ceilings for unsecured, unguaranteed and low-interest Marukei and Eikei loans provided by the JFC to micro businesses affected directly or indirectly by the Great East Japan Earthquake that were raised (by ¥10 million separately from ordinary loans) and the interest rates that were lowered (by an additional 0.9% from the normal interest rate for each ¥10 million loaned separately, limited to 3 years from when the loan is taken out) will continue to be implemented. (Ongoing)

3. **Great East Japan Earthquake Recovery Emergency Guarantee**
To assist SMEs and micro-businesses affected by the Great East Japan Earthquake, a new guarantee system was established in fiscal 2011 as a separate framework from existing ordinary guarantees, disaster-related guarantees and safety net guarantees. The system will continue to be implemented in fiscal 2015 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). (Ongoing)

4. **"Special Finance for Small and Medium Enterprises in the Specified Area" affected by the nuclear disaster**
In order to assist SMEs and other businesses that have offices in regions affected by the nuclear power plant accident, long-term, interest-free, unsecured loans were offered to provide business funds (working capital and capital expenditure) required to continue or resume business in Fukushima prefecture. (Ongoing)

5. **Business revival assistance from Industrial Recovery Consultation Centers and Industry Reconstruction Corporations**
[Fiscal 2015 budget: ¥3.06 billion]
Support will continue to be provided to assist the revival of SMEs and other entities that suffered damage due to the Great East Japan Earthquake through Industrial Recovery Consultation Centers, which were established in fiscal 2011 in the affected prefectures to enhance the framework of SME Revitalization Support Councils, and Industry Reconstruction Corporations, which engages in purchasing receivables, etc. (Ongoing)

6. **Business revival assistance from the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake**
To cope with the overlapping debt problems of earthquake-affected businesses, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake has provided assistance such as helping to relieve the repayment burdens for existing debts. (Ongoing)

7. **Reduction of interest burden during assessment of the potential for business regeneration**
[Fiscal 2015 budget: ¥18.4 billion]
This program supports the early business revival of SMEs and micro-businesses that have suffered damage in the Great East Japan Earthquake or the nuclear power plant accident in Fukushima, by reducing the interest burden of those who work with an Industrial Recovery Consultation Center to rebuild their business. More specifically, with respect to businesses that have received assistance from an Industrial Recovery Consultation Center to formulate

a regeneration plan, the program defrays the cost of interest they incur during the reconstruction process. The program was established in fiscal 2011 and will be implemented ongoingly in fiscal 2015. (Ongoing)

8. Lease subsidy program to support SMEs in disaster-affected areas

In order to reduce the burden of overlapping debt borne by disaster-affected SMEs, SMEs burdened with lease obligations due to leased equipment that was lost during the Great East Japan Earthquake will be provided with subsidies equivalent to 10% of the cost of the new leases to re-install the equipment. (Ongoing)

9. Post-disaster recovery project on joint facilities of small and medium business associations, etc.

[Fiscal 2015 budget: ¥40 billion]

In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, support will be provided through the following subsidies:

(1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment; and

(2) Subsidization by the national government of (one half) the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs, and support recovery of facilities held by groups of disaster-affected SMEs and others. (Ongoing)

10. Loans for restoration and development of facilities and equipment

Loans are provided by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) in cooperation with the prefectures to provide funds needed for the repair and development of the facilities and equipment required for the implementation of prefecture-approved restoration plans by SMEs that suffered damage caused by the Great East Japan Earthquake. (Ongoing)

11. Maintenance project of temporary plants and stores

[Fiscal 2015 budget: Included in ¥1.47 billion]

In regions that have not yet reached the stage of full-scale reconstruction, temporary facilities will continue to be provided for businesses that must necessarily rely on such facilities to resume business. Additionally, to ensure effective utilization of temporary facilities, local governments in disaster-affected regions will be given a subsidy to cover part of the cost of constructing, relocating, dismantling and removing such facilities. (Ongoing)

12. Waivers of advancement loans

To assist SMEs that have suffered damage in the Great East Japan Earthquake, waivers of existing debts on advancement loans will be provided to promote their smooth settlement of payments. (Ongoing)

13. Program to create employment that promotes business recovery

[Fiscal 2015 budget: ¥12.2 billion]

In order to create stable employment in disaster affected areas, support will be provided in the area of employment in accord with industrial policies. Additionally, the program will be expanded so that a certain amount of subsidy could be provided for relocation costs. (Ongoing)

14. Establishment of special help desks

Special help desks have been set up at offices of the JFC, the Shoko Chukin Bank, credit guarantee corporations, chambers of commerce and industry, federations of societies of commerce and industry, federations of small business associations, branches of SMRJ, and bureaus of economy, trade and industry nationwide to provide in-depth business and financial advice to SMEs and other entities affected by the Great East Japan Earthquake. (Ongoing)

15. Navigation dial for SME phone consultations

To help SMEs that do not know where to go for advice, a "Navi Dial for SME phone consultations" help line with a single number is available that connects callers to their nearest Bureau of Economy, Trade, and Industry. (Ongoing)

16. Consideration for SMEs in disaster-affected regions by the government and other public agencies

[Fiscal 2015 budget: ¥550 million]

Under the "Policy on State Contracts with Small and Medium Enterprises", which is formulated each fiscal year, consideration will be given to SMEs and micro-businesses in areas affected by the Great East Japan Earthquake. At the same time, the following measures will also implemented: (Ongoing)

(1) The Minister for Economy, Trade and Industry will issue a request regarding the Cabinet approval of the Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, prefectural governors, all municipal mayors, and the mayors of the Tokyo special wards, and will also request that they take steps to increase the opportunities available for SMEs and micro-businesses to receive orders.
(2) Information sessions (Councils to Promote Local Access to Public Sector Demand) will be held in 51 locations throughout Japan to actively raise awareness of the "Policy on Contracts" in regional areas.
(3) A "Guide to Contracts in the Public Sector" will be produced and distributed to central and local government agencies and other commerce and industry-related organizations.

17. Support provided by NEXI

In April 2011, Nippon Export and Investment Insurance (NEXI) introduced the following measures to assist SMEs affected by the earthquake: (1) postponement of insurance policy procedures, (2) deferment, reduction or waiver of insured parties' obligations, and (3) reduction or elimination of the financial burden on insured parties. To deal with the damage caused by harmful rumors, NEXI also published specific examples of losses arising from the restriction or prohibition of import of goods on the grounds of radioactive contamination, which would be covered by trade insurance. These examples include cases of importation being limited or prohibited by the introduction of new regulations and cases of illegal or discriminatory treatment by the government of destination country. A consultation service was also set up inside NEXI to provide advice (available also to non-enrollees in trade insurance) on how to deal with harmful rumors. (Ongoing)

18. Employment development subsidies for disaster victims

[Fiscal 2015 budget: ¥1.93 billion]

Employment development subsidies for disaster victims was set up to pay subsidies to employers that hire workers who lost their jobs due to the Great East Japan Earthquake and job seekers living in affected areas as a result of referrals from "Hello Work" employment offices and similar agencies, provide that such workers are expected to be employed continuously for a period of at least one year. Bonus subsidies are additionally provided to employers hiring 10 or more such workers. (Ongoing)

19. Guidance and advice on measuring radiation levels

[Fiscal 2015 budget: ¥40 million]

As a countermeasure against harmful rumors regarding industrial and other products, a project will be implemented for dispatching specialist teams that provide guidance and advice on measuring radiation levels. (The guidance and advice consists of measuring surface contamination on items such as industrial products, or providing information on that measurement together with guidance and advice based on various analyses.) In fiscal 2015, new efforts will also be made to disseminate proper understanding of radiation measurements of industrial products. (Ongoing)

20. Support for business matching and product development related to industrial products

[Fiscal 2015 budget: ¥110 million]

To promote sustainable reconstruction of disaster-affected areas and the revitalization of their economies, support will be provided to develop markets (business matching, product development, etc.) both in Japan and abroad for local products produced in those areas. From fiscal 2015, the scope of the program will be restricted to all areas of Fukushima prefecture and areas inundated by the tsunami in Iwate and Miyagi prefectures. (Ongoing)

Chapter 2 Countermeasures for increases in raw material and energy costs brought about by the depreciation of the yen

Section 1 Fair transaction prices and measures against pass-throughs of consumption tax

1. Strengthening of the countermeasure package for pass-throughs of increases in raw material and energy costs

The "countermeasure package for pass-throughs of increases in raw material and energy costs," which was implemented in fiscal 2014 will be strengthened, and the following measures will be additionally implemented.

(1) Revision and thorough dissemination and education regarding the guideline for promotion of proper subcontracting

(2) Strict monitoring and enforcement of the Subcontractor Payment Act

2. Stricter enforcement of the Subcontractor Payment Act

[Fiscal 2015 budget: ¥550 million]

To ensure fair treatment of subcontractors and protect their incomes, the Fair Trade Commission (FTC) and SME Agency collaborates closely to enforce the Subcontractor Payment Act. In fiscal 2015, the FTC and SME Agency will again carry out audits of the documentation at principal contractors.

In addition, they will take steps to rigidly enforce the Subcontractor Payment Act by collecting information relevant to violations of the Act through an information declaration reception center that provides and receives information on the particulars of violations of the Act. Additionally, in the "Subcontractor Fair Treatment Promotion Month" held in November, rigorous compliance with the Subcontractor Payment Act will be encouraged by conducting special questioning. With the aim of securing the cash-flows of subcontractors as they move into the financially busy period at the end of the year, active measures will be taken to raise awareness of the Act by having the Minister of Economy, Trade and Industry and the FTC Commissioner jointly issue a statement calling for the fair treatment of subcontractors, with the statement being sent to the CEOs of principal contractors (around 200,000 companies) and the representatives of relevant business organizations (645 bodies). (Ongoing)

3. Strengthening consultation systems and raising awareness of the importance of fair subcontracting transactions

[Fiscal 2015 budget: ¥550 million]

Consultation services concerning SME transactions will be provided at the 48 Subcontracting Help Centers set up throughout Japan (5,473 consultations and 681 free consultations by lawyers in fiscal 2014). To prevent the occurrence of violations of the Subcontractor Payment Act, seminars will be held targeting the procurement managers at principal contractors to further raise awareness of the Subcontractor Payment Act etc., and symposiums and other events will be held throughout Japan to introduce examples of initiatives by principal contractors and promote broader adherence to the Subcontractor Payment Act. Furthermore, in fiscal 2015, approximately 500 information sessions will be held nationwide on the guidelines for building better business relationships between principal contractors and subcontractors (Guidelines for the Promotion of Fair Subcontracting Practices; 16 industries under the Ministry of Economy, Trade and Industry, the Ministry of Land, Infrastructure, Transport and Tourism, and the Ministry of Internal Affairs and Communications), in light of revisions that have been made in regard to the rising costs of raw materials, etc. for guidelines for all industries under METI and 14 industries under MIC.

4. Self-reliance support for SME and micro subcontractors

[Fiscal 2015 budget: ¥500 million]

Under the revisions to the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (20 September 2013), business plans designed to solve issues in collaborations between subcontracting SMEs and micro-businesses that are highly transaction-dependent on principal contractors will be certified and supported in the form of subsidies, loans and special exemptions for guarantees. In regions where production centers of principal contractors have closed or downsized (or are slated to close), support in the form of subsidies will be provided to subcontracting SMEs seeking to advance into new fields. (Ongoing)

5. Support for market expansion through subcontracting business mediation and business fairs

[Fiscal 2015 budget: ¥550 million]

Using Business Matching Stations (BMS), SMEs looking to solicit new clients will be provided with information on orders for contract manufacturing issued and received between enterprises for business

such as outsourced manufacturing in the SME's preferred industry and where the SME can provide the required equipment or technology. Wide-area information sessions will also be held to support new market development. (Ongoing)

6. Request for consideration toward small and medium subcontractors
[Fiscal 2015 budget: ¥550 million]
Courses and other events will be organized to raise awareness of the general standards (development standards) that subcontractors and principal contractors are expected to observe under the Subcontracting Promotion Act. Additionally, written requests will be issued to the representatives of relevant business organizations to ensure proper consideration is given to subcontractors. (Ongoing)

7. Programs to enhance monitoring and inspection regimes for consumption tax imputation
[Fiscal 2015 budget: ¥3.84 billion]
To ensure that consumption tax is passed through appropriately, 474 "cost pass-through inspectors" have been assigned throughout Japan. At the same time, to collect information such as on refusals to pass through the consumption tax, a written survey was carried out on all SMEs and micro-businesses in conjunction with the Fair Trade Commission (FTC), and other such measures to monitor and check for acts of refusals to pass-through the consumption tax. (Ongoing)

Section 2 Cash-flow assistance, business regeneration support

1. Detailed cash-flow assistance and business generation support
New lending systems were created and existing systems were expanded by the JFC and Shoko Chukin Bank under the fiscal 2014 supplementary budget that was approved on February 3, 2015. More specifically, generous cash-flow assistance that includes management support is being offered to businesses facing cash-flow difficulties and business promoting investments in energy conservation in response to the impacts of rising raw material and energy costs. Loans are also promoted for forward-looking regional initiatives, such as business startups by women and initiatives for smooth business succession, and for new businesses and employment creation by NPOs and other such organizations.
With respect to the credit guarantee system, Credit Guarantee Corporations in each region will be providing support that combines cash-flow assistance with management support under said supplementary budget. They will strengthen their initiatives for management support in cooperation with regional financial institutions, and promote refinancing guarantees through the management strengthening guarantee system, etc. Furthermore, prompt and flexible support will be provided to SMEs and micro-businesses affected by disaster based on Safety-net Guarantee No. 4. The credit guarantee system responds to damage in the event of a natural disaster, and has been given greater flexibility in terms of its operational criteria, so that safety-net guarantees may be approved at the same time the Disaster Relief Act is applied.
Business generation support will also be provided under the fiscal 2014 supplementary budget. The support framework of SME Business Rehabilitation Support Cooperatives in each region will be strengthened, and support for the formulation of drastic business regeneration plans by SMEs and micro-businesses will be accelerated. (New, Ongoing)

2. Safety net loans
The safety net loan program provides loans worth up to a total of ¥720 million (from JFC's SME Unit and the Shoko Chukin Bank) and ¥48 million (from JFC's Micro Business and Individual Unit) to SMEs that have experienced, for example, a temporary decline in sales or profits caused by the effects of changes in the social or economic environment. Under the fiscal 2014 supplementary budget, an interest rate incentive is being given to SMEs and micro-businesses experiencing cashflow difficulties amid the impacts of the high costs of raw materials and energy, in cases where their profit margin has declined or their severe business condition requires them to receive business support from an approved support agency. The incentive will continue to be offered in fiscal 2015. (Ongoing)

3. Managerial Improvement Loans (Marukei Loans) for micro businesses
[Fiscal 2015 budget: ¥3.98 billion]
[fiscal investment and loan program]
In order to provide financial support to micro businesses, the JFC provides unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. (Ongoing)

4. Micro business management development support loans
[Fiscal 2015 budget: ¥20 million]
[fiscal investment and loan program]
To respond to the demand of micro businesses for large financing needs up to ¥72 million, the JFC will provide low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry under a management development support plan certified based on the revised Small Business Support Act. (New)

5. Promotion of subordinated lending
[Fiscal 2015 budget: Included in ¥15.1 billion]
The subordinated lending program is a financing mechanism of the JFC, which solicits joint financing from the private sector to stabilize the financing of SMEs and micro-businesses by providing them with high-risk, long-term, "bullet loans" (capital funds) to enhance their financial underpinnings. Under the fiscal 2014 supplementary budget, the program was expanded to newly provide loans for business succession and overseas expansion, and will continue to be implemented in fiscal 2015. (Ongoing)

(Note) Loans under this program are limited bullet loans. In the event that the SMEs or micro-business taking out the loan enters legal bankruptcy, its repayment precedence is subordinated to other claims. By designing the program so that the interest rate is tied to the success rate for loan repayments in each period, these subordinated loans can be taken to be equity in financial inspections.

6. SME and micro-business management enhancement loan/guarantee program
[Fiscal 2015 budget: ¥1.1 billion]
On the premise that support is being provided by approved support agencies, the management of SMEs and micro-businesses will be strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate, or 0.65% below the standard rate for women, young people and senior business startups) for business startups, businesses diversification, and changes of business. (Ongoing)

7. Encouragement of refinancing guarantees
Refinancing guarantees will be promoted with the aim of encouraging credit guarantee corporations to consolidate multiple outstanding debts and relieve the repayment burdens at hand. (Ongoing)

8. Safety-net Guarantees (Nos. 4 & 5)
Safety-net Guarantee Nos. 4 and 5 call for credit guarantee corporations to provide guarantees separate from ordinary guarantees to SMEs and micro-businesses experiencing a management instability due to either a natural disaster in the case of Safety-net Guarantee No. 4 or an industrial structural slowdown in the case of Safety-net Guarantee No. 5 (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). In fiscal 2015, Safety-net Guarantee No. 4 was reviewed to give greater flexibility and speed to the system, such as by allowing safety-net guarantees to be approved at the same time the Disaster Relief Act is applied, and will provide prompt support to relevant businesses in the event of a disaster. Safety-net Guarantee No. 5 will be actively provided to SMEs in designated industries whose average monthly sales, etc., for the latest three months fall by a set proportion or more compared with the same period in the previous year. (Ongoing)

9. Expansion of SME credit insurance to NPOs that support local economies and employment
In recent years, NPOs have strengthened their presence as entities that support new employment and businesses in local communities, and are beginning to be acknowledged as main players capable of unearthing new local demand by resolving local issues and revitalizing local economies. As their activities hardly different from those of existing SMEs, the Small Business Credit Insurance Act will be amended to newly include NPOs in the scope of SME credit insurances, and other such necessary measures will be taken to further facilitate the financing of NPOs that engage in business activities related to medical care, welfare and childcare. (New)

10. Program to assist with formulating management reform plans by approved support agencies
To promote management reform by SMEs and micro-businesses that are unable to formulate management reform plans on their own, the program subsidizes part (two-thirds) of the costs they require to receive support and follow-up for the formulation of management reform plans by approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises. (Ongoing)

11. SME Revitalization Support Councils
[Fiscal 2015 budget: Included in ¥4.48 billion]
The SME Revitalization Support Councils established at the chambers of commerce and industry and similar entities in each prefecture will provide SMEs and micro-businesses that had profitable businesses but faced financial problems with advice on solving their problems through consultation services, and assist with the drafting of revitalization plans that also include coordination with relevant financial institutions and similar entities. Additionally, subsidy projects will be implemented to strengthen the support framework of SME Revitalization Support Councils and accelerate

the assisted formulation of drastic revitalization plans by SMEs and micro-businesses. (Ongoing)

12. SME Rehabilitation Plan through Succession (secondary companies)
[taxation scheme]
Where an SME rehabilitation plan through succession is authorized under the Industrial Competitiveness Enhancement Act and business succession occurs as set out in that plan, measures will be implemented to reduce the tax burden and support financing, along with special provisions for permissible succession. (Ongoing)

13. SME revitalization funds
In order to deliver the funds needed by SMEs to implement their revitalization plans and provide them with financing and management support, the SMRJ, regional financial institutions, and credit guarantee corporations in unison will promote the establishment and utilization of regional funds to assist local SMEs' revitalization efforts and national funds to assist SMEs' revitalization efforts over a wide area. (Ongoing)

14. Promotion of the use of "Guidelines for Personal Guarantees Provided by Business Owners"
[Fiscal 2015 budget: ¥100 million]
To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, the help desks that were set up in the regional headquarters of the SMRJ in fiscal 2013 and the system for dispatching specialist advisors for people who want to use the guidelines will continue to be implemented. Financing and guarantee systems that are independent of business owner guarantees by public sector financial institutions, which were created or enhanced in fiscal 2013, will also continue to be implemented. Additionally, to ensure the guidelines are absorbed and retained as part of financing practices, case examples of initiatives that should be widely taken will be continuously collected and published. (Ongoing)

15. Enhanced management support for financial administration among SMEs
To promote support for the growth of enterprises and industries via financial administration, support for management reforms, productivity improvement and the financial standing of micro businesses, financial institutions will be encouraged to provide enhanced management support to micro businesses. Based on the financial monitoring policy, they will be encouraged to provide loans based on proper assessment (business assessment) of the business performance and growth potential of borrower companies without relying more than necessary on securities and guarantees, in addition to providing consultation services. (Ongoing)

16. Promote liquidity of SMEs' export receivables covered by trade insurance
To promote the financing of SMEs, NEXI is collaborating with the Shoko Chukin Bank and other related agencies through initiatives such as partial waivers of certain obligations of insured parties, including the obligation to recover an insured export receivable that has been transferred from an SME to a financial institution after the insured event (i.e., the obligation to seek to recover monies even after receipting the payment of the insurance claim following the insured event). (Ongoing)

17. Support for SMEs in Okinawa
Regarding support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), ODFC operated the same range of programs as JFC and also expand its own system of lending tailored to meet the specific needs of businesses in Okinawa. (Ongoing)

18. Adoption and application of "Basic procedures for SME accounting"
The adoption and application of the "Basic procedures for SME accounting" will be promoted so as to encourage SMEs to clarify their business conditions, improve the ability of proprietors to explain their business, and strengthen their ability to obtain financing. As a dissemination measure, the 0.1% discount on credit guarantee rates will continue to be provided in fiscal 2015 to SMEs and micro-businesses that adopt the "Basic procedures" as their accounting rule. (Ongoing)

Section 3 Enhancing financial capacity

1. Lowering of reduced tax rate for SMEs
[taxation scheme]
The measure to lower the reduced rate of corporation tax payable by small and medium corporations (applicable to up to ¥8 million of annual income) from 19% to 15% will be extended two years under the fiscal 2015 tax reform. (Ongoing)

2. SME investment promotion tax system
[taxation scheme]
This system will continue to offer a 30% special depreciation or a 7% tax credit for the base price of the purchase of set items of machinery or equipment. In cases where the machinery or equipment leads to productivity improvement, the measure to allow for the immediate depreciation or a 7% tax credit (10% for corporate entities with a capital of no more than ¥30 million) will continue to be implemented. (Ongoing)

3. **Special provision for inclusion of SMEs in charges against revenue of acquisition cost of petty sum depreciable assets**
[taxation scheme]
The special provision that allows enterprises such as SMEs to include in full depreciable assets worth less than ¥300,000 in charges against revenue (limited to a total of ¥3 million a year) will continue to be implemented. (Ongoing)

4. **Carryover and refund carryback of loss**
[taxation scheme]
With respect to the scheme that allows loss arising in the current business year to be deducted as a loss carried over from the amount of income in the following and subsequent business years, the fiscal 2015 tax reform continued to set the amount of total income as the maximum deduction amount, while extending the 9-year carryover term to 10 years (apply to losses arised for the business year starting after April 2017). The measure that allows businesses to receive a one-year carryback refund for losses arising in the current business year will also be continued. (Ongoing)

5. **Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries**
[taxation scheme]
The tax measure that allows SMEs in the commercial and service industries that make a capital investment based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit will be continued (the tax credit is offered only to SMEs and individual proprietorships with a capital of no more than ¥30 million). Under the fiscal 2015 tax reform, the effective period of the measure will be extended two years. (Ongoing)

6. **Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.**
[taxation scheme]
The measure that permits entertainment and social expenses incurred by SMEs to be included in charges against revenue up to the fixed deduction amount (¥8 million), and the measure that allows 50% of food and drink expenses to be included in charges against revenue, will continue to be provided for selective application. (Ongoing)

7. **Investment by Small and Medium Business Investment and Consultation Co., Ltd.**
In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, the Small and Medium Business Investment and Consultation Co., Ltd. operates a number of programs to assist in SME development. These include business consultations, assistance with business successions and investment programs involving the underwriting of shares, share warrants and corporate bonds with subscription warrants. (Ongoing)

Section 4 Measures to stabilize business

1. **Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)**
[Fiscal 2015 budget: Included in SMRJ subsidy program]
To prevent a chain reaction of bankruptcies following the bankruptcy of a supplier or customer, continued efforts will be made to encourage SMEs to enroll in the Mutual Relief System for the Prevention of Bankruptcies of SMEs and to ensure the steady lending of mutual relief money. (Ongoing)

2. **Special Business Stability Consultation Centers**
[Fiscal 2015 budget: ¥37 million]
To facilitate the provision of business advice by special business stability advice centers established in key chambers of commerce and industry and prefectural federations of societies of commerce and industry across the country, continued support is being provided to guidance programs operated by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry. (Ongoing)

3. **Promotion of wider adoption of BCPs by SMEs**
[fiscal investment and loan program]
Continued efforts will be made to promote the dissemination and retention of BCPs among SMEs and micro-businesses to help improve their enterprise value and enhance their capacity to handle issues such as business continuity. Also, low-interest loans will continue to be provided by the JFC to fund the development of disaster prevention facilities in accordance with BCPs formulated by the SMEs and micro-businesses themselves. (Ongoing)

4. **Relief for damage caused by dumped imports**
[Fiscal 2015 budget: ¥50 million]
Trade remedy measures include anti-dumping (AD) programs to provide relief to domestic industries impacted by the export of unjustly low-priced imports to Japan (dumped imports to Japan) against WTO rules, including measures to ensure equitable market competition such as by imposing extra customs duties following a petition by the affected Japanese industry and an investigation by the government. With regard to the AD investigation into Chinese manufactured

toluene diisocynate that was begun in February 2014, measures will be taken to execute the decided measures fairly and properly in accordance with international rules and Japanese laws and regulations. Studies are also being conducted to ensure WTO-consistent investigations and information sessions are being held for a range of enterprises. (Ongoing)

Section 5 Measures concerning public demand

1. Formulation and dissemination of the "FY 2015 Policy on State Contracts with Small and Medium Enterprises"

[Fiscal 2015 budget: ¥550 million]

The Government and Public Office Demand Act will be revised to promote the participation of newly established SMEs in receiving orders from the government/public sector, and Cabinet approval will be sought on governmental targets for contracting newly established SMEs and other SMEs, and measures for increasing opportunities for SMEs to receive orders.

Additionally, the following initiatives will be implemented to fully disseminate the basic policy.

(1) The Minister for Economy, Trade and Industry will issue a request regarding the Cabinet approval of the Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and will also make efforts to increase opportunities for SMEs and micro-businesses to receive orders.

(2) Information sessions (Councils to Promote Local Access to Public Sector Demand) will be held in 51 locations throughout Japan to actively raise awareness of the "Policy on Contracts" in regional areas.

(3) To publicize products developed by enterprises that have newly been established within the past ten years, support will be given for their participation in comprehensive trade fairs.

(4) A "Guide to Contracts in the Public Sector" will be produced and distributed to central and local government agencies and other commerce and industry-related organizations. (Ongoing)

2. Operation of the "Public Demand Portal Site" to expand opportunities for SMEs and micro-businesses to receive orders from the public sector

[Fiscal 2015 budget: ¥550 million]

A Public Demand Information Portal Site will be operated that provides SMEs and micro-businesses with one-stop access to ordering information posted on national government and other public websites in order to improve access by SMEs and micro-businesses to the information on public sector orders. (Ongoing)

Section 6 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2015 budget: ¥190 million]

In order to widely propagate respect for human rights and cultivate awareness of human rights among SMEs and micro-businesses, seminars and other awareness-raising activities will be organized. Traveling consultation services and training programs will also be offered to revitalize micro businesses in regions or industries where there are particularly large numbers of micro businesses that require concentrated support. (Ongoing)

Chapter 3 Strengthening support measures for micro businesses

Section 1 Support for micro businesses

1. **Micro business promotion program**
[Fiscal 2015 budget: ¥4.65 billion]
Support for micro businesses will be promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the revised Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support will also be provided for regional initiatives that aim to develop specialty products and markets. (Ongoing)

2. **Program to foster personnel and support personnel for micro businesses**
[Fiscal 2015 budget: ¥450 million]
Training is being carried out in regions across Japan to provide a service whereby business advisors who are assisting micro businesses can analyze the strengths of the individual micro businesses and then propose and implement measures tailored to those strengths. This program is aimed at candidates for the next generation of managers in small and medium service providers and fosters personnel who will coordinate and draw up plans for revitalizing the deeply rooted regional service industry, in part by providing them with opportunities to learn from experience what makes a successful enterprise. (Ongoing)

3. **Managerial Improvement Loans (Marukei Loans) for micro businesses**
[Fiscal 2015 budget: ¥3.98 billion]
[fiscal investment and loan program]
In order to provide financial support to micro businesses, the JFC provides unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. (Ongoing)

4. **Micro business management development support loans**
[Fiscal 2015 budget: ¥20 million]
[fiscal investment and loan program]
To respond to the demand of micro businesses for large financing needs up to ¥72 million, the JFC will provide low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry under a management development support plan certified based on the revised Small Business Support Act. (New)

5. **Program for developing an integrated database of micro businesses**
[Fiscal 2015 budget: ¥200 million]
To provide policy information in response to the business conditions of micro businesses, information on micro businesses will be collected and integrated into an integrated database. (New)

Section 2 Strengthening management support

1. **Support program for utilization of an information platform for SMEs and micro-businesses**
[Fiscal 2015 budget: ¥620 million]
The "Mirasapo" portal website will be operated to provide SMEs and micro-businesses centralized access to policy information and communities of senior managers and experts. A system will also be developed and the site revamped to allow autonomous utilization of the Mirasapo site. (New)

Chapter 4 Revitalization of regional SMEs and micro-businesses

Section 1 Utilizing regional resources

1. JAPAN Brand Development Assistance Program
[Fiscal 2015 budget: Included in ¥1.61 billion]
To facilitate overseas expansion by SMEs, support will be provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and expansion into overseas markets. (Ongoing)

2. Assistance Program to Develop New Businesses Utilizing Regional Resources
[Fiscal 2015 budget: Included in ¥1.61 billion]
This program provides authorization for business plans to develop and establish markets for new products and services that utilize regional industrial resources (agriculture, forestry, fisheries, manufacturing technology, tourism, etc.) under the Law Promoting the Utilization of Regional Assets by Small and Medium Enterprises. It also provides wide-ranging support through grants and subsidies and through financing and special exemptions for guarantees. (Ongoing)

3. Micro business promotion program
[Fiscal 2015 budget: ¥4.65 billion]
Support for micro businesses will be promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the revised Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support will also be provided for regional initiatives that aim to develop specialty products and markets. (Ongoing)

4. Designation of traditional crafts
Under the Act on the Promotion of Traditional Craft Industries (referred to hereinafter as the Traditional Craft Industries Act), traditional craft products are designated and those designations are modified following surveys and investigations of craft products for which traditional craft product status has been requested, subject to the views of the Industrial Structure Council. (Ongoing)

5. Traditional Craft Product Subsidy Program
[Fiscal 2015 budget: ¥1.36 billion]
(1) Based on the Traditional Craft Industries Act, support will be provided to promote the development of traditional craft industries, as follows.
  1) Subsidization of the following programs undertaken by local manufacturing cooperatives and associations:
    • Successor training programs
    • Raw material sourcing programs
    • Design development programs
    • Partnership development programs
    • Local producer programs, etc.
  2) Subsidization of the following programs undertaken by general incorporated associations and incorporated foundations under Article 23 of the Traditional Craft Industries Act:
    • Programs to secure human resources and ensure transmission of skills and techniques
    • Production district guidance programs
    • Promotional programs
    • Demand development programs, etc.

(2) The following support will be provided to assist the reconstruction of government-designated traditional crafts in three prefectures (Iwate, Miyagi and Fukushima Prefectures) devastated by the Great East Japan Earthquake:
  1) Programs implemented in the three affected prefectures to revitalize areas of production, including the training of successors, development of demand, development of designs and the provision of information
  2) Establishment and strengthening of the production base, including the development of facilities and the sourcing of raw materials, with a view to restoring traditional craft production in the three affected prefectures to its original level before the Great East Japan Earthquake. (Ongoing)

6. Program to promote the spread of traditional crafts
To promote public awareness of traditional crafts, November every year will be designated Traditional Crafts Month, and activities such as the national convention of the Traditional Crafts Month National Assembly will be held to spread and increase awareness of traditional crafts. (Ongoing)

7. Lowering of reduced tax rate for SMEs
[taxation scheme]
The measure to lower the reduced rate of corporation tax payable by small and medium corporations (applicable to up to ¥8 million of annual income)

from 19% to 15% will be extended two years under the fiscal 2015 tax reform. (Ongoing)

Section 2 Active utilization of shopping districts for regional revitalization

1. **Comprehensive support for the revitalization of local shopping districts**
Pursuant to the Local Shopping District Revitalization Act, support will be provided for shopping district revitalization projects and similar initiatives planned by shopping district promotion associations and approved by the government. (Ongoing)

2. **Development of human resources by the Japan Shopping District Support Center**
Support will be provided in the form of personnel training and transfer of expertise by the Japan Shopping District Support Center, an organization established jointly by four SME associations. (Ongoing)

3. **Program to support the operation of Councils for the Revitalization of Central Urban Districts**
[Included in SMRJ subsidy program]
Support provided for the provision of advisory services, provision of information via websites and e-mail newsletters, and development of networks through organization of exchange events led by city center revitalization council support centers established in SMRJ to assist the establishment and operation of such councils for the revitalization of city centers. (Ongoing)

4. **Program to dispatch advisers to assist city center and shopping district revitalization**
[Included in SMRJ subsidy program]
Experts in a range of fields related to commercial revitalization registered with SMRJ dispatched to help tackle various challenges faced by councils for the revitalization of city centers. (Ongoing)

5. **Consultation and support for commercial revitalization in city centers**
[Included in SMRJ subsidy program]
In order to assist commercial revitalization initiatives being undertaken in city centers by councils for the revitalization of city centers and similar organizations, seminar planning support and instructors supplied and advice, analyses, assistance with identification of issues, and information, etc. were provided to raise the efficacy of individual projects using SMRJ's specialist know-how. (Ongoing)

6. **Special deduction for income from land transfers**
[taxation scheme]
Persons transferring land and similar assets to shopping center promotion associations and similar organizations approved under the Local Shopping District Revitalization Act for use in projects based on approved shopping district revitalization plans and similar initiatives will continuously receive a special depreciation of up to ¥15 million for income from such transfers. (Ongoing)

7. **Program to promote independence in regional commerce**
[Fiscal 2015 budget: ¥2.3 billion]
To achieve sustainable development of regional economies centered on shopping districts, support will be provided for advanced initiatives related to (1) local resource utilization, (2) responding to the needs of foreigners, (3) dealing with an aging society with few children, (4) business startups and (5) regional exchanges. (Ongoing)

8. **Strategic program for central urban district restoration**
[Fiscal 2015 budget: ¥600 million]
Priority support will be provided to central urban districts that play an important role in their regional economies, with a focus on specific projects. For example, priority assistance will be provided to private projects (development of commercial facilities, etc.) that exhibit strong commitment by local residents and the local government, and that are expected to stimulate the economy not only in the relevant central urban district but in neighboring regions as well. Support will also be provided to projects that aim to create an attractive central urban district fit to serve as a regional center, as well as for the utilization of specialist staff and other such initiatives. (Ongoing)

9. **Taxation measures to revitalize central urban districts**
[taxation scheme]
Where (1) a special depreciation of 30% over 5 years applies to the acquisition of a building and any incidental structures or equipment, and (2) immovable properties are acquired under the "Specific private-sector central urban district economic activity improvement program" set up under the revisions to the Act on the Vitalization of City Centers, measures will be taken that halve the registration and license tax payable when immovable property ownership is registered or a transfer is registered. (Ongoing)

10. Program for strategic energy utilization in central urban districts
[Fiscal 2015 budget: ¥320 million]
With regard to advanced commercial facilities, etc. that are built by private businesses based on a plan certified by the Minister of Economy, Trade and Industry under the "Specific private-sector central urban district economic activity improvement program" stipulated in the Act on the Vitalization of City Centers, support will be provided to model projects that introduce energy conservation facilities, such as the building energy management system (BEMS) for optimization of building energy use or high-efficiency air-conditioning equipment. (New)

11. Extension of the taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries
[taxation scheme]
The tax measure that allows SMEs in the commercial and service industries that make a capital investment based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit will be extended two years under the fiscal 2015 tax reform (the tax credit is intended only for SMEs and individual proprietorships with a capital of no more than ¥30 million). (Ongoing)

Section 3 Market development assistance

1. Micro business promotion program
[Fiscal 2015 budget: ¥4.65 billion]
Support for micro businesses will be promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the revised Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support will also be provided for regional initiatives that aim to develop specialty products and markets. (Ongoing)

2. Support for cultivation of markets through exhibitions, business meeting events, and other events
SMRJ provides support for the development and expansion of markets for products and services developed through agricultural-commercial-industrial collaborations or by using local resources, as well as for undiscovered attractive regional products, by organizing exhibitions, business fairs, and other such events. (Ongoing)

3. Market Development Coordination Program
SMEs with management innovation plans approved under the New Business Activity Promotion Act are 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. Specific measures include introductions or mediation for newly developed products with trading companies or enterprises and assisting enterprises with new products or services with everything from marketing plans through to test marketing at enterprises in prospective markets in the wider Tokyo and Kinki regions. (Ongoing)

4. Support program for market cultivation
The SMRJ will support the market cultivation initiatives of SMEs and venture enterprises by promoting business match-ups between enterprises participating in SMRJ-sponsored trade fairs or concurrent events and buyers, and providing advice. (Ongoing)

5. J-GoodTech
The SMRJ will provide support to SMEs seeking to cultivate markets in and outside of Japan, by connecting them to major domestic manufacturers and overseas enterprises via a website that posts information about Japanese SMEs boasting top-niche and only-one technologies and products. (Ongoing)

Section 4 Human resources and employment

1. Human resource countermeasures program for SMEs and micro-businesses
[Fiscal 2015 budget: ¥1 billion]
To help SMEs and micro-businesses with few management resources acquire human resources, end-to-end support will be provided for initiatives to assess the needs of local SMEs and micro-businesses, excavate human resources sought by local businesses from among a diverse workforce that includes youths, women and seniors in and outside the region, and to introduce them and see through to their retention by SMEs and micro-businesses. Support will also be provided for the development of human resources capable of contributing to increasing productivity in SMEs and micro-business through the development and dispatch of Kaizen activity instructors and workshops for core personnel in production sites. (New)

2. Human resource development at the Institute for Small Business Management and Technology
[Included in SMRJ subsidy program]
Training is provided at nine Institutes for Small Business Management and Technology around Japan in improving the abilities of SME support personnel, as well as training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges. (Ongoing)

3. Measures to maintain workers' employment
[Fiscal 2015 budget: ¥19.27 billion]
To assist employers forced to downsize due to fluctuations in business conditions or other economic reasons who have kept workers on by means of temporary leave from work, training, or transfers of workers, employment adjustment subsidies are provided. Active steps are also being taken to prevent fraudulent receipt of these subsidies, and efforts are made to ensure more appropriate disbursement by such means as actively carrying out on-site checks and publishing the names of employers that have committed fraud. (Ongoing)

4. Support for improvement of employment management toward the creation of attractive employment
[Fiscal 2015 budget: ¥4.84 billion]
To support initiatives by companies to improve employment management and create attractive employment conditions, subsidies will be provided to fund SME organizations (business cooperatives, etc.) in key sectors where they have implemented projects to improve their working environment. Subsidies will also be provided for SMEs and micro-businesses in key sectors that introduce and implement a new employment management system by changing their workplace regulations and labor agreements. (Ongoing)
The following improvement measures will also be taken in fiscal 2015.
(1) Employment management systems that fall under the scope of the subsidy will be expanded (a mentor system will be added), and subsidy amounts will be reviewed.
(2) A target achievement subsidy will be created, which will provide an additional subsidy of ¥600,000 if a pre-established target job separation rate is achieved within a year of completion of an employment management system development plan, as an effect of introducing the system.

5. Project for promoting the improvement of employment management plans to secure human resources in sectors that lack personnel
[Fiscal 2015 budget: ¥1 billion]
Support will be provided for the creation of attractive workplaces, such as by supporting the introduction of employment management systems, in cases where business owners in sectors that lack personnel improve employee benefits and working environment or otherwise take measures to improve employment management and secure human resources.
(1) Model survey course
In sectors where employment management issues that need to be addressed by business owners are not yet clear, fine-tuned consultation will be provided to business owners facing an employment management issue, to help them introduce and operate various models of employment management systems that contribute to resolving their issue. Case examples that are obtained through this consultation process will be examined and analyzed to acquire an understanding of the introduction effects of the model systems and their knowhow, and effective employment management improvement policies will be compiled in consideration of the characteristics of each sector for dissemination and awareness-raising.
(2) Practical awareness-raising course
Among sectors that lack sufficient personnel, demand for human resources is expected to increase particularly in the nursing and construction sectors. Business owners in these sectors who face an issue in implementing improvement measures for employment management will be offered consultation support by advisors who are well versed in employment management improvement, with the aim of promoting practical employment management improvement within the entire industry, or within regional network communities composed of business owners who are actively engaged in improving employment management. (New)

6. Regional employment development fund
[Fiscal 2015 budget: ¥3.29 billion]
To create and provide stable regional employment, a regional employment development fund will be offered to employers who build or establish an office in regions where employment opportunities are particularly lacking and employ regional job seekers, in accordance with the cost of their facilities and number of workers they employ. (Ongoing)

7. Project for employment creation in strategic industries
[Fiscal 2015 budget: ¥9.21 billion]
To promote initiatives aimed at creating favorable and stable employment opportunities, a project for employment creation will be launched for

manufacturing industries and other strategic industries. The project will supplement regional projects for voluntary employment creation, and will be implemented in conjunction with industrial policies. (Ongoing)

8. Extension of the tax system to promote employment
[taxation scheme]
The tax system for employment promotion, which provides a special tax credit on corporate taxes to enterprises that achieve a certain increase in the number of employees or otherwise satisfy relevant requirements, will be extended until 31 March 2016. (Ongoing)

9. Promotion of employment shifts with no loss of employment (labor insurance special account)
[Fiscal 2015 budget: ¥34.94 billion]
Funds to assist workers seeking alternative employment (re-employment assistance payments) will be provided to business owners commissioned as private-sector employment agencies to support the re-employment of employees who unavoidably lose their jobs due to business downsizing, etc. Re-employment support subsidies (walk-in personnel training support subsidies (human resource development support)) will also be provided to business owners who conduct on-the-job or off-the-job training for workers taken on as a result of transfers or workers who fall under a re-employment support plan. Furthermore, from fiscal 2015, re-employment support subsidies (walk-in personnel training support subsidies (early hiring support)) will be extended to business owners who employ workers who fall under a re-employment support plan within three months of their displacement as non-fixed-term workers. (Ongoing)

10. Regional human resources development program
A program will be implemented to support human resources development initiatives that aim to increase employment by promoting active participation by women, young people and the elderly, and promote wage increases and other improvements in working conditions in response to regional circumstances. The scope of the program will be limited, however, to initiatives that have been launched prior to the end of fiscal 2014. (Ongoing)

11. Welfare Worker Recruitment Project
[Fiscal 2015 budget: ¥1.46 billion]
To ensure a stable supply of high-quality personnel capable of supporting services in the welfare sector (nursing, healthcare and day care), support is provided through services such as in-depth vocational counseling, job placements and counseling and advice for employers, to be provided at a "Welfare Worker Corner" set up in key "Hello Work" centers throughout the country. In "Hello Work" centers without a "Welfare Worker Corner", services including vocational counseling, job placements and employment information are provided and clients are encouraged to use a "Welfare Worker Corner". (Ongoing)

12. Support for SMEs and micro-businesses in raising the minimum wage
[Fiscal 2015 budget: ¥2.41 billion]
The following support measures will be provided to improve productivity among SMEs and micro-businesses.
(1) To provide a one-stop portal for consultation on management reforms and work condition management, "Comprehensive Minimum Wage Advice and Assistance Centers" will be established throughout Japan (47 locations). The Centers will provide free consultation and dispatch experts.
(2) Subsidies will be provided to industry-specific SME organizations to cover the costs of conducting market surveys toward expanding markets with an eye to increasing wages, developing business models, etc. (up to ¥20 million).
(3) Subsidies will be provided to SMEs and micro-businesses in 42 nationwide prefectures that make a capital investment to increase labor productivity and increase the wages of workers who work for less than ¥800 an hour in their business establishments (subsidy rate of 1/2; 3/4 for micro businesses with a workforce of 30 or less). To enhance the usability of measure (1) above, "Comprehensive Minimum Wage Telephone Service Centers" will be established in fiscal 2015 to provide consultation via telephone and email. (Ongoing)

13. Regional Youth Support Station Program
[Fiscal 2015 budget: ¥3.72 billion]
To assist young people who are "NEET" (Not in Education, Employment or Training) or in similar circumstances, "Regional Youth Support Stations" are being set up that provide a diverse employment assistance menu, including specialist advice and guidance to the appropriate agencies via networks. In fiscal 2015, these support stations will be established in 160 locations throughout Japan, and a "Job Retention and Step-up Program" will be launched to provide follow-up to help workers who have received support from the support stations retain their jobs, and to provide support to those who wish to step up to a more stable career. Furthermore, with the cooperation of regional industries, "Challenge Workshops" will be implemented in 60 locations throughout Japan to boost employment and help young people take the first step in becoming future industrial leaders. These initiatives will aim to secure employment for 17,000 young people. (Ongoing)

14. Career-oriented personnel training program (universities, etc.) (Promotion of career education, etc.)
[Fiscal 2015 budget: ¥10 million]
In an initiative targeting career consultants and core staff in career centers at institutions such as universities, courses are being held to deepen their understanding of the knowledge of career consulting and the career consultants on which it depends, as well as the methods for using that knowledge. The courses also cover tools that are helpful for employment assistance and career education as well as the knowledge regarding employment and work that is available from the Ministry of Health, Labour and Welfare (MHLW). As well as promoting career education at institutions such as universities, this program aims to promote the utilization of career consultants at universities, etc. (Ongoing)

Section 5 Support for overseas business development

1. Program for supporting overseas expansion by SMEs and micro-businesses
[Fiscal 2015 budget: ¥2.5 billion]
To support overseas expansion by SMEs and micro-businesses, the SMRJ and the Japan External Trade Organization (JETRO) will collaborate in providing strategic support through measures that respond to their needs at various stages of overseas expansion. They will include support for the cultivation of overseas companies through the provision of information on overseas market trends and regulations, implementation of feasibility studies, and establishment of an export framework, as well as support for participation in trade fairs in Japan and overseas, support for the cultivation of overseas markets by inviting overseas buyers to Japan, and local support once companies advanced overseas. Support will also be provided for the formulation of business restructuring plans by companies facing an issue regarding the management of overseas subsidiaries. (Ongoing)

2. Overseas information services
[Fiscal 2015 budget: Included in ¥130 million]
In order to promote industrial partnerships between Japan and Taiwan, support was given for friendship associations to collect and distribute information about Taiwanese enterprises, and for seminars and business talks to promote alliances between Japanese and Taiwanese enterprises. (Ongoing)

3. Support for development of human resources to cultivate new markets
[¥810 million]
In a collaboration between the government and the private sector aimed at supporting economic growth in developing countries and assisting in overseas business expansion by Japanese enterprises, managers, engineers, and similar personnel from developing countries who are employed in management, manufacturing, operations, or similar areas are brought to Japan for training, while Japanese experts are dispatched to developing countries to provide training, etc. (Ongoing)

4. Trade investment promotion project
[Fiscal 2015 budget: Included in ¥1.4 billion]
Three programs are being implemented to secure markets in developing countries where rapid growth is anticipated in the future: (Ongoing)
(1) Training and the dispatching of specialists to promote awareness of the superiority of Japan's technology with the aim of increasing the rate of infrastructure orders placed
(2) Overseas internships provided to young Japanese workers to foster "international industry-ready personnel" with the aim of securing infrastructure business and developing overseas markets for SMEs, and
(3) Subsidies to Japanese companies engaging in the development of products and services that resolve social issues in developing countries in collaboration with universities, research institutes, NGOs or other companies in developing countries.

5. Utilization of Japan Overseas Cooperation Volunteers and the private-sector collaborative volunteer program
[Fiscal 2015 budget: ¥160 million]
The JICA Japan Overseas Cooperation Volunteers (JOCV) program is used to help match people who are very familiar with specific developing countries with the human resource requirements of enterprises, and a private-sector collaborative volunteer program is used to dispatch employees matched to the needs of the enterprises to developing countries as JOCV Senior Overseas Volunteers in an effort to develop personnel capable of active involvement in the global community. (Ongoing)

6. Funding for overseas expansion and business restructuring operations
[fiscal investment and loan program]
Loans will be provided by the JFC (SME Unit and Micro Business and Individual Unit) to assist with the funding of SMEs that for business reasons need to expand overseas or restructure their overseas business to adapt to structural economic changes. (Ongoing)

7. Support for overseas subsidiaries to obtain capital, etc.
Under the SME Business Capabilities Enhancement Support Bill, where SMEs have management innovation plans approved under the New Business Activity Promotion Act, the JFC provides loan guarantees to their overseas subsidiaries for loans from local financial institutions. (Ongoing)

8. Global Niche Market Top Support Lending Facility
[Fiscal 2015 budget: ¥18 billion from the national investment and loan program]
To support strategic overseas expansion by second-tier companies and SMEs who are aiming to make a global impact by excelling in a specific field (global niche leader enterprises) and such candidate companies and SMEs, the Shoko Chukin Bank will provide long-term, lump-sum repayment and successful interest payment-type loans under the Global Niche Market Top Support Lending Facility. (Ongoing)

9. Reduction and waiver of fees for credit checks of SMEs using trade insurance
In order to expand SMEs' use of trade insurance, NEXI will continue arrangements to bear the provision cost of credit information on business partners required when using trade insurance. (Ongoing)

10. Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)
NEXI will host seminars and face-to-face consultation events to promote use of trade insurance by SMEs. NEXI also sent instructors to lecture in seminars hosted by SME-related organizations and study meetings of affiliated regional banks in order to raise awareness and encourage wider use of trade insurance. (Ongoing)

11. Improvement of access to trade insurance
In December 2011, NEXI launched the "SME Overseas Business Support Network" in collaboration with 11 regional banks to provide support for overseas business expansion by SMEs. The creation of this nationwide network through joint action by NEXI and the banks made trade insurance more accessible to local SMEs and easier for them to use. (Ongoing)

12. Support for security export control
Support will be provided for the development of voluntary administration structures for security trade control at SMEs that engage in export and the provision of technology, by holding information sessions toward ensuring effective security trade control based on the Foreign Exchange and Foreign Trade Act, dispatching specialists through schemes such as the one-stop general support program for SMEs and micro-businesses, etc. (Ongoing)

13. Promotion of BOP business
[Fiscal 2015 budget: ¥170 million]
To promote "base of the pyramid" (BOP) business, JETRO will strengthen its individual support to enterprises by providing consistent support appropriate to each business phase and augmenting local coordinators (including the establishment of theories, legal consultation, etc.). Consultation services will also be provided to support the cultivation of markets, and active participation in BOP businesses will be promoted. Furthermore, demonstration projects will continue to be implemented to support enterprises seeking to gain a foothold in Africa. (Ongoing)

14. ODA match-up program for SME products and technologies
[Fiscal 2015 budget: ¥4.56 billion]
This program aims to achieve a balance between the growth of developing countries and economic revitalization in Japan by applying the outstanding products and technologies of Japanese SMEs to the growth of developing countries via ODA. (Ongoing)

15. Support for overseas expansion by SMEs (provision of equipment that use SME products)
[Fiscal 2015 budget: Included in ¥160.49 billion]
Products from Japanese SMEs are donated to developing countries based on request from their governments and development needs, not only to

support the development of developing countries, but also to increase recognition of such products. Specifically, lists of products from SMEs (not lists of individual brand names) are drawn up based on the development needs of the developing countries and shown to those countries in the form of packages for each of the various sectors, such as medical services, agriculture, and job training, and products are donated in accordance with the requests from the developing countries. (Ongoing)

16. **Program for facilitating the use of economic partnership agreements**
[Fiscal 2015 budget: 30 million]
To promote trade that utilizes the advantages of economic partnership agreements (EPA), a consultation service was launched for user inquiries concerning rules of origin, certificates and other relevant procedures that are needed when using an EPA. Seminars will also be held throughout Japan to foster greater understanding of EPAs. (New)

17. **Program for supporting the establishment of overseas markets by regional medium enterprises and SMEs**
[Fiscal 2015 budget: Included in ¥1.49 billion]
Overseas expansion by medium enterprises, SMEs and micro-businesses will be promoted by subsidizing part of the expenses they need to cultivate overseas markets and advance into newly emerging countries (costs of employing specialists, expenses for company registration overseas through an agency, fees for securing space in trade fairs overseas).

Section 6 Other regional revitalization

1. **Support to encourage enterprises to locate in regional areas**
[Fiscal 2015 budget: Included in ¥800 million]
Support will be provided for action by regions to attract enterprises using their local features and to revitalize local industries under the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. (Act No. 40, 2007). Budgetary support will be provided for the development of facilities, and institutional support will be provided through special provisions under the Factory Location Act, a low-interest loan program for SMEs operated through JFC, and tax allocations to local governments taking steps to attract enterprises to their regions. (Ongoing)

2. **Subsidies for business generating regional economic activity**
[Fiscal 2015 budget: ¥2.31 billion]
Subsidies will be granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This is to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) (Ongoing)

3. **Infrastructure development program for strategic industrial support**
[Fiscal 2015 budget: ¥800 million]
Strategic sector coordinators will be assigned to each strategic sector to provide wide-ranging technical information to potential core enterprises in consideration of the technical needs of large enterprises. They will also offer advice for strengthening the functions of public testing institutions, promote wide-area cooperation, and develop human resources, including public testing institution personnel. Furthermore, in strategic sectors, support will be provided for the development of corporate clusters and cooperation centers that possess support functions for human resource development and market cultivation, with the aim of promoting the creation, development and innovation of potential core enterprises and peripheral enterprise groups that are rooted in their local communities. (New)

4. **Taxation scheme to strengthen the regional location of enterprises**
[taxation scheme]
In order to revitalize the regions, it is necessary to correct the over-concentration of population and industry in Tokyo and create good quality employment in the regions. Toward this end, the fiscal 2015 tax reform will encourage initiatives for relocation of the head office functions of enterprises from Tokyo to the regions and for the expansion and development of the regions. More specifically, certified enterprises will be given a choice of either a 15% special depreciation deduction on the cost of acquisition of an office building (25% in the case of relocation) or a 4% tax credit on the cost of acquisition (7% in the case of relocation). A special measure will also be provided to enterprises that create employment in the region, under the taxation scheme to promote employment. (New)

5. **Support for advancement into new sectors**
[Fiscal 2015 budget: Included in ¥1.67 billion]
Able "project managers" will provide consistent support to core enterprises, would-be core enterprises and their partners (medium enterprises and SMEs) that are rooted in their community. The support will range from the formulation of new business advancement

concepts to the development of industry-academia partnerships and business partners during the development stages and cultivation of new markets. (New)

6. Building new regional cooperation from regional core cities

[Fiscal 2015 budget: ¥200 million]

The national government will provide support for building centers for maintaining vibrant social economies. Such social economies are expected to have an intraregional population of a certain size even within today's aging society with decreasing populations, through downsizing and networking efforts in cooperation with core cities within substantially larger regions. (Ongoing)

7. Enterprise vitality enhancement funding

[Fiscal investment and loan program]

Japan Finance Corporation (JFC) will provide loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors. (Ongoing)

8. Loan program for supporting regional core enterprises

[Fiscal 2015 budget: ¥8 billion from the national investment and loan program]

Medium enterprises and SMEs that are core regional presences having a certain influence on their regional economy will be supported in their initiatives to achieve innovation such as by advancing into a new sector or making strategic initiatives for management improvement. Under a loan program for supporting regional core enterprises, the Shoko Chukin Bank will provide long-term, lump-sum repayment and successful interest payment-type loans to such enterprises. (New)

Chapter 5 Promoting innovation by SMEs and micro-businesses

Section 1 Support for R&D and product/service development

1. **Promotion of the creation and collaboration of innovative manufacturing industries**
[Fiscal 2015 budget: ¥12.87 billion]
SMEs and micro-businesses with certified plans under the SME Technological Advancement Act will be supported in their initiatives to engage in research and development in collaboration with universities, public institutions and other such research institutions. Support will also be provided for R&D efforts made by SMEs and micro-businesses using the knowledge of large enterprises or universities in consultation with discerning experts who are capable of assessing the market value of technologies. (New)

2. **Program to support collaborative efforts to strengthen competitiveness in commercial and service industries**
[Fiscal 2015 budget: ¥990 million]
With respect to the development of new service models by SMEs and micro-businesses through industry-academia-government collaboration, support will be provided to projects that are particularly recognized as having the potential to strengthen the competitiveness of regional industries. (New)

3. **Promotion of R&D initiatives that build bridges with medium enterprises and SMEs**
[Fiscal 2015 budget: ¥1.42 billion]
Having specific outstanding technologies is sometimes not enough for medium enterprises, SMEs and venture enterprises to achieve commercialization. It is therefore important to have institutions possessing outstanding basic technologies pass on their technologies to such enterprises and promote practical applications. Under this awareness, the New Energy and Industrial Technology Development Organization (NEDO) will provide subsidies to medium enterprises, SMEs and venture enterprises that engage in joint research with an institution that has the ability to bridge innovative technology seeds with commercialization initiatives (subsidy rate within 2/3, up to a ceiling of ¥100 million). (New)

Section 2 Enhancement of technological capacity

1. **Comprehensive support for enhancement of core manufacturing technologies of SMEs**
Support was delivered by such means as low-interest loans provide by the Strategic Core Technology Advancement Program and by the JFC to approve SMEs with approved specific R&D plans formulated in accordance with the advancement guidelines under the SME Technological Advancement Act. (Ongoing)

2. **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]
By examining their business plans, the JFC provides low-interest loans to those businesses that are engaging in the trial manufacture and development of new products and technologies (including the appropriation of existing technologies and the uncovering of previously hidden value (including the use of ideas and designs, etc.)) and/or market development involving the outcomes of such trial manufacture and development using specific core manufacturing technologies stipulated under the SME Technological Advancement Law. (Ongoing)

3. **R&D promotion tax system (for strengthening the technological bases of SMEs)**
[taxation scheme]
Within the R&D tax system based on total cost, which provides tax credits in accordance with the total cost of testing and research expenses, a tax credit equal to 12% of the total cost of testing and research expenses (8% to 10% for large enterprises) will continue to be offered to SMEs and micro-businesses. Meanwhile, the primary focus of the R&D tax system will be shifted under the fiscal 2015 tax reform, such that the ceiling for the existing total cost-based tax credit will be reduced from 30% to 25% the amount of corporate tax, while a new 5% tax credit will be made available for costs related to joint researches and other open innovation-type of R&D initiatives. In addition, the measure whereby enterprises can choose either (1) a tax credit equal to the amount calculated by multiplying the rate of increase in testing and research expenses to the amount of increase (not exceeding 30%) in cases where the additional amount of testing and research expenses exceeds 5%, or (2) a tax credit equal to the amount calculated by multiplying a fixed rate to the excess amount in cases where the amount of testing and research expenditure exceeds 10% of average sales (not exceeding 10% of the total amount of corporation tax (until the end of fiscal 2016)) will continued to be offered. (Ongoing)

Section 3 Developing new sectors and businesses and collaborating with other industries

1. Support under the Small Business Innovation Research (SBIR) Program

The provision of central government-allocated R&D spending to SMEs and micro-businesses will continue to be expanded and the commercialization of the results of technological development activities will be promoted, such as by designating specific subsidies for the development of new technologies leading to the creation of new industries, setting targets for expenditures, and formulating policies for measures to support the commercialization of development results achieved using specified subsidies. Additionally, to promote the commercialization of technical development results, SMEs and micro-businesses will be informed and encouraged to take advantage of commercialization support available, such as the database of technological capabilities of enterprises granted specific subsidies, and the low-interest loans by JFC. At the same time, the multistage selection process will be adopted and expanded for allocation of special subsidies. (Ongoing)

2. New Collaboration Support

[Fiscal 2015 budget: ¥990 million]

This program will provide authorization under the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises for business plans for developing and marketing new products and services through collaborations between SMEs in different sectors and the effective combination of their management resources (such as technology and markets). It will also provide wide-ranging support through grants and subsidies and through financing and special exemptions for guarantees. (Ongoing)

3. Support for measures to promote agricultural-commercial-industrial and other collaborations

[Fiscal 2015 budget: Included in ¥1.61 billion]

This program will provide authorization under the Agriculture-Commerce-Industry Cooperation Promotion Act for business plans for developing and marketing new products and services through organic collaborations between SMEs and workers in the agriculture, forestry and fisheries sectors and the effective utilization of their respective management resources. It will also provide wide-ranging support through grants and subsidies and through financing and special exemptions for insurance. (Ongoing)

4. Support for creation of new businesses

Close integrated support 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. (Ongoing)

5. Program to promote business creation through medical-engineering collaborations

[Fiscal 2015 budget: ¥3.19 billion]

A support network will be created for the development of medical equipment, and seamless support will be provided from the initial stages of development to commercialization. The development of medical equipment will also be promoted through collaborations between manufacturing enterprises and medical institutions. In fiscal 2015, this initiative will support the realization of around 50 items of medical equipment. (Ongoing)

6. Program for promoting global agricultural-commercial-industrial collaborations

[Fiscal 2015 budget: ¥800 million]

To create overseas demand, support will be provided to demonstration projects implemented through agricultural-commercial-industrial collaborations. Such collaborations are expected to use the technologies and expertise of commercial and industrial businesses to create advanced production systems (plant factories, etc.) or an integrated value chain linking production, processing, distribution and sales and achieve commercialization within three years. (Ongoing)

Chapter 6 Promotion of business startups and business succession

Section 1 Support for new and secondary business startups

1. **New and Secondary Business Startup Support Fund**
[Fiscal 2015 budget: ¥760 million]
Support will be provided to business startups by women and young people, and secondary startups by business owners closing their existing business and breaking new ground on occasion of succeeding a business from a predecessor, by covering part of the loans for shops, equipment costs, and other relevant costs (and including the costs of closing the existing business in the case of secondary startups). A subsidy will also be provided to cover part of the costs required by businesses receiving startup assistance to implement startup support initiatives based on an approved business startup support plan under the Industrial Competitiveness Enhancement Act. (New)

2. **New Startup Loan Program**
[fiscal investment and loan program]
Under this program, unsecured, unguaranteed loans are provided by the JFC to persons embarking on new ventures and persons who have just started up in business. (Ongoing)

3. **Loan Program for Supporting Female, Young, and Senior Entrepreneurs**
[fiscal investment and loan program]
To support the creation and development of new businesses by diverse entrepreneurs, the JFC (through its SME and Micro Business and Individual Units) provides low-interest loans to women, young people under the age of 30 and older people aged 55 or older, who have started a business within the past seven years or so. (Ongoing)

4. **Funding for renewed startups (lending-support schemes for renewed startups)**
[fiscal investment and loan program]
By assessing entrepreneurs who have failed in their business and determining such factors as their qualifications as managers and their business prospects, the Japan Finance Corporation (JFC) will offer loans to candidates who face difficult circumstances in relaunching their business. (Ongoing)

5. **Guarantees for founders**
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. (Ongoing)

6. **Improving supply of "risk money" needed when starting a business**
Where "risk money" is required when businesses start up or are developed, the supply of funds will continue to be promoted through the use of the Innovation Network Corporation of Japan (INCJ), the Development Bank of Japan (DBJ) and the Shoko Chukin Bank. (Ongoing)

7. **Fund Investment Program (Startup Support Fund, SME Growth Support Fund)**
The creation of investment funds operated by private-sector investment companies to stimulate private funds was 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. (Ongoing)

8. **Regional Startup Promotion Support Delegation Program**
[Fiscal 2015 budget: ¥440 million]
"Business Startup Schools" will be held throughout Japan, to provide support for uncovering a reserve of potential startups and assisting people hoping to launch new businesses, in everything from acquiring basic knowledge through to formulating a business plan. In addition, entrepreneurship education will be provided in universities and other higher education institutions, and will be reinforced in primary and junior high schools through exchanges with local entrepreneurs, to expand the base of human resources who possess an entrepreneurial spirit based on creativity and an enterprising attitude. (Ongoing)

9. Program to support venture business creation
[Fiscal 2015 budget: ¥340 million]
Intended for entrepreneurs and potential in-house entrepreneurs who are in charge of cultivating new businesses in large enterprises, this program will aim to raise their business perspective by sending them to Silicon Valley and other such locations that are known to produce the world's leading venture enterprises. In addition, through the Venture Business Creation Council, composed mainly of entrepreneurs, venture capitals (VC) and large enterprises, the program will promote business matchings and create networks with the aim of creating a foundation for promoting venture businesses with a global market perspective and open innovation by large enterprises. (New)

10. Angel tax system
[taxation scheme]
To promote the financing of newly founded venture enterprises by individual investors ("angels"), efforts will continue to be made to disseminate and raise awareness of this tax system so as to provide an environment conducive to business startups. (Ongoing)

11. Taxation measures to promote venture investment in enterprises
[taxation scheme]
This initiative allows companies that invest in a venture enterprise through a venture fund certified by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act to accumulate provisional funding for losses of up to 80% of the amount invested and write off that fund as expenses.
The initiative will continue to be actively publicized to ensure that this initiative is used effectively and that many outstanding venture enterprises arise in Japan. (Ongoing)

12. Management Innovation Support Program
Support provided for new business activities undertaken by SMEs by providing support through mechanisms such as low-interest loan programs and special credit guarantees for the implementation of approved management innovation plans prepared by SMEs planning to engage in new business activities to improve their business performance under the New Business Activity Promotion Act. (Ongoing)

13. Construction of startup support system in the regions
Under the Industrial Competitiveness Enhancement Act, municipal governments will work with private-sector enterprises assisting with business startups to formulate a plan for a program assisting business startups in order to encourage startups in the regions. Where authorization is obtained from the national government, business founders who have received startup assistance under the plan will be supported through measures such as improved credit guarantees and tax incentives (reduction in registration and license tax related to the registration of incorporation of a kabushiki-kaisha), and support measures such as credit guarantees will also provided to enterprises that assist in business startups. (Ongoing)

14. Subsidies for business generating regional economic activity
[Fiscal 2015 budget: ¥2.31 billion]
Subsidies will be granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This is to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.). (Ongoing) (Cited earlier)

Section 2 Promoting regeneration

1. Program to promote businesses that resolve regional issues
[Fiscal 2015 budget: ¥60 million]
An environment will be developed for allowing SMEs and NPOs that resolve regional issues through their business mainly in the nursing, childcare and education sectors by creating new demand and employment in their region. Through questionnaire surveys and committees of experts, business model evaluation methods and loan and assistance guidelines will be created, and forums will be held with the objective of disseminating and raising awareness of these evaluation methods and guidelines. Furthermore, specialized intermediary aid organizations (pro bono, fund raiser, network building aid organizations, etc.) will be brought together, and opportunities will be provided for promoting collaboration among financial institutions, intermediary aid organizations and businesses. (New)

2. Business succession support
[Fiscal 2015 budget: Included in ¥4.48 billion]
To support SMEs and micro-businesses that are facing problems related to the lack of business successors, etc., the "Business Succession Help Desks" established at approved support agencies in each of the 47 prefectures will provide information and advice on business successions, and "Business Succession Support Centers" will be established in regions with strong demand for support for business successions

that have a well-developed capacity to deliver support. As of the end of fiscal 2014, "Business Succession Support Centers" have been established in 16 locations, including Hokkaido, Miyagi, Akita, Tochigi, Tokyo, Nagano, Shizuoka, Aichi, Mie, Osaka, Okayama, Hiroshima, Kagawa, Ehime, Fukuoka and Okinawa. They are planned to be established nationwide during fiscal 2015. (Ongoing)

3. Expansion of the system of deferral of gift tax on non-listed shares

[taxation scheme]

The business succession taxation system will be expanded as follows. (The following represents an example where shares of stock are given from the first generation to the second, and then the third.)

(1) When the second generation gives shares of stock to the third generation after the business succession period (and the third generation agrees to the application of a tax deferral), the second generation is exempted from payment of the deferred tax.

(2) During the business succession period, if the second generation resigns from the position of representative due to an unavoidable circumstance (*) and gives its shares to the third generation (and the third generation agrees to the application of a tax deferral), the second generation is exempted from payment of the deferred tax.

(3) In the above two cases, the third generation's gift tax deferral will become an inheritance tax with the death of the first generation. (It will not become an inheritance tax with the death of the second generation.) (Ongoing)

Note that if gift tax is deferred over multiple generations, it will become an inheritance tax with the death of the individual who was the first to give the certified gift. (If a gift tax deferral is passed on in succession from the first generation to the second, third and fourth generations, it becomes an inheritance tax with the death of the first generation.)

* Unavoidable circumstances mainly refer to the following:
  - The individual has received a psychiatric disorder certificate (limited to class 1 disorders)
  - The individual has received a physical disability certificate (limited to class 1 and 2 physical disorders)
  - The individual has received authorization to receive nursing care (limited to level 5 nursing care)

4. Review of the Small Enterprise Mutual Relief System

The Small Enterprise Mutual Relief System is a system for giving micro business owners a retirement benefit. To strengthen its function of facilitating business revitalization, the system will be reviewed, such as to increase the mutual relief money related to the transfer of business within the family. (Ongoing)

Chapter 7 Initiatives by industries and area

Section 1 Measures for SMEs in agriculture, forestry and fisheries

1. Promotion of diversification of primary producers into processing and distribution (sixth sector industrialization)

(1) Subsidy for sixth sector industrialization network activities
[Fiscal 2015 budget: ¥2.33 billion]
Support will be provided for initiatives in which businesses make coordinated efforts that maximize regional characteristics and create a network to develop new products, cultivate markets and operate facilities for processing and marketing agriculture, forestry and fishery products. Support will also be provided for sixth sector industrialization initiatives that are implemented by the entire region in line with sixth sector industrialization strategies and concepts of the municipality. (Ongoing)

(2) Active utilization of the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan
Support will be provided through measures such as investment for business activities aimed at sixth sector industrialization by agriculture, forestry and fishery businesses in cooperation with distribution and processing businesses through the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan (A-FIVE). (Ongoing)

(3) Promotion of the comprehensive utilization of intellectual property
[Fiscal 2015 budget: ¥200 million]
Support will be provided for the establishment of consultation centers that assist with the application for registration of geographical indications and measures to prevent overseas third parties from infringing on intellectual property rights. (Ongoing)

(4) Comprehensive program to promote renewable energy to revitalize rural areas
[Fiscal 2015 budget: ¥200 million]
Growth in regional agricultural, forestry and fishery businesses is being promoted by pursuing community-based initiatives to supply renewable energy and to feed the benefits of such initiatives back into local communities. (Ongoing)

2. Support for small and medium agricultural, forestry, and fishery businesses

(1) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund
[Fiscal 2014 commitment line: ¥70 billion]
In order to streamline lumber production and distribution, loans will be provided through the Wood Industry Upgrading Promotion Fund, while loans through the Wood Industry Improvement Fund will be provided to implement measures such as management reforms in the forestry and lumber industries. (Ongoing)

(2) Interest subsidy for the installation of lumber processing facilities
[Fiscal 2015 budget: ¥10 million]
An interest subsidy will be provided for borrowings required for the introduction of facilities toward adding value to lumber products and diversifying management, and for dismantling facilities and equipment accompanying the introduction of new facilities. (Ongoing)

(3) Support for creation a framework in the wood industry by means of the Subsidy for Establishment of the Foundation for Forest and Forestry Regeneration
[Fiscal 2015 budget: Included in ¥2.7 billion]
To create a supply chain for stable and efficient supply in terms of cost, volume and quality, support will be provided for the development of lumber processing and distribution facilities needed to realize schemes for wide-area distribution and regional circulation. (Ongoing)

(4) Support for reorganization and development of the dairy industry by means of subsidies for building a strong agricultural industry and comprehensive measures for the revitalization of production areas
[Fiscal 2015 budget: Subsidies for building a strong agricultural industry: Included in ¥23.09 billion; Comprehensive measures for the revitalization of production areas: Included in ¥2.34 billion]
In addition to promoting the widespread reorganization and streamlining of dairy industry factories, support will be provided for the integration of production in dairy industry facilities with advanced hygiene management standards. (Ongoing)

(5) Support for export initiatives using programs to support the development of overseas markets for milk and dairy products
[Fiscal 2015 budget: ¥10 million]
To create new demand for Japanese milk and dairy products, assistance will be provided to small and medium-sized dairy businesses that aspire to export products but lack the necessary management resources, by providing a subsidy for the expenses they need to create an environment conducive to future full-scale exports, such as running trial exports and investigating the issues that arise with the delivery for exports. (Ongoing)

(6) Support for raising the standard of food manufacturing process management
To improve the safety of food products and gain the confidence of consumers, financial support will be provided for the following initiatives under the Act on Temporary Measures concerning Sophistication of Management of Food Manufacturing Process: (1) Provision of infrastructure and equipment for HACCP introduction; and (2) Provision of infrastructure and equipment for hygiene and product quality control as preliminary steps towards HACCP introduction (advanced platform provision). (Fund for promoting advanced quality control in the food industry) (Ongoing)

(7) Comprehensive export support project by JETRO
[Fiscal 2015 budget: ¥1.38 billion]
A framework for continuous and consistent support will be provided to export businesses via JETRO, such as for the process from cultivating businesses to holding negotiations, as well as for providing a one-stop portal for export consultation and for the establishment of marketing bases in major cities overseas. (Ongoing)

(8) Measures for export businesses
[Fiscal 2015 budget: ¥840 million]
Export organizations in each major export category composed of SME and micro-business will be supported in their export promotion initiatives that are implemented with the objective of establishing the Japan brand. Support will also be provided for initiatives that aim to develop an export environment toward the acquisition of international certification by export businesses. (Ongoing)

3. Support for R&D and other cross-field activities

(1) Promotion of studies of scientific technologies for the agriculture, forestry, fishery and food industries
[Fiscal 2015 budget: ¥5.24 billion]
R&D initiatives will be promoted at each stage of technological development, including the basic stage involving the development of technological seeds that will lead to innovative technologies and solutions for problems in the agriculture, forestry, fishery and food industries (elemental technologies that lead to the creation of new technologies, businesses and agribusiness); the application phase involving the further development of those seeds towards R&D for practical application; and the practical application stage in which technologies meet the requirements of key national policies and address the needs of the agriculture, forestry, fishery and food industries. Support will also be provided that utilizes technical skills in the industrial, academic and government sectors to develop new product types that address the diverse needs of actual users. (Ongoing)

(2) Various forms of lending by JFC
[fiscal investment and loan program] (Ongoing)

Section 2 Measures for SMEs in the transportation industry

1. Support for the warehousing industry

Upgrading of the physical distribution functions of facilities is being promoted in order to encourage third-party logistics (3PL) programs and more efficient distribution under the Law for Integration and Improvement of Physical Distribution. This is aimed at meeting the need for increasingly sophisticated physical distribution services as a response to changes in the socioeconomic environment. (Ongoing)

2. Measures for the coastal and domestic passenger shipping industries

(1) Interim measures for coastal shipping
In order to ensure the smooth and steady implementation of interim measures for coastal shipping, support was provided by establishing a separate system of government guarantees for the loans required to fund these measures.

(2) Promotion of the construction of highly efficient environmentally friendly coastal vessels using the joint shipbuilding program
[fiscal investment and loan program]
The target for joint shipbuilding in fiscal 2015 is in the order of ¥28.4 billion. (Ongoing)

3. Measures for small and medium shipbuilders and related manufacturers

[Fiscal 2015 budget: 1) Included in ¥50 million; 2) ¥16 billion (fiscal 2013 budget); 3) ¥810 million]

(1) In addition to taking steps to develop a safety net for business stabilization, 1) courses aimed at modernizing management techniques will be held in eight locations nationwide, and health and safety manager training courses will also be held to help prevent industrial accidents. Efforts will also be made to enhance technological capabilities by providing support for the commercialization of new technologies through the Japan Railway Construction, Transport and Technology Agency (JRTT). (Ongoing)

(2) All 37 shipyards and shipbuilders on the Pacific coast of Tohoku together suffered devastating damage in the Great East Japan Earthquake, as did many shipbuilding-related businesses. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, supported the utilization of the Subsidy for Restoration and Reconstruction of (Groups of) SMEs, and helped in the procurement of materials and equipment needed for the prompt recovery of their facilities. (Ongoing) Additionally, to promote the reconstruction of local shipbuilding industries that make a significant contribution to the fishery industry in disaster-affected areas, measures will

be implemented to promote the use of funds for subsidizing groups of small and medium shipbuilding businesses that contribute to the fishery industry in areas where the industry is a core industry but face reconstruction difficulties due to ground subsidence, as well as for assisting with the costs of constructing and repairing facilities to be used jointly by the businesses and for constructing berthing facilities. 2) Subsidy for reconstruction assistance projects in the shipbuilding industry (Ongoing)

(3) Subsidies are being provided for research and development for marine resource development technologies that contribute to the strategic growth of Japan's maritime industries and for world-leading marine environment technologies for reducing CO2 from vessels. 3) Subsidy for R&D for technologies related to the maritime industry (Ongoing)

Section 3 Measures for small and medium building contractors and realtors

1. Program to support the revitalization of regional construction industries

[Fiscal 2015 budget: ¥190 million]

Regional construction enterprises and construction-related enterprises (survey businesses, construction consultants and geological survey businesses) play an important role in disaster prevention and mitigation and infrastructure maintenance as "guardians of the region" and "local doctors," so to speak. However, a rapid decrease in construction investments and intensified competition to receive orders have weakened the industry and generated structural issues, such as an aggravation of the treatment of field engineers, an increase in displaced workers, and a decrease in new young workers.

To develop, maintain and manage housing and social capital into the future, secure their quality, and maintain local communities through proper disaster responses, it is of pressing importance to secure and develop workers and increase productivity in construction enterprises.

In response to the above, this program will provide wide-ranging advice on management and technical issues of SME and medium construction enterprises with the aim of restoring their business strength. Through this, it will develop and provide concentrated support for initiatives that have strong potential of serving as model initiatives for securing and developing workers and increasing productivity. (New)

2. Financial support in the construction industry (Ongoing)

(1) Extension of the Local Construction Management Enhancement Loan Program

To further facilitate funds procurement by construction companies acting as the main contractor, the Local Construction Management Enhancement Loan Program will continue to provide assistance with financial burdens such as the interest payable on loans when small and medium-sized construction enterprises or second-tier construction companies procure funding using equity such as the contract value credit from public works as collateral.

(2) Extension of the Subcontracting Receivables Protection Support Program

The Subcontracting Receivables Protection Support Program, which was implemented to facilitate the procurement of funding and the protection of receivables held by building subcontractors and similar enterprises, is being continued. The main purpose of this program is to minimize risk and compensate for losses by small, medium-sized and second-tier building subcontractors when a receivable payable to a building subcontractor by the main building contractor for subcontracted building work is guaranteed by a factoring company.

3. Support for overseas business expansion in the construction industry

[Fiscal 2015 budget: ¥30 million]

Seminars on overseas expansion (seminars on formulating overseas expansion strategies) will be held, and overseas visits (dispatch of missions) will be organized, to support overseas expansions by second-tier and SME construction companies. Information on overseas construction and real estate markets will also be introduced through free expert consultations (advisory activities) and through former members from Japanese general contractors and other private sector personnel (private attachés) who are knowledgeable about local situations. (Ongoing)

4. Financial measures for small and medium realtors

Loan guarantee programs designed to provide guarantees of loans to fund joint initiatives pursued by small and medium realtors along with the business loans for regional revitalization continue in order to supplement the credit and facilitate financing of small and medium realtors. (Ongoing)

5. Regional housing greenification program

[Fiscal 2015 budget: ¥11 billion]

To strengthen the regional production framework for wooden housing and reduce environmental burden, support will be provided for the development of energy efficient and durable wooden housing and buildings through groups comprising businesspersons in related fields involved at all stages from provision of materials through to design and implementation. (New)

6. Program for developing a framework for wooden housing construction techniques
[Fiscal 2015 budget: ¥600 million]
Support will be provided for initiatives related to the development of new carpenters and implementation of technical courses for enhancing the technical level of skilled carpenters. (Ongoing)

Section 4 Measures for the environmental sanitation business

1. Measures for the environmental sanitation business
[Fiscal 2015 budget: ¥1.03 billion]
Subsidies will be provided to environmental sanitation associations, the national environmental sanitation guidance center, and prefectural environmental sanitation guidance centers, to promote the creation of safe and comfortable lifestyle environments from the perspective of sanitation. Support will be provided specifically for rehabilitating the management of environmental sanitation businesses such as the hairdressing, dry cleaning and restaurant businesses, maintaining and improving sanitation standards, and protecting user and consumer interests. In fiscal 2015, a plan will be formulated that maximizes the strengths and characteristics of environmental sanitation businesses, and particular focus will be placed on initiatives that aim to establish and promote a virtuous cycle in the industry as a means for breaking away from the structural negative cycle entrapping environmental sanitation businesses, revitalizing the industry, and driving sustainable development. (Ongoing)

2. Loans for ES businesses
[Fiscal 2015 budget: ¥2.18 billion]
The JFC will provide low-interest loans (environmental sanitation loans) with the aim of improving and otherwise promoting public health, by providing financial assistance to environmental sanitation businesses. In fiscal 2015, the terms of the loans will be improved, such as by lowering the interest rate on loans for barrier-free facilities, and proper responses will continue to be made in regard to the financial needs of environmental sanitation operators. (Ongoing)

Section 5 Environmental and energy measures

1. Administrative support for the system for certifying greenhouse gas reductions by SMEs (J-Credit Scheme)
[Fiscal 2015 budget: ¥578 million]
(1) The J-Credit Scheme is a system for certifying the amounts of greenhouse gas emission reductions achieved through capital investment by SMEs as "credits." Assistance will be provided with administering the scheme and formulating business plans.
(2) This program also develops the foundation for the carbon offset mechanism whereby CO2 emissions from products and services are offset with carbon credits, by taking advantage of the "visualization" of carbon emissions from products by the Carbon Footprint of Products (CFP) system, and promotes demand for the credits created under the J-Credit Scheme.
(3) By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program aims to achieve a good balance between the environment and economy. (Ongoing)

2. Promotion of environment-conscious business activities based on the "visualization" of CO2 emissions and carbon credits
[Fiscal 2015 budget: ¥100 million]
(1) Where businesses such as SMEs use the CFP system to calculate and visualize the amount of carbon dioxide emissions from products throughout their life cycle, from the procurement of their raw materials to their disposal and recycling, and offset the amount with carbon credits, support will be provided to promote awareness of those products as carbon-offset products through initiatives such as dedicated labeling symbolizing government approval.
(2) Through the collection of such labels, support will be provided for environmentally friendly business activities by SMEs and micro-businesses, such as by setting up schemes to return environmentally friendly products and services to schools and other local organizations and encouraging consumers to purchase environmentally friendly products. (Ongoing)

3. Environment and Energy Measure Funds (for anti-pollution measures)
[fiscal investment and loan program]
To promote anti-pollution measures by SMEs and micro-businesses, low-interest loans will continue to be provided by JFC based on a review of relevant anti-pollution facilities and interest rates. (Ongoing)

4. **Anti-pollution tax system**
[taxation scheme]
The anti-pollution tax system will continue to be implemented, to support the pollution prevention initiatives of SMEs and micro-businesses. (Ongoing)

5. **Energy Use Rationalization Business Support Program**
[Fiscal 2015 budget: ¥41 billion]
This program subsidizes the costs required for energy conservation and power peak countermeasures that are implemented when enterprises replace their energy-saving facilities and systems in their plants and offices, improve their manufacturing processes or otherwise make modifications. Energy-conservation initiatives that cut across multiple plants will also be included in the scope of this support program. (Ongoing)

6. **Program to promote the installation of designated equipment to rationalize energy use**
[Fiscal 2015 budget: ¥2.61 billion]
To promote the introduction of energy-saving facilities and certain top-runner equipment, an interest subsidy will be provided to businesses receiving financing from private financial institutions. The program will be operated through collaboration with local financial institutions, to encourage active investment in energy conservation by regional SMEs and medium enterprises. (Ongoing)

7. **Program for promoting the introduction of energy-saving measures**
[Fiscal 2015 budget: ¥550 million]
This program implements measures such as assessments to identify potential energy and power savings by SMEs and medium businesses, and distributes information via a range of media on energy-saving technologies and case studies taken from energy assessments. (Ongoing)

8. **Taxation scheme to promote environment-related investment**
[taxation scheme]
This scheme will continue to be implemented subject to a review of some of the targeted equipment with the aim of securing a stable energy supply and achieving a low-carbon society. (Ongoing)

9. **Program to create a fund to promote regional low-carbon investment**
[Fiscal 2015 budget: ¥4.6 billion]
Support will continue to be provided to carbon reduction projects through investment from the regional low-carbon investment promotion fund. To expand the support available for projects of this kind that are considered to be particularly good using the region's own capacity to make a judgment, the composition of sub-funds will be expanded in cooperation with regional financial institutions and similar bodies. (Ongoing)

10. **Eco-Lease promotion program**
[Fiscal 2015 budget: ¥1.8 billion]
The widespread adoption of low-carbon devices is being supported through a no-deposit lease scheme targeted at SMEs, etc. that have difficulty coping with the very high initial investment costs (deposits) when installing low-carbon devices. (Ongoing)

11. **Eco-Action 21**
The Eco-Action 21 scheme, which is readily accessible to second-tier enterprises and SMEs, will continue to be promoted, and considerations will begin to be made for revising the Eco-Action 21 guidelines based on the revision of ISO14001. In addition, efforts will be made to increase the number of second-tier enterprises and SMEs that engage in environmental management by continuing to run trial programs specifically aimed at reducing CO2. (Ongoing)

Section 6 Promotion of the adoption of IT

1. **Lending by governmental financial institutions for investment in IT (IT Fund)**
[fiscal investment and loan program]
The JFC acts as a reliable source of lending to enable SMEs to keep up with changes in the business environment associated with the spread of and changes in IT and digital content. (Ongoing)

Section 7 Measures on intellectual property

1. **Surveys of technical trends of patent application**
[Fiscal 2015 budget: ¥1.17 billion]
To assist in the development of R&D strategies and IP strategies in Japan's industries, market trends and trends in patent applications will be surveyed and made publicly available via such sources as the Japan Patent Office's website. Such surveys will focus on selected technical themes in technology sectors that have the potential to capture the market and that should be promoted by the government through science and technology policies. By investigating and analyzing trends in technological development, focusing on the rapidly growing amount of patent information coming out of China, a more detailed grasp of patent trends will be gained, such as the technology sectors in which patents are increasing, right down to the level of the underlying technologies. The information will then be provided to enterprises for use in the formulation of their R&D strategies and intellectual property strategies. (Ongoing)

2. International Patent Application Subsidy (support for international patent applications by SMEs)
[Fiscal 2015 budget: ¥630 million]
In order to encourage SMEs to file strategic applications for international patents, subsidies will be provided via SME support centers and JETRO, to partially defray the costs incurred (such as application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) by SMEs aspiring to expand their business overseas. From fiscal 2015, support for international applications of regional organization trademarks will be provided not only to SMEs but also to societies and chambers of commerce and industry and NPOs. (Ongoing)

3. Promotion of the wider use of IP systems
[Fiscal 2015 budget: ¥80 million]
Information sessions were held for individuals tailored according to their different levels of knowledge and expertise on the intellectual property system. These included sessions outlining the IP system and explaining basic knowledge for beginners, along with sector-specific sessions with more specialized content for people with some experience, looking at topics such as the examination criteria for patents, designs, and trademarks, the application of the trial system and procedures for international applications.
In fiscal 2015, information sessions for beginners were held in 47 prefectures, while sessions for more experienced people were held in major cities throughout Japan. (Ongoing)

4. Assistance with countermeasures for imitation products (program supporting measures by SMEs to counter overseas infringements)
[Fiscal 2015 budget: ¥120 million]
To promote the timely and appropriate exercise of rights overseas by SMEs, assistance will be provided via JETRO for the costs for the implementation of measures against the risk of SMEs being sued overseas for a violation of rights by imitation products and, from fiscal 2015, infringement of intellectual property. (Ongoing)

5. Patent strategy portal site
[Fiscal 2015 budget: ¥10 million]
The patent strategy portal site on the Patent Office's website will provide online access to "data for self-analysis", which includes individual data on the number of patent applications, the number of examination requests, and the patent allowance rate over the preceding 10 years, for applicants who have applied for a password. (Ongoing)

6. Reductions in patent fees for SMEs
SMEs actively pursuing R&D will continue to be subsidized through the reduction by half of examination request fees and patent charges (for 10 years from the first year).
Two new measures will also be implemented for small and medium venture enterprises and micro businesses. One measure reduces examination request fees, patent charges (for 10 years from the first year), and administrative charges for overseas patents (administrative charges for investigations, forwarding and preliminary examinations) by one third, and the other measure subsidizes amounts equivalent to two-thirds of the amount paid in international patent administration fees and handling fees. (Ongoing)

7. Accelerated examination and accelerated appeal examination system
Where the applicant or appellant submitting the request is an SME or micro business, examinations and appeal examinations can be fast-tracked by presenting an "Explanation of Circumstances Concerning Accelerated Examination" or "Explanation of Circumstances Concerning Accelerated Appeal Examination". (Ongoing)

8. Provision of a one-stop IP service for SMEs (General IP Help Desks)
[Fiscal 2015 budget: ¥2.9 billion (includes INPIT subsidy)]
"General IP Help Desks" have been established in each prefecture and staffed by support staff in order to provide a one-stop service for on-the-spot resolution of IP concerns and problems encountered by SMEs in the course of business administration. The use of IP by SMEs is further promoted by such means as using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies and similar organizations, and identifying SMEs and other enterprises that are not making effective use of IP. In fiscal 2015, the frequency of patent agents and lawyers assigned to help desks nationwide will be doubled in principle, and corporate visits will be increased. (Ongoing)

9. Development of a one-stop support framework for trade secrets ("Trade secret/IP strategy consultation center—Trade secret hot line—")
[Fiscal 2015 budget: INPIT subsidy]
The "Trade secret/IP strategy consultation center—Trade secret hot line—" that was newly established in the National Center for Industrial Property Information and Training (INPIT) will cooperate with the IP comprehensive support center in responding to consultations mainly from SMEs regarding IP strategies, such as matters regarding patent acquisition and confidentiality matters and

the management of trade secrets, through IP experts. Response to consultations regarding leakages and outflows of trade secrets, information security measures and cyberattacks will also be provided in cooperation with the National Police Agency and Information Technology Promotion Agency, Japan (IPA). (Ongoing)

10. Emerging Country IP Information Databank
[Fiscal 2015 budget: ¥30 million]
This is an informational website aimed at legal and IP managers in Japanese enterprises doing business in developing countries and similar regions. Its purpose is to provide a wide range of IP information for various developing countries, including information on application procedures, examination and litigation procedures, licensing procedures and statistical and institutional trends. (Ongoing)

11. Promotion of the acquisition of rights through the sophisticated use of IP information
[Fiscal 2015 budget: INPIT subsidy]
The National Center for Industrial Property Information and Training (INPIT) will assign experts in IP management ("Global IP Producers") to assist SMEs and other enterprises with promising technologies that are likely to drive overseas expansion. These Global IP Producers will support overseas business expansion by SMEs through the use of intellectual property, by assisting in the formulation of IP strategies tailored to the nature of the overseas operations and factors such as the situations and systems in the target countries. (Ongoing)

12. On-site and TV interview examinations
[Fiscal 2015 budget: ¥10 million]
To provide support to staff in small and medium venture enterprises throughout Japan, onsite interview examinations will continue to be held by inspectors sent to interview venues across Japan, and TV interview examinations will also continue to be held via the Internet using the applicants' own PCs. (Ongoing)

* The budget for TV interviews is included in the budget for onsite interviews, as the budget for onsite interviews is ¥10 million, and that for TV interviews is ¥2 million. (Ongoing)

13. Program to support the analysis and utilization of patent information by SMEs
[Fiscal 2015 budget: ¥140 million]
To promote the utilization of intellectual property rights by SMEs, including their effective acquisition of rights, support will be provided for the comprehensive analysis of patent information in response to needs at the R&D, application and examination request stages. (New)

14. Promotion of intellectual property financing
[Fiscal 2015 budget: ¥100 million]
Intellectual property financing will be promoted among financial institutions that are experiencing a difficulty in assessing patents and other intellectual property that SMEs possess, by providing free copies of assessment documents of businesses that utilize SME intellectual property. (New)

15. Program for promotion of businesses that utilize Japanese intellectual properties
[Fiscal 2015 budget: ¥560 million]
The following initiatives will be implemented via JETRO, to support the promotion of overseas business expansion through the use of intellectual properties of medium enterprises and SMEs.

(1) The attractiveness of Japanese medium enterprises and SMEs having prospective intellectual properties will be widely communicated overseas in multiple languages, with careful consideration to prevent the outflow of technologies.
(2) Support will be provided for arranging opportunities for business meetings with business partner candidates, through surveys of overseas needs and participation in trade fairs related to intellectual property.
(3) Advice will be provided through intellectual property specialists, with a view to preventing the outflow of technologies. (New)

16. Program for strengthening capacities to support the intellectual properties of regional SMEs
[Fiscal 2015 budget: ¥150 million]
To promote the protection and utilization of the intellectual properties of SMEs through detailed support in consideration of the various issues and regional characteristics of SMEs, support will be provided to highly-motivated regional support institutions that present pioneering and advanced support for intellectual properties. (New)

Chapter 8 Towards effective implementation of SME and micro-business policy

Section 1 Enhancement of management support

1. Programs promoting measures to support cooperative SME organizations
[Fiscal 2015 budget: ¥710 million]
Where partnerships or other associations are working on management innovation and/or reforms through the National Federation of Small Business Associations, which is a dedicated agency assisting cooperative SME organizations, support is provided that includes partial subsidies for the costs of implementing those innovations or reforms, along with training for instructors. Support will also be provided for optimizing the activities of associations (supervision organizations) that engage in the training of foreign intern trainees. (Ongoing)

2. Support for capital investment through advancement programs integrated with business support
Where SMEs work jointly to establish business cooperatives in order to shore up their administrative platforms and improve their business environment, the SMRJ and prefectural governments will collaborate to provide diagnoses and advice on business plans together with long-term, low-interest (or interest-free) loans to fund the required capital expenditure. (Ongoing)

3. One-stop comprehensive support programs for SMEs and micro-businesses
[Fiscal 2015 budget: ¥3.9 billion]
"Yorozu support centers" that have been set up in each of the 47 prefectures will collaborate with various regional support agencies to respond to various inquiries regarding management issues, such as the expansion of sales, and specialist advisors will be dispatched to deal with advanced specific management issues. (Ongoing)

4. Program to foster personnel and support personnel for micro businesses
[Fiscal 2015 budget: ¥450 million]
Training is being carried out in regions across Japan to provide a service whereby business advisors who are assisting micro businesses can analyze the strengths of the individual micro businesses and then propose and implement measures tailored to those strengths. This program is aimed at candidates for the next generation of managers in small and medium service providers and fosters personnel who will coordinate and draw up plans for revitalizing the deeply rooted regional service industry, in part by providing them with opportunities to learn from experience what makes a successful enterprise. (Ongoing) (cited earlier)

Section 2 Promotion of surveys and public information activities

1. Publicizing of policy
To publicize SME policy, pamphlets and leaflets summarizing the main points are produced and distributed to local governments, SME support agencies and financial institute, etc. Further publicity will be generated by staging SME Agency for a Day events.

(1) Publication of booklets
Guidebooks for utilizing SME policies will be produced, including the "Guide to the Use of SME Policy," containing an introduction of more than 200 policies, and pamphlets on specific policies. These will be distributed to a wide range of interested parties, including SMEs, local government bodies, SME support agencies (commerce and industry associations, chambers of commerce and industry, etc.), financial institutions, and certified public tax accountants, lawyers, certified public accountants, and SME management consultants who provide support to SMEs. (Ongoing)

(2) Publication of flyers
Materials that summarize the main points of measures in the current and supplementary budgets and flyers that provide information on each program will be produced and widely distributed. (Ongoing)

(3) Explanation of subsidies and other support measures via video
Officers from the SME Agency will provide explanations of the policies of the current and supplementary budgets that relate to SMEs and micro-businesses via a video presentation. (Ongoing)

(4) Organization of "One-day SME Agency" events
Co-hosted by the SME Agency and host prefectures, these events are held both to explain the latest measures to local SMEs and deepen their understanding of the measures. The events also provide a forum for exchanges of ideas and interaction, which contributes to future revisions and improvements in SME policy. These events have been held every year since 1964. (Ongoing)

(5) Online publicity activities
1) Website-based publicity
The SME Agency website hosts up-to-date information on SME measures, information on public offerings, and printed materials such as flyers and booklets. (Ongoing)

2) E-mail newsletter
The e-mail newsletter is produced in association with SME support agencies and sent out to subscribers every Wednesday. It showcases dynamic SMEs and contains policy information, local updates and information on topics such as surveys and research reports. (Ongoing)

(6) J-Net21 (portal site for SME business support)
J-Net21 operates as a portal site for SME support and provides a service system that allows quick and straightforward access to required information sources. (Ongoing)

2. Production of the White Paper on Small and Medium Enterprises in Japan and the White Paper on Small Enterprises

In order to ascertain the current situation of SMEs and the challenges that they face, an annual report (2015 White Paper on Small and Medium Enterprises in Japan) will be produced in accordance with the provisions of Article 11 of the Small and Medium-sized Enterprise Basic Act. Also to ascertain the current situation of small enterprises and the challenges they face, an annual report (2015 White Paper on Small Enterprises) will be produced in accordance with the provisions of Article 12 of the Small Enterprises Promotion Act. (Ongoing)

3. Basic Survey of Small and Medium Enterprises

The Basic Survey of Small and Medium Enterprises is conducted in accordance with the provisions of Article 10 of the Small and Medium-sized Enterprise Basic Act, and provides statistics concerning management and financial information such as SME sales figures and numbers of workers employed by SMEs. (Ongoing)

4. Publication of the Survey on SME Business Conditions

The Survey on SME Business Conditions by SMRJ is published quarterly to ascertain business trends among SMEs. (Ongoing)

Appended notes

Contents

Appended note 2-1-1 Definition of parent business and contractor in subcontract transactions

- The definition of a subcontract transaction is determined by the type of transaction and amount of capital of both the party issuing the contract (contracting party) and the party receiving the contract (contracted party).
- In transactions (1) – (4) shown below in Table A, the contracting party is the parent business and the contracted party is the contractor, when the amount of capital of the two parties is as shown in Tables B and C in reference to each other.

Table A: Type of transaction

(1) Manufacturing contract	Request for the manufacture of goods, contract manufactured goods, parts, and raw materials that are sold by another company as its main business, or goods, molds, etc. that are utilized by that company
(2) Repair contract	Request for the repair of goods that is undertaken by another company as its main business, or that are utilized by that company
(3) Program creation contract	Request for the creation of a program that is undertaken by another company
(4) Information-based product creation contract other than a program creation contract	Request for the creation of a TV program or provision of an industrial or graphic design that is performed by another company

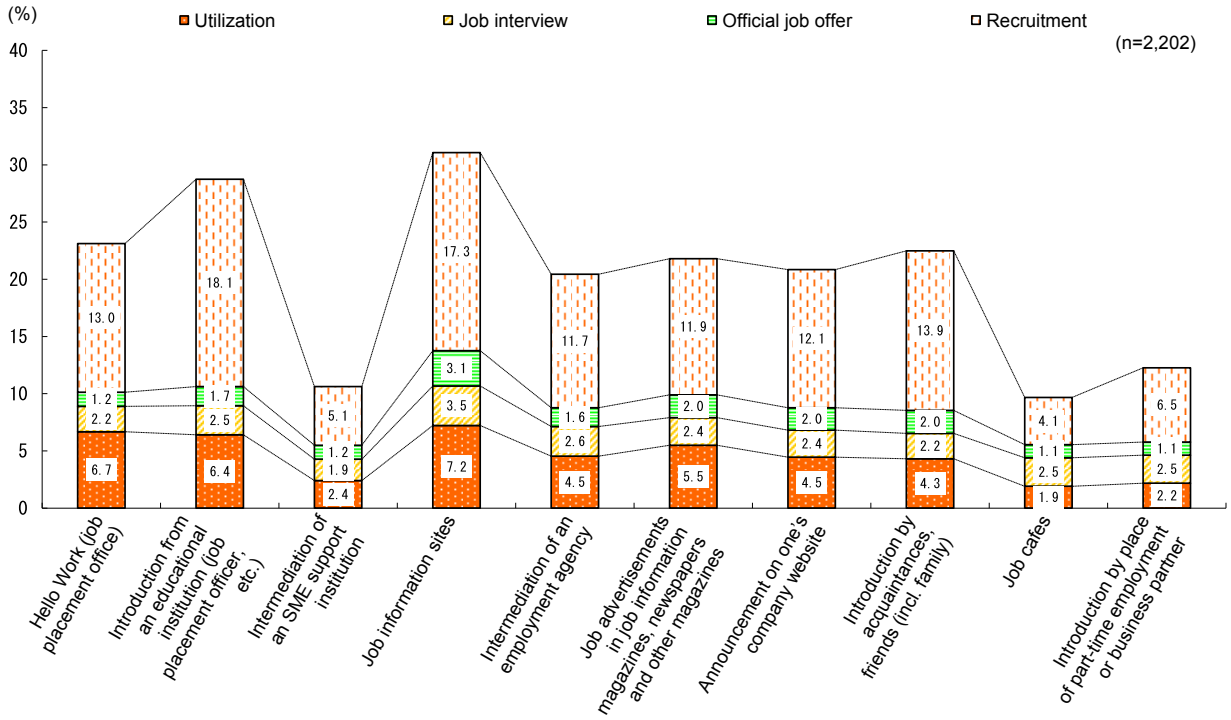
Table B: In the case of a manufacturing, repair or program creation contract
(including transportation, warehousing of goods and information processing)

		[Contracting party] (o: parent business; ×: not a parent business)		
	Capital	¥1 – ¥10,000,000	¥10,000,001 – ¥50,000,000	¥50,000,001 –
[Contracted party] (o: contractor; ×: not a contractor)	¥1 – ¥10,000,000	×	o	o
	¥10,000,001 – ¥50,000,000	×	×	o
	¥50,000,001 –	×	×	×

Table C: In the case of an information-based product creation contract other than a program creation contract
(excluding transportation, warehousing of goods and information processing)

		[Contracting party] (o: parent business; ×: not a parent business)		
	Capital	¥1 – ¥10,000,000	¥10,000,001 – ¥300,000,000	¥300,000,001 –
[Contracted party] (o: contractor; ×: not a contractor)	¥1 – ¥10,000,000	×	o	o
	¥10,000,001 – ¥300,000,000	×	×	o
	¥300,000,001 –	×	×	×

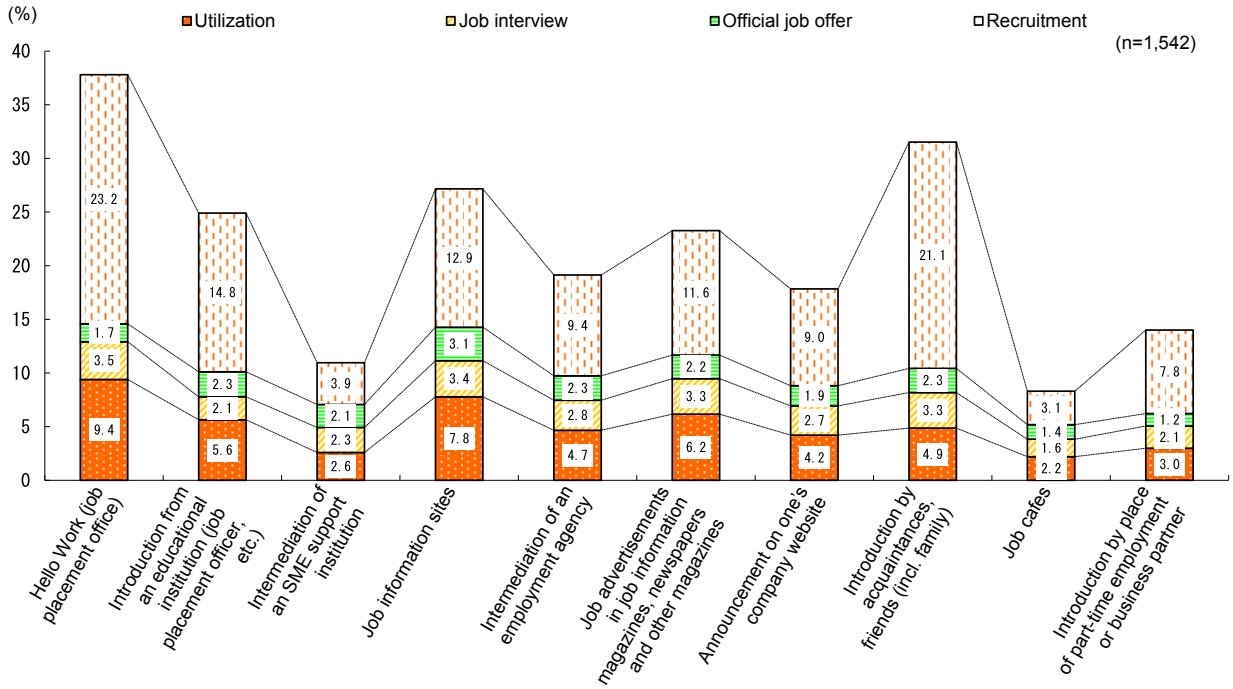
Appended note 2-2-1 Method of gaining employment (large enterprises)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Notes: 1. "Utilization" means the method was used, but did not lead to a job interview.
2. "Job interview" means an interview was received, but did not lead to an official job offer.
3. "Official job offer" means an official job offer was received, but did not lead to recruitment (employment).

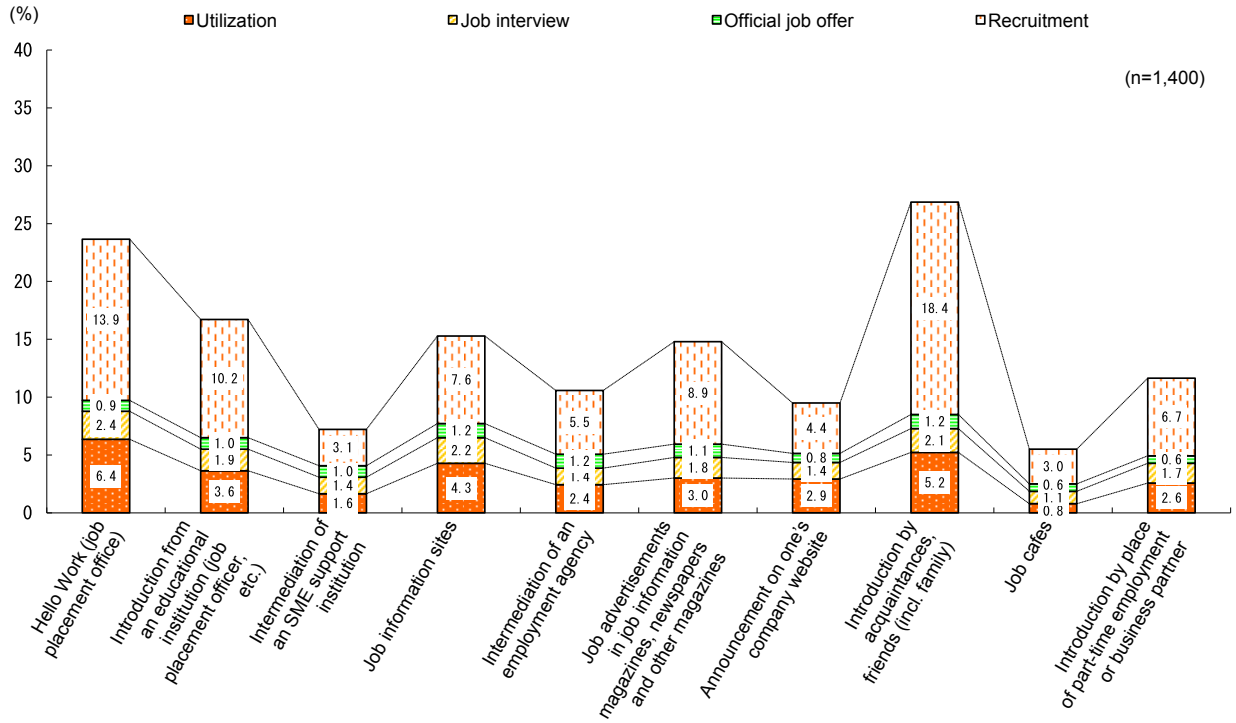
Appended note 2-2-2 Method of gaining employment (medium enterprises)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Notes: 1. "Utilization" means the method was used, but did not lead to a job interview.
2. "Job interview" means an interview was received, but did not lead to an official job offer.
3. "Official job offer" means an official job offer was received, but did not lead to recruitment (employment).

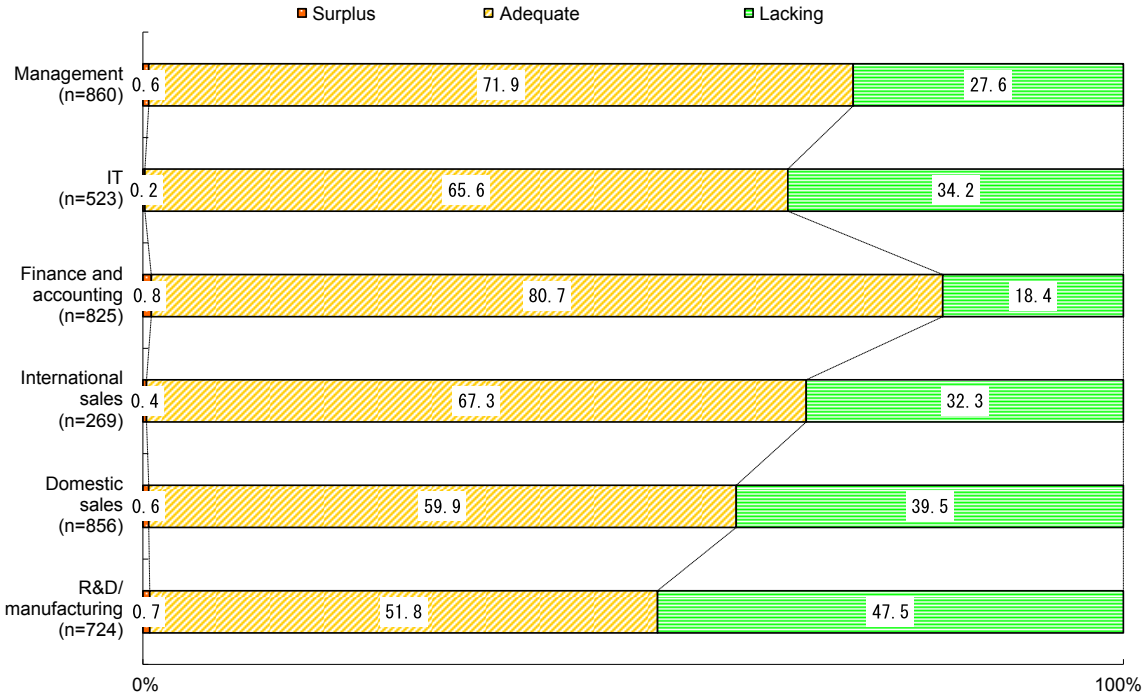
Appended note 2-2-3 Method of gaining employment (micro-businesses)



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

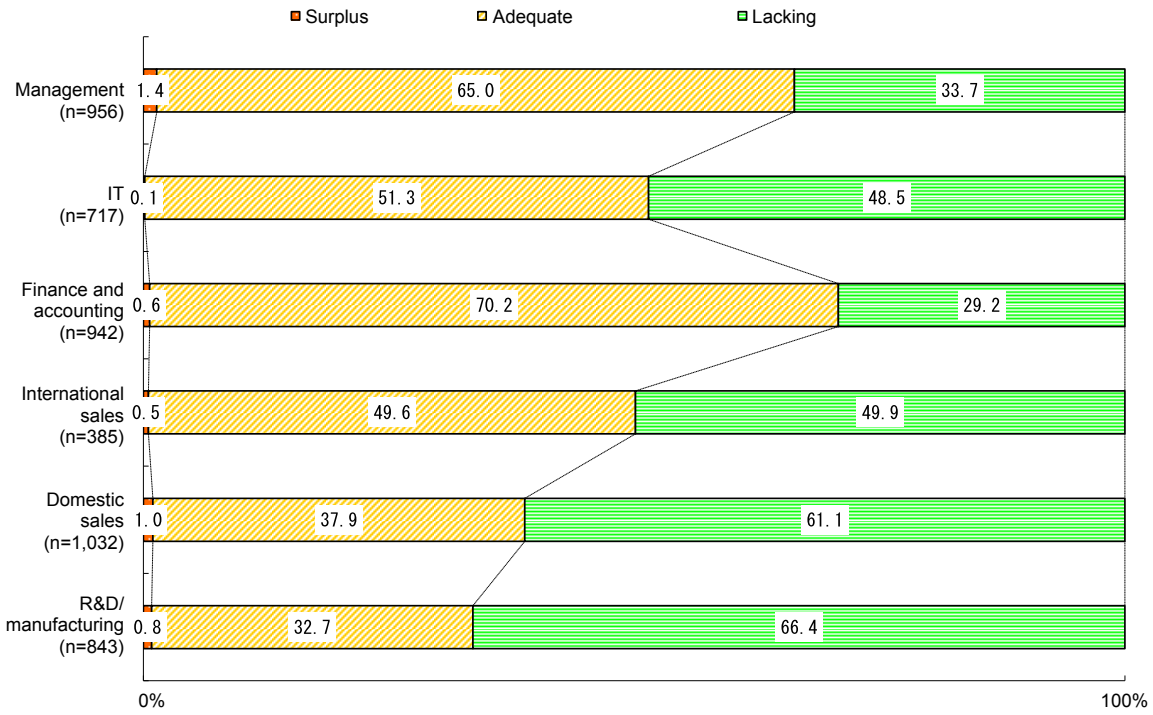
Notes:
1. "Utilization" means the method was used, but did not lead to a job interview.
2. "Job interview" means an interview was received, but did not lead to an official job offer.
3. "Official job offer" means an official job offer was received, but did not lead to recruitment (employment).

Appended note 2-2-4 Sense of insufficiency of core human resources among SMEs that wish to maintain the same level of business



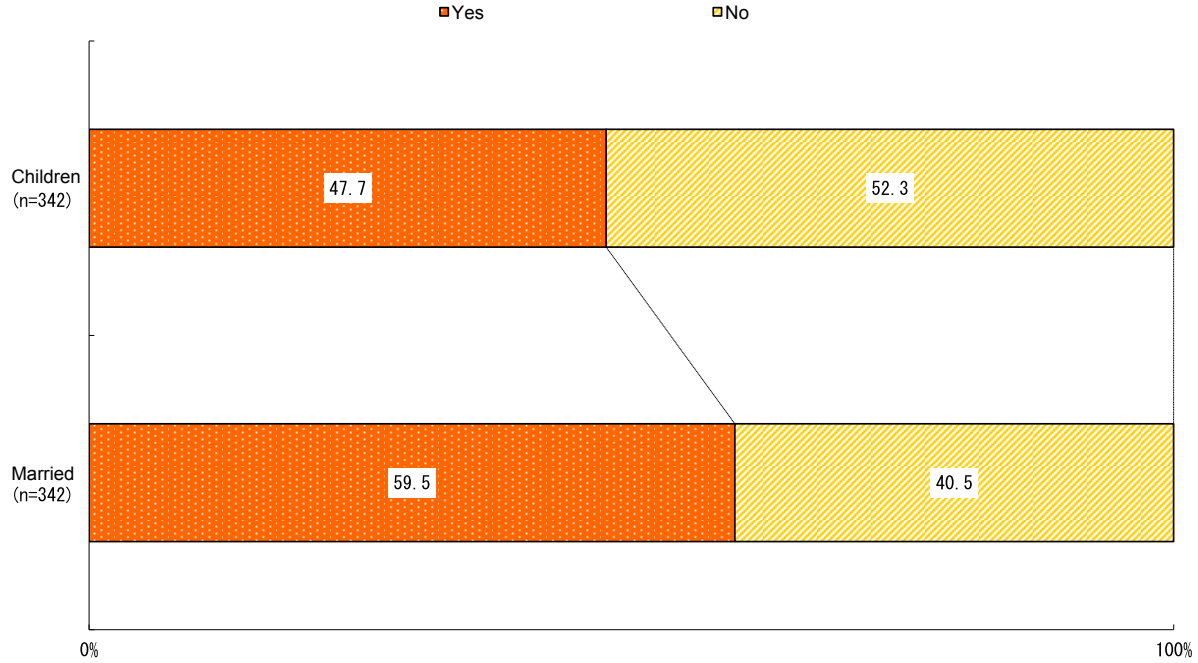
Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 2-2-5 Sense of insufficiency of core human resources among SMEs that wish to expand their business



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 2-2-6 Marital and offspring status when making a job change that accompanies a UIJ turn

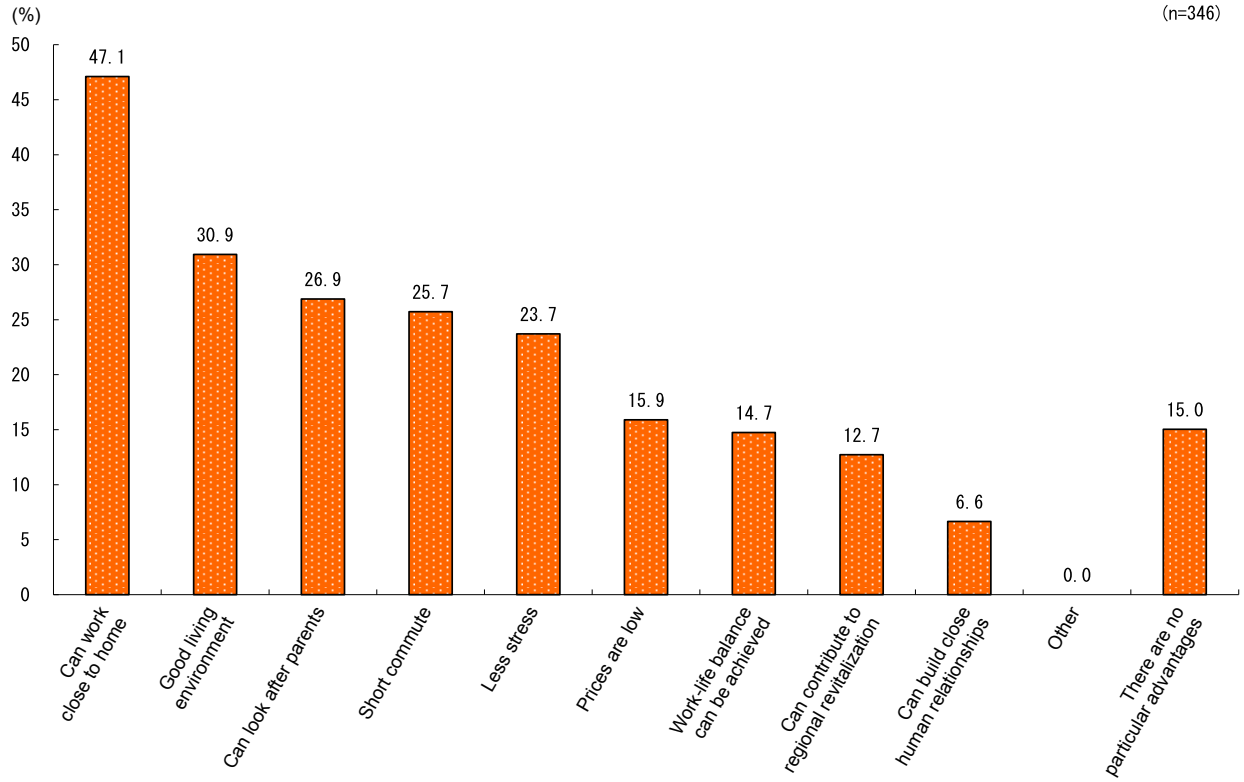


Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 2-2-7 Responses to job changes that accompany a UIJ turn among surrounding people

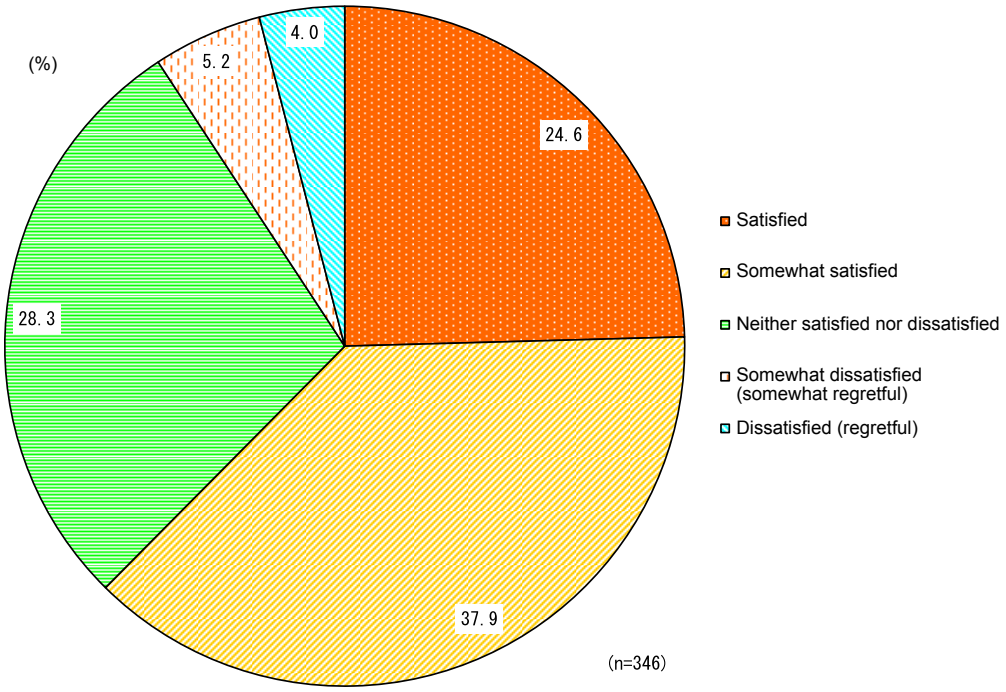
Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 2-2-8 Advantages of job changes that accompany a UIJ turn



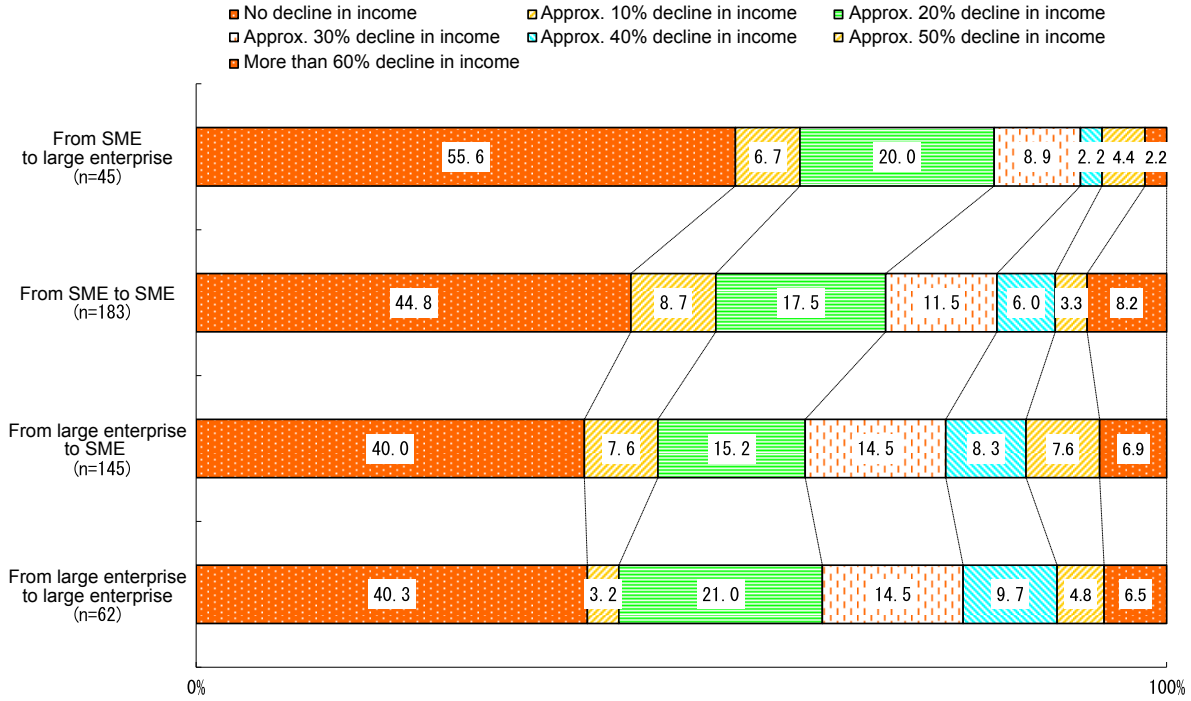
Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 2-2-9 Degree of satisfaction in job changes that accompany a UIJ turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 2-2-10 Changes in income as a result of a job change that accompanies a UIJ turn



Source: Nomura Research Institute, *Survey of Human Resource Acquisition and Development at SMEs and Micro-businesses* (December 2014), commissioned by the SME Agency.

Appended note 3-2-1 Regional Inter-industry Input-output Tables[1)]

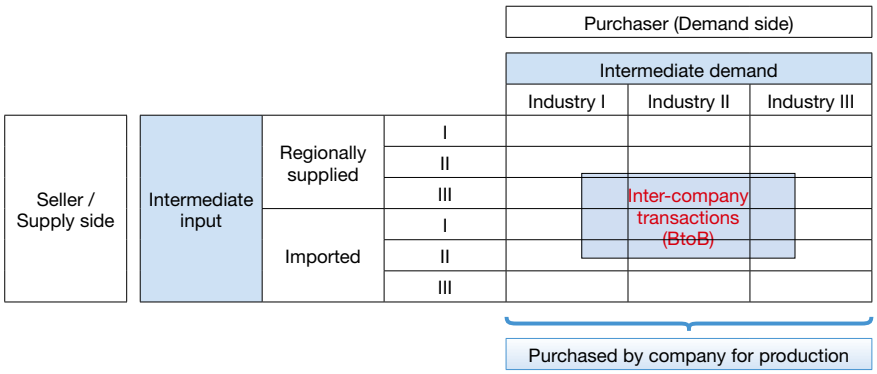
Inter-industry input-output tables show inputs and outputs for economic activities. Two concepts of "input" are in operation here. One of these is a concept of purchase – "acquisition from another source." Raw materials, energy, materials, parts, services such as maintenance and inspection, transportation, finance and insurance, and outsourcing fall under this category. The other is a concept of "use of assets that are rented or owned by the business." This covers people, buildings, equipment, and land which are employed as production elements.

Because the figures on inter-industry input-output tables are the estimated values of transactions (money flows) over the course of a year, in the case of people, values corresponding to the wages and salaries paid for employment, in the case of purchased buildings and equipment, values corresponding to depreciation (consumption of fixed capital), representing the cost of using the facilities, and in the case of land, values corresponding to rent (if the land is rented) are used. For outputs (values) the concept is shipment value and sales value considered on an activity basis[2)]. Output values consider how much was sold by which economic actors. In accounting terms, the input values and output values on Inter-industry input-output tables correspond.

In addition to what value of goods and services were purchased from whom, the important factors in considering regional economies are where were they purchased from, and where were they sold? In the case of a country, this is expressed by means of imports and exports, and exports outside the region and imports from outside the region are also used in the case of tables for regions.

We will consider the structure of a regional inter-industry input-output table. First, the inter-industry transaction table can be expressed as shown in Fig. 1, distinguishing between intra-regional and extra-regional. The horizontal direction shows the composition of sales channels, and the vertical direction shows the composition of costs (composition of inputs). On these tables, we distinguish between whether inputs come from within the region (regionally supplied) or come from outside the region (imported).

Fig. 1 Inter-company (inter-industry) transactions



1) Professor Ryohei Nakamura of Okayama University provided assistance in the formulation of this appended note. Figures are reproduced from "Structural Reform of Community-building: Designing Regional Economic Structures," op. cit.
2) In the inter-industry input-output table, this output is called production value.

Expanding this table in the seller direction, company expenditures other than those demanded for production activities, household consumption, private and public investment, and export (demand from outside the region) are added, as shown in Fig. 2. These factors are termed ultimate demand, and their significance is due to the fact that they will not be re-input into production activities. On this table also, we distinguish between whether the goods and services that are consumed, made the subject of investment, or exported were produced within the region or imported from outside the region.

Fig. 2 Expansion of transaction table in direction of demand

				Purchaser (Demand side)					
				Intermediate demand			Ultimate demand		
				Industry I	Industry II	Industry III	Consumption	Investment	Export
Seller / Supply side	Intermediate input	Regionally supplied	I						
			II						
			III						
		Imported	I						
			II						
			III						

When sectors producing added value corresponding to labor and capital are added to Fig. 2, we obtain a table of the type shown in Fig. 3. Here, company income and employee income are shown as representative of sectors producing added value. The distinctive feature here is that we consider the flow of company income and employee income outside the region depending on whether or not the company or employee resides in the region.

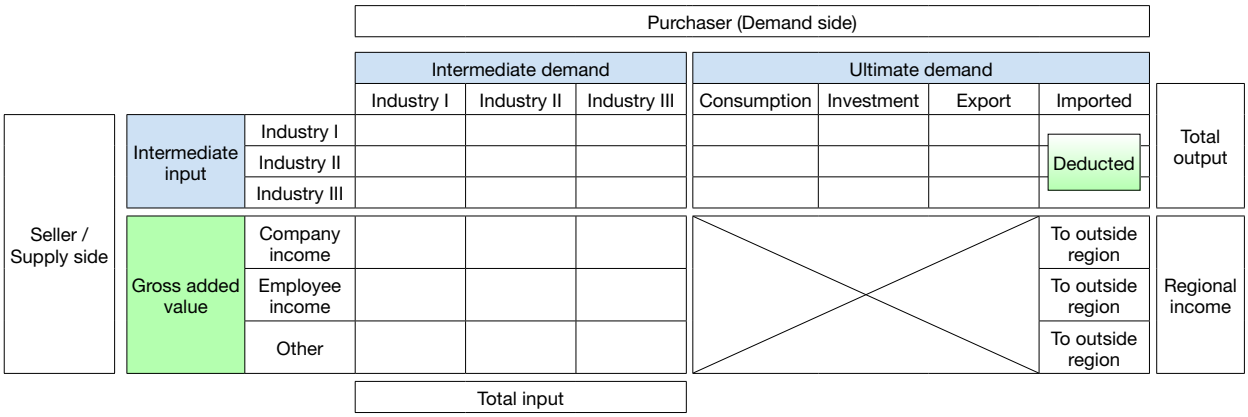
Fig. 3 Expansion of sectors producing added value on transaction table

				Purchaser (Demand side)					
				Intermediate demand			Ultimate demand		
				Industry I	Industry II	Industry III	Consumption	Investment	Export
Seller / Supply side	Intermediate input	Regionally supplied	I						
			II						
			III						
		Imported	I						
			II						
			III						
	Gross added value	Company income	Within region						
			To outside region						
		Employee income	Within region						
			To outside region						
		Other							

Inter-industry input-output tables of the type shown in Figure 3 are called non-competitive import-type tables. This is due to the fact that regional products and imported products are treated as separate and not involved in competitive relationships. By contrast, input-output tables which treat imported products and regional products as possessing the same characteristics and involved in competition are called competitive import-type tables (Fig. 4). Intra-regional and extra-regional goods and services purchased by each industry are totaled in the intermediate input section, and inputs as a whole are deducted in the imported of ultimate demand section.

In Japan, intra-regional inter-industry input-output tables are formulated for most government-designated cities and prefectures. However, almost all of these are competitive import-type tables, because the formulation of non-competitive import-type tables requires an enormous amount of labor. In general, competitive import-type tables are highly applicable to making predictions regarding regional economies, but non-competitive import-type tables offer greater advantages in analyzing the status of a regional economy.

Fig. 4 Competitive import-type regional inter-industry input-output table



What does the formulation of these types of inter-industry input-output tables enable us to understand? This can be broadly divided into two categories.

The first is that a close analysis of an inter-industry input-output table enables us to determine the nature of the connection between the region and extra-regional areas. This clarifies the actual status of extra-regional purchase of goods and services that exist within the region, or goods and services which can be supplied by companies within the region. When this has been identified, we then consider why the situation is so. If needs were met within the region, then funds would not flow outside the region, and would become income for people within the region. Given this, what are the reasons that needs cannot be met within the region? A number of reasons can be considered, including problems of quality, problems of delivery periods, previously existing connections (human relationships), and problems of the volume which can be supplied. Measures can presumably be effected in order to respond to issues of this type. The analysis offers a good opportunity to consider the measures that might be effective.

Agricultural products are inputs for the food manufacturing industry, and are presumably used by the trade and services industries. Industrial products are presumably not consumed by individuals alone, but also sold to the manufacturing industry and farmers. Finance and insurance and transportation services are essential to both agriculture and industry. As a result, if industries make adequate efforts in their specific area, a ripple effect is produced in all the industries with which the industry is connected (engages in transactions with).

The second benefit of formulating inter-industry input-output tables is that they represent simultaneous equations, the solution of which enables us to gain a quantitative understanding of this ripple effect. We learn, quantitatively, to what extent changes in ultimate demand (for example consumption and investment, and, additionally, export) affect which industries, and where the effect is felt.

However, companies will not succeed if the products of an industry do not sell. There are two ways of thinking in this respect. One is based on the assumption that consumers (or ultimate demanders) will purchase essential goods and services. Given this, if demand exists, then production derived from this demand will occur. The other way of thinking is that the creation of an excellent product or service (distinguishing a product or service from other products or services), or one that has never existed before (creating a new product or service as a result of technological development), will generate consumer demand. For this way of thinking, supply generates demand. The transition from 3G mobile phones to smartphones in Japan is a classic example.

Analysis of inter-industry input-output tables adopts the former way of thinking, i.e. that demand generates supply (production). The ripple effect of production is therefore expressed as X million yen.

While international inter-industry input-output tables exist, up to the present regional tables have at best been formulated for government-designated cities, and have mainly been formulated by municipalities. In the majority of cases involving small areas (in the sense of having a small economic scale) such as regional cities, towns and villages, it has been considered acceptable to specify the economy in terms of trends in the national GDP. This is because the autonomy of regional economies is low, and an overwhelmingly large proportion of the economy is reliant on imports from outside the region. In other words, even if an input-output table is not formulated, it is sufficient to consider the correlation with national GDP. However, if a region seeks to become more autonomous, it should possess a clear understanding of the structure of regional inputs and outputs.

Unlike large regions such as prefectures, in small regions there are likely to be numerous areas in which the distance of municipalities from residents is minimal. The potential for the implementation of surveys in these areas would be high, and their implementation could be considered to be significant. It would also be possible to determine where raw materials and intermediate goods used in production activities in the respective sectors were originating. This would mean the formulation of non-competitive import-type inter-industry input-output tables, which are a powerful tool in the analysis of the real economy.

The researcher must be aware of a number of prerequisites before analyzing an inter-industry input-output analysis. Because these analyses proceed based on a certain economic structure (money flows in the real economy for a one-year period), i.e. cover a short period, production techniques remain fixed. Put another way, the analyses are in a relationship of absolute complementarity with the specific consumption rate and capital. For example, the cost of the input represented by the steel necessary for the production of a single unit of a specific vehicle maintains a fixed ratio.

As indicated above, at the initial stage there is demand, and a production ripple effect and an income-generation effect proceed from this demand. Therefore, it is basically the ripple effect from downstream (ultimate demand) to upstream (production of intermediate goods used by companies in production) which is focused on. It is ultimate demand that vitalizes company production activities. The possibility of an autonomous increase in production by a company falls outside the scope of the model (because it originates endogenously), and might be attributed in the analysis to technological factors. In addition, even if demand increases, the price of goods does not increase, and the necessary volume of supply (production) is adequately satisfied. Consumption or ultimate demand (the endogenous variable) is also taken as given, but can also be transformed into an endogenization model such as a Keynesian model.

Analysis of inter-industry input-output tables offers us a quantitative understanding of what effect which elements of demand (consumption, investment, export) have on which industries, which industries are affected to what degree by which elements of demand (consumption, investment, export), and how efforts made by a specific industry stimulate production in the industry.

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Supplementary statistical data

Contents

Table 1 Number of business establishments and enterprises by industry and size (private, non-primary industry, 2012)

(1) Business establishments

Industry	Small and medium business establishments		Of which micro business establishments		Large business establishments		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	2,284	99.9	2,085	91.2	2	0.1	2,286	100.0
Construction	525,186	99.9	495,193	94.2	271	0.1	525,457	100.0
Manufacturing	490,081	99.3	413,942	83.9	3,299	0.7	493,380	100.0
Electricity, gas, heat supply and water	3,846	97.7	2,337	59.4	89	2.3	3,935	100.0
Information and communications	66,181	98.5	40,033	59.6	1,023	1.5	67,204	100.0
Transportation and postal services	134,704	99.4	96,363	71.1	774	0.6	135,478	100.0
Wholesaling/retailing	1,383,927	98.5	925,863	65.9	21,084	1.5	1,405,011	100.0
Wholesale trade	368,356	99.1	214,075	57.6	3,297	0.9	371,653	100.0
Retail trade	1,015,571	98.3	711,788	68.9	17,787	1.7	1,033,358	100.0
Finance and insurance	88,461	99.6	71,088	80.0	370	0.4	88,831	100.0
Real estate and goods rental and leasing	379,412	99.9	359,462	94.7	307	0.1	379,719	100.0
Scientific research and professional and technical services	217,924	99.3	163,145	74.3	1,546	0.7	219,470	100.0
Accommodations and food services	704,955	99.0	482,083	67.7	6,778	1.0	711,733	100.0
Life-related, entertainment and recreation services	479,254	99.7	418,948	87.2	1,363	0.3	480,617	100.0
Education and learning support	159,377	98.8	111,764	69.3	1,910	1.2	161,287	100.0
Medical, healthcare and welfare	350,522	97.6	152,104	42.4	8,475	2.4	358,997	100.0
Compound services	33,065	99.1	17,218	51.6	292	0.9	33,357	100.0
Services (not otherwise classified)	348,520	97.9	245,486	68.9	7,636	2.1	356,156	100.0
Non-primary industry total	5,367,699	99.0	3,997,114	73.7	55,219	1.0	5,422,918	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Business establishments with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 50 or fewer in retailing and eating and drinking places) are treated as small and medium business establishments.
2. Business establishments with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro business establishments.
3. The percentages of the total for micro business establishments indicate their proportion of the total number of business establishments.
4. Industries are classified according to the November 2007 revised system of industry classification.
5. 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 for Business Frame* (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.
6. Each figure includes business establishments with only temporary staff (total number of workers = 0).

(2) Enterprises

Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1,676	99.9	1,489	88.7	2	0.1	1,678	100.0
Construction	467,119	99.9	448,293	95.9	291	0.1	467,410	100.0
Manufacturing	429,468	99.5	373,766	86.6	2,044	0.5	431,512	100.0
Electricity, gas, heat supply and water	657	96.1	410	59.9	27	3.9	684	100.0
Information and communications	44,332	98.9	29,558	65.9	508	1.1	44,840	100.0
Transportation and postal services	74,316	99.7	55,287	74.2	245	0.3	74,561	100.0
Wholesaling/retailing	919,671	99.6	751,845	81.4	3,917	0.4	923,588	100.0
Wholesale trade	225,599	99.3	163,713	72.1	1,508	0.7	227,107	100.0
Retail trade	694,072	99.7	588,132	84.4	2,409	0.3	696,481	100.0
Finance and insurance	30,184	99.2	29,187	95.9	253	0.8	30,437	100.0
Real estate and goods rental and leasing	325,803	99.9	318,962	97.8	276	0.1	326,079	100.0
Scientific research and professional and technical services	185,730	99.7	159,400	85.6	550	0.3	186,280	100.0
Accommodations and food services	543,543	99.9	475,183	87.3	718	0.1	544,261	100.0
Life-related, entertainment and recreation services	383,059	99.9	357,806	93.3	512	0.1	383,571	100.0
Education and learning support	103,867	99.9	92,619	89.1	121	0.1	103,988	100.0
Medical, healthcare and welfare	195,088	99.9	140,484	71.9	232	0.1	195,320	100.0
Compound services	3,476	100.0	3,461	99.5	1	0.0	3,477	100.0
Services (not otherwise classified)	144,945	99.4	105,064	72.0	899	0.6	145,844	100.0
Non-primary industry total	3,852,934	99.7	3,342,814	86.5	10,596	0.3	3,863,530	100.0

Source: Recompiled from MIC, *2012 Economic Census for Business Activity*.

Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).
2. Enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of the total number of enterprises.
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 for Business Activity* (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		Of which micro enterprises		Large enterprises		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1,475	99.9	1,289	87.3	2	0.1	1,477	100.0
Construction	303,458	99.9	284,716	93.7	291	0.1	303,749	100.0
Manufacturing	273,525	99.3	218,107	79.1	2,044	0.7	275,569	100.0
Electricity, gas, heat supply and water	657	96.1	410	59.9	27	3.9	684	100.0
Information and communications	42,006	98.8	27,265	64.1	508	1.2	42,514	100.0
Transportation and postal services	54,060	99.5	35,054	64.6	245	0.5	54,305	100.0
Wholesaling/retailing	431,790	99.1	291,787	67.0	3,792	0.9	435,582	100.0
Wholesale trade	177,307	99.2	117,116	65.5	1,508	0.8	178,815	100.0
Retail trade	254,483	99.1	174,671	68.0	2,284	0.9	256,767	100.0
Finance and insurance	23,088	98.9	22,091	94.6	253	1.1	23,341	100.0
Real estate and goods rental and leasing	169,360	99.8	162,664	95.9	276	0.2	169,636	100.0
Scientific research and professional and technical services	83,356	99.4	64,630	77.0	530	0.6	83,886	100.0
Accommodations and food services	98,097	99.3	56,391	57.1	682	0.7	98,779	100.0
Life-related, entertainment and recreation services	63,597	99.2	42,545	66.4	507	0.8	64,104	100.0
Education and learning support	15,446	99.2	8,834	56.8	119	0.8	15,565	100.0
Medical, healthcare and welfare	28,077	99.5	10,830	38.4	145	0.5	28,222	100.0
Compound services	111	99.1	102	91.1	1	0.9	112	100.0
Services (not otherwise classified)	89,846	99.0	51,178	56.4	897	1.0	90,743	100.0
Non-primary industry total	1,677,949	99.4	1,277,893	75.7	10,319	0.6	1,688,268	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Business establishments of sole proprietors are not included.
2. Companies with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of the total number of enterprises.
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 for Business Activity* (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, 2012)

(1) Number of enterprises

	SMEs		Of which micro enterprises		Large enterprises		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Hokkaido	153,790	99.8	133,263	86.5	263	0.2	154,053	100.0
Aomori	42,669	99.9	37,427	87.6	50	0.1	42,719	100.0
Iwate	38,711	99.8	33,837	87.3	68	0.2	38,779	100.0
Miyagi	59,565	99.8	51,274	85.9	135	0.2	59,700	100.0
Akita	36,304	99.9	32,087	88.3	30	0.1	36,334	100.0
Yamagata	42,277	99.9	37,527	88.6	62	0.1	42,339	100.0
Fukushima	61,887	99.9	54,804	88.4	75	0.1	61,962	100.0
Ibaraki	85,709	99.9	75,833	88.4	81	0.1	85,790	100.0
Tochigi	65,262	99.8	57,961	88.7	100	0.2	65,362	100.0
Gunma	70,660	99.9	62,703	88.6	94	0.1	70,754	100.0
Saitama	174,574	99.9	153,792	88.0	242	0.1	174,816	100.0
Chiba	129,722	99.8	112,831	86.8	242	0.2	129,964	100.0
Tokyo	442,952	99.1	369,710	82.7	4,161	0.9	447,113	100.0
Kanagawa	200,146	99.7	172,717	86.1	544	0.3	200,690	100.0
Niigata	83,509	99.8	73,654	88.1	135	0.2	83,644	100.0
Toyama	37,772	99.8	32,835	86.7	84	0.2	37,856	100.0
Ishikawa	43,834	99.8	38,627	87.9	88	0.2	43,922	100.0
Fukui	31,429	99.9	27,816	88.4	43	0.1	31,472	100.0
Yamanashi	33,291	99.9	29,922	89.8	41	0.1	33,332	100.0
Nagano	78,580	99.8	70,414	89.5	124	0.2	78,704	100.0
Gifu	76,432	99.9	67,372	88.0	97	0.1	76,529	100.0
Shizuoka	130,085	99.8	114,366	87.8	210	0.2	130,295	100.0
Aichi	223,698	99.7	189,829	84.6	645	0.3	224,343	100.0
Mie	55,694	99.8	48,614	87.1	97	0.2	55,791	100.0
Shiga	36,824	99.8	31,999	86.7	69	0.2	36,893	100.0
Kyoto	86,119	99.8	75,334	87.3	171	0.2	86,290	100.0
Osaka	298,381	99.6	256,293	85.6	1,065	0.4	299,446	100.0
Hyogo	154,765	99.8	134,163	86.5	296	0.2	155,061	100.0
Nara	33,106	99.9	28,888	87.2	27	0.1	33,133	100.0
Wakayama	37,613	99.9	33,715	89.6	30	0.1	37,643	100.0
Tottori	17,489	99.8	15,228	86.9	29	0.2	17,518	100.0
Shimane	24,256	99.9	21,405	88.2	22	0.1	24,278	100.0
Okayama	56,272	99.8	48,694	86.4	90	0.2	56,362	100.0
Hiroshima	89,204	99.8	77,158	86.3	162	0.2	89,366	100.0
Yamaguchi	42,172	99.9	36,535	86.5	56	0.1	42,228	100.0
Tokushima	27,490	99.9	24,567	89.3	24	0.1	27,514	100.0
Kagawa	33,467	99.8	29,388	87.7	58	0.2	33,525	100.0
Ehime	46,905	99.8	41,333	88.0	79	0.2	46,984	100.0
Kochi	26,970	99.9	24,116	89.3	27	0.1	26,997	100.0
Fukuoka	142,502	99.8	121,401	85.0	333	0.2	142,835	100.0
Saga	25,957	99.9	22,447	86.4	34	0.1	25,991	100.0
Nagasaki	44,687	99.9	39,157	87.5	43	0.1	44,730	100.0
Kumamoto	53,370	99.9	46,424	86.9	70	0.1	53,440	100.0
Oita	37,257	99.9	32,489	87.1	46	0.1	37,303	100.0
Miyazaki	37,491	99.9	33,048	88.1	37	0.1	37,528	100.0
Kagoshima	53,680	99.9	47,567	88.5	56	0.1	53,736	100.0
Okinawa	48,405	99.9	42,250	87.2	61	0.1	48,466	100.0
Total	3,852,934	99.7	3,342,814	86.5	10,596	0.3	3,863,530	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).
2. Enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) 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, ¥50 million or less in retailing, eating and drinking places, and services (excluding software, information processing and service providing)) are treated as SMEs.
3. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of the total number of enterprises.
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 for Business Activity* (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	
			Of which micro enterprises					
	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total
Hokkaido	923,865	81.3	236,012	20.8	212,832	18.7	1,136,697	100.0
Aomori	230,889	88.6	59,884	23.0	29,758	11.4	260,647	100.0
Iwate	216,030	84.9	58,870	23.1	38,349	15.1	254,379	100.0
Miyagi	373,632	81.6	92,294	20.2	84,373	18.4	458,005	100.0
Akita	189,262	90.3	51,850	24.7	20,256	9.7	209,518	100.0
Yamagata	217,061	81.7	60,718	22.9	48,603	18.3	265,664	100.0
Fukushima	352,162	81.4	96,323	22.3	80,209	18.6	432,371	100.0
Ibaraki	471,948	83.5	140,718	24.9	93,341	16.5	565,289	100.0
Tochigi	329,322	81.1	101,482	25.0	76,837	18.9	406,159	100.0
Gunma	381,225	75.0	105,469	20.7	127,086	25.0	508,311	100.0
Saitama	1,003,505	74.5	281,375	20.9	343,679	25.5	1,347,184	100.0
Chiba	724,129	69.0	200,342	19.1	325,506	31.0	1,049,635	100.0
Tokyo	4,033,546	35.3	679,268	5.9	7,397,361	64.7	11,430,907	100.0
Kanagawa	1,267,644	65.1	310,565	15.9	679,889	34.9	1,947,533	100.0
Niigata	473,325	83.2	131,433	23.1	95,826	16.8	569,151	100.0
Toyama	239,673	78.9	62,023	20.4	64,205	21.1	303,878	100.0
Ishikawa	249,998	83.5	67,527	22.5	49,534	16.5	299,532	100.0
Fukui	173,266	85.4	51,146	25.2	29,517	14.6	202,783	100.0
Yamanashi	156,529	88.2	49,229	27.7	20,887	11.8	177,416	100.0
Nagano	401,337	81.4	113,072	22.9	91,725	18.6	493,062	100.0
Gifu	426,124	82.0	118,512	22.8	93,396	18.0	519,520	100.0
Shizuoka	760,496	77.2	204,792	20.8	224,055	22.8	984,551	100.0
Aichi	1,687,234	64.3	371,457	14.2	935,133	35.7	2,622,367	100.0
Mie	312,691	81.0	87,479	22.7	73,510	19.0	386,201	100.0
Shiga	218,733	78.2	56,090	20.1	60,920	21.8	279,653	100.0
Kyoto	491,624	67.2	126,376	17.3	239,992	32.8	731,616	100.0
Osaka	2,123,465	61.1	467,900	13.5	1,353,985	38.9	3,477,450	100.0
Hyogo	931,899	73.6	231,196	18.3	334,475	26.4	1,266,374	100.0
Nara	170,593	91.6	48,090	25.8	15,602	8.4	186,195	100.0
Wakayama	161,879	84.5	52,039	27.2	29,790	15.5	191,669	100.0
Tottori	100,189	92.1	26,827	24.7	8,624	7.9	108,813	100.0
Shimane	126,597	90.9	38,036	27.3	12,739	9.1	139,336	100.0
Okayama	362,191	82.6	89,068	20.3	76,348	17.4	438,539	100.0
Hiroshima	602,577	74.0	141,588	17.4	211,693	26.0	814,270	100.0
Yamaguchi	245,113	77.6	64,756	20.5	70,818	22.4	315,931	100.0
Tokushima	124,366	87.8	38,182	26.9	17,331	12.2	141,697	100.0
Kagawa	195,992	77.5	50,907	20.1	56,822	22.5	252,814	100.0
Ehime	262,219	81.6	72,262	22.5	59,101	18.4	321,320	100.0
Kochi	120,993	90.1	36,876	27.4	13,368	9.9	134,361	100.0
Fukuoka	957,528	69.4	216,356	15.7	421,784	30.6	1,379,312	100.0
Saga	144,032	90.1	39,699	24.8	15,829	9.9	159,861	100.0
Nagasaki	226,267	88.8	65,764	25.8	28,473	11.2	254,740	100.0
Kumamoto	288,192	88.2	80,751	24.7	38,566	11.8	326,758	100.0
Oita	200,994	81.2	55,766	22.5	46,563	18.8	247,557	100.0
Miyazaki	180,865	90.6	53,031	26.6	18,837	9.4	199,702	100.0
Kagoshima	263,337	85.7	77,467	25.2	43,995	14.3	307,332	100.0
Okinawa	236,083	85.4	64,684	23.4	40,461	14.6	276,544	100.0
Total	24,330,621	62.7	5,925,551	15.3	14,451,983	37.3	38,782,604	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. The figures shown indicate the total number of regular employees of companies and sole proprietors.
2. Enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total micro enterprises indicate their proportion of all regular employees.
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 for Business Activity* (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 workers

	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Hokkaido	1,239,770	85.2	473,607	32.5	215,677	14.8	1,455,447	100.0
Aomori	315,974	91.1	126,730	36.5	30,826	8.9	346,800	100.0
Iwate	291,444	88.1	116,904	35.3	39,469	11.9	330,913	100.0
Miyagi	496,876	85.1	186,263	31.9	86,865	14.9	583,741	100.0
Akita	257,810	93.0	107,062	38.6	19,550	7.0	277,360	100.0
Yamagata	299,042	87.8	126,881	37.2	41,600	12.2	340,642	100.0
Fukushima	464,549	84.4	196,195	35.7	85,757	15.6	550,306	100.0
Ibaraki	645,167	87.9	279,979	38.1	89,096	12.1	734,263	100.0
Tochigi	456,329	85.6	205,063	38.5	76,753	14.4	533,082	100.0
Gunma	524,067	80.7	218,953	33.7	125,349	19.3	649,416	100.0
Saitama	1,343,724	80.8	551,382	33.1	319,890	19.2	1,663,614	100.0
Chiba	989,855	76.6	405,375	31.4	301,852	23.4	1,291,707	100.0
Tokyo	5,020,049	41.1	1,339,578	11.0	7,203,532	58.9	12,223,581	100.0
Kanagawa	1,691,858	75.8	624,235	28.0	538,941	24.2	2,230,799	100.0
Niigata	636,313	85.2	257,821	34.5	110,347	14.8	746,660	100.0
Toyama	314,353	83.6	119,834	31.9	61,624	16.4	375,977	100.0
Ishikawa	337,105	87.4	135,976	35.2	48,786	12.6	385,891	100.0
Fukui	236,882	88.9	102,583	38.5	29,534	11.1	266,416	100.0
Yamanashi	225,984	91.7	104,991	42.6	20,385	8.3	246,369	100.0
Nagano	558,105	87.1	240,438	37.5	82,519	12.9	640,624	100.0
Gifu	581,708	86.9	241,353	36.0	87,968	13.1	669,676	100.0
Shizuoka	1,013,362	82.9	404,404	33.1	209,359	17.1	1,222,721	100.0
Aichi	2,145,708	70.4	710,849	23.3	901,449	29.6	3,047,157	100.0
Mie	422,517	86.5	174,970	35.8	66,198	13.5	488,715	100.0
Shiga	294,729	83.8	116,725	33.2	57,110	16.2	351,839	100.0
Kyoto	669,626	76.2	265,382	30.2	209,098	23.8	878,724	100.0
Osaka	2,726,933	66.4	930,059	22.7	1,378,261	33.6	4,105,194	100.0
Hyogo	1,237,175	81.0	476,572	31.2	290,982	19.0	1,528,157	100.0
Nara	238,798	94.6	104,373	41.3	13,657	5.4	252,455	100.0
Wakayama	234,374	87.9	112,595	42.2	32,178	12.1	266,552	100.0
Tottori	133,930	93.8	53,535	37.5	8,780	6.2	142,710	100.0
Shimane	174,303	93.0	74,892	40.0	13,068	7.0	187,371	100.0
Okayama	476,216	85.4	177,127	31.8	81,613	14.6	557,829	100.0
Hiroshima	778,091	78.6	276,394	27.9	212,012	21.4	990,103	100.0
Yamaguchi	327,843	82.1	128,914	32.3	71,590	17.9	399,433	100.0
Tokushima	179,253	91.0	83,018	42.2	17,636	9.0	196,889	100.0
Kagawa	262,737	81.9	102,806	32.0	58,258	18.1	320,995	100.0
Ehime	358,323	85.9	148,503	35.6	58,995	14.1	417,318	100.0
Kochi	173,073	92.7	79,056	42.4	13,590	7.3	186,663	100.0
Fukuoka	1,258,259	75.1	439,151	26.2	416,289	24.9	1,674,548	100.0
Saga	195,939	92.3	79,823	37.6	16,283	7.7	212,222	100.0
Nagasaki	313,435	92.5	133,663	39.4	25,521	7.5	338,956	100.0
Kumamoto	396,851	90.9	164,961	37.8	39,601	9.1	436,452	100.0
Oita	275,070	85.4	114,227	35.5	46,951	14.6	322,021	100.0
Miyazaki	253,075	92.4	110,666	40.4	20,819	7.6	273,894	100.0
Kagoshima	372,363	87.3	165,215	38.7	54,098	12.7	426,461	100.0
Okinawa	328,537	88.7	134,197	36.2	41,743	11.3	370,280	100.0
Total	32,167,484	69.7	11,923,280	25.8	13,971,459	30.3	46,138,943	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. The figures shown indicate the combined sum of the total number of workers of companies and sole proprietors.
2. Enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of all workers.
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 for Business Activity* (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, 2012)

(1) Business establishments

Size / Item / Industry	Small and medium business establishments				Large business establishments		Total	
			Of which micro business establishments					
	No. of workers	% of total	No. of workers	% of total	No. of workers	% of total	No. of workers	% of total
Mining and quarrying of stone and gravel	20,711	96.7	13,175	61.5	716	3.3	21,427	100.0
Construction	3,706,397	95.6	2,460,939	63.5	170,224	4.4	3,876,621	100.0
Manufacturing	6,708,812	72.5	2,257,215	24.4	2,538,905	27.5	9,247,717	100.0
Electricity, gas, heat supply and water	138,285	68.7	17,329	8.6	63,141	31.3	201,426	100.0
Information and communications	1,023,967	62.9	138,879	8.5	603,343	37.1	1,627,310	100.0
Transportation and postal services	2,865,455	86.8	669,513	20.3	436,603	13.2	3,302,058	100.0
Wholesaling/retailing	8,938,064	76.1	2,378,206	20.2	2,808,028	23.9	11,746,092	100.0
Wholesale trade	3,044,044	77.8	596,360	15.2	870,836	22.2	3,914,880	100.0
Retail trade	5,894,020	75.3	1,781,846	22.8	1,937,192	24.7	7,831,212	100.0
Finance and insurance	1,259,889	79.3	494,355	31.1	329,560	20.7	1,589,449	100.0
Real estate and goods rental and leasing	1,351,460	91.7	908,983	61.7	122,380	8.3	1,473,840	100.0
Scientific research and professional and technical services	1,195,466	71.9	394,785	23.7	468,324	28.1	1,663,790	100.0
Accommodations and food services	4,656,524	85.9	1,335,454	24.6	764,308	14.1	5,420,832	100.0
Life-related, entertainment and recreation services	2,205,532	86.6	1,061,581	41.7	340,265	13.4	2,545,797	100.0
Education and learning support	1,084,353	63.0	212,947	12.4	637,206	37.0	1,721,559	100.0
Medical, healthcare and welfare	4,064,417	65.8	420,569	6.8	2,114,521	34.2	6,178,938	100.0
Compound services	281,806	82.3	58,109	17.0	60,620	17.7	342,426	100.0
Services (not otherwise classified)	2,563,829	56.7	555,508	12.3	1,957,926	43.3	4,521,755	100.0
Non-primary industry total	42,064,967	75.8	13,377,547	24.1	13,416,070	24.2	55,481,037	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Business establishments with 300 or fewer workers (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 50 or fewer in retailing and eating and drinking places) are treated as small and medium business establishments.
2. Business establishments with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro business establishments.
3. The percentages of the total for micro business establishments indicate their proportion of the total number of business establishments.
4. Industries are classified according to the November 2007 revised system of industry classification.
5. 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 for Business Activity* (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)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No. of regular employees	% of total	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	15,948	90.1	7,198	40.6	1,761	9.9	17,709	100.0
Construction	2,383,460	85.2	1,411,548	50.5	413,238	14.8	2,796,698	100.0
Manufacturing	5,689,006	57.3	1,399,410	14.1	4,247,936	42.7	9,936,942	100.0
Electricity, gas, heat supply and water	27,021	13.9	2,500	1.3	166,959	86.1	193,980	100.0
Information and communications	850,340	60.8	60,538	4.3	547,325	39.2	1,397,665	100.0
Transportation and postal services	1,953,552	67.0	271,896	9.3	964,253	33.0	2,917,805	100.0
Wholesaling/retailing	5,072,244	59.6	847,814	10.0	3,441,971	40.4	8,514,215	100.0
Wholesale trade	1,906,462	68.7	260,206	9.4	868,141	31.3	2,774,603	100.0
Retail trade	3,165,782	55.2	587,608	10.2	2,573,830	44.8	5,739,612	100.0
Finance and insurance	144,249	12.3	60,095	5.1	1,025,982	87.7	1,170,231	100.0
Real estate and goods rental and leasing	598,952	74.0	258,781	32.0	209,970	26.0	808,922	100.0
Scientific research and professional and technical services	692,926	67.6	213,830	20.9	332,271	32.4	1,025,197	100.0
Accommodations and food services	2,280,585	63.7	600,893	16.8	1,299,681	36.3	3,580,266	100.0
Life-related, entertainment and recreation services	1,217,936	75.5	325,103	20.2	395,118	24.5	1,613,054	100.0
Education and learning support	338,486	76.0	60,220	13.5	107,033	24.0	445,519	100.0
Medical, healthcare and welfare	1,089,299	86.1	255,174	20.2	175,811	13.9	1,265,110	100.0
Compound services	3,866	2.4	3,355	2.1	156,625	97.6	160,491	100.0
Services (not otherwise classified)	1,972,751	67.1	147,196	5.0	966,049	32.9	2,938,800	100.0
Non-primary industry total	24,330,621	62.7	5,925,551	15.3	14,451,983	37.3	38,782,604	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1 The figures shown indicate the total number of regular employees of companies and sole proprietors.
2. Enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total micro enterprises indicate their proportion of regular employees.
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 for Business Activity* (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 only (number of regular employees of companies)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No. of regular employees	% of total	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	15,613	89.9	6,887	39.6	1,761	10.1	17,374	100.0
Construction	2,211,167	84.3	1,242,014	47.3	413,238	15.7	2,624,405	100.0
Manufacturing	5,479,835	56.3	1,198,447	12.3	4,247,936	43.7	9,727,771	100.0
Electricity, gas, heat supply and water	27,021	13.9	2,500	1.3	166,959	86.1	193,980	100.0
Information and communications	848,211	60.8	58,874	4.2	547,325	39.2	1,395,536	100.0
Transportation and postal services	1,944,535	66.9	263,688	9.1	964,253	33.1	2,908,788	100.0
Wholesaling/retailing	4,384,896	56.1	523,976	6.7	3,432,372	43.9	7,817,268	100.0
Wholesale trade	1,844,563	68.0	214,466	7.9	868,141	32.0	2,712,704	100.0
Retail trade	2,540,333	49.8	309,510	6.1	2,564,231	50.2	5,104,564	100.0
Finance and insurance	139,769	12.0	55,615	4.8	1,025,982	88.0	1,165,751	100.0
Real estate and goods rental and leasing	559,320	72.7	220,520	28.7	209,970	27.3	769,290	100.0
Scientific research and professional and technical services	501,292	60.5	94,700	11.4	327,030	39.5	828,322	100.0
Accommodations and food services	1,617,162	55.5	177,405	6.1	1,296,692	44.5	2,913,854	100.0
Life-related, entertainment and recreation services	981,873	71.3	130,524	9.5	394,426	28.7	1,376,299	100.0
Education and learning support	245,256	69.7	14,556	4.1	106,756	30.3	352,012	100.0
Medical, healthcare and welfare	503,819	75.9	23,593	3.6	159,873	24.1	663,692	100.0
Compound services	609	0.4	137	0.1	156,625	99.6	157,234	100.0
Services (not otherwise classified)	1,914,762	66.5	101,616	3.5	965,705	33.5	2,880,467	100.0
Non-primary industry total	21,375,140	59.7	4,115,052	11.5	14,416,903	40.3	35,792,043	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Business establishments of sole proprietors are not included.
2. Companies with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of all regular employees.
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 for Business Activity* (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) Enterprises (total number of workers of companies and sole proprietors)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Mining and quarrying of stone and gravel	20,303	91.8	10,807	48.9	1,806	8.2	22,109	100.0
Construction	3,398,423	89.1	2,338,163	61.3	416,141	10.9	3,814,564	100.0
Manufacturing	6,550,429	65.6	2,130,081	21.3	3,441,424	34.4	9,991,853	100.0
Electricity, gas, heat supply and water	29,502	14.9	3,432	1.7	167,968	85.1	197,470	100.0
Information and communications	961,057	63.4	113,956	7.5	555,510	36.6	1,516,567	100.0
Transportation and postal services	2,172,982	68.8	387,135	12.3	987,234	31.2	3,160,216	100.0
Wholesaling/retailing	6,911,424	66.1	2,191,498	21.0	3,540,778	33.9	10,452,202	100.0
Wholesale trade	2,397,968	73.3	562,523	17.2	871,421	26.7	3,269,389	100.0
Retail trade	4,513,456	62.8	1,628,975	22.7	2,669,357	37.2	7,182,813	100.0
Finance and insurance	200,011	16.4	110,336	9.1	1,018,792	83.6	1,218,803	100.0
Real estate and goods rental and leasing	1,162,155	84.4	789,931	57.4	214,345	15.6	1,376,500	100.0
Scientific research and professional and technical services	1,002,971	75.1	451,941	33.8	332,976	24.9	1,335,947	100.0
Accommodations and food services	3,463,871	71.7	1,504,546	31.1	1,367,785	28.3	4,831,656	100.0
Life-related, entertainment and recreation services	1,836,429	81.1	833,626	36.8	429,362	18.9	2,265,791	100.0
Education and learning support	544,758	82.4	209,656	31.7	116,002	17.6	660,760	100.0
Medical, healthcare and welfare	1,425,122	88.4	470,131	29.2	186,185	11.6	1,611,307	100.0
Compound services	9,589	5.8	9,047	5.4	156,664	94.2	166,253	100.0
Services (not otherwise classified)	2,478,458	70.5	368,994	10.5	1,038,487	29.5	3,516,945	100.0
Non-primary industry total	32,167,484	69.7	11,923,280	25.8	13,971,459	30.3	46,138,943	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. The figures shown indicate the combined sum of total number of workers of companies and sole proprietors.
2. Enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of all workers.
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 for Business Activity* (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.

(5) Companies only (total of number of workers of companies)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Mining and quarrying of stone and gravel	19,653	91.6	10,182	47.4	1,806	8.4	21,459	100.0
Construction	2,973,261	87.7	1,916,117	56.5	416,141	12.3	3,389,402	100.0
Manufacturing	6,086,029	63.9	1,674,441	17.6	3,441,424	36.1	9,527,453	100.0
Electricity, gas, heat supply and water	29,502	14.9	3,432	1.7	167,968	85.1	197,470	100.0
Information and communications	955,434	63.2	108,852	7.2	555,510	36.8	1,510,944	100.0
Transportation and postal services	2,137,396	68.4	352,395	11.3	987,234	31.6	3,124,630	100.0
Wholesaling/retailing	5,420,469	60.6	1,112,621	12.4	3,530,574	39.4	8,951,043	100.0
Wholesale trade	2,257,082	72.1	441,022	14.1	871,421	27.9	3,128,503	100.0
Retail trade	3,163,387	54.3	671,599	11.5	2,659,153	45.7	5,822,540	100.0
Finance and insurance	186,365	15.5	96,690	8.0	1,018,792	84.5	1,205,157	100.0
Real estate and goods rental and leasing	912,033	81.0	541,499	48.1	214,345	19.0	1,126,378	100.0
Scientific research and professional and technical services	682,552	67.6	212,816	21.1	327,718	32.4	1,010,270	100.0
Accommodations and food services	2,018,723	59.7	342,624	10.1	1,364,691	40.3	3,383,414	100.0
Life-related, entertainment and recreation services	1,182,773	73.4	228,434	14.2	428,669	26.6	1,611,442	100.0
Education and learning support	320,305	73.5	41,138	9.4	115,710	26.5	436,015	100.0
Medical, healthcare and welfare	602,477	78.1	53,041	6.9	169,375	21.9	771,852	100.0
Compound services	788	0.5	291	0.2	156,664	99.5	157,452	100.0
Services (not otherwise classified)	2,336,683	69.2	241,786	7.2	1,038,141	30.8	3,374,824	100.0
Non-primary industry total	25,864,443	65.0	6,936,359	17.4	13,934,762	35.0	39,799,205	100.0

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Business establishments of sole proprietors are not included.
2. Companies with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel) and 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 (excluding software, information processing and service providing)) are treated as SMEs.
3. Companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places, and services (excluding accommodations and entertainment and recreation services)) are treated as micro enterprises.
4. The percentages of the total for micro enterprises indicate their proportion of all workers.
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 for Business Activity* (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 (2002 classification)		4,240,326								
09 - 12	31	4,252,897	154,998	31	-361,541	-139,951	59,999	260,177	1.4	6.1

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 (2002 classification)		1,505,219								
09 - 12	31	1,787,027	55,010	31	-100,375	-38,855	21,294	100,359	1.2	5.6

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 (2002 classification)		2,735,107								
09 - 12	31	2,465,870	99,988	31	-100,375	-38,855	38,705	159,817	1.6	6.5

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 (2002 classification)		5,702,781								
09 - 12	31	5,853,886	286,166	31	-430,968	-166,826	110,774	366,483	1.9	6.3

Sources: MIC, *Establishment and Enterprise Census of Japan* (up to 2006); *2009 Economic Census for Business Frame*; *2012 Economic Census for Business Activity*.

Notes:
1. 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, 2009-12 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, 2009-12 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, *Result of Establishment for Japan Table 46* of the 2006 survey and *Result of Establishment for Japan: Industry cross-cutting results Table 32* of the 2012. Refer to Table 4(2) for 2006-09.
2. The number of entries in 1994-1996 is the number of business establishments established in and after 1995.
3. This survey was conducted as the *Establishment Census* until 1991, *Establishment Directory Maintenance* in 1989, and the *Establishment Directory Maintenance Survey* in 1994.
4. The classification of industries as of 2004 and as of 2006 is according to MIC, *Japan Standard Industrial Classification* (revised March 2002). Similarly, the classification of industries as of 2009 is according to MIC, *Japan Standard Industrial Classification* (revised November 2007).
5. 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 (same for revision in 2007).
6. 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. Similarly, the number of enterprises calculated based on the number of enterprises given in Supplementary statistical data Table 1(3) there is a possibility that classification of industries for a company and a business establishment differs, 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 annual 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)

1) 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 × 12 ≅ 362,729
(annual average number of exits of establishments) = 861,722 / 28 × 12 ≅ 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 × 100 ≅ 6.4 (%)
(exit rate) = 369,309 / 5,709,974 × 100 ≅ 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 × 12 ≅ 239,207
(annual average increase in number of establishments) = (6,502,924 - 6,531,980) / 29.3 × 12 ≅ -11,900
(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 × 100 ≅ 3.7 (%)
(exit rate) = 251,107 / 6,531,980 × 100 ≅ 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.).

* Points to note regarding entry and exit rates calculated based on MIC's *Establishment and Enterprise 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	4,723,554	240,478	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	1,901,728	103,037	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	2,821,826	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	6,388,742	410,355	164,142	2.6
Exits	06 - 09	33	5,702,777	996,207	362,257	6.4

Sources: MIC, *2006 Establishment and Enterprise Census of Japan* and *2009 Economic Census for Business Frame*.

Notes:
1. The statistics reported in the *Economic Census for Business Frame* are based on revised detailed aggregates, and so may differ from those reported in the *2011 White Paper on Small and Medium Enterprises in Japan*, which were based on preliminary basic 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.
5. Industries in 2006 are classified according to MIC's *Japan Standard Industrial Classification* (revised November 2007).
6. As the revision *Japan Standard Industrial Classification* in November 2007 moved some industries between the primary and non-primary sectors, annual average entry and exit rates for 2006-09 were calculated based on the number of enterprises and business establishments at the beginning of the period according to the new system of classification.
7. The numbers of business establishments (as of 2006) shown in Supplementary Statistical Data Table 4-4) were calculated based on MIC's *Japan Standard Industrial Classification* (revised March 2002), and do not equal the numbers of business establishments at the start of the period used to calculate the exit rates for 2006-09 in 4) above.

Note: Calculation of entry and exit rates for the period 2006-09 from MIC, *2009 Economic Census for Business Frame*.

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 for Business Frame* 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 for Business Frame*. 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 for Business Frame* was 410,355. 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) = 410,355 / 30 × 12 = 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 (5,392,535) and the number of exiting establishments (996,207) according to the *2009 Economic Census for Business Frame*, which equals 6,388,742.
(entry rate) 164,142 / 6,388,742 × 100 ≅ 2.6 (%)

(3) The number of exiting establishments according to the *2009 Economic Census for Business Frame* 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 for Business Frame* (conducted July 1, 2009), 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 × 12 ≅ 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 5,702,777.
(exit rate) 362,257 / 5,702,777 × 100 ≅ 6.4 (%)

* Points to note regarding entry rates calculated based on MIC, *2009 Economic Census for Business Frame*

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 for Business Frame* 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 for Business Frame*, 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 for Business Frame* 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 for Business Frame*, 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 for Business Frame* 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	09 - 12
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	1.9
	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	6.3
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	0.7
	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	5.7
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	1.3
	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	5.9
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	2.3	2.2
	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	6.6
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	2.3	1.7
	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	4.9	5.9

Sources: MIC, *Establishment and Enterprise Census of Japan and 2009 Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. *2012 Economic Census for Business Activity* is using the released value as of February 26, 2014.
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 for Business Frame* for the period 2006-09 and the *Economic Census for Business Activity* for the period 2009-12. 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. “Services” in 2001-04, 2004-06 and 2006-09, 2009-12 consists of “services (not otherwise classified).”
7. The annual average entry and exit rates for 2001-04 and 2004-06 were calculated based on the *Japan Standard Industrial Classification* (revised March 2002). The annual average entry and exit rates for 2006-09 and 2009-12 were calculated based on the *Japan Standard Industrial Classification* (revised November 2007).

Table 6 Trends in entry and exit rates based on business establishments with employees

(Unit: %)

FY	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	10	11	12	13
4.4	4.1	4.0	4.1	4.4	4.8	5.0	4.2	4.7	4.5	4.5	4.6	4.8
4.4	4.6	4.8	4.5	4.4	4.3	4.4	4.5	4.7	4.1	3.9	3.8	4.0

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	09	10	10 (*1)	11	12
103,545	115,178	101,981	92,097	86,016	87,916		89,664	91,942
3.7	4.1	3.6	3.2	3.0	3.4	3.1	3.5	3.6
3.1	3.4	2.7	3.2	3.1	4.2	3.8	3.7	3.5

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 from 2007 to 2009 is the number of companies as of June 30 of the following year. The number of companies in 2010 is the number of corporate fiscal years for which income tax returns were filed, aggregated in units of companies. In order to achieve continuity with 2009 figures, the rate of business entries and exits calculated with the number of companies defined as per the definition used for 2009 as the denominator is also shown. (*1)

Table 8 Number of business establishments and workers and value of shipments in manufacturing

(1) Number of business establishments

Year / No. of workers	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	99,883	112,463	94,320
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	54,439	51,608	52,897
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	56,694	56,361	56,022
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	10,093	9,631	9,917
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	2,818	2,633	2,643
1,000 or more	645	620	605	587	562	529	522	466	442	459	464	480	531	540	494	496	490	463
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	221,089	230,063	213,156
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	3,314	3,123	3,106
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	224,403	233,186	216,262

(2) Number of workers — Upper row: 1,000 workers, lower row: % of total

Year / No. of workers	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	603 7.9	664 8.9	571 7.7
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	742 9.7	708 9.5	721 9.7
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	2,276 29.7	2,271 30.4	2,255 30.4
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	1,640 21.4	1,554 20.8	1,607 21.6
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	1,378 18.0	1,290 17.3	1,304 17.6
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	1,026 13.4	984 13.2	968 13.0
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	5,307 69.3	5,198 69.6	5,154 69.4
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	2,404 31.4	2,274 30.4	2,272 30.6
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	7,664 100.0	7,472 100.0	7,425 100.0

(3) Value of manufactured shipments — Upper row: ¥ billion, lower row: % of total

Year / No. of workers	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	6,684 2.3	8,402 2.9	7,129 2.5
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	11,452 4.0	12,226 4.3	11,876 4.1
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	55,394 19.2	57,331 20.1	57,349 19.9
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	61,558 21.3	61,903 21.7	63,853 22.1
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	77,781 26.9	72,956 25.6	74,365 25.8
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	76,239 26.4	72,151 25.3	74,154 25.7
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	135,113 46.7	139,862 49.1	140,208 48.6
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	154,020 53.3	145,107 50.9	148,520 51.4
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	289,108 100.0	284,969 100.0	288,728 100.0

Sources: METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Based on statistics for business establishments. The "Total" may not correspond to the total value of the items as they have been rounded off.
2. Figures were basically recalculated from the "Industry" section data for each year.
3. 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.
4. Changes to survey items mean that the values of manufactured shipments since 2007 are not continuous with those in previous years.
5. Revisions made to the figures published in the 2003-05 *Census of Manufactures* mean that they differ from those given in the Supplementary Statistical Data published in *White Papers on Small and Medium Enterprises in Japan* up to 2010.
6. Number of business establishments and workers of each year are figures as of December 31. However, for 2011, figures are as of February 1, 2012.

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	2010	2011	2012
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	1,207 13.6	1,207 15.5	1,461 15.8
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	2,070 23.3	1,875 24.1	2,313 25.0
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	2,901 32.7	2,186 28.1	2,754 29.8
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	2,704 30.4	2,522 32.4	2,719 29.4
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	3,277 36.9	3,082 39.6	3,775 40.8
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	5,605 63.1	4,708 60.4	5,473 59.2
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	8,882 100.0	7,790 100.0	9,248 100.0

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	2010	2011	2012
30-99	791	906	1,000	940	820	771	907	788	792	838	925	1,061	1,104	1,079	893	741	719	891
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	1,263	1,207	1,440
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	2,105	1,694	2,113
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	2,636	2,563	2,809
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	1,003	953	1,163
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	2,332	2,070	2,409
Total average	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	1,566	1,414	1,676

(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	2010	2011	2012
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	3,212 3.5	4,113 4.5	3,363 3.8
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	5,011 5.5	5,533 6.0	5,132 5.8
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	19,805 21.8	21,129 23.1	20,158 22.8
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	20,308 22.4	20,799 22.7	20,007 22.6
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	22,989 25.4	21,144 23.1	20,252 22.9
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	19,342 21.3	18,837 20.6	19,482 22.0
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	48,336 53.3	51,574 56.3	48,661 55.0
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	45,124 49.8	47,461 51.8	45,298 51.2
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	42,332 46.7	39,981 43.7	39,734 45.0
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	90,667 100.0	91,555 100.0	88,395 100.0

Sources: METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Based on statistics for business establishments. The "Total" may not correspond to the total value of the items as they have been rounded off.
2. Figures were basically recalculated from the "Industry" section data for each year.
3. Capital investment equals the value of acquisitions of tangible fixed assets plus the annual change in construction in progress.
4. Where business establishments of the head office are separate from plants, investment in the same is not included.
5. 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.
6. 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.
7. Due to changes to survey items, the figures for value added since 2007 shown in (2) are not continuous with those for previous years.
8. Revisions made to the figures published in the 2003-05 *Census of Manufactures* mean that they differ from those given in the Supplementary Statistical Data published in *White Papers on Small and Medium Enterprises in Japan* up to 2010.
9. Number of workers of each year are figures as of December 31. However, for 2011, figures are as of February 1, 2012.

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	2011	1991	1994	1997	1999	2002	2004	2007	2011
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)	73.0 (27.3)	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)	116.0 (4.2)
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)	62.0 (23.2)	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)	212.0 (7.6)
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)	68.0 (25.5)	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)	445.0 (16.0)
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)	38.0 (14.2)	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)	509.0 (18.4)
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)	20.0 (7.5)	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)	594.0 (21.4)
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)	4.0 (1.5)	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)	294.0 (10.6)
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)	265.0 (99.3)	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)	2,169.0 (78.2)
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)	2.0 (0.7)	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)	604.0 (21.8)
Total	476.0	429.3	391.6	425.9	379.5	375.3	334.8	267.0	4,772.7	4,581.4	4,164.7	4,496.2	4,002.0	3,803.7	3,526.3	2,773.1

(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	2011	1991	1994	1997	1999	2002	2004	2007	2011
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)	8,689 (2.6)	4,626	4,180	4,541	4,589	4,685	4,664	5,031	7,491
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)	14,247 (4.2)	5,610	5,453	5,774	5,380	5,379	5,284	5,784	6,720
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)	38,718 (11.4)	7,487	6,890	7,526	6,714	6,746	6,809	7,693	8,701
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)	50,151 (14.7)	8,753	8,008	8,727	7,940	7,721	7,993	9,032	9,853
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)	65,639 (19.3)	10,212	9,385	10,006	9,387	9,275	9,821	10,321	11,050
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)	42,625 (12.5)	12,122	11,452	11,878	11,499	10,746	12,093	12,751	14,498
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)	220,069 (64.6)	8,831	8,272	8,851	8,235	8,031	8,381	9,161	10,146
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)	120,369 (35.4)	29,468	26,181	25,212	25,022	21,567	22,627	23,896	19,929
Total	573,165	514,317	479,813	495,453	413,355	405,497	413,532	340,438	12,024	11,236	11,533	11,024	10,342	10,668	11,741	12,276

Sources: METI, *Census of Commerce*; MIC, METI, *2012 Economic Census for Business Activity*.

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, the March 2002 revised system for 2002-2007 and the November 2007 revised system for 2012.
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.
5. Number of business establishments and workers of 2011 are figures as of February 1, 2012.

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	2011	1991	1994	1997	1999	2002	2004	2007	2011
1-2	847.2 53.2	764.8 51	709.0 49.9	685.0 48.7	603.4 46.4	568.8 45.9	503.8 44.3	351.0 44.8	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	557.8 10.1
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	171.9 22.0	1,404.5 20.2	1,256.1 17	1,186.6 16.1	1,076.0 13.4	1,011.4 12.7	962.4 12.4	859.1 11.3	583.4 10.5
5-9	214.0 13.4	222.6 14.8	212.4 15	226.8 16.1	218.7 16.8	207.7 16.8	201.8 17.7	133.3 17.0	1,336.9 19.3	1,405.2 19	1,342.5 18.3	1,448.8 18	1,404.5 17.6	1,334.9 17.2	1,302.2 17.2	859.9 15.5
10-19	71.9 4.5	89.6 6	93.5 6.6	111.9 8	114.8 8.8	112.4 9.1	114.4 10.1	75.8 9.7	948.2 13.7	1,187.2 16.1	1,248.3 17	1,503.8 18.7	1,543.0 19.4	1,516.5 19.5	1,543.1 20.4	1,029.3 18.6
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	37.3 4.8	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	1,068.5 19.3
1-49	1,583.1 99.5	1,489.9 99.3	1,408.5 99.2	1,392.8 99	1,285.1 98.9	1,223.1 98.8	1,122.3 98.6	769.2 98.3	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	4,098.8 74.0
50 or more	8.1 0.5	10.1 0.7	11.2 0.8	14.1 1	14.9 1.1	14.9 1.2	15.5 1.4	13.6 1.7	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	1,437.0 26.0
Total	1,591.2	1,499.9	1,419.7	1,406.9	1,300.1	1,238.0	1,137.9	782.9	6,936.5	7,384.2	7,350.7	8,028.6	7,972.8	7,762.3	7,579.4	5,535.8

(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	2011	1991	1994	1997	1999	2002	2004	2007	2011
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	5,537 5.0	1,102	1,075	1,089	1,046	912	928	912	993
3-4	23,006 16.4	20,054 14	19,573 13.2	15,464 10.8	13,457 10	12,646 9.5	11,891 8.8	8,632 7.8	1,638	1,597	1,650	1,437	1,331	1,314	1,384	1,480
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	17,716 16.0	2,160	2,064	2,127	1,816	1,737	1,753	1,844	2,060
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	21,466 19.4	2,258	2,007	2,087	1,799	1,718	1,731	1,781	2,085
20-49	21,151 15	23,919 16.7	25,198 17.1	25,774 17.9	24,223 17.9	24,445 18.3	24,854 18.5	21,366 19.3	2,212	1,992	2,045	1,753	1,682	1,720	1,771	2,000
1-49	109,668 78	110,131 76.8	111,865 75.7	105,423 73.3	97,404 72.1	95,151 71.4	95,495 70.9	74,717 67.6	1,820	1,751	1,817	1,613	1,530	1,549	1,618	1,823
50 or more	30,971 22	33,194 23.2	35,878 24.3	38,410 26.7	37,706 27.9	38,128 28.6	39,210 29.1	35,773 32.4	3,406	3,032	3,002	2,570	2,345	2,353	2,339	2,489
Total	140,638	143,325	147,743	143,833	135,109	133,279	134,705	110,490	2,028	1,941	2,010	1,792	1,695	1,717	1,777	1,996

Sources: METI, *Census of Commerce*; MIC, METI, *2012 Economic Census for Business Activity*.

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, the revised March 2002 system for 2002-2007 and the November 2007 revised system for 2012.
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. Number of business establishments and workers of 2011 are figures as of February 1, 2012.

Table 12 State of corporate bankruptcies

(1) No. of corporate bankruptcies and debts (Unit: no. of bankruptcies, ¥100 million)

Category \ Year		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
No. of bankruptcies	Overall	19,087	16,255	13,679	12,998	13,245	14,091	15,646	15,480	13,321	12,734	12,124	10,855	9,731
	Enterprises with capital stock of under ¥100 million	18,687	15,877	13,392	12,755	13,011	13,826	15,257	15,130	13,074	12,543	11,958	10,731	9,611
Debts	Overall	137,824	115,818	78,177	67,035	55,006	57,279	122,920	69,301	71,608	35,929	38,346	27,823	18,741
	Enterprises with capital stock of under ¥100 million	77,540	57,651	53,656	47,209	37,598	37,264	42,732	38,223	26,778	27,915	22,076	18,544	14,498

(2) No. of bankruptcies and debts by industry (Unit: no. of bankruptcies, ¥100 million)

Industry \ Year		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Construction	No. of bankruptcies	5,976	5,113	4,002	3,783	3,855	4,018	4,467	4,087	3,523	3,391	3,002	2,421	1,965
	Debts	24,976	15,591	11,037	8,439	7,282	8,124	12,765	9,135	5,277	4,816	4,030	8,072	2,357
Manufacturing	No. of bankruptcies	3,615	2,787	2,195	1,971	1,856	2,022	2,341	2,619	2,095	1,901	1,790	1,690	1,403
	Debts	17,628	13,060	6,643	6,393	6,317	6,239	9,847	11,705	5,476	6,608	11,374	4,166	3,208
Commerce	No. of bankruptcies	5,411	4,573	3,811	3,512	3,664	3,893	4,068	3,885	3,258	3,130	3,221	2,969	2,639
	Debts	19,566	14,745	10,619	7,909	7,242	7,726	9,878	9,743	6,948	6,228	4,664	4,810	3,309
Real estate	No. of bankruptcies	665	574	518	485	465	463	575	596	441	420	367	315	340
	Debts	21,771	24,892	15,352	17,058	13,642	13,293	20,793	17,670	5,866	2,359	2,214	1,820	3,427
Financial and insurance	No. of bankruptcies	75	75	61	95	70	71	107	92	70	54	58	69	49
	Debts	10,784	8,096	1,982	3,065	1,571	2,243	54,885	9,563	13,198	2,805	4,424	2,213	743
Services	No. of bankruptcies	2,398	2,380	2,245	2,329	2,499	2,713	2,911	2,966	2,798	2,812	2,608	2,420	2,441
	Debts	39,235	31,919	29,408	21,009	15,094	16,083	10,705	8,370	14,752	6,504	7,884	4,314	3,743
Other	No. of bankruptcies	947	753	847	823	836	911	1,177	1,235	1,136	1,026	1,078	971	894
	Debts	3,864	7,515	3,136	3,162	3,858	3,572	4,047	3,115	20,091	6,608	3,755	2,428	1,954
Total	No. of bankruptcies	19,087	16,255	13,679	12,998	13,245	14,091	15,646	15,480	13,321	12,734	12,124	10,855	9,731
	Debts	137,824	115,818	78,177	67,035	55,006	57,279	122,920	69,301	71,608	35,929	38,346	27,823	18,741

(3) Breakdown of number of bankruptcies by cause (Unit: %)

Cause \ Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Slump in sales	57.9	62.9	65.8	65.2	63.4	64.9	65.2	69.4	74.8	73.5	70.7	68.8	68.9
Careless management	8.0	7.3	7.6	7.8	8.2	6.6	6.3	5.3	3.9	4.1	4.7	4.7	5.0
Chain reaction bankruptcy	8.8	8.2	7.3	6.9	7.1	7.1	7.7	6.5	5.8	5.6	5.9	5.6	5.7
Past difficulties	14.6	12.5	10.0	10.9	11.5	10.9	10.3	9.6	7.8	8.5	10.9	12.6	12.1
Other	10.7	9.1	9.2	9.2	9.8	10.5	10.5	9.2	7.8	8.3	7.8	8.2	8.3

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	2009				2010				2011			
Month	3	6	9	12	3	6	9	12	3	6	9	12
Domestically-licensed banks' banking accounts total	181.1	177.9	178.0	177.5	177.6	173.2	174.4	173.7	174.8	169.6	171.2	171.4
Domestically-licensed banks' trust accounts, etc.	1.1	1.1	1.0	1.0	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.4
Credit unions	42.7	42.3	42.6	42.8	42.1	41.4	41.7	42.0	41.5	41.0	41.4	41.6
Credit cooperatives	9.4	9.3	9.4	9.4	9.4	9.3	9.4	9.4	9.4	9.4	9.4	9.5
Private-sector financial institutions total	234.4	230.6	231.0	230.8	229.8	224.6	226.2	225.8	226.3	220.6	222.5	222.9
Private-sector financial institutions total (excluding trust accounts, etc.)	233.2	229.5	229.9	229.8	229.1	224.0	225.5	225.1	225.7	220.0	222.0	222.4
Shoko Chukin Bank	9.1	9.2	9.3	9.4	9.4	9.3	9.4	9.5	9.5	9.5	9.5	9.7
Japan Finance Corporation (Small and Medium Enterprise Unit)	5.6	6.0	6.1	6.2	6.2	6.2	6.2	6.3	6.4	6.4	6.4	6.5
Japan Finance Corporation (Micro Business and Individual Unit)	6.5	6.6	6.6	6.7	6.5	6.6	6.6	6.7	6.5	6.6	6.5	6.6
Government-affiliated financial institutions total	21.3	21.8	22.0	22.3	22.1	22.1	22.2	22.5	22.5	22.5	22.5	22.7
Total outstanding lending to SMEs	255.7	252.3	252.9	253.1	251.9	246.7	248.4	248.3	248.8	243.4	244.9	245.6
Total outstanding lending to SMEs (excluding trust accounts, etc.)	254.5	251.3	251.9	252.1	251.2	246.0	247.7	247.6	248.2	242.5	244.4	245.2

Financial institution \ Year	2012				2013				2014			
Month	3	6	9	12	3	6	9	12	3	6	9	12
Domestically-licensed banks' banking accounts total	172.5	168.5	170.3	170.1	172.0	168.0	171.1	173.2	174.9	170.8	174.5	176.8
Domestically-licensed banks' trust accounts, etc.	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.7
Credit unions	41.3	40.7	41.1	41.0	40.9	40.4	40.9	41.3	41.2	40.8	41.6	42.1
Credit cooperatives	9.5	9.4	9.5	9.5	9.6	9.5	9.6	9.7	9.8	9.7	9.9	10.0
Private-sector financial institutions total	223.6	219.0	221.3	221.1	222.9	218.3	222.1	224.8	226.5	222.1	226.7	229.5
Private-sector financial institutions total (excluding trust accounts, etc.)	223.3	218.6	220.9	220.6	222.4	217.9	221.5	224.2	225.8	221.4	225.9	219.5
Shoko Chukin Bank	9.6	9.6	9.5	9.5	9.5	9.5	9.4	9.5	9.4	9.5	9.4	9.6
Japan Finance Corporation (Small and Medium Enterprise Unit)	6.4	6.4	6.4	6.5	6.5	6.4	6.4	6.4	6.3	6.3	6.3	6.2
Japan Finance Corporation (Micro Business and Individual Unit)	6.4	6.5	6.4	6.5	6.4	6.4	6.4	6.5	6.4	6.3	6.3	6.4
Government-affiliated financial institutions total	22.5	22.5	22.3	22.5	22.4	22.4	22.2	22.4	22.2	22.1	22.0	22.2
Total outstanding lending to SMEs	246.1	241.5	243.7	243.6	245.3	240.7	244.3	247.2	248.6	244.2	248.6	251.7
Total outstanding lending to SMEs (excluding trust accounts, etc.)	245.8	241.1	243.2	243.1	244.8	240.3	243.7	246.6	248.0	243.5	247.9	241.7

Source: 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 or less (¥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 banks' trust accounts, etc. includes overseas branch accounts (to domestic borrowers).
3. Outstanding lending to SMEs by credit unions 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 March 2015. Figures may be retroactively revised.

Table 14 Sales and operating costs of SMEs (surveyed industries)

(Unit: ¥ million)

Financial results for FY 2013	Total						
	Total	Corporate enterprises (no. of workers)					Sole proprietorship
			5 or fewer	6-20	21-50	51 or more	
No. of enterprises in parent population	3,258,679	1,528,950	981,129	372,514	111,683	63,624	1,729,728
No. of workers	27,820,948	23,051,062	4,003,684	5,210,044	4,096,300	9,741,034	4,769,886
Sales	504,149,356	478,220,401	75,737,085	112,328,786	90,803,623	199,350,907	25,928,955
Cost of sales	377,658,728	365,603,045	52,133,820	85,314,815	70,336,414	157,817,997	12,055,682
Cost of goods purchased	…	188,016,257	34,536,600	48,279,445	37,050,346	68,149,866	…
Material costs	…	48,530,836	3,907,544	8,408,617	8,402,950	27,811,725	…
Labor costs	…	33,415,372	2,337,580	6,121,444	6,045,629	18,910,719	…
Outsourcing costs	…	49,983,549	6,976,131	14,565,348	10,498,743	17,943,327	…
Depreciation costs	…	5,022,397	521,569	706,925	1,048,730	2,745,174	…
Other costs	…	40,634,635	3,854,397	7,233,036	7,290,016	22,257,186	…
Gross margin	126,490,629	112,617,356	23,603,265	27,013,971	20,467,209	41,532,910	13,873,273
Selling and general administrative expenses	111,004,737	101,219,193	22,385,203	24,936,940	18,380,529	35,516,522	9,785,543
Personnel costs	47,951,748	45,444,664	9,733,369	11,771,912	8,547,371	15,392,011	2,507,084
Rent	6,706,090	5,957,204	1,775,816	1,312,632	903,440	1,965,315	748,886
Utilities expense	…	2,157,517	516,936	521,947	373,083	745,551	…
Freight and packing costs	…	4,072,997	271,510	518,416	653,430	2,629,641	…
Sales commission	…	2,414,659	312,720	420,309	301,256	1,380,374	…
Advertising expenses	…	1,898,981	229,573	361,832	344,907	962,670	…
Entertainment expenses	…	1,453,740	504,850	451,660	234,422	262,807	…
Depreciation costs	6,077,015	5,114,166	1,333,155	1,195,873	867,359	1,717,779	962,848
Employee training costs	…	157,399	31,912	29,561	27,180	68,747	…
Taxes and public charges	3,178,262	2,631,934	821,952	761,211	430,672	618,099	546,328
Other costs	34,936,329	29,915,932	6,853,409	7,591,587	5,697,407	9,773,528	5,020,398
Operating profit	15,485,892	11,398,162	1,218,062	2,077,030	2,086,681	6,016,389	4,087,730
Non-operating profit and loss	…	2,343,446	414,432	662,116	387,263	879,636	…
Non-operating revenue	…	6,427,707	1,324,191	1,738,090	1,135,867	2,229,559	…
Non-operating expenses	…	4,084,261	909,759	1,075,975	748,605	1,349,923	…
Interest and discount expense	…	2,476,770	607,266	674,344	489,679	705,481	…
Other costs	…	1,607,491	302,492	401,631	258,925	644,442	…
Ordinary profit (ordinary loss)	17,829,339	13,741,609	1,632,495	2,739,146	2,473,943	6,896,025	4,087,730
Extraordinary profit	…	3,389,371	1,234,581	485,105	600,076	1,069,608	…
Extraordinary loss	…	4,427,848	909,470	796,751	830,260	1,891,367	…
Pretax net profit (pretax net loss)	…	12,703,131	1,957,606	2,427,500	2,243,759	6,074,266	…
After-tax net profit (after-tax net loss)	…	7,932,194	1,407,867	1,566,832	1,379,611	3,577,883	…

Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

Notes:
1. Survey results are estimates based on the *2014 Basic Survey of Small and Medium Enterprises (End-of-fiscal-year Results for Fiscal 2013) (Preliminary Report)* conducted in August 2014.
2. The number of enterprises in the parent population is the estimated figure as of August 2014 based on the *2012 Economic Census for Business Frame* taking into consideration entries, exits, and changes in size according to industry (medium group) and number of workers.
3. These results are the results of estimates of a survey of conditions among SMEs (including sole proprietorships) belonging to the following divisions of industry according to the *Japan Standard Industrial Classification*: construction, manufacturing, information and communications, transportation and postal services (excluding certain industries), wholesale trade, retail trade, real estate and goods rental and leasing, scientific research and professional and technical services (excluding certain industries), accommodations and food services, life-related, entertainment and recreation 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)

Financial results for FY 2013	Total				
	Total	5 or fewer	6-20	21-50	51 or more
No. of enterprises in parent population	1,528,950	981,129	372,514	111,683	63,624
No. of workers	23,051,062	4,003,684	5,210,044	4,096,300	9,741,034
No. of joint stock company	755,659	369,949	236,851	89,659	59,198
No. of enterprises that have set a restriction on transfer of shares	575,710	269,460	181,611	72,816	51,823
Assets	393,085,659	82,190,387	91,618,031	68,982,571	150,294,670
Liquid assets	210,326,801	38,843,471	51,339,659	38,329,128	81,814,543
Cash and deposits	73,468,588	14,914,563	19,466,758	13,767,893	25,319,374
Bills receivable and account receivable	60,771,417	7,995,300	14,290,263	11,538,443	26,947,411
Securities	4,242,534	628,190	823,719	1,084,174	1,706,450
Inventory assets	36,504,406	7,421,626	9,910,312	5,619,010	13,553,457
Other liquid assets	35,339,857	7,883,792	6,848,606	6,319,608	14,287,851
Fixed assets	181,516,888	43,023,656	40,078,152	30,490,672	67,924,407
Tangible fixed assets	136,773,274	33,486,635	31,132,793	22,856,368	49,297,477
Buildings, structures and accessory equipment for buildings	54,223,640	14,745,524	10,770,724	7,841,471	20,865,921
Machinery and equipment	15,334,809	1,788,342	2,259,881	2,351,936	8,934,650
Ships and vessels, motor vehicles and transport equipment, industrial tools, appliances, and fixtures	10,218,759	2,151,235	2,037,964	2,364,244	3,665,317
Leased assets	1,939,156	190,949	281,948	316,038	1,150,220
Land	67,268,833	16,353,926	17,284,777	11,642,936	21,987,193
Construction in progress	1,200,599	343,836	227,828	148,165	480,771
Other tangible fixed assets	2,590,448	386,638	646,865	479,348	1,077,597
Accumulated depreciation	-16,002,970	-2,473,814	-2,377,194	-2,287,770	-8,864,192
Intangible fixed assets	3,119,794	823,747	605,155	442,119	1,248,773
Investments and other assets	41,623,820	8,713,274	8,340,204	7,192,185	17,378,157
Deferred assets	1,241,970	323,260	200,220	162,771	555,720
Liabilities and net assets	393,085,659	82,190,387	91,618,031	68,982,571	150,294,670
Liabilities	257,357,688	63,919,306	59,045,820	44,534,308	89,858,254
Current liabilities	138,161,301	29,782,154	31,298,896	24,553,668	52,526,584
Bills for payment and accounts payable	50,721,368	6,216,019	12,143,979	9,923,331	22,438,039
Short-term borrowings (financial institutions)	32,552,169	7,787,015	6,678,440	6,155,921	11,930,792
Short-term borrowings (other than financial institutions)	13,964,702	7,438,217	2,796,492	1,088,159	2,641,834
Lease debts	527,854	115,950	63,637	69,324	278,943
Other current liabilities	40,395,208	8,224,953	9,616,347	7,316,932	15,236,975
Fixed liabilities	119,196,387	34,137,152	27,746,924	19,980,640	37,331,671
Corporate bonds	3,401,021	848,939	393,744	601,498	1,556,839
Long-term borrowings (financial institutions)	78,387,489	19,506,210	20,289,335	15,205,120	23,386,823
Long-term borrowings (other than financial institutions)	17,896,824	9,177,961	4,104,125	1,788,069	2,826,670
Lease debts	1,318,287	113,194	239,869	178,529	786,695
Other fixed liabilities	18,192,767	4,490,848	2,719,852	2,207,424	8,774,643
Net assets	135,727,970	18,271,081	32,572,211	24,448,263	60,436,416
Shareholders' equity	128,769,739	17,895,362	31,314,888	22,783,353	56,776,137
Capital funds	19,602,839	8,311,395	5,248,115	2,701,750	3,341,580
Capital surplus	8,313,956	1,164,295	1,573,741	972,240	4,603,680
Retained earnings	102,598,077	8,721,781	24,867,940	19,355,690	49,652,667
Own shares	-1,745,133	-302,109	-374,908	-246,328	-821,789
Other net assets	6,958,065	375,719	1,257,324	1,664,744	3,660,278

Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

Notes:
1. Survey results are estimates based on the *2014 Basic Survey of Small and Medium Enterprises (End-of-fiscal-year Results for Fiscal 2013) (Preliminary Report)* conducted in August 2014.
2. The number of enterprises in the parent population is the estimated figure as of August 2014 based on the *2012 Economic Census for Business Frame* taking into consideration entries, exits, and changes in size according to industry (medium group) and number of workers.
3. These results are the results of estimates of a survey of conditions among SMEs (including sole proprietorships) belonging to the following divisions of industry according to the *Japan Standard Industrial Classification*: construction, manufacturing, information and communications, transportation and postal services (excluding certain industries), wholesale trade, retail trade, real estate and goods rental and leasing, scientific research and professional and technical services (excluding certain industries), accommodations and food services, life-related, entertainment and recreation 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			
Item \ FY		2010	2011	2012	2013	2010	2011	2012	2013
Finances and profits	Sales	45,600	44,150	45,500	45,300	2,499,500	2,510,800	2,568,450	2,673,850
	Total assets	58,900	57,900	57,900	58,900	2,090,700	2,159,600	2,245,700	2,314,400
	Value added	11,200	10,800	11,100	11,300	496,200	501,250	510,800	526,650
	(Personnel costs)	8,372	8,100	8,000	8,200	338,650	343,750	355,500	354,350
	(Interest expenses)	100	100	100	100	3,200	2,900	2,600	2,200
	No. of employees (including officers)	20	19	19	19	576	576	585	574
Key financial indices	Quick ratio	103.8	106.3	109.5	110.5	88.1	90.5	92.3	93.7
	Equity ratio	32.6	33.1	33.7	34.7	41.3	41.6	43.5	44.1
	Ratio of operating profit to total capital	1.5	1.7	1.8	1.9	3.3	3.4	3.5	3.9
	Ratio of ordinary profit to sales	1.6	1.8	2.1	2.3	3.0	3.1	3.4	3.8
	Total capital turnover	1.0	1.0	1.0	1.1	1.2	1.2	1.2	1.2
	Interest rate on borrowing	1.5	1.3	1.2	1.1	1.5	1.4	1.3	1.2
	Value-added ratio	25.9	26.3	26.3	26.1	22.4	22.1	21.8	22.0
	Labor productivity	511	523	526	533	830	824	840	872
	Capital-labor ratio	470	458	448	435	770	755	752	751
	Ratio of fixed assets to long-term capital	60.2	58.6	58.1	56.7	60.2	58.7	57.7	57.5
	Debt redemption period (years)	12.3	11.5	10.9	10.2	4.0	3.7	3.5	3.3

(2) Manufacturing

Item \ Size		SMEs				Large enterprises			
Item \ FY		2010	2011	2012	2013	2010	2011	2012	2013
Finances and profits	Sales	137,400	125,100	122,700	122,200	3,728,800	3,676,250	3,718,600	3,761,700
	Total assets	135,250	125,500	122,000	123,000	3,681,200	3,765,800	3,872,850	3,933,250
	Value added	29,900	27,500	25,600	25,600	745,900	717,900	698,950	724,650
	(Personnel costs)	24,050	22,200	21,200	20,900	526,700	527,400	519,550	526,850
	(Interest expenses)	300	200	200	200	6,100	5,600	5,100	4,700
	No. of employees (including officers)	54	50	48	48	794	788	794	783
Key financial indices	Quick ratio	103.3	107.8	110.0	109.0	90.8	91.2	92.5	95.4
	Equity ratio	33.8	34.0	34.5	35.7	48.2	48.0	49.4	50.6
	Ratio of operating profit to total capital	2.1	2.2	2.0	2.1	3.5	3.0	3.1	3.7
	Ratio of ordinary profit to sales	2.0	2.1	2.1	2.3	3.8	3.7	4.1	4.9
	Total capital turnover	1.1	1.1	1.1	1.1	1.0	0.9	0.9	0.9
	Interest rate on borrowing	1.5	1.3	1.2	1.1	1.4	1.3	1.2	1.1
	Value-added ratio	24.6	24.9	24.5	24.6	21.4	21.1	21.1	21.5
	Labor productivity	534	544	543	544	914	898	897	944
	Capital-labor ratio	613	594	591	583	1,107	1,075	1,088	1,072
	Ratio of fixed assets to long-term capital	58.2	57.0	56.8	56.9	63.5	62.9	62.5	61.5
	Debt redemption period (years)	9.1	8.9	9.2	9.0	3.2	3.3	3.4	3.2

(3) Wholesaling/retailing

Item \ Size		SMEs				Large enterprises			
Item \ FY		2010	2011	2012	2013	2010	2011	2012	2013
Finances and profits	Sales	50,250	50,871	55,400	50,450	2,842,700	3,003,000	3,044,500	3,199,000
	Total assets	35,700	37,500	36,700	34,950	1,655,100	1,718,700	1,772,600	1,854,900
	Value added	6,900	7,200	7,000	7,200	319,400	339,400	343,000	334,100
	(Personnel costs)	5,700	5,700	5,700	5,700	211,600	209,300	214,600	219,600
	(Interest expenses)	100	100	100	39	3,000	3,000	2,600	2,500
	No. of employees (including officers)	14	14	14	14	392	385	389	384
Key financial indices	Quick ratio	94.7	95.4	100.9	101.1	77.8	80.0	80.9	81.6
	Equity ratio	22.2	22.7	24.6	25.4	32.7	32.8	34.6	34.0
	Ratio of operating profit to total capital	0.9	1.3	1.4	1.4	2.9	3.4	3.2	3.5
	Ratio of ordinary profit to sales	0.6	0.8	0.9	0.9	1.6	2.1	2.0	2.2
	Total capital turnover	1.7	1.7	1.7	1.7	1.8	1.9	1.8	1.9
	Interest rate on borrowing	1.3	1.2	1.2	1.0	1.4	1.4	1.2	1.1
	Value-added ratio	12.7	13.3	13.2	13.2	13.4	13.5	13.1	12.9
	Labor productivity	460	482	496	479	744	759	755	784
	Capital-labor ratio	233	254	238	206	622	604	627	665
	Ratio of fixed assets to long-term capital	47.2	46.3	42.9	41.8	60.5	56.8	55.3	55.2
	Debt redemption period (years)	23.8	20.5	21.0	18.6	6.3	5.3	5.6	5.2

(4) Services

Item	Size / FY	SMEs 2010	SMEs 2011	SMEs 2012	SMEs 2013	Large enterprises 2010	Large enterprises 2011	Large enterprises 2012	Large enterprises 2013
Finances and profits	Sales	26,806	25,300	26,400	27,150	833,000	842,900	961,000	902,800
	Total assets	35,750	35,900	36,300	36,950	745,500	751,700	856,450	847,200
	Value added	8,400	8,400	9,000	9,100	312,300	307,650	338,250	332,700
	(Personnel costs)	7,000	6,500	6,900	7,121	209,300	211,650	223,800	220,500
	(Interest expenses)	0	0	0	0	900	800	600	500
	No. of employees (including officers)	18	16	17	18	388	387	400	401
Key financial indices	Quick ratio	116.3	120.5	125.7	130.0	103.6	108.3	112.7	114.0
	Equity ratio	34.9	37.6	39.1	39.2	44.5	44.2	47.5	47.4
	Ratio of operating profit to total capital	1.1	1.6	1.7	1.7	3.9	4.2	5.2	5.2
	Ratio of ordinary profit to sales	1.7	2.5	2.8	2.9	3.8	4.0	4.8	4.8
	Total capital turnover	0.9	0.9	0.9	0.9	1.2	1.2	1.2	1.2
	Interest rate on borrowing	1.3	1.2	1.0	0.9	1.6	1.5	1.5	1.3
	Value-added ratio	37.2	38.1	37.9	37.5	40.6	41.3	41.6	42.2
	Labor productivity	470	485	491	495	734	742	799	785
	Capital-labor ratio	161	134	149	140	211	209	192	191
	Ratio of fixed assets to long-term capital	59.2	55.6	55.8	53.1	51.8	49.5	48.4	46.3
	Debt redemption period (years)	12.3	10.8	10.0	9.8	2.7	2.3	1.7	1.5

(5) Construction

Item	Size / FY	SMEs 2010	SMEs 2011	SMEs 2012	SMEs 2013	Large enterprises 2010	Large enterprises 2011	Large enterprises 2012	Large enterprises 2013
Finances and profits	Sales	28,800	28,100	27,203	28,850	4,559,750	4,579,800	4,760,600	5,089,450
	Total assets	22,500	23,250	23,150	23,009	3,689,050	3,802,700	4,218,000	4,523,850
	Value added	5,600	5,400	5,500	6,089	757,350	761,000	753,600	845,550
	(Personnel costs)	4,900	4,900	4,700	5,000	565,600	601,400	597,350	633,300
	(Interest expenses)	92	63	31	17	3,700	3,000	3,750	3,500
	No. of employees (including officers)	14	13	13	13	846	846	793	820
Key financial indices	Quick ratio	113.4	111.2	115.4	117.0	106.1	110.5	110.5	108.6
	Equity ratio	33.8	31.1	32.1	31.9	40.5	41.2	40.3	40.1
	Ratio of operating profit to total capital	1.1	1.2	1.7	2.2	2.7	2.6	2.6	3.8
	Ratio of ordinary profit to sales	0.8	0.9	1.3	1.7	2.5	2.4	2.6	3.3
	Total capital turnover	1.3	1.3	1.4	1.4	1.2	1.2	1.2	1.2
	Interest rate on borrowing	1.7	1.5	1.3	1.2	1.5	1.6	1.5	1.4
	Value-added ratio	20.0	19.3	19.5	20.1	17.0	17.2	16.2	17.1
	Labor productivity	436	441	464	475	945	961	950	1,044
	Capital-labor ratio	266	280	267	267	747	739	739	744
	Ratio of fixed assets to long-term capital	43.2	42.4	41.0	38.6	49.8	48.4	49.9	50.2
	Debt redemption period (years)	18.2	18.9	13.2	9.6	4.0	4.2	4.1	2.3

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

Notes:
1. SMEs are defined as enterprises with capital of ¥300 million or less, or 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing, 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 and services). However for 2012, SMEs are defined as enterprises with capital of ¥300 million or less, or 900 or fewer regular employees in rubber goods manufacturing of the manufacturing industry and capital of ¥300 million or less, or 300 or fewer regular employees in software, information processing and service providing of the services industry and capital of ¥50 million or less, or 200 or fewer regular employees in inn and hotel. Large enterprises are all enterprises other than those defined as SMEs. Both SMEs and large enterprises are limited to corporation.
2. Value added = Net operating profit + Personnel costs (officers' pay, officers' bonuses, employees' pay, employee bonuses, employee benefits) + Interest expenses, etc. + 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, etc. / (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)
3. 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.
4. Figures are sample medians.
5. The fixed long-term conformity rate for enterprises whose denominator is negative is treated as infinite.
6. The debt redemption period (years) for enterprises whose denominator is negative is treated as 10,000 years.

Table 17 Financial status, profit status and key financial indices of micro enterprises (median values)

(1) All industries

Item	Size / FY	Micro enterprises				
		2009	2010	2011	2012	2013
Finances and profits	Sales	7,303	7,200	7,008	7,500	7,600
	Total assets	10,500	10,900	10,750	11,300	11,600
	Value added	1,883	1,816	1,800	2,000	2,000
	(Personnel costs)	1,587	1,485	1,400	1,437	1,400
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	5	5	4	4	4
Key financial indices	Quick ratio	112.3	111.7	111.2	111.6	113.7
	Equity ratio	26.7	26.0	27.2	27.3	28.6
	Ratio of operating profit to total capital	0.0	0.1	0.4	0.7	0.9
	Ratio of ordinary profit to sales	0.2	0.6	1.0	1.3	1.5
	Total capital turnover	0.9	0.8	0.8	0.8	0.9
	Interest rate on borrowing	0.9	0.8	0.6	0.4	0.4
	Value-added ratio	27.5	27.7	28.4	28.6	28.5
	Labor productivity	373.6	369.6	379.1	400.0	400.0
	Capital-labor ratio	250.0	283.3	288.5	290.7	278.2
	Ratio of fixed assets to long-term capital	61.5	63.0	62.1	62.2	60.2
	Debt redemption period (years)	28.4	23.7	21.5	20.3	18.5

(2) Manufacturing

Item	Size / FY	Micro enterprises				
		2009	2010	2011	2012	2013
Finances and profits	Sales	9,088	9,000	8,717	9,500	10,100
	Total assets	9,700	10,500	10,200	10,250	10,613
	Value added	2,284	2,400	2,500	2,700	2,700
	(Personnel costs)	2,597	2,400	2,300	2,400	2,404
	(Interest expenses)	4	0	0	0	0
	No. of employees (including officers)	7	7	7	7	7
Key financial indices	Quick ratio	124.2	117.8	120.3	122.6	122.6
	Equity ratio	20.7	20.4	20.0	22.1	22.8
	Ratio of operating profit to total capital	-2.5	-0.4	0.0	0.4	0.6
	Ratio of ordinary profit to sales	-0.9	0.0	0.5	0.7	0.9
	Total capital turnover	1.0	1.0	1.1	1.1	1.1
	Interest rate on borrowing	1.0	0.8	0.7	0.6	0.7
	Value-added ratio	27.2	27.8	28.6	28.6	28.4
	Labor productivity	331.0	347.5	360.0	371.4	366.7
	Capital-labor ratio	234.2	250.0	269.2	263.0	236.4
	Ratio of fixed assets to long-term capital	54.0	54.3	53.8	55.3	54.5
	Debt redemption period (years)	56.0	28.3	21.1	21.8	21.7

(3) Wholesaling/retailing

Item	Size / FY	Micro enterprises				
		2009	2010	2011	2012	2013
Finances and profits	Sales	5,859	6,095	6,186	6,300	5,416
	Total assets	4,500	4,607	5,000	4,984	4,656
	Value added	900	900	905	981	900
	(Personnel costs)	887	900	900	909	748
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	3	3	3	3	3
Key financial indices	Quick ratio	100.0	90.3	92.3	100.0	100.0
	Equity ratio	15.1	13.9	15.4	16.6	14.0
	Ratio of operating profit to total capital	-1.0	-0.7	0.0	0.0	0.0
	Ratio of ordinary profit to sales	0.0	0.0	0.0	0.0	0.2
	Total capital turnover	1.5	1.4	1.4	1.5	1.4
	Interest rate on borrowing	0.0	0.0	0.0	0.0	0.0
	Value-added ratio	12.7	13.7	14.3	13.9	14.7
	Labor productivity	299.4	275.0	275.0	300.0	285.0
	Capital-labor ratio	116.2	104.4	107.1	105.9	89.1
	Ratio of fixed assets to long-term capital	43.1	50.0	47.0	40.2	42.1
	Debt redemption period (years)	116.0	61.5	58.6	72.0	47.5

(4) Services

Item \ Size		Micro enterprises				
Item \ FY		2009	2010	2011	2012	2013
Finances and profits	Sales	2,961	2,823	2,892	3,003	3,077
	Total assets	4,335	4,858	4,671	5,767	5,302
	Value added	876	984	1,000	1,000	961
	(Personnel costs)	800	700	700	774	700
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	3	3	3	3	3
Key financial indices	Quick ratio	98.7	100.0	101.2	100.0	107.5
	Equity ratio	27.5	26.9	31.0	31.8	33.3
	Ratio of operating profit to total capital	0.0	0.0	0.0	0.0	0.0
	Ratio of ordinary profit to sales	0.0	0.6	1.2	1.5	1.3
	Total capital turnover	0.8	0.7	0.8	0.7	0.7
	Interest rate on borrowing	0.0	0.0	0.0	0.0	0.0
	Value-added ratio	34.8	34.0	35.9	35.7	34.9
	Labor productivity	317.2	324.9	333.3	350.0	355.6
	Capital-labor ratio	64.9	71.4	66.7	80.5	57.1
	Ratio of fixed assets to long-term capital	60.0	61.1	55.5	61.3	52.2
	Debt redemption period (years)	49.7	35.5	26.7	22.3	33.5

(5) Construction

Item \ Size		Micro enterprises				
Item \ FY		2009	2010	2011	2012	2013
Finances and profits	Sales	12,150	12,300	11,900	12,327	12,900
	Total assets	8,809	9,400	9,000	9,200	9,700
	Value added	2,600	2,700	2,500	2,600	2,900
	(Personnel costs)	2,551	2,600	2,400	2,347	2,600
	(Interest expenses)	0	0	1	0	0
	No. of employees (including officers)	8	8	8	7	7
Key financial indices	Quick ratio	122.9	125.1	115.6	121.8	124.5
	Equity ratio	25.2	27.5	25.0	25.7	25.7
	Ratio of operating profit to total capital	0.0	0.0	0.5	1.2	1.5
	Ratio of ordinary profit to sales	0.2	0.3	0.4	0.8	1.1
	Total capital turnover	1.4	1.4	1.3	1.4	1.5
	Interest rate on borrowing	1.2	1.4	1.1	0.8	0.7
	Value-added ratio	21.3	21.6	21.2	21.5	22.0
	Labor productivity	365.7	360.0	359.8	385.1	400.0
	Capital-labor ratio	150.0	180.6	190.0	186.5	183.7
	Ratio of fixed assets to long-term capital	41.1	42.1	42.1	42.2	38.9
	Debt redemption period (years)	41.0	30.4	31.0	20.7	16.1

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

Notes:
1. Micro enterprises are defined as enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places and services (excluding accommodations and entertainment and recreation services for 2012)). However, limited to corporation.
2. Value added = Net operating profit + Personnel costs (officers' pay, officers' bonuses, employees' pay, employee bonuses, employee benefits) + Interest expenses, etc. + 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, etc. / (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
3. Figures for sales, total assets, value added (personnel costs, and interest expenses, etc.), labor productivity and capital-labor ratio are in units of ¥10,000.
   Unit for number of employees (including officers): individual employees
   Other financial operating ratios are in percentage.
4. Figures are population medians.
5. The fixed long-term conformity rate for enterprises whose denominator is negative is treated as infinite.
6. The debt redemption period (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	2012		2013				2014				2015	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.	
All Japan	-24.9	-24.7	-20.9	-18.3	-18.4	-13.7	-11.1	-23.2	-18.7	-19.4	-17.8	1.6
Hokkaido	-24.1	-21.2	-16.1	-13.9	-13.3	-10.9	-12.6	-18.5	-17.4	-16.8	-16.4	0.4
South/Central Hokkaido	-22.7	-20.7	-13.5	-13.9	-11.9	-7.7	-14.7	-16.6	-15.6	-15.1	-14.9	0.2
North Hokkaido/Okhotsk	-24.3	-21.8	-18.5	-9.7	-14.8	-13.6	-9.3	-13.9	-15.3	-17.9	-15.0	2.9
Tokachi, Kushiro, Nemuro	-27.4	-20.5	-25.9	-18.2	-16.2	-17.4	-10.3	-29.3	-25.9	-22.0	-19.6	2.4
Tohoku	-19.8	-19.9	-20.6	-17.4	-18.1	-13.8	-14.5	-26.5	-20.1	-22.8	-21.6	1.2
Aomori	-27.2	-25.9	-21.0	-15.6	-17.7	-17.2	-9.9	-24.9	-29.5	-24.2	-26.0	-1.8
Iwate	-17.3	-12.0	-15.6	-15.5	-14.2	-11.7	-14.5	-22.4	-19.3	-17.7	-16.9	0.8
Miyagi	-17.9	-19.7	-23.9	-20.6	-21.5	-19.2	-18.6	-25.2	-19.5	-26.6	-23.6	3.0
Akita	-25.6	-25.5	-25.0	-23.8	-24.3	-13.2	-15.2	-33.3	-25.1	-25.1	-28.9	-3.8
Yamagata	-22.4	-21.0	-18.8	-10.2	-17.0	-10.4	-10.7	-18.1	-15.8	-21.2	-14.5	6.7
Fukushima	-14.7	-17.0	-17.2	-13.4	-19.3	-13.4	-15.5	-28.0	-20.2	-22.8	-18.9	3.9
Kanto	-24.0	-26.6	-22.2	-18.1	-18.4	-14.6	-13.8	-21.8	-17.9	-18.0	-15.6	2.4
Ibaraki	-23.1	-26.3	-23.8	-19.9	-20.9	-18.9	-14.0	-18.5	-18.3	-17.3	-17.3	0.0
Tochigi	-21.4	-21.2	-30.4	-14.3	-16.6	-15.9	-16.0	-21.4	-20.7	-17.4	-18.1	-0.7
Gunma	-24.6	-24.7	-21.9	-20.6	-17.3	-14.5	-12.8	-19.6	-12.7	-21.2	-15.2	6.0
Saitama	-25.0	-22.6	-21.6	-12.9	-20.2	-11.6	-9.4	-16.4	-12.4	-14.2	-10.5	3.7
Chiba	-26.4	-30.7	-28.9	-17.6	-23.9	-13.3	-17.7	-15.1	-20.0	-21.9	-15.1	6.8
Tokyo	-18.6	-19.1	-16.8	-16.9	-11.2	-8.2	-9.5	-18.5	-14.3	-11.9	-11.6	0.3
Kanagawa	-21.3	-31.2	-15.5	-13.8	-15.7	-18.6	-14.9	-21.7	-14.9	-14.5	-12.9	1.6
Niigata	-24.1	-30.9	-25.2	-19.7	-20.0	-16.0	-15.5	-27.2	-21.4	-22.7	-23.7	-1.0
Yamanashi	-32.4	-33.3	-25.5	-25.1	-23.3	-18.5	-22.5	-22.8	-23.3	-21.9	-13.1	8.8
Nagano	-27.9	-29.5	-25.9	-19.4	-20.1	-18.3	-16.5	-23.6	-20.9	-21.9	-19.4	2.5
Shizuoka	-22.2	-27.3	-20.1	-13.0	-15.9	-14.1	-12.7	-26.6	-17.2	-17.4	-16.6	0.8
Chubu	-26.9	-25.0	-19.7	-17.1	-15.4	-11.6	-8.4	-23.4	-19.2	-19.9	-17.0	2.9
Toyama	-25.3	-23.1	-16.2	-15.4	-11.2	-9.5	-10.3	-14.9	-12.9	-15.7	-11.2	4.5
Ishikawa	-34.9	-33.4	-25.2	-6.8	-14.1	-5.3	-3.1	-27.7	-20.0	-19.5	-12.2	7.3
Gifu	-26.5	-26.7	-23.2	-21.8	-19.4	-15.0	-6.5	-25.4	-22.8	-23.2	-18.1	5.1
Aichi	-25.0	-20.5	-17.7	-14.7	-12.8	-11.7	-8.8	-19.3	-16.5	-16.6	-14.5	2.1
Mie	-27.4	-27.7	-21.5	-18.7	-19.1	-13.1	-13.5	-27.4	-25.8	-25.5	-26.9	-1.4
Kinki	-24.4	-24.6	-20.3	-19.8	-18.8	-12.7	-7.2	-22.4	-15.4	-18.4	-17.1	1.3
Fukui	-25.4	-24.2	-16.9	-20.6	-18.9	-8.7	-6.8	-19.0	-12.8	-15.2	-18.0	-2.8
Shiga	-30.0	-28.4	-25.0	-24.9	-18.2	-11.3	1.6	-9.8	-18.4	-20.3	-16.5	3.8
Kyoto	-23.2	-22.3	-19.7	-23.8	-23.7	-15.7	-6.0	-18.3	-15.8	-18.6	-22.0	-3.4
Osaka	-25.0	-26.2	-23.8	-20.2	-16.4	-11.4	-6.4	-23.6	-15.2	-17.7	-16.9	0.8
Hyogo	-16.3	-25.4	-13.1	-12.4	-18.1	-13.6	-8.8	-21.9	-14.0	-16.2	-9.4	6.8
Nara	-27.0	-25.8	-22.4	-17.6	-21.0	-18.2	-11.7	-24.1	-14.8	-23.5	-24.4	-0.9
Wakayama	-31.5	-21.7	-19.1	-15.6	-23.1	-15.9	-10.6	-28.5	-23.5	-18.5	-23.9	-5.4
Chugoku	-28.7	-28.0	-23.5	-19.3	-20.9	-16.8	-14.6	-23.3	-21.7	-23.1	-20.4	2.7
Tottori	-23.8	-23.3	-18.5	-16.8	-16.3	-16.0	-13.2	-25.3	-16.0	-26.0	-26.1	-0.1
Shimane	-28.4	-26.1	-25.7	-20.4	-14.5	-3.9	-3.4	-24.8	-18.9	-25.2	-18.0	7.2
Okayama	-33.1	-33.2	-27.9	-24.0	-32.7	-26.4	-22.9	-21.0	-24.6	-20.0	-18.1	1.9
Hiroshima	-22.5	-22.6	-14.7	-11.3	-19.4	-17.5	-14.1	-22.3	-24.0	-19.8	-20.9	-1.1
Yamaguchi	-34.1	-33.0	-28.9	-25.8	-21.2	-18.1	-17.1	-25.2	-21.5	-25.2	-19.8	5.4
Shikoku	-27.8	-25.1	-25.1	-20.6	-20.5	-16.2	-11.5	-26.5	-20.8	-21.9	-19.0	2.9
Tokushima	-25.3	-13.4	-18.4	-12.7	-10.7	-13.0	-6.3	-26.7	-17.5	-24.2	-11.5	12.7
Kagawa	-28.5	-25.9	-24.2	-21.4	-20.3	-15.9	-16.1	-28.5	-16.8	-21.1	-24.3	-3.2
Ehime	-31.0	-31.7	-32.1	-22.3	-27.1	-22.3	-15.5	-24.7	-25.3	-22.6	-25.8	-3.2
Kochi	-26.7	-28.6	-24.1	-24.8	-24.7	-11.2	-7.1	-23.7	-24.4	-18.8	-17.9	0.9
Kyushu/Okinawa	-24.4	-23.5	-20.1	-17.3	-18.1	-13.0	-8.9	-23.6	-19.6	-18.7	-19.5	-0.8
Fukuoka	-26.2	-24.7	-20.3	-19.0	-21.7	-15.3	-9.8	-23.8	-22.2	-18.0	-19.1	-1.1
Saga	-30.1	-24.9	-25.4	-19.9	-17.5	-12.4	-10.5	-30.8	-24.2	-27.9	-27.9	0.0
Nagasaki	-30.8	-31.2	-25.3	-22.8	-24.7	-18.2	-10.6	-25.5	-22.1	-23.3	-22.3	1.0
Kumamoto	-29.2	-20.6	-23.6	-16.2	-16.0	-13.6	-6.8	-16.1	-19.2	-19.7	-22.4	-2.7
Oita	-28.4	-34.7	-26.5	-22.0	-24.5	-11.8	-12.8	-30.4	-28.7	-25.6	-26.3	-0.7
Miyazaki	-16.8	-28.3	-16.1	-20.2	-22.2	-15.7	-9.4	-25.8	-21.4	-15.2	-23.6	-8.4
Kagoshima	-21.2	-18.6	-19.5	-12.5	-15.0	-11.8	-11.9	-21.9	-22.2	-18.9	-22.6	-3.7
Okinawa	-9.5	-5.1	-3.7	1.5	1.6	-6.6	1.0	-3.4	2.7	0.7	-1.0	-1.7

(2) Manufacturing

Change from previous quarter (seasonally adjusted)

Prefecture	2012		2013				2014				2015	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.	
All Japan	-23.5	-24.0	-20.0	-17.2	-14.6	-6.7	-2.6	-18.3	-12.3	-14.4	-14.1	0.3
Hokkaido	-16.0	-18.1	-13.7	-11.0	-10.4	-4.5	-7.6	-3.9	-13.6	-11.9	-8.1	3.8
South/Central Hokkaido	-15.2	-19.5	-11.1	-9.6	-6.4	2.3	-5.5	-2.7	-8.7	-8.6	-9.5	-0.9
North Hokkaido/Okhotsk	-11.5	-7.6	-1.5	-5.0	-11.2	-8.3	-11.9	-10.5	-16.3	-16.3	5.8	22.1
Tokachi, Kushiro, Nemuro	-23.8	-26.5	-41.0	-30.9	-25.7	-28.7	-8.5	-1.5	-32.4	-22.5	-21.2	1.3
Tohoku	-21.2	-19.4	-18.0	-17.5	-13.6	-8.7	-4.8	-26.0	-9.6	-16.9	-16.3	0.6
Aomori	-20.4	-8.6	-10.4	-2.8	-6.5	-15.6	-6.2	-34.8	-17.8	-34.4	-30.2	4.2
Iwate	-15.6	-14.9	-13.9	-24.1	0.2	-0.1	10.0	-14.2	4.1	-3.2	-9.0	-5.8
Miyagi	-21.8	-22.5	-25.4	-25.0	-22.2	-18.5	-17.8	-33.5	0.5	-12.3	-16.3	-4.0
Akita	-24.5	-23.1	-21.5	-20.0	-22.6	-11.4	-13.5	-26.3	-22.2	-19.2	-15.1	4.1
Yamagata	-22.1	-19.0	-18.6	-3.9	-19.9	-2.6	12.2	-17.9	-23.7	-20.2	-12.5	7.7
Fukushima	-25.8	-24.1	-16.8	-19.9	-12.2	-6.3	-12.7	-28.9	-8.2	-16.5	-17.9	-1.4
Kanto	-25.2	-28.8	-23.6	-18.1	-16.4	-6.9	-3.7	-17.1	-10.5	-9.6	-12.5	-2.9
Ibaraki	-23.9	-25.1	-18.6	-16.0	-18.7	-13.8	-3.9	-5.6	-7.4	-8.7	-14.8	-6.1
Tochigi	-19.7	-19.4	-23.9	-10.3	-10.6	-4.2	-7.6	-14.3	-10.3	0.9	-9.7	-10.6
Gunma	-18.7	-23.0	-25.8	-21.6	-19.9	-10.8	-3.8	-19.1	-5.4	-12.3	-11.8	0.5
Saitama	-18.6	-26.4	-24.7	-22.5	-26.3	-2.6	-8.1	-18.5	-2.0	-18.6	-18.4	0.2
Chiba	-37.2	-36.0	-34.0	-21.7	-21.2	-1.9	0.5	-5.2	-16.1	-18.8	-4.9	13.9
Tokyo	-23.0	-23.4	-15.5	-16.9	-10.6	-5.6	-1.4	-15.1	-6.9	-5.5	-16.4	-10.9
Kanagawa	-17.6	-26.4	-18.0	-16.7	-13.0	-8.6	-10.5	-10.7	-19.0	-0.3	-4.1	-3.8
Niigata	-30.1	-32.9	-25.8	-14.8	-10.8	-7.6	-1.2	-26.8	-7.9	-7.5	-14.5	-7.0
Yamanashi	-27.6	-34.9	-19.3	-20.7	-22.4	-1.7	-3.3	-19.9	-11.5	-12.4	-7.1	5.3
Nagano	-33.8	-39.5	-36.8	-23.9	-18.0	-10.3	-10.0	-11.7	-17.8	-12.2	-5.2	7.0
Shizuoka	-23.9	-29.2	-22.7	-12.9	-14.9	-5.5	0.1	-26.1	-14.2	-12.9	-16.1	-3.2
Chubu	-24.6	-23.8	-17.9	-13.2	-7.6	-3.8	0.2	-19.6	-11.6	-14.9	-14.5	0.4
Toyama	-24.6	-16.3	-12.5	-10.8	-2.5	3.2	3.8	-8.0	-8.8	-13.1	-8.8	4.3
Ishikawa	-48.5	-39.1	-11.2	4.3	3.2	2.6	-2.6	-20.7	6.8	0.7	-16.2	-16.9
Gifu	-20.4	-22.7	-18.4	-16.3	-10.3	-6.8	9.7	-20.2	-9.0	-15.7	-10.1	5.6
Aichi	-25.2	-25.8	-19.4	-13.3	-8.8	-8.6	-7.4	-19.0	-14.3	-15.4	-14.8	0.6
Mie	-20.4	-22.2	-23.4	-16.0	-14.1	0.0	-1.5	-29.5	-23.4	-24.1	-23.4	0.7
Kinki	-21.7	-24.6	-21.0	-20.9	-14.8	-5.0	2.9	-11.0	-5.0	-12.5	-13.9	-1.4
Fukui	-21.5	-28.6	-14.2	-23.9	-11.0	10.1	6.9	-2.3	1.7	-12.0	-9.7	2.3
Shiga	-27.3	-30.8	-42.2	-32.8	-29.3	-18.7	13.2	0.2	-6.6	-9.9	-12.4	-2.5
Kyoto	-21.5	-33.3	-19.8	-23.5	-21.0	-3.7	3.4	-14.1	-14.6	-11.7	-26.6	-14.9
Osaka	-26.2	-24.6	-22.4	-21.1	-7.8	-2.7	5.9	-11.5	-4.5	-10.8	-10.0	0.8
Hyogo	-20.2	-29.5	-20.9	-19.5	-21.7	-8.7	0.9	-17.9	-0.5	-10.8	-6.4	4.4
Nara	-16.3	-13.1	-14.3	-13.9	-12.5	-12.1	-2.1	-10.1	-3.9	-23.0	-20.9	2.1
Wakayama	-14.5	-13.5	-10.1	-15.9	-8.9	-3.2	-5.4	-11.2	-8.9	-12.5	-20.3	-7.8
Chugoku	-24.5	-27.0	-19.2	-15.4	-16.1	-7.6	-7.1	-13.4	-16.1	-16.4	-10.3	6.1
Tottori	-15.1	-25.2	-12.8	-8.1	-15.9	-3.4	-10.8	-10.7	-12.9	-13.2	-20.8	-7.6
Shimane	-15.4	-24.8	-16.2	-15.4	-9.4	6.7	5.5	-19.2	-8.0	-17.1	-2.4	14.7
Okayama	-26.0	-24.3	-23.6	-20.7	-25.0	-13.9	-15.8	-6.7	-17.6	-14.1	-10.5	3.6
Hiroshima	-18.6	-24.7	-10.5	-6.4	-7.3	-3.6	4.6	-7.7	-18.3	-15.3	-13.7	1.6
Yamaguchi	-39.2	-34.8	-33.5	-25.6	-20.4	-19.2	-20.6	-24.6	-18.4	-21.7	-6.7	15.0
Shikoku	-26.9	-19.8	-23.7	-19.6	-17.5	-10.4	-2.8	-30.3	-21.3	-25.9	-20.8	5.1
Tokushima	-25.7	-5.5	-19.4	-14.3	-12.1	-7.5	3.9	-39.5	-19.9	-36.3	-20.8	15.5
Kagawa	-22.3	-17.0	-19.0	-23.1	-8.3	-4.1	-1.6	-17.5	-3.8	-23.8	-31.7	-7.9
Ehime	-27.1	-32.5	-30.8	-18.7	-24.4	-20.4	-21.5	-33.5	-34.8	-25.5	-22.6	2.9
Kochi	-29.8	-26.2	-26.2	-29.3	-21.1	-9.5	17.2	-30.7	-26.2	-12.4	-9.4	3.0
Kyushu/Okinawa	-21.2	-19.6	-18.4	-13.1	-16.0	-8.4	-6.4	-21.7	-19.4	-18.6	-15.7	2.9
Fukuoka	-24.6	-22.3	-20.0	-18.1	-23.9	-18.9	-10.4	-28.4	-25.7	-12.4	-10.7	1.7
Saga	-28.4	-23.7	-26.1	-12.0	-9.2	-1.2	-6.6	-23.2	-21.7	-36.0	-23.0	13.0
Nagasaki	-28.9	-28.7	-26.1	-29.9	-27.7	-13.6	-0.8	-20.7	-18.9	-29.9	-30.9	-1.0
Kumamoto	-30.2	-21.8	-33.1	-11.6	-10.0	-6.7	-2.9	-11.4	-15.2	-16.8	-12.5	4.3
Oita	-23.5	-37.7	-33.9	-23.8	-25.2	-10.0	-3.1	-37.4	-25.8	-28.5	-25.9	2.6
Miyazaki	-9.3	-23.4	-2.4	-13.6	-8.9	-9.5	7.0	-12.8	-20.6	-11.2	-23.7	-12.5
Kagoshima	-15.4	-14.3	-10.3	-3.4	-10.2	-2.4	-6.8	-15.5	-17.0	-13.0	-21.2	-8.2
Okinawa	-1.8	5.1	11.2	5.3	-0.3	-12.8	-17.0	-16.6	-3.9	-11.3	8.9	20.2

(3) Non-manufacturing

Change from previous quarter (seasonally adjusted)

Prefecture	2012		2013				2014				2015	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.	
All Japan	-25.5	-24.9	-21.3	-18.6	-19.5	-16.0	-14.0	-24.7	-20.6	-21.0	-19.3	1.7
Hokkaido	-26.2	-22.3	-17.1	-14.3	-14.2	-13.0	-14.0	-22.1	-18.4	-18.3	-18.7	-0.4
South/Central Hokkaido	-25.1	-21.2	-14.9	-14.2	-13.8	-10.8	-17.7	-20.0	-17.4	-17.1	-16.6	0.5
North Hokkaido/Okhotsk	-28.3	-28.1	-23.1	-11.4	-15.8	-16.6	-7.2	-15.4	-14.6	-19.5	-21.6	-2.1
Tokachi, Kushiro, Nemuro	-28.8	-19.1	-22.5	-15.4	-15.0	-14.8	-10.3	-34.2	-24.5	-21.9	-19.2	2.7
Tohoku	-19.5	-20.1	-21.3	-17.3	-19.6	-15.5	-17.5	-26.8	-23.4	-24.6	-23.0	1.6
Aomori	-28.2	-30.6	-24.5	-17.9	-20.0	-18.1	-11.6	-21.5	-32.2	-21.5	-25.0	-3.5
Iwate	-14.3	-11.8	-16.9	-14.9	-15.1	-16.6	-23.1	-27.6	-22.6	-22.7	-19.5	3.2
Miyagi	-16.5	-18.3	-23.7	-19.5	-21.1	-19.0	-19.2	-22.6	-26.2	-30.7	-25.3	5.4
Akita	-26.6	-26.5	-26.7	-23.7	-25.4	-14.0	-16.5	-35.0	-25.7	-26.9	-33.7	-6.8
Yamagata	-21.9	-21.8	-18.7	-13.0	-15.3	-13.2	-18.2	-20.2	-12.3	-22.5	-13.8	8.7
Fukushima	-12.3	-14.8	-17.4	-10.4	-22.2	-15.6	-16.4	-26.7	-23.4	-25.0	-19.9	5.1
Kanto	-23.4	-25.8	-21.9	-18.2	-18.7	-17.1	-17.1	-23.5	-20.3	-21.0	-16.7	4.3
Ibaraki	-23.4	-26.7	-25.8	-20.9	-22.5	-20.9	-18.2	-23.4	-23.3	-21.1	-18.4	2.7
Tochigi	-22.7	-22.3	-31.9	-16.1	-19.1	-20.8	-18.3	-24.4	-25.4	-24.6	-20.4	4.2
Gunma	-26.8	-25.5	-20.8	-20.0	-15.9	-15.9	-16.7	-19.4	-15.7	-24.7	-16.2	8.5
Saitama	-25.2	-21.8	-20.8	-11.1	-16.4	-15.3	-10.2	-17.7	-13.7	-13.6	-8.2	5.4
Chiba	-24.6	-29.8	-27.3	-16.5	-25.1	-15.7	-21.0	-16.3	-21.4	-22.7	-16.9	5.8
Tokyo	-18.1	-17.7	-16.8	-16.8	-12.1	-8.5	-11.2	-19.4	-17.2	-13.5	-10.5	3.0
Kanagawa	-22.3	-31.6	-15.2	-13.3	-16.6	-20.4	-16.6	-25.0	-13.9	-17.4	-14.5	2.9
Niigata	-21.3	-29.7	-25.4	-22.1	-23.4	-19.1	-21.5	-28.2	-26.9	-29.1	-27.1	2.0
Yamanashi	-35.0	-32.6	-27.9	-25.9	-24.6	-24.5	-29.6	-23.2	-28.6	-25.4	-15.2	10.2
Nagano	-26.6	-26.4	-23.0	-17.9	-20.9	-20.3	-18.6	-26.8	-21.8	-24.4	-23.3	1.1
Shizuoka	-21.2	-26.4	-19.1	-13.2	-16.2	-17.7	-17.9	-26.9	-18.5	-19.5	-16.8	2.7
Chubu	-27.4	-25.6	-20.6	-18.4	-17.8	-14.5	-11.7	-24.5	-21.9	-21.7	-18.4	3.3
Toyama	-25.9	-25.1	-16.9	-18.7	-14.9	-14.2	-15.2	-19.1	-14.5	-16.6	-11.7	4.9
Ishikawa	-30.9	-31.9	-28.4	-10.5	-18.2	-7.1	-3.4	-29.5	-27.3	-24.3	-13.2	11.1
Gifu	-28.9	-28.4	-24.9	-22.7	-22.9	-18.2	-11.9	-26.7	-27.3	-25.9	-21.4	4.5
Aichi	-25.4	-18.5	-16.9	-15.0	-15.0	-12.8	-9.2	-18.5	-17.9	-17.1	-14.3	2.8
Mie	-29.5	-29.8	-21.0	-19.1	-20.7	-17.4	-17.5	-26.9	-26.2	-25.8	-27.8	-2.0
Kinki	-25.6	-24.6	-20.1	-19.1	-20.6	-15.7	-11.1	-26.2	-19.3	-20.5	-18.6	1.9
Fukui	-26.5	-22.4	-18.2	-19.1	-21.6	-15.1	-12.2	-24.2	-17.6	-16.3	-21.0	-4.7
Shiga	-31.5	-27.9	-19.9	-21.0	-14.7	-9.3	-2.7	-11.0	-22.4	-23.8	-19.6	4.2
Kyoto	-23.1	-18.4	-19.8	-24.1	-24.0	-21.3	-9.8	-19.7	-16.3	-21.8	-21.0	0.8
Osaka	-24.6	-27.3	-24.2	-19.7	-19.9	-15.4	-11.1	-28.1	-19.7	-20.7	-20.2	0.5
Hyogo	-15.3	-22.4	-10.7	-10.6	-17.2	-13.7	-12.6	-24.1	-18.8	-17.9	-11.2	6.7
Nara	-32.5	-31.1	-26.1	-16.8	-25.9	-20.9	-16.6	-27.3	-19.9	-23.5	-25.9	-2.4
Wakayama	-37.6	-24.7	-22.5	-15.7	-27.5	-20.0	-12.4	-35.3	-26.2	-20.7	-25.5	-4.8
Chugoku	-30.2	-28.5	-24.6	-20.5	-22.6	-19.9	-16.8	-26.5	-23.5	-25.5	-23.3	2.2
Tottori	-26.6	-23.2	-20.2	-19.7	-16.3	-20.9	-13.9	-30.8	-17.3	-30.5	-27.8	2.7
Shimane	-31.2	-27.0	-28.4	-21.9	-15.4	-7.7	-6.1	-25.7	-22.1	-27.6	-22.1	5.5
Okayama	-36.6	-37.0	-30.0	-24.9	-36.7	-31.8	-25.7	-25.8	-29.4	-22.4	-21.3	1.1
Hiroshima	-23.8	-22.0	-16.4	-12.9	-23.3	-22.0	-20.8	-26.9	-25.8	-21.4	-23.7	-2.3
Yamaguchi	-33.0	-33.0	-28.3	-24.2	-22.0	-18.2	-16.8	-24.0	-22.9	-26.3	-23.8	2.5
Shikoku	-28.7	-26.8	-25.5	-20.6	-22.0	-18.2	-14.7	-25.1	-20.7	-20.5	-18.7	1.8
Tokushima	-24.5	-17.3	-17.8	-12.2	-9.4	-15.9	-10.2	-21.3	-16.4	-19.0	-8.2	10.8
Kagawa	-31.5	-28.3	-26.6	-20.3	-25.3	-19.7	-22.0	-32.1	-23.2	-20.0	-21.7	-1.7
Ehime	-31.8	-31.4	-32.0	-24.5	-27.7	-22.7	-12.9	-24.0	-21.8	-21.4	-25.1	-3.7
Kochi	-27.6	-28.5	-23.8	-21.8	-28.1	-11.0	-14.8	-21.0	-25.2	-19.6	-18.9	0.7
Kyushu/Okinawa	-25.4	-24.9	-20.8	-18.1	-18.7	-14.7	-9.9	-23.8	-20.1	-18.8	-20.9	-2.1
Fukuoka	-26.1	-25.3	-21.0	-19.1	-20.6	-14.3	-10.5	-21.5	-21.2	-19.0	-23.2	-4.2
Saga	-29.7	-26.0	-25.9	-21.8	-18.8	-16.5	-12.5	-33.0	-24.6	-26.3	-29.5	-3.2
Nagasaki	-31.1	-32.5	-24.1	-21.6	-23.7	-20.1	-12.1	-26.3	-23.2	-21.7	-20.7	1.0
Kumamoto	-27.6	-20.2	-21.5	-17.8	-16.9	-16.0	-9.4	-17.1	-19.9	-21.0	-27.8	-6.8
Oita	-29.2	-34.4	-25.2	-21.0	-23.5	-13.0	-16.1	-28.1	-28.1	-25.2	-27.2	-2.0
Miyazaki	-19.4	-28.7	-20.7	-22.7	-26.7	-16.4	-14.7	-29.9	-21.6	-16.1	-23.9	-7.8
Kagoshima	-23.5	-19.7	-22.5	-16.2	-16.9	-15.4	-13.8	-24.6	-24.5	-20.2	-22.7	-2.5
Okinawa	-11.6	-8.0	-8.9	0.2	2.4	-4.0	5.3	0.3	5.4	4.8	-3.4	-8.2

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

Table 19 No. of enterprises, regular employees, total no. of workers, sales and value added by industry, organization and no. of regular employees

(1) Number of enterprises (2012) (businesses)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	185	12	3	1				201
Construction	159,863	3,210	504	78	5	1		163,661
Manufacturing	148,525	5,641	1,493	268	14	2		155,943
Electricity, gas, heat supply and water								0
Information and communications	2,266	39	15	5	1			2,326
Transportation and postal services	19,860	294	79	20	3			20,256
Wholesale trade	46,597	1,300	323	68	4			48,292
Retail trade	413,461	11,188	11,488	3,452	112	12	1	439,714
Finance and insurance	7,055	36	5					7,096
Real estate and goods rental and leasing	156,108	284	41	9	1			156,443
Scientific research and professional and technical services	94,770	5,859	1,429	281	35	14	6	102,394
Accommodations and food services	417,959	21,634	5,131	719	35	3	1	445,482
Life-related, entertainment and recreation services	314,160	3,833	1,205	249	15	5		319,467
Education and learning support	83,785	3,290	1,053	275	18	2		88,423
Medical, healthcare and welfare	129,654	29,390	6,509	1,248	210	78	9	167,098
Compound services	3,359	6						3,365
Services (not otherwise classified)	53,886	893	225	89	6	2		55,101
Total	2,051,493	86,909	29,503	6,762	459	119	17	2,175,262

(businesses)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	767	327	195	145	29	10	4	1,477
Construction	202,083	52,997	29,636	14,247	2,958	1,313	515	303,749
Manufacturing	134,626	45,752	37,729	32,510	12,608	8,764	3,580	275,569
Electricity, gas, heat supply and water	232	72	106	117	64	55	38	684
Information and communications	25,298	5,059	4,314	3,941	1,816	1,394	692	42,514
Transportation and postal services	15,443	9,149	10,462	10,753	4,407	3,053	1,038	54,305
Wholesale trade	117,116	24,738	16,584	12,141	4,385	2,840	1,011	178,815
Retail trade	174,671	31,547	24,462	16,745	4,586	2,985	1,771	256,767
Finance and insurance	19,328	1,980	783	539	238	197	276	23,341
Real estate and goods rental and leasing	155,009	6,717	3,747	2,463	821	596	283	169,636
Scientific research and professional and technical services	64,630	8,923	5,017	3,325	1,036	648	307	83,886
Accommodations and food services	50,351	19,322	14,148	9,185	2,952	1,903	918	98,779
Life-related, entertainment and recreation services	37,446	9,328	7,074	5,872	2,487	1,372	525	64,104
Education and learning support	8,834	2,199	1,906	1,643	550	276	157	15,565
Medical, healthcare and welfare	10,830	5,396	5,407	4,588	1,304	541	156	28,222
Compound services	102	4	1	1	2	1	1	112
Services (not otherwise classified)	51,178	13,373	9,378	8,644	3,779	3,025	1,366	90,743
Total	1,067,944	236,883	170,949	126,859	44,022	28,973	12,638	1,688,268

(businesses)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	952	339	198	146	29	10	4	1,678
Construction	361,946	56,207	30,140	14,325	2,963	1,314	515	467,410
Manufacturing	283,151	51,393	39,222	32,778	12,622	8,766	3,580	431,512
Electricity, gas, heat supply and water	232	72	106	117	64	55	38	684
Information and communications	27,564	5,098	4,329	3,946	1,817	1,394	692	44,840
Transportation and postal services	35,303	9,443	10,541	10,773	4,410	3,053	1,038	74,561
Wholesale trade	163,713	26,038	16,907	12,209	4,389	2,840	1,011	227,107
Retail trade	588,132	42,735	35,950	20,197	4,698	2,997	1,772	696,481
Finance and insurance	26,383	2,016	788	539	238	197	276	30,437
Real estate and goods rental and leasing	311,117	7,001	3,788	2,472	822	596	283	326,079
Scientific research and professional and technical services	159,400	14,782	6,446	3,606	1,071	662	313	186,280
Accommodations and food services	468,310	40,956	19,279	9,904	2,987	1,906	919	544,261
Life-related, entertainment and recreation services	351,606	13,161	8,279	6,121	2,502	1,377	525	383,571
Education and learning support	92,619	5,489	2,959	1,918	568	278	157	103,988
Medical, healthcare and welfare	140,484	34,786	11,916	5,836	1,514	619	165	195,320
Compound services	3,461	10	1	1	2	1	1	3,477
Services (not otherwise classified)	105,064	14,266	9,603	8,733	3,785	3,027	1,366	145,844
Total	3,119,437	323,792	200,452	133,621	44,481	29,092	12,655	3,863,530

(2) Number of regular employees (2012) (people)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	178	94	39	24				335
Construction	139,936	22,830	6,768	2,278	291	190		172,293
Manufacturing	139,265	40,989	20,709	7,058	931	219		209,171
Electricity, gas, heat supply and water								0
Information and communications	1,411	286	222	149	61			2,129
Transportation and postal services	4,916	2,196	1,096	613	196			9,017
Wholesale trade	45,740	9,385	4,586	1,926	262			61,899
Retail trade	278,098	85,619	169,993	91,739	7,299	1,993	307	635,048
Finance and insurance	4,166	246	68					4,480
Real estate and goods rental and leasing	36,746	2,045	544	242	55			39,632
Scientific research and professional and technical services	119,130	42,670	19,602	7,960	2,272	2,493	2,748	196,875
Accommodations and food services	416,344	157,862	69,567	19,432	2,260	326	621	666,412
Life-related, entertainment and recreation services	183,551	27,971	16,696	6,982	863	692		236,755
Education and learning support	45,664	24,295	14,627	7,460	1,184	277		93,507
Medical, healthcare and welfare	231,581	216,239	88,108	35,452	14,100	12,548	3,390	601,418
Compound services	3,218	39						3,257
Services (not otherwise classified)	45,580	6,429	3,159	2,459	362	344		58,333
Total	1,695,524	639,195	415,784	183,774	30,136	19,082	7,066	2,990,561

(people)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	1,644	2,485	2,758	4,373	1,976	1,641	2,497	17,374
Construction	415,138	401,472	425,404	429,960	201,816	211,914	538,701	2,624,405
Manufacturing	291,964	350,192	556,291	1,025,725	887,608	1,439,757	5,176,234	9,727,771
Electricity, gas, heat supply and water	361	555	1,584	3,854	4,419	8,815	174,392	193,980
Information and communications	37,908	38,760	63,767	126,738	128,727	234,402	765,234	1,395,536
Transportation and postal services	36,021	71,537	156,130	343,914	309,954	496,744	1,494,488	2,908,788
Wholesale trade	214,466	187,682	241,394	381,743	306,481	460,538	920,400	2,712,704
Retail trade	309,510	239,875	362,396	513,663	318,147	504,991	2,855,982	5,104,564
Finance and insurance	29,746	14,645	11,224	16,958	16,772	33,836	1,042,570	1,165,751
Real estate and goods rental and leasing	145,677	49,974	54,323	77,047	57,522	97,532	287,215	769,290
Scientific research and professional and technical services	94,700	67,405	72,419	102,758	72,776	109,037	309,227	828,322
Accommodations and food services	110,254	148,812	205,579	286,483	204,798	313,489	1,644,439	2,913,854
Life-related, entertainment and recreation services	73,593	71,318	103,972	187,591	175,287	220,610	543,928	1,376,299
Education and learning support	14,556	16,913	27,910	52,191	38,548	43,541	158,353	352,012
Medical, healthcare and welfare	23,593	42,349	81,016	144,219	90,047	84,057	198,411	663,692
Compound services	137	30	12	33	120	277	156,625	157,234
Services (not otherwise classified)	101,616	101,934	138,077	279,674	267,769	509,096	1,482,301	2,880,467
Total	1,900,884	1,805,938	2,504,256	3,976,924	3,082,767	4,770,277	17,750,997	35,792,043

(people)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	1,822	2,579	2,797	4,397	1,976	1,641	2,497	17,709
Construction	555,074	424,302	432,172	432,238	202,107	212,104	538,701	2,796,698
Manufacturing	431,229	391,181	577,000	1,032,783	888,539	1,439,976	5,176,234	9,936,942
Electricity, gas, heat supply and water	361	555	1,584	3,854	4,419	8,815	174,392	193,980
Information and communications	39,319	39,046	63,989	126,887	128,788	234,402	765,234	1,397,665
Transportation and postal services	40,937	73,733	157,226	344,527	310,150	496,744	1,494,488	2,917,805
Wholesale trade	260,206	197,067	245,980	383,669	306,743	460,538	920,400	2,774,603
Retail trade	587,608	325,494	532,389	605,402	325,446	506,984	2,856,289	5,739,612
Finance and insurance	33,912	14,891	11,292	16,958	16,772	33,836	1,042,570	1,170,231
Real estate and goods rental and leasing	182,423	52,019	54,867	77,289	57,577	97,532	287,215	808,922
Scientific research and professional and technical services	213,830	110,075	92,021	110,718	75,048	111,530	311,975	1,025,197
Accommodations and food services	526,598	306,674	275,146	305,915	207,058	313,815	1,645,060	3,580,266
Life-related, entertainment and recreation services	257,144	99,289	120,668	194,573	176,150	221,302	543,928	1,613,054
Education and learning support	60,220	41,208	42,537	59,651	39,732	43,818	158,353	445,519
Medical, healthcare and welfare	255,174	258,588	169,124	179,671	104,147	96,605	201,801	1,265,110
Compound services	3,355	69	12	33	120	277	156,625	160,491
Services (not otherwise classified)	147,196	108,363	141,236	282,133	268,131	509,440	1,482,301	2,938,800
Total	3,596,408	2,445,133	2,920,040	4,160,698	3,112,903	4,789,359	17,758,063	38,782,604

(3) Total number of workers (2012)

(people)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	459	120	46	25				650
Construction	385,805	28,414	7,827	2,625	299	192		425,162
Manufacturing	381,724	50,609	23,307	7,590	946	224		464,400
Electricity, gas, heat supply and water								0
Information and communications	4,792	361	244	164	62			5,623
Transportation and postal services	30,754	2,689	1,297	641	205			35,586
Wholesale trade	121,501	11,720	5,297	2,092	276			140,886
Retail trade	957,376	106,236	188,781	97,676	7,573	2,070	561	1,360,273
Finance and insurance	13,258	314	74					13,646
Real estate and goods rental and leasing	246,557	2,577	635	297	56			250,122
Scientific research and professional and technical services	239,125	49,444	21,239	8,315	2,296	2,505	2,753	325,677
Accommodations and food services	1,152,683	192,490	78,661	21,093	2,343	349	623	1,448,242
Life-related, entertainment and recreation services	592,521	34,087	18,686	7,414	948	693		654,349
Education and learning support	168,518	29,696	16,645	8,091	1,503	292		224,745
Medical, healthcare and welfare	417,090	254,313	97,906	38,263	15,073	13,334	3,476	839,455
Compound services	8,756	45						8,801
Services (not otherwise classified)	127,208	7,873	3,606	2,684	404	346		142,121
Total	4,848,127	770,988	464,251	196,970	31,984	20,005	7,413	6,339,738

(people)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	3,412	3,392	3,378	4,955	2,078	1,694	2,550	21,459
Construction	852,808	541,690	521,619	489,777	217,999	222,792	542,717	3,389,402
Manufacturing	559,007	454,781	660,653	1,134,158	940,526	1,481,787	4,296,541	9,527,453
Electricity, gas, heat supply and water	777	721	1,934	4,433	4,773	9,345	175,487	197,470
Information and communications	82,921	50,781	75,603	141,451	138,981	245,417	775,790	1,510,944
Transportation and postal services	71,815	94,697	185,883	385,895	331,768	520,052	1,534,520	3,124,630
Wholesale trade	441,022	248,740	291,355	427,720	328,090	477,657	913,919	3,128,503
Retail trade	671,599	319,928	428,894	573,796	344,314	534,088	2,949,921	5,822,540
Finance and insurance	63,970	19,196	13,524	18,892	18,070	35,795	1,035,710	1,205,157
Real estate and goods rental and leasing	445,064	67,090	66,477	87,260	63,052	102,769	294,666	1,126,378
Scientific research and professional and technical services	212,816	89,650	88,318	116,527	78,982	114,160	309,817	1,010,270
Accommodations and food services	256,274	203,386	253,369	339,089	236,572	356,161	1,738,563	3,383,414
Life-related, entertainment and recreation services	153,618	96,642	127,925	216,250	193,827	240,532	582,648	1,611,442
Education and learning support	41,138	25,953	37,721	63,493	45,166	53,435	169,109	436,015
Medical, healthcare and welfare	53,041	59,243	99,963	164,461	97,642	89,556	207,946	771,852
Compound services	291	42	15	34	124	282	156,664	157,452
Services (not otherwise classified)	241,786	151,124	185,650	345,757	314,525	565,708	1,570,274	3,374,824
Total	4,151,359	2,427,056	3,042,281	4,513,948	3,356,489	5,051,230	17,256,842	39,799,205

(people)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	3,871	3,512	3,424	4,980	2,078	1,694	2,550	22,109
Construction	1,238,613	570,104	529,446	492,402	218,298	222,984	542,717	3,814,564
Manufacturing	940,731	505,390	683,960	1,141,748	941,472	1,482,011	4,296,541	9,991,853
Electricity, gas, heat supply and water	777	721	1,934	4,433	4,773	9,345	175,487	197,470
Information and communications	87,713	51,142	75,847	141,615	139,043	245,417	775,790	1,516,567
Transportation and postal services	102,569	97,386	187,180	386,536	331,973	520,052	1,534,520	3,160,216
Wholesale trade	562,523	260,460	296,652	429,812	328,366	477,657	913,919	3,269,389
Retail trade	1,628,975	426,164	617,675	671,472	351,887	536,158	2,950,482	7,182,813
Finance and insurance	77,228	19,510	13,598	18,892	18,070	35,795	1,035,710	1,218,803
Real estate and goods rental and leasing	691,621	69,667	67,112	87,557	63,108	102,769	294,666	1,376,500
Scientific research and professional and technical services	451,941	139,094	109,557	124,842	81,278	116,665	312,570	1,335,947
Accommodations and food services	1,408,957	395,876	332,030	360,182	238,915	356,510	1,739,186	4,831,656
Life-related, entertainment and recreation services	746,139	130,729	146,611	223,664	194,775	241,225	582,648	2,265,791
Education and learning support	209,656	55,649	54,366	71,584	46,669	53,727	169,109	660,760
Medical, healthcare and welfare	470,131	313,556	197,869	202,724	112,715	102,890	211,422	1,611,307
Compound services	9,047	87	15	34	124	282	156,664	166,253
Services (not otherwise classified)	368,994	158,997	189,256	348,441	314,929	566,054	1,570,274	3,516,945
Total	8,999,486	3,198,044	3,506,532	4,710,918	3,388,473	5,071,235	17,264,255	46,138,943

(4) Sales (2011)

(¥100 million)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	24	7	5	2	0	0	0	39
Construction	19,040	1,658	487	130	10	4	0	21,330
Manufacturing	13,152	2,303	1,112	349	120	5	0	17,042
Electricity, gas, heat supply and water	0	0	0	0	0	0	0	0
Information and communications	136	9	5	4	0	0	0	154
Transportation and postal services	887	121	42	16	9	0	0	1,075
Wholesale trade	13,349	1,481	613	130	22	0	0	15,594
Retail trade	53,319	8,492	14,961	5,580	259	57	0	82,669
Finance and insurance	519	13	2	0	0	0	0	534
Real estate and goods rental and leasing	10,246	101	32	18	0	0	0	10,398
Scientific research and professional and technical services	12,334	3,432	1,455	805	284	269	111	18,692
Accommodations and food services	26,006	4,347	1,697	420	39	24	0	32,533
Life-related, entertainment and recreation services	12,727	1,049	1,048	457	17	326	0	15,624
Education and learning support	2,196	438	275	177	49	3	0	3,138
Medical, healthcare and welfare	22,245	17,977	6,930	2,760	1,136	942	308	52,298
Compound services	167	20	0	0	0	0	0	187
Services (not otherwise classified)	5,217	354	109	81	6	0	0	5,767
Total	191,567	41,804	28,773	10,929	1,951	1,630	419	277,073

(¥100 million)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	576	607	604	950	831	1,007	2,365	6,939
Construction	105,730	80,401	92,428	105,851	59,318	77,465	289,887	811,079
Manufacturing	69,633	56,723	99,782	206,460	218,107	421,197	2,334,073	3,405,974
Electricity, gas, heat supply and water	3,336	735	720	2,644	2,714	8,528	199,271	217,948
Information and communications	8,750	6,425	9,495	20,695	23,080	47,528	350,691	466,664
Transportation and postal services	10,963	10,758	19,831	43,874	43,544	67,914	322,965	519,848
Wholesale trade	170,904	114,392	157,330	277,237	254,043	428,509	1,335,283	2,737,697
Retail trade	89,731	51,115	64,107	85,998	62,081	121,473	695,531	1,170,036
Finance and insurance	9,685	2,182	2,416	11,087	6,151	24,899	779,866	836,285
Real estate and goods rental and leasing	58,588	14,059	16,317	27,949	21,601	40,701	147,366	326,580
Scientific research and professional and technical services	21,831	13,064	14,918	18,567	20,556	33,861	118,526	241,323
Accommodations and food services	10,874	8,619	11,834	17,192	12,866	20,644	82,065	164,095
Life-related, entertainment and recreation services	16,771	9,176	17,782	38,153	36,883	59,808	150,676	329,248
Education and learning support	1,574	1,094	1,535	3,136	2,715	2,957	10,874	23,886
Medical, healthcare and welfare	1,937	1,898	3,298	5,476	3,602	3,917	12,668	32,795
Compound services	92	104	1	4	25	11	12,084	12,323
Services (not otherwise classified)	19,546	13,452	16,314	27,337	20,704	36,941	109,260	243,555
Total	600,519	384,803	528,712	892,611	788,820	1,397,358	6,953,452	11,546,275

(¥100 million)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	600	614	610	952	831	1,007	2,365	6,978
Construction	124,770	82,059	92,916	105,980	59,328	77,469	289,887	832,410
Manufacturing	82,785	59,026	100,894	206,809	218,227	421,202	2,334,073	3,423,016
Electricity, gas, heat supply and water	3,336	735	720	2,644	2,714	8,528	199,271	217,948
Information and communications	8,886	6,434	9,500	20,699	23,080	47,528	350,691	466,818
Transportation and postal services	11,850	10,878	19,873	43,890	43,553	67,914	322,965	520,923
Wholesale trade	184,253	115,873	157,943	277,366	254,065	428,509	1,335,283	2,753,292
Retail trade	143,050	59,607	79,069	91,578	62,340	121,530	695,531	1,252,704
Finance and insurance	10,204	2,194	2,417	11,087	6,151	24,899	779,866	836,819
Real estate and goods rental and leasing	68,834	14,160	16,349	27,967	21,601	40,701	147,366	336,977
Scientific research and professional and technical services	34,165	16,497	16,373	19,372	20,840	34,130	118,637	260,014
Accommodations and food services	36,880	12,966	13,531	17,612	12,905	20,668	82,066	196,628
Life-related, entertainment and recreation services	29,498	10,225	18,829	38,610	36,900	60,134	150,676	344,872
Education and learning support	3,771	1,532	1,809	3,313	2,764	2,960	10,874	27,024
Medical, healthcare and welfare	24,182	19,875	10,228	8,236	4,737	4,859	12,976	85,093
Compound services	259	124	1	4	25	11	12,084	12,510
Services (not otherwise classified)	24,763	13,806	16,423	27,419	20,709	36,941	109,260	249,321
Total	792,086	426,607	557,485	903,539	790,771	1,398,988	6,953,872	11,823,348

(5) Value added (2011) (¥100 million)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	9	1	1	1	0	0	0	12
Construction	8,442	774	211	54	9	4	0	9,494
Manufacturing	6,119	1,030	483	150	25	3	0	7,811
Electricity, gas, heat supply and water	0	0	0	0	0	0	0	0
Information and communications	63	5	2	1	0	0	0	71
Transportation and postal services	390	64	26	9	4	0	0	494
Wholesale trade	3,225	356	143	34	3	0	0	3,761
Retail trade	15,318	2,444	4,063	1,585	90	17	0	23,517
Finance and insurance	274	6	2	0	0	0	0	282
Real estate and goods rental and leasing	5,172	48	14	9	0	0	0	5,242
Scientific research and professional and technical services	7,115	2,201	967	476	158	126	67	11,109
Accommodations and food services	10,207	1,988	803	214	22	5	0	13,240
Life-related, entertainment and recreation services	6,439	550	396	118	9	20	0	7,533
Education and learning support	1,003	230	163	107	23	2	0	1,528
Medical, healthcare and welfare	11,881	9,941	3,874	1,545	639	572	161	28,613
Compound services	106	1	0	0	0	0	0	108
Services (not otherwise classified)	2,318	186	57	56	5	0	0	2,622
Total	78,083	19,827	11,205	4,360	987	749	227	115,437

(¥100 million)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	140	147	129	247	110	322	282	1,376
Construction	25,636	18,318	19,192	19,190	9,666	12,377	41,827	146,207
Manufacturing	19,687	16,781	25,871	47,483	44,918	79,503	320,873	555,114
Electricity, gas, heat supply and water	530	80	158	352	376	903	25,545	27,943
Information and communications	2,922	2,055	3,252	6,651	7,107	14,483	90,010	126,481
Transportation and postal services	2,733	3,120	6,435	13,725	12,161	18,870	81,924	138,969
Wholesale trade	22,936	13,492	17,061	27,404	21,943	37,124	77,208	217,169
Retail trade	20,210	11,194	13,338	17,216	11,280	20,767	100,268	194,273
Finance and insurance	4,514	961	1,044	1,577	1,486	4,349	132,966	146,898
Real estate and goods rental and leasing	20,863	4,082	4,340	6,784	5,062	8,455	26,379	75,965
Scientific research and professional and technical services	9,536	6,713	4,353	6,291	9,486	9,786	37,497	83,662
Accommodations and food services	4,614	3,756	4,873	6,727	4,705	6,909	28,050	59,635
Life-related, entertainment and recreation services	4,280	2,680	3,815	7,548	6,380	8,779	21,208	54,690
Education and learning support	664	488	728	1,557	1,224	1,245	4,964	10,869
Medical, healthcare and welfare	1,009	1,120	1,960	3,192	2,054	1,945	5,821	17,101
Compound services	14	3	0	1	1	9	6,685	6,713
Services (not otherwise classified)	7,367	5,165	6,275	11,118	8,343	15,268	43,167	96,703
Total	147,654	90,156	112,823	177,063	146,302	241,094	1,044,674	1,959,767

(¥100 million)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	149	148	130	248	110	322	282	1,388
Construction	34,078	19,093	19,403	19,244	9,674	12,381	41,827	155,700
Manufacturing	25,806	17,811	26,354	47,633	44,943	79,506	320,873	562,925
Electricity, gas, heat supply and water	530	80	158	352	376	903	25,545	27,943
Information and communications	2,986	2,060	3,254	6,652	7,107	14,483	90,010	126,553
Transportation and postal services	3,123	3,185	6,461	13,734	12,165	18,870	81,924	139,462
Wholesale trade	26,161	13,848	17,204	27,438	21,946	37,124	77,208	220,929
Retail trade	35,528	13,638	17,401	18,801	11,370	20,784	100,268	217,790
Finance and insurance	4,788	968	1,046	1,577	1,486	4,349	132,966	147,180
Real estate and goods rental and leasing	26,035	4,130	4,354	6,793	5,062	8,455	26,379	81,207
Scientific research and professional and technical services	16,650	8,914	5,320	6,768	9,644	9,912	37,564	94,771
Accommodations and food services	14,821	5,743	5,677	6,941	4,728	6,914	28,050	72,874
Life-related, entertainment and recreation services	10,719	3,230	4,211	7,666	6,389	8,799	21,208	62,222
Education and learning support	1,667	719	891	1,664	1,247	1,246	4,964	12,397
Medical, healthcare and welfare	12,890	11,061	5,834	4,737	2,693	2,517	5,981	45,714
Compound services	120	4	0	1	1	9	6,685	6,821
Services (not otherwise classified)	9,686	5,351	6,332	11,174	8,347	15,268	43,167	99,325
Total	225,737	109,983	124,028	181,423	147,289	241,843	1,044,901	2,075,204

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).
2. Industries are classified according to the November 2007 revised system of industry classification.

Table 20 No. of sole proprietor, unpaid family worker, officers with payment, regular employees and temporary employees by industry and size (2012)

(people)

	Sole proprietor	No. of unpaid family worker	No. of officers with payment	No. of regular employees	Regular employees and staffs	Part-timer	Temporary employees	Total no. of workers
SMEs	2,160,721	666,927	3,200,644	24,150,640	14,996,948	9,153,692	1,988,579	32,167,511
Mining and quarrying of stone and gravel	202	66	3,400	15,855	13,649	2,206	780	20,303
Construction	160,787	45,021	601,616	2,377,644	1,936,594	441,050	213,355	3,398,423
Manufacturing	154,418	63,910	561,147	5,574,961	4,092,641	1,482,320	195,993	6,550,429
Electricity, gas, heat supply and water	0	0	1,972	27,019	23,464	3,555	511	29,502
Information and communications	2,314	530	80,571	848,781	711,114	137,667	28,861	961,057
Transportation and postal services	20,131	4,710	116,997	1,945,796	1,477,121	468,675	85,348	2,172,982
Wholesale trade	48,088	19,509	359,268	1,889,968	1,408,244	481,724	81,135	2,397,968
Retail trade	438,229	190,447	455,526	3,151,674	1,346,945	1,804,729	277,580	4,513,456
Finance and insurance	7,045	1,722	41,493	143,753	108,277	35,476	5,998	200,011
Real estate and goods rental and leasing	155,400	48,095	316,457	597,398	384,913	212,485	44,805	1,162,155
Scientific research and professional and technical services	101,914	15,353	148,093	691,723	557,518	134,205	45,888	1,002,971
Accommodations and food services	441,193	151,927	160,317	2,276,181	676,847	1,599,334	434,253	3,463,871
Life-related, entertainment and recreation services	317,997	68,094	109,255	1,214,443	628,528	585,915	126,640	1,836,429
Education and learning support	89,659	12,057	26,584	337,318	124,953	212,365	79,167	544,785
Medical, healthcare and welfare	165,226	26,222	45,924	1,087,585	557,109	530,476	100,165	1,425,122
Compound services	3,265	782	124	3,866	1,385	2,481	1,552	9,589
Services (not otherwise classified)	54,853	18,482	171,900	1,966,675	947,646	1,019,029	266,548	2,478,458
Of which micro enterprises	2,049,680	648,851	2,217,095	5,924,619	4,052,193	1,872,426	1,083,035	11,923,280
Mining and quarrying of stone and gravel	201	66	2,726	7,198	6,001	1,197	616	10,807
Construction	160,703	44,995	535,825	1,411,420	1,125,064	286,356	185,220	2,338,163
Manufacturing	154,132	63,862	393,629	1,399,047	985,055	413,992	119,411	2,130,081
Electricity, gas, heat supply and water	0	0	837	2,500	2,127	373	95	3,432
Information and communications	2,282	522	40,671	60,519	46,907	13,612	9,962	113,956
Transportation and postal services	20,109	4,698	63,878	271,847	222,792	49,055	26,603	387,135
Wholesale trade	46,344	19,094	198,887	260,134	189,743	70,391	38,064	562,523
Retail trade	411,567	182,776	284,764	587,531	368,367	219,164	162,337	1,628,975
Finance and insurance	7,045	1,722	37,416	60,053	41,438	18,615	4,100	110,336
Real estate and goods rental and leasing	155,249	48,058	297,193	258,724	185,921	72,803	30,707	789,931
Scientific research and professional and technical services	94,397	14,951	101,145	213,812	167,456	46,356	27,636	451,941
Accommodations and food services	414,416	147,089	86,012	600,866	223,792	377,074	256,163	1,504,546
Life-related, entertainment and recreation services	313,435	67,339	63,769	325,043	204,151	120,892	64,040	833,626
Education and learning support	84,597	11,331	12,432	60,209	18,584	41,625	41,087	209,656
Medical, healthcare and welfare	128,305	23,323	15,201	255,174	150,766	104,408	48,128	470,131
Compound services	3,259	782	104	3,355	1,027	2,328	1,547	9,047
Services (not otherwise classified)	53,639	18,243	82,606	147,187	113,002	34,185	67,319	368,994
Large enterprises	331	63	76,874	13,438,823	8,372,629	5,066,194	455,384	13,971,475
Mining and quarrying of stone and gravel	0	0	62	1,741	1,559	182	3	1,806
Construction	0	0	4,039	409,234	368,257	40,977	2,868	416,141
Manufacturing	0	0	20,530	3,374,491	2,953,955	420,536	46,403	3,441,424
Electricity, gas, heat supply and water	0	0	613	166,908	156,905	10,003	447	167,968
Information and communications	0	0	4,601	545,342	481,742	63,600	5,567	555,510
Transportation and postal services	0	0	2,754	938,928	658,447	280,481	45,552	987,234
Wholesale trade	0	0	11,146	847,205	679,994	167,211	13,070	871,421
Retail trade	164	26	10,816	2,543,524	840,559	1,702,965	114,827	2,669,357
Finance and insurance	0	0	4,031	1,007,824	807,199	200,625	6,937	1,018,792
Real estate and goods rental and leasing	0	0	2,353	201,736	141,059	60,677	10,256	214,345
Scientific research and professional and technical services	17	0	3,839	319,197	250,543	68,654	9,923	332,976
Accommodations and food services	45	5	3,060	1,288,952	211,032	1,077,920	75,723	1,367,785
Life-related, entertainment and recreation services	13	18	3,310	392,185	159,117	233,068	33,852	429,378
Education and learning support	8	7	655	106,626	35,613	71,013	8,706	116,002
Medical, healthcare and welfare	82	7	626	175,731	84,538	91,193	9,739	186,185
Compound services	0	0	36	156,625	111,156	45,469	3	156,664
Services (not otherwise classified)	2	0	4,403	962,574	430,954	531,620	71,508	1,038,487
Total	2,161,052	666,990	3,277,518	37,589,463	23,369,577	14,219,886	2,443,963	46,138,986
Mining and quarrying of stone and gravel	202	66	3,462	17,596	15,208	2,388	783	22,109
Construction	160,787	45,021	605,655	2,786,878	2,304,851	482,027	216,223	3,814,564
Manufacturing	154,418	63,910	581,677	8,949,452	7,046,596	1,902,856	242,396	9,991,853
Electricity, gas, heat supply and water	0	0	2,585	193,927	180,369	13,558	958	197,470
Information and communications	2,314	530	85,172	1,394,123	1,192,856	201,267	34,428	1,516,567
Transportation and postal services	20,131	4,710	119,751	2,884,724	2,135,568	749,156	130,900	3,160,216
Wholesale trade	48,088	19,509	370,414	2,737,173	2,088,238	648,935	94,205	3,269,389
Retail trade	438,393	190,473	466,342	5,695,198	2,187,504	3,507,694	392,407	7,182,813
Finance and insurance	7,045	1,722	45,524	1,151,577	915,476	236,101	12,935	1,218,803
Real estate and goods rental and leasing	155,400	48,095	318,810	799,134	525,972	273,162	55,061	1,376,500
Scientific research and professional and technical services	101,931	15,353	151,932	1,010,920	808,061	202,859	55,811	1,335,947
Accommodations and food services	441,238	151,932	163,377	3,565,133	887,879	2,677,254	509,976	4,831,656
Life-related, entertainment and recreation services	318,010	68,112	112,565	1,606,628	787,645	818,983	160,492	2,265,807
Education and learning support	89,667	12,064	27,239	443,944	160,566	283,378	87,873	660,787
Medical, healthcare and welfare	165,308	26,229	46,550	1,263,316	641,647	621,669	109,904	1,611,307
Compound services	3,265	782	160	160,491	112,541	47,950	1,555	166,253
Services (not otherwise classified)	54,855	18,482	176,303	2,929,249	1,378,600	1,550,649	338,056	3,516,945

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. SMEs are defined as enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel), 50 or fewer in retailing, 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 (excluding software, information processing and service providing)).
2. Micro enterprises are defined as enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places and services (excluding accommodations and entertainment and recreation services)).
3. Industries are classified according to the November 2007 revised system of industry classification.

Table 21 No. of enterprises, regular employees, total no. of workers, sales and value added by industry, size and organization

(1) Number of enterprises (2012) (businesses)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	201	200	0	201
Construction	163,661	163,577	0	163,661
Manufacturing	155,943	155,659	0	155,943
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	2,326	2,293	0	2,326
Transportation and postal services	20,256	20,233	0	20,256
Wholesale trade	48,292	46,597	0	48,292
Retail trade	439,589	413,461	125	439,714
Finance and insurance	7,096	7,096	0	7,096
Real estate and goods rental and leasing	156,443	156,298	0	156,443
Scientific research and professional and technical services	102,374	94,770	20	102,394
Accommodations and food services	445,446	418,792	36	445,482
Life-related, entertainment and recreation services	319,462	315,261	5	319,467
Education and learning support	88,421	83,785	2	88,423
Medical, healthcare and welfare	167,011	129,654	87	167,098
Compound services	3,365	3,359	0	3,365
Services (not otherwise classified)	55,099	53,886	2	55,101
Total	2,174,985	2,064,921	277	2,175,262

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,475	1,289	2	1,477
Construction	303,458	284,716	291	303,749
Manufacturing	273,525	218,107	2,044	275,569
Electricity, gas, heat supply and water	657	410	27	684
Information and communications	42,006	27,265	508	42,514
Transportation and postal services	54,060	35,054	245	54,305
Wholesale trade	177,307	117,116	1,508	178,815
Retail trade	254,483	174,671	2,284	256,767
Finance and insurance	23,088	22,091	253	23,341
Real estate and goods rental and leasing	169,360	162,664	276	169,636
Scientific research and professional and technical services	83,356	64,630	530	83,886
Accommodations and food services	98,097	56,391	682	98,779
Life-related, entertainment and recreation services	63,597	42,545	507	64,104
Education and learning support	15,446	8,834	119	15,565
Medical, healthcare and welfare	28,077	10,830	145	28,222
Compound services	111	102	1	112
Services (not otherwise classified)	89,846	51,178	897	90,743
Total	1,677,949	1,277,893	10,319	1,688,268

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,676	1,489	2	1,678
Construction	467,119	448,293	291	467,410
Manufacturing	429,468	373,766	2,044	431,512
Electricity, gas, heat supply and water	657	410	27	684
Information and communications	44,332	29,558	508	44,840
Transportation and postal services	74,316	55,287	245	74,561
Wholesale trade	225,599	163,713	1,508	227,107
Retail trade	694,072	588,132	2,409	696,481
Finance and insurance	30,184	29,187	253	30,437
Real estate and goods rental and leasing	325,803	318,962	276	326,079
Scientific research and professional and technical services	185,730	159,400	550	186,280
Accommodations and food services	543,543	475,183	718	544,261
Life-related, entertainment and recreation services	383,059	357,806	512	383,571
Education and learning support	103,867	92,619	121	103,988
Medical, healthcare and welfare	195,088	140,484	232	195,320
Compound services	3,476	3,461	1	3,477
Services (not otherwise classified)	144,945	105,064	899	145,844
Total	3,852,934	3,342,814	10,596	3,863,530

(2) Number of regular employees (2012) (people)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	335	311	0	335
Construction	172,293	169,534	0	172,293
Manufacturing	209,171	200,963	0	209,171
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	2,129	1,664	0	2,129
Transportation and postal services	9,017	8,208	0	9,017
Wholesale trade	61,899	45,740	0	61,899
Retail trade	625,449	278,098	9,599	635,048
Finance and insurance	4,480	4,480	0	4,480
Real estate and goods rental and leasing	39,632	38,261	0	39,632
Scientific research and professional and technical services	191,634	119,130	5,241	196,875
Accommodations and food services	663,423	423,488	2,989	666,412
Life-related, entertainment and recreation services	236,063	194,579	692	236,755
Education and learning support	93,230	45,664	277	93,507
Medical, healthcare and welfare	585,480	231,581	15,938	601,418
Compound services	3,257	3,218	0	3,257
Services (not otherwise classified)	57,989	45,580	344	58,333
Total	2,955,481	1,810,499	35,080	2,990,561

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	15,613	6,887	1,761	17,374
Construction	2,211,167	1,242,014	413,238	2,624,405
Manufacturing	5,479,835	1,198,447	4,247,936	9,727,771
Electricity, gas, heat supply and water	27,021	2,500	166,959	193,980
Information and communications	848,211	58,874	547,325	1,395,536
Transportation and postal services	1,944,535	263,688	964,253	2,908,788
Wholesale trade	1,844,563	214,466	868,141	2,712,704
Retail trade	2,540,333	309,510	2,564,231	5,104,564
Finance and insurance	139,769	55,615	1,025,982	1,165,751
Real estate and goods rental and leasing	559,320	220,520	209,970	769,290
Scientific research and professional and technical services	501,292	94,700	327,030	828,322
Accommodations and food services	1,617,162	177,405	1,296,692	2,913,854
Life-related, entertainment and recreation services	981,873	130,524	394,426	1,376,299
Education and learning support	245,256	14,556	106,756	352,012
Medical, healthcare and welfare	503,819	23,593	159,873	663,692
Compound services	609	137	156,625	157,234
Services (not otherwise classified)	1,914,762	101,616	965,705	2,880,467
Total	21,375,140	4,115,052	14,416,903	35,792,043

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	15,948	7,198	1,761	17,709
Construction	2,383,460	1,411,548	413,238	2,796,698
Manufacturing	5,689,006	1,399,410	4,247,936	9,936,942
Electricity, gas, heat supply and water	27,021	2,500	166,959	193,980
Information and communications	850,340	60,538	547,325	1,397,665
Transportation and postal services	1,953,552	271,896	964,253	2,917,805
Wholesale trade	1,906,462	260,206	868,141	2,774,603
Retail trade	3,165,782	587,608	2,573,830	5,739,612
Finance and insurance	144,249	60,095	1,025,982	1,170,231
Real estate and goods rental and leasing	598,952	258,781	209,970	808,922
Scientific research and professional and technical services	692,926	213,830	332,271	1,025,197
Accommodations and food services	2,280,585	600,893	1,299,681	3,580,266
Life-related, entertainment and recreation services	1,217,936	325,103	395,118	1,613,054
Education and learning support	338,486	60,220	107,033	445,519
Medical, healthcare and welfare	1,089,299	255,174	175,811	1,265,110
Compound services	3,866	3,355	156,625	160,491
Services (not otherwise classified)	1,972,751	147,196	966,049	2,938,800
Total	24,330,621	5,925,551	14,451,983	38,782,604

(3) Total number of workers (2012) (people)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	650	625	0	650
Construction	425,162	422,046	0	425,162
Manufacturing	464,400	455,640	0	464,400
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	5,623	5,104	0	5,623
Transportation and postal services	35,586	34,740	0	35,586
Wholesale trade	140,886	121,501	0	140,886
Retail trade	1,350,069	957,376	10,204	1,360,273
Finance and insurance	13,646	13,646	0	13,646
Real estate and goods rental and leasing	250,122	248,432	0	250,122
Scientific research and professional and technical services	320,419	239,125	5,258	325,677
Accommodations and food services	1,445,148	1,161,922	3,094	1,448,242
Life-related, entertainment and recreation services	653,656	605,192	693	654,349
Education and learning support	224,453	168,518	292	224,745
Medical, healthcare and welfare	822,645	417,090	16,810	839,455
Compound services	8,801	8,756	0	8,801
Services (not otherwise classified)	141,775	127,208	346	142,121
Total	6,303,041	4,986,921	36,697	6,339,738

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	19,653	10,182	1,806	21,459
Construction	2,973,261	1,916,117	416,141	3,389,402
Manufacturing	6,086,029	1,674,441	3,441,424	9,527,453
Electricity, gas, heat supply and water	29,502	3,432	167,968	197,470
Information and communications	955,434	108,852	555,510	1,510,944
Transportation and postal services	2,137,396	352,395	987,234	3,124,630
Wholesale trade	2,257,082	441,022	871,421	3,128,503
Retail trade	3,163,387	671,599	2,659,153	5,822,540
Finance and insurance	186,365	96,690	1,018,792	1,205,157
Real estate and goods rental and leasing	912,033	541,499	214,345	1,126,378
Scientific research and professional and technical services	682,552	212,816	327,718	1,010,270
Accommodations and food services	2,018,723	342,624	1,364,691	3,383,414
Life-related, entertainment and recreation services	1,182,773	228,434	428,669	1,611,442
Education and learning support	320,305	41,138	115,710	436,015
Medical, healthcare and welfare	602,477	53,041	169,375	771,852
Compound services	788	291	156,664	157,452
Services (not otherwise classified)	2,336,683	241,786	1,038,141	3,374,824
Total	25,864,443	6,936,359	13,934,762	39,799,205

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	20,303	10,807	1,806	22,109
Construction	3,398,423	2,338,163	416,141	3,814,564
Manufacturing	6,550,429	2,130,081	3,441,424	9,991,853
Electricity, gas, heat supply and water	29,502	3,432	167,968	197,470
Information and communications	961,057	113,956	555,510	1,516,567
Transportation and postal services	2,172,982	387,135	987,234	3,160,216
Wholesale trade	2,397,968	562,523	871,421	3,269,389
Retail trade	4,513,456	1,628,975	2,669,357	7,182,813
Finance and insurance	200,011	110,336	1,018,792	1,218,803
Real estate and goods rental and leasing	1,162,155	789,931	214,345	1,376,500
Scientific research and professional and technical services	1,002,971	451,941	332,976	1,335,947
Accommodations and food services	3,463,871	1,504,546	1,367,785	4,831,656
Life-related, entertainment and recreation services	1,836,429	833,626	429,362	2,265,791
Education and learning support	544,758	209,656	116,002	660,760
Medical, healthcare and welfare	1,425,122	470,131	186,185	1,611,307
Compound services	9,589	9,047	156,664	166,253
Services (not otherwise classified)	2,478,458	368,994	1,038,487	3,516,945
Total	32,167,484	11,923,280	13,971,459	46,138,943

(4) Sales (2011) (¥100 million)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	39	37	0	39
Construction	21,330	21,186	0	21,330
Manufacturing	17,042	16,568	0	17,042
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	154	143	0	154
Transportation and postal services	1,075	1,050	0	1,075
Wholesale trade	15,594	13,349	0	15,594
Retail trade	82,353	53,319	316	82,669
Finance and insurance	534	534	0	534
Real estate and goods rental and leasing	10,398	10,330	0	10,398
Scientific research and professional and technical services	18,311	12,334	380	18,692
Accommodations and food services	32,474	26,291	59	32,533
Life-related, entertainment and recreation services	15,298	13,783	326	15,624
Education and learning support	3,135	2,196	3	3,138
Medical, healthcare and welfare	51,048	22,245	1,250	52,298
Compound services	187	167	0	187
Services (not otherwise classified)	5,767	5,217	0	5,767
Total	274,738	198,750	2,334	277,073

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	4,748	1,787	2,191	6,939
Construction	560,135	278,559	250,945	811,079
Manufacturing	1,298,332	226,138	2,107,642	3,405,974
Electricity, gas, heat supply and water	20,251	4,791	197,698	217,948
Information and communications	150,423	13,717	316,241	466,664
Transportation and postal services	252,739	41,551	267,109	519,848
Wholesale trade	1,265,108	170,904	1,472,590	2,737,697
Retail trade	508,004	89,731	662,031	1,170,036
Finance and insurance	78,003	14,282	758,282	836,285
Real estate and goods rental and leasing	182,112	82,384	144,468	326,580
Scientific research and professional and technical services	102,091	21,831	139,232	241,323
Accommodations and food services	94,469	15,187	69,626	164,095
Life-related, entertainment and recreation services	216,092	34,080	113,155	329,248
Education and learning support	14,836	1,574	9,050	23,886
Medical, healthcare and welfare	21,316	1,937	11,479	32,795
Compound services	238	92	12,084	12,323
Services (not otherwise classified)	144,504	19,546	99,051	243,555
Total	4,913,402	1,018,091	6,632,873	11,546,275

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	4,787	1,824	2,191	6,978
Construction	581,465	299,745	250,945	832,410
Manufacturing	1,315,374	242,706	2,107,642	3,423,016
Electricity, gas, heat supply and water	20,251	4,791	197,698	217,948
Information and communications	150,577	13,860	316,241	466,818
Transportation and postal services	253,814	42,601	267,109	520,923
Wholesale trade	1,280,702	184,253	1,472,590	2,753,292
Retail trade	590,357	143,050	662,347	1,252,704
Finance and insurance	78,537	14,816	758,282	836,819
Real estate and goods rental and leasing	192,510	92,714	144,468	336,977
Scientific research and professional and technical services	120,403	34,165	139,612	260,014
Accommodations and food services	126,942	41,478	69,685	196,628
Life-related, entertainment and recreation services	231,390	47,863	113,482	344,872
Education and learning support	17,971	3,771	9,052	27,024
Medical, healthcare and welfare	72,364	24,182	12,729	85,093
Compound services	425	259	12,084	12,510
Services (not otherwise classified)	150,271	24,763	99,051	249,321
Total	5,188,141	1,216,840	6,635,207	11,823,348

(5) Value added (2011) (¥100 million)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	12	11	0	12
Construction	9,494	9,427	0	9,494
Manufacturing	7,811	7,633	0	7,811
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	71	66	0	71
Transportation and postal services	494	480	0	494
Wholesale trade	3,761	3,225	0	3,761
Retail trade	23,410	15,318	107	23,517
Finance and insurance	282	282	0	282
Real estate and goods rental and leasing	5,242	5,211	0	5,242
Scientific research and professional and technical services	10,917	7,115	193	11,109
Accommodations and food services	13,213	10,319	27	13,240
Life-related, entertainment and recreation services	7,512	6,758	20	7,533
Education and learning support	1,527	1,003	2	1,528
Medical, healthcare and welfare	27,881	11,881	732	28,613
Compound services	108	106	0	108
Services (not otherwise classified)	2,622	2,318	0	2,622
	114,356	81,156	1,081	115,437

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,122	415	253	1,376
Construction	112,241	63,146	33,966	146,207
Manufacturing	276,649	62,338	278,466	555,114
Electricity, gas, heat supply and water	2,838	767	25,105	27,943
Information and communications	49,866	4,114	76,615	126,481
Transportation and postal services	75,667	12,288	63,302	138,969
Wholesale trade	136,666	22,936	80,503	217,169
Retail trade	99,697	20,210	94,576	194,273
Finance and insurance	15,338	6,520	131,561	146,898
Real estate and goods rental and leasing	51,659	27,699	24,306	75,965
Scientific research and professional and technical services	40,715	9,536	42,947	83,662
Accommodations and food services	36,664	6,324	22,971	59,635
Life-related, entertainment and recreation services	39,090	6,946	15,600	54,690
Education and learning support	6,867	664	4,002	10,869
Medical, healthcare and welfare	11,965	1,009	5,136	17,101
Compound services	28	14	6,685	6,713
Services (not otherwise classified)	60,537	7,367	36,166	96,703
	1,017,608	252,293	942,159	1,959,767

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,135	427	253	1,388
Construction	121,735	72,574	33,966	155,700
Manufacturing	284,459	69,971	278,466	562,925
Electricity, gas, heat supply and water	2,838	767	25,105	27,943
Information and communications	49,938	4,181	76,615	126,553
Transportation and postal services	76,160	12,769	63,302	139,462
Wholesale trade	140,426	26,161	80,503	220,929
Retail trade	123,107	35,528	94,684	217,790
Finance and insurance	15,619	6,802	131,561	147,180
Real estate and goods rental and leasing	56,901	32,910	24,306	81,207
Scientific research and professional and technical services	51,632	16,650	43,139	94,771
Accommodations and food services	49,877	16,643	22,997	72,874
Life-related, entertainment and recreation services	46,602	13,704	15,620	62,222
Education and learning support	8,393	1,667	4,004	12,397
Medical, healthcare and welfare	39,846	12,890	5,868	45,714
Compound services	136	120	6,685	6,821
Services (not otherwise classified)	63,160	9,686	36,166	99,325
	1,131,964	333,449	943,240	2,075,204

Source: Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices).
2. SMEs are defined as enterprises with 300 or fewer regular employees (900 or fewer in rubber goods manufacturing, 200 or fewer in inn and hotel, 100 or fewer in wholesaling and services (excluding software, information processing and service providing, inn and hotel), 50 or fewer in retailing, 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 (excluding software, information processing and service providing)).
3. Micro enterprises are defined as enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, eating and drinking places and services (excluding accommodations and entertainment and recreation services)).
4. Industries are classified according to the November 2007 revised system of industry classification.

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Part II Chapter 1

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