

Aiming for SME Growth in the Asia-Pacific Region

**Ministry of Economy, Trade and Industry
October 1, 2010**

I. APEC Initiatives

APEC (Asia-Pacific Economic Cooperation)

Premier forum of 21 Asia-Pacific economies.

• Founded in 1989

■ 1989 ■ 1991 ■ 1993 ■ 1994 ■ 1998

Members

Japan; Republic of Korea; People's Republic of China; Hong Kong, China; Chinese Taipei; Russia

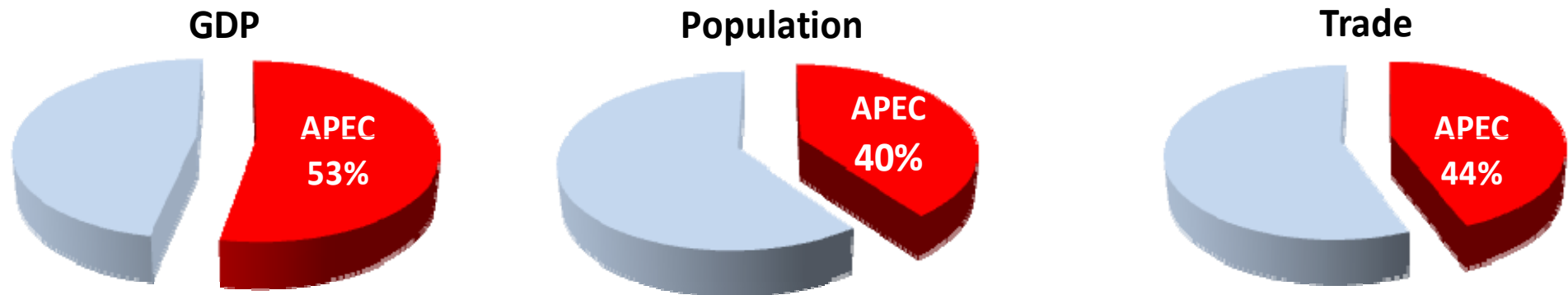
ASEAN: Brunei Darussalam; Indonesia; Malaysia; the Philippines; Singapore; Thailand; Viet Nam

Oceania: Australia; New Zealand; Papua New Guinea

North, Central and South America: The United States; Canada; Mexico; Chile; Peru

Accounts for roughly half of global GDP, population, and trade [GDP (53%), Population (40%), Trade (44%)]

(As of 2007)

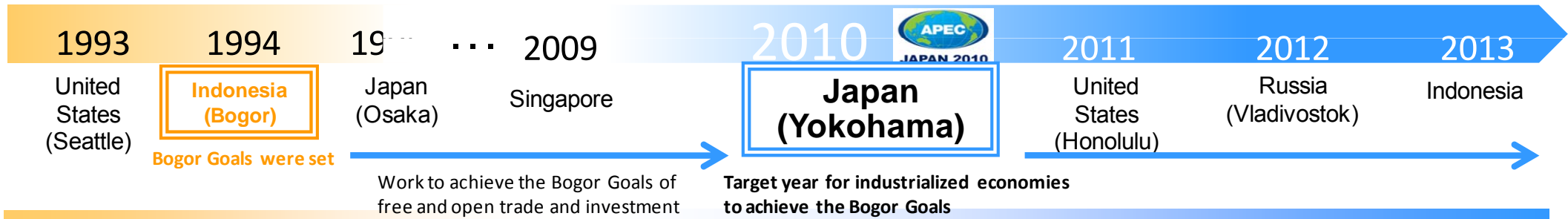


Purpose: to advance cooperation aimed at Asia-Pacific economic development

- Regional cooperation on liberalization and facilitation of trade and investment, structural reform, energy, and other economic issues.
- Modeled for cooperation rather than concessions. This style facilitates a progressive policy discussion which goes beyond legal commitments.
- The only forum where the region's Leaders annually converge and may make joint commitments.
- Global private networks such as ABAC promote an atmosphere of positive group discussion among member economies.

Why is APEC Japan 2010 important?

Presenting a new vision of action for the changing global economy:
 “Change and Action”



Globalization accelerates

- International trade and investment expand
- Asia’s trade surplus expands



Trade friction intensifies

- Asian-Western confrontation
- Growing concern that the world economy may be divided into blocks



Long-Term Vision is adopted

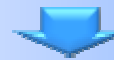
“The Bogor Goals”

: Achieve free and open trade and investment in the Asia-Pacific (Industrialized economies by 2010, developing economies by 2020)



Interdependence increases

- Emerging economies’ rapid growth increases their global stature.
- Global crisis emerges from growing global imbalances.



The public questions globalization’s role as the growth engine

- Political and other movements to buy domestic products increase
- Energy and environmental constraints, various disparities weigh in



Assignments for 2010

- (1) Assess the progress towards the Bogor Goals
- (2) Beyond Bogor
 - Deepen Regional Economic Integration
 - Formulate the Growth Strategy
 - Enhance Human Security



APEC Growth Strategy

Growth Attributes and Policy Measures

1. Balanced Growth

: Resolve economic imbalances

2. Inclusive Growth

: Provide access to opportunities for growth

SME assistance, capacity building, improve the social safety net, and create opportunities for women

3. Sustainable Growth (Green Growth)

: International efforts and engagement to protect the environment; transition to a green economy

Promote low-carbon energy and energy efficiency; assist green industry; respond to climate change; accelerate investment and trade in environmental goods and services; green ICT



4. Innovative Growth

: Accelerate innovation and foster new industries

Intellectual property, standards and certification, IT use, exchange in highly skilled human resources, industrial and technical cooperation

5. Secure Growth

: Secure the safety indispensable to economic activity

Counter-terrorism, disaster prevention, food security, and infectious disease countermeasures.

Action Plan

- Formulate a multi-year action plan

- Employ APEC's strengths
 - Specialized system of subfora
 - Accumulated knowledge from APEC's past activities
 - Network with industry and academia

- Priority efforts
 - Structural reform
 - Human resources and entrepreneurship development,
 - Green innovation
 - Knowledge base creation

Follow-up

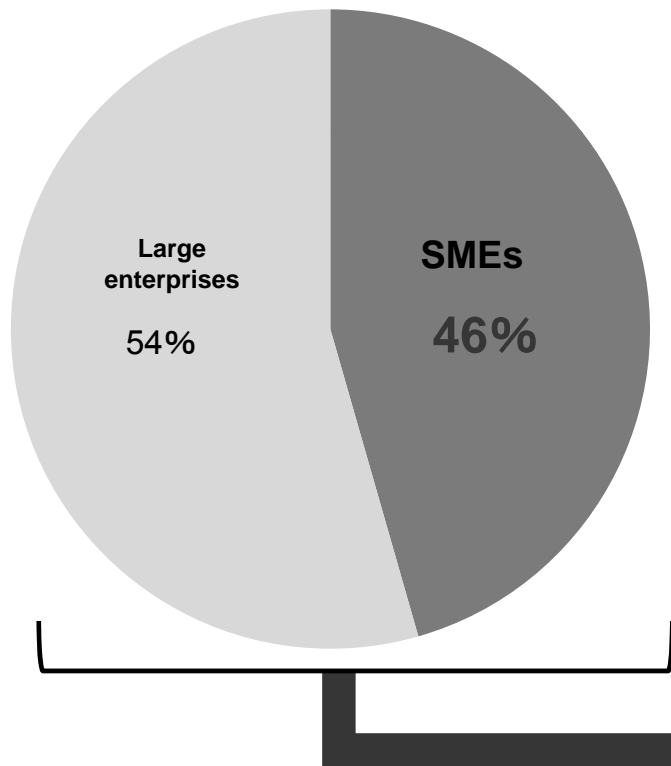
- Review progress on an annual basis, and report advances to Leaders in 2015

Dual Engines (SMEs and the Asia-Pacific Region)

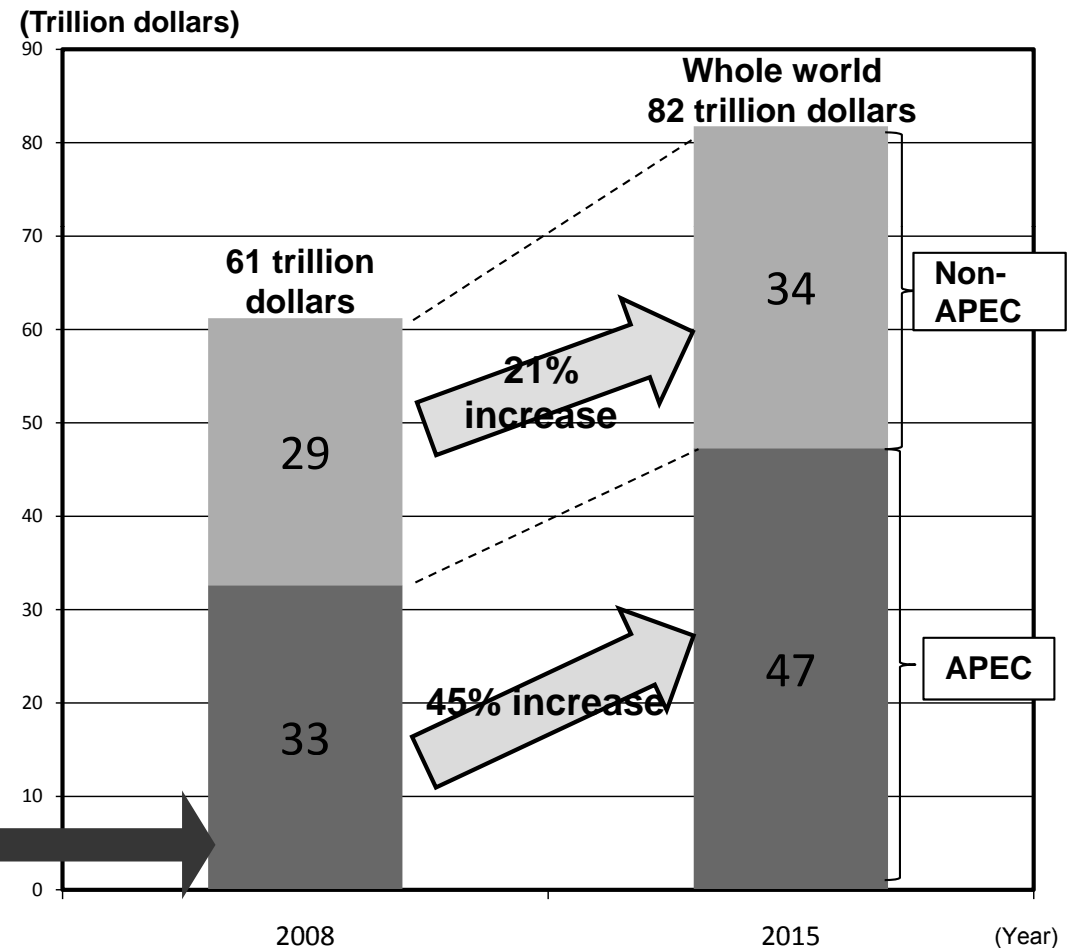
SMEs generate almost half of APEC-region GDP

APEC is a driving force behind global growth

Real APEC-Region GDP



Projected Real GDP Growth by Region



Sources:

Left-hand graph: IMF World Economic Outlook Database, April 2010

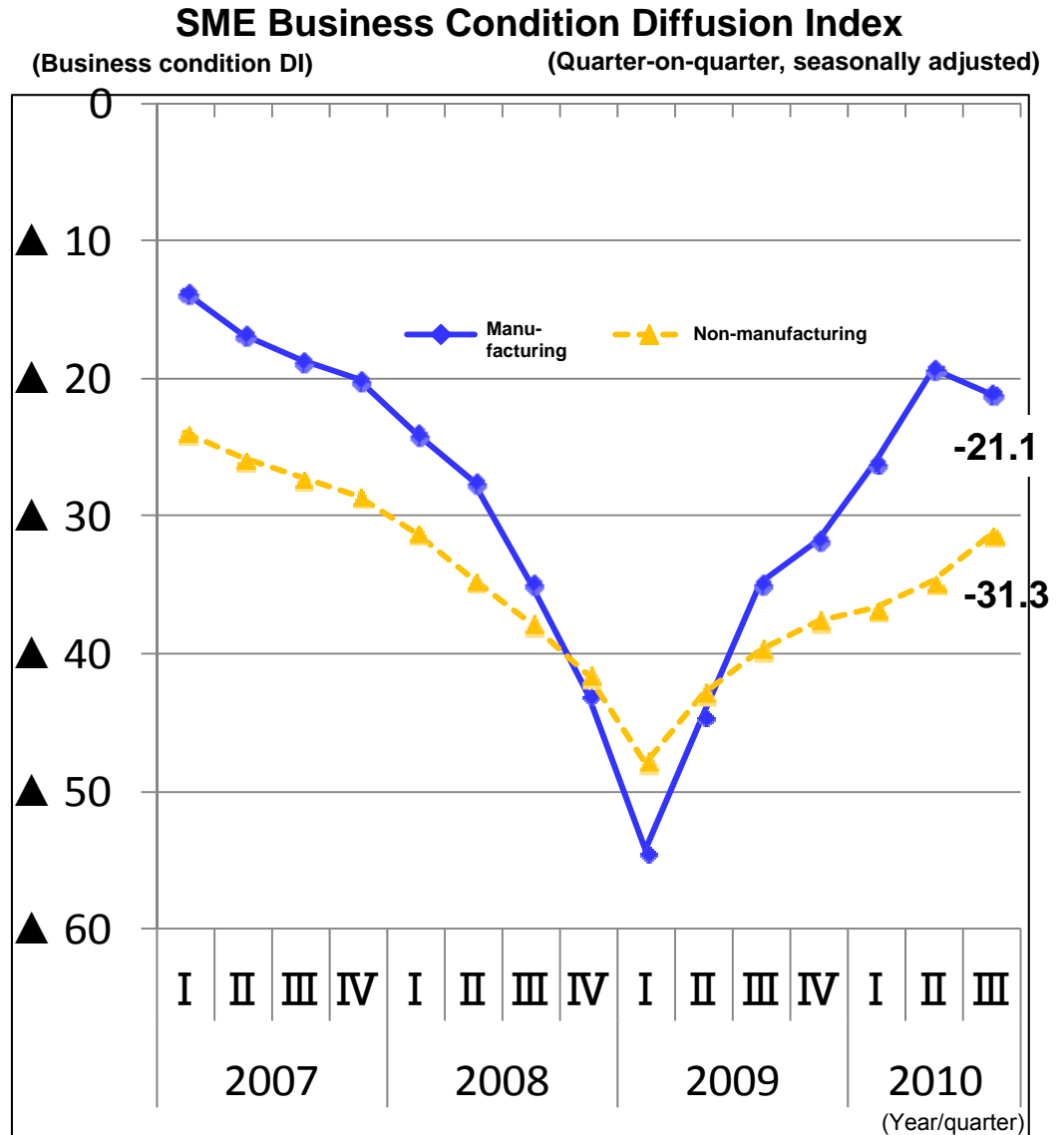
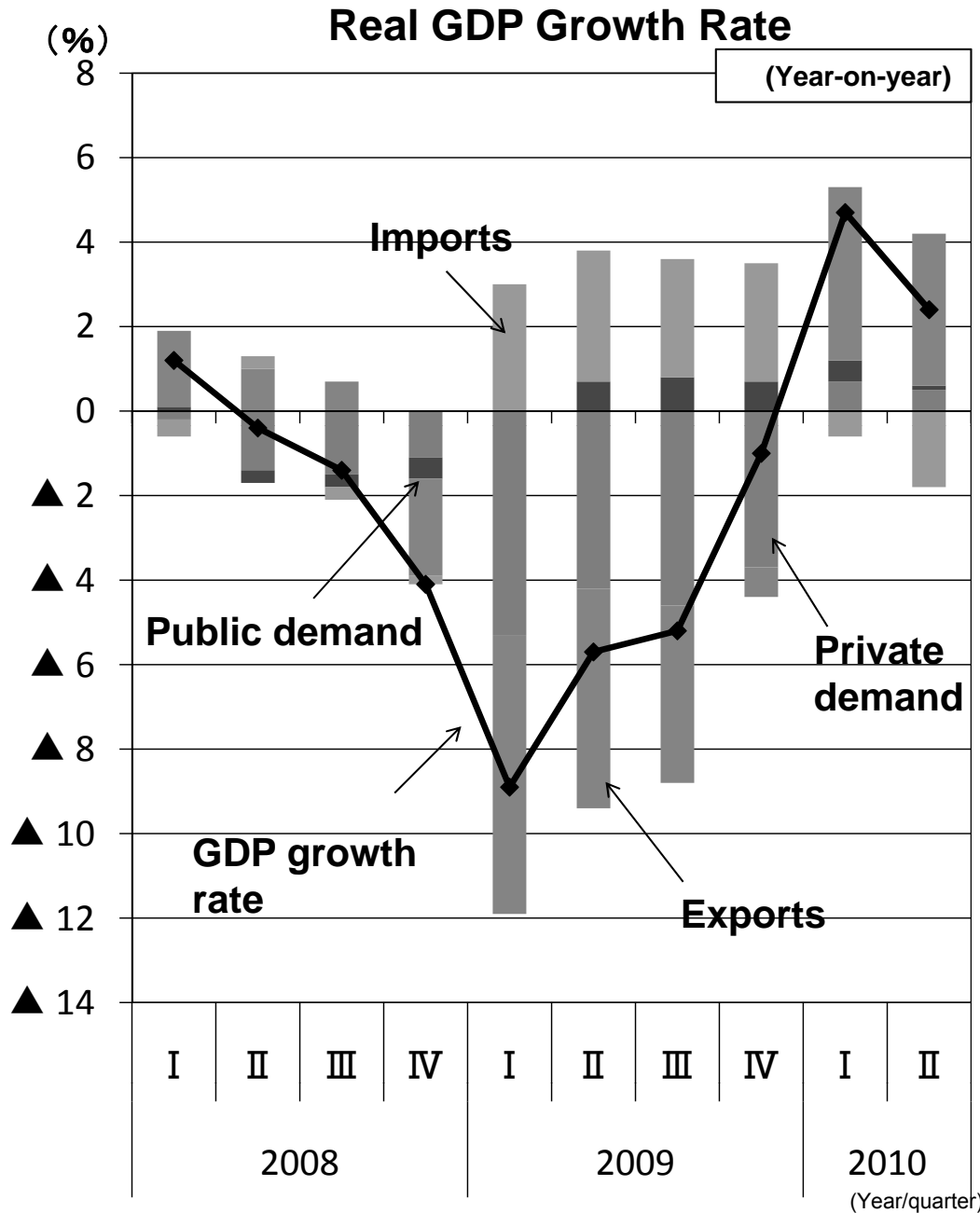
Right-hand graph: Estimated from Meghana et al. (2007) and IMF World Economic Outlook Database, April 2010

II. Japan's SMEs: Current Status and Issues

The Japanese Economy and SMEs

Real year-on-year GDP growth rate was -9% in the Jan-Mar quarter of 2009, but positive growth was recorded in two consecutive quarters from Jan-Mar 2010.

Conditions deteriorated for SMEs, especially in the manufacturing sector, and bottomed out in the Jan-Mar quarter of 2009. Conditions subsequently improved, but this trend is less pronounced for non-manufacturing SMEs.



Notes: 1. This survey is conducted quarterly by business advisors from societies and chambers of commerce and industry across Japan, and researchers from the National Federation of Small Business Associations.
 2. The business condition diffusion index is calculated by subtracting the percentage of enterprises that answered "worsened" from the percentage of enterprises that answered "improved" when questioned about their business conditions in comparison with the previous quarter.

SME Support Measures

In addition to stimulating demand, the Japanese government has implemented a number of policies for SMEs, including financing and employment measures.

The number of bankruptcies tends to decrease.

Stimulating Domestic Demand

- Subsidy for purchase of environmentally friendly new cars (eco-car subsidy)
 - ◆ 631.1 billion yen allocated (April 2009-September 2010)
- Subsidy for purchase of energy-saving “green” electrical appliances (eco-points)
 - ◆ 615.2 billion yen allocated (May 2009-March 2011)

Financing

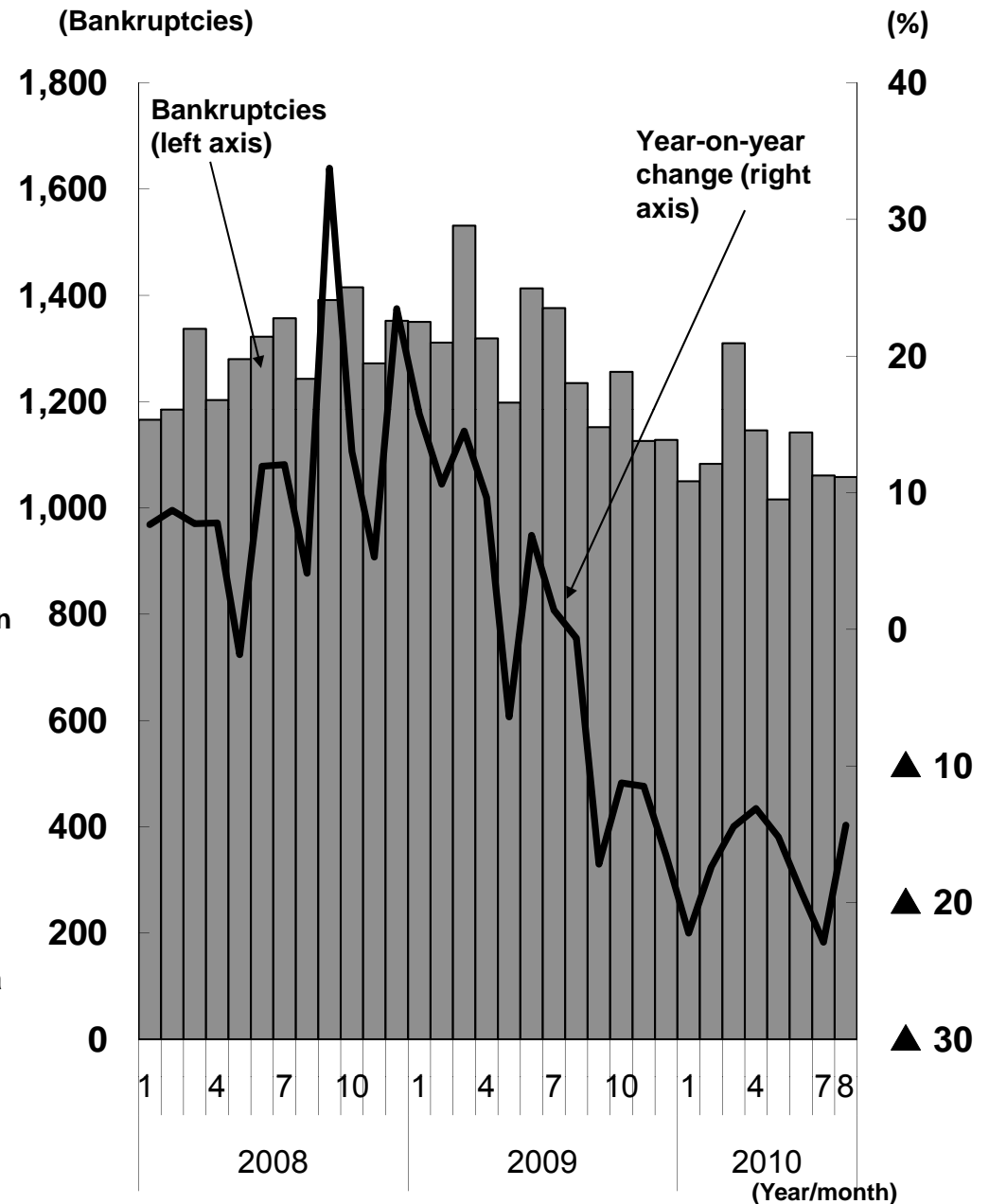
- Supply of new money through public financial institutions (emergency guarantees, safety net loans, etc.)
 - ◆ Guarantees: approx. 22 trillion yen (October 2008-September 2010)
 - ◆ Loans: approx. 11 trillion yen (October 2008-September 2010)
- Ensuring enough cash by easing conditions, e.g. deferment of loan repayments
 - ◆ Easing of conditions by public financial institutions: approx. 9 trillion yen (April 2009-July 2010)
 - ◆ Easing of conditions by private financial institutions: approx. 13 trillion yen (December 2009-June 2010)

Employment

- Matching jobseekers and SMEs, training for jobless graduates
 - ◆ 331 seminars for jobseekers, with 65,626 attendees (as of July 2010)
- Speedy provision of employment adjustment subsidies
 - ◆ Approx. 797.8 billion yen in employment adjustment subsidies paid for a total of around 25.87 million people (April 2008-July 2010)

Manufacturing Support

- Supporting technology development at manufacturing SMEs
 - ◆ Approx. 15 billion yen (FY2010 budget)



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

Impact of Strong Yen and Economic Measures (SME-Related)

SME profits are under pressure from the strong yen.

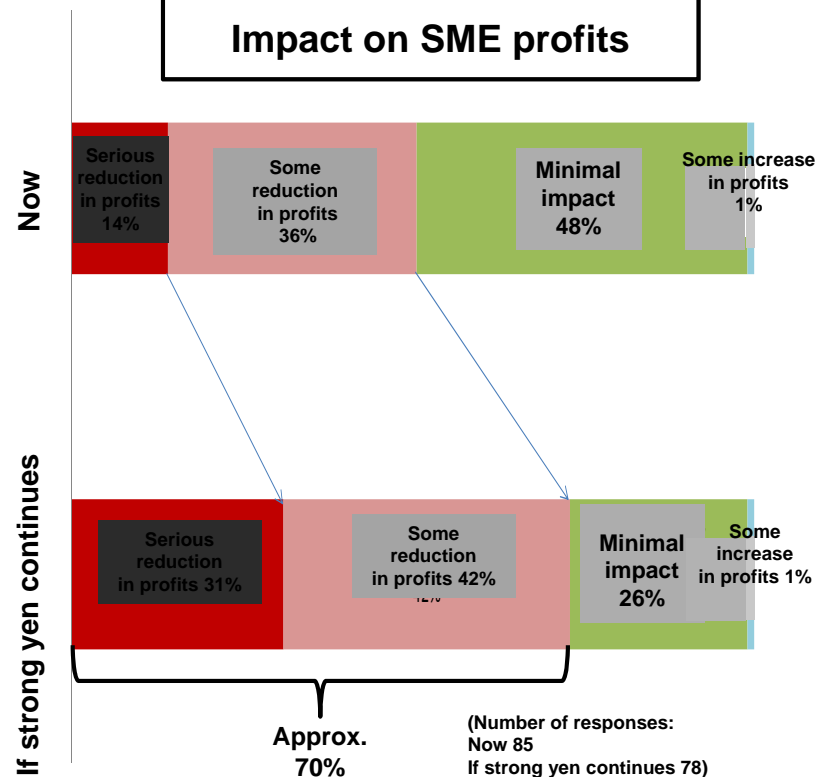
- Approx. 70% of SMEs say their profits will fall if the exchange rate remains around 85 yen to the dollar.
- Many SMEs are concerned about (1) cost-cutting demands from clients, (2) loss of orders to overseas competitors, and (3) the impact of clients' transferring to other countries.

Further reinforcement of SME policy as emergency response to strong yen, etc.

Financial support for SMEs

- SME financial support
 - ◆ Strengthened financial base for credit guarantee system, extended low interest loans for companies making long-term capital investment
- Establishment of special inquiry counters and support for financing
 - ◆ Set up special help desks at Japan Finance Corporation, Shoko Chukin Bank, credit guarantee corporations, etc. for SMEs affected by the strong yen
- "One-Stop Service Days" for SME support measures
 - ◆ Offered one-stop access to all necessary support services in cooperation with relevant organizations

Impact on SME profits



Emergency support for enhancing SMEs' value and developing overseas sales channels

- Strengthened support for manufacturing SMEs
 - ◆ Supported R&D efforts, production of exhibits, and development of sales channels
- Strengthened support for development of overseas sales channels by SMEs
 - ◆ Established support systems for SMEs developing global markets, strengthened support for attracting overseas buyers and exhibiting at overseas trade fairs

Source: Urgent Interview Survey on Impact of Strong Yen, METI

Notes: 1. Survey conducted August 11-24, 2010

2. No. of companies surveyed: 102, mainly exporting manufacturers (including some non-manufacturing wholesalers, retailers, etc.). At the same time, 98 SMEs including subcontractors were interviewed through regional Bureaus of Economy, Trade and Industry to hear SMEs' real voices.

3. Exchange rates during survey period (closing price at 17:00 on Tokyo market): USD ranged from 85.92 yen (low on Aug. 13) to 84.55 yen (high on Aug. 24). EUR ranged from 111.16 yen (low on Aug. 11) to 106.74 yen (high on Aug. 24).

Small and Medium Enterprise Charter

Japan's "Small and Medium Enterprise Charter" was approved at the Cabinet Meeting on June 18, 2010. This charter is newly drawn up on the recognition that the importance of SMEs' role and expectations for SMEs are getting stronger.

The abstract of Small and Medium Enterprise Charter

○Preamble

○Basic Philosophy

○Fundamental Principals

- (1) Supporting SMEs as a source of economic vitality, to make full use of their capabilities
- (2) Encouraging SMEs to start up new businesses
- (3) Encouraging the challenges of SMEs to advance into and develop new markets with their creativity and ingenuity
- (4) Enhancing fairness in markets
- (5) Providing the safety net for worry-free business operations of SMEs

○Action Guidelines

- (1) Upgrading and making thoroughly the management support from the SME standpoint
- (2) Supporting SME's efforts to develop and secure human resources
- (3) Creating an environment for easier start-up and business advance into new fields
- (4) Supporting SMEs expanding overseas
- (5) Enhancing fairness in markets
- (6) Facilitating SME financing
- (7) Creating a system to boost SMEs contributions to communities and society
- (8) Implementing SME policies comprehensively taking into consideration their importance on SMEs, and reflecting their voices in policy evaluation

○Conclusion

Post-crisis growth strategies and start-ups/new businesses

The role of SME start-ups/new businesses – and industrial clusters formed by such businesses – and their effect on economic growth

Effect of international business activities such as trade, investment, and labor mobility on SMEs

How internationalization by SMEs with high-productivity helps the SMEs further enhance their productivity through technology transfer and severe competition

Strengthening the institutional basis for facilitating international business activities and economic cooperation

Problems faced by SME's globalization, including securing business resources and removing financial and institutional constraints.

Maintaining and Developing SME Manufacturing Clusters

The number of SME manufacturers has severely decreased in manufacturing SME's clusters. Most of them have troubles with surrounding residents.

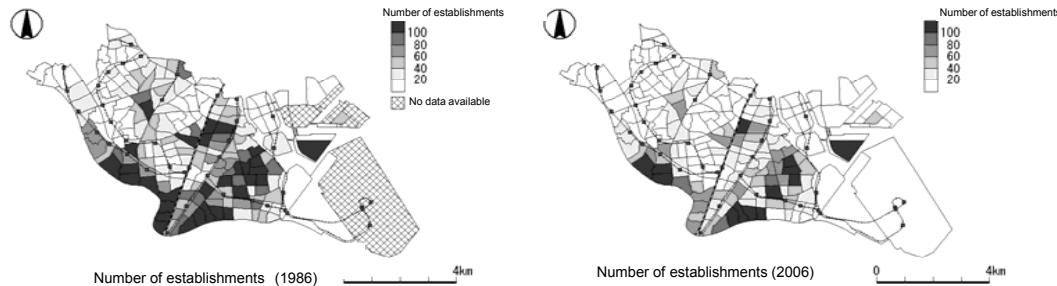
Number of Manufacturing establishments in Ota Ward, Tokyo

1986
10,200

➔

2006
6,000

-41.9%



Main reasons for manufacturing bases shifting/expanding outside the district

- Do not have land or factory to rent for expansion
- Land prices/rents are high
- Wages are high
- Difficult to hire workers
- Business partners have moved

Source: 2010 White Paper on SMEs in Japan, Small and Medium Enterprise Agency

Techno Wing Ota
“Factory apartments” have been constructed in Ota Ward and provided spaces to local companies to maintain SME manufacturing clusters.



Ota Techno Park
Ota Ward arranges rental factories in Thailand for Japanese companies. Currently, six Ota-based companies have moved into these factories, establishing international network with SMEs in Japan and Thailand.



- ✓ Introducing factory apartments is one solutions for maintaining the clusters
- ✓ Further alliance for factories is one of the solutions for maintaining clusters.

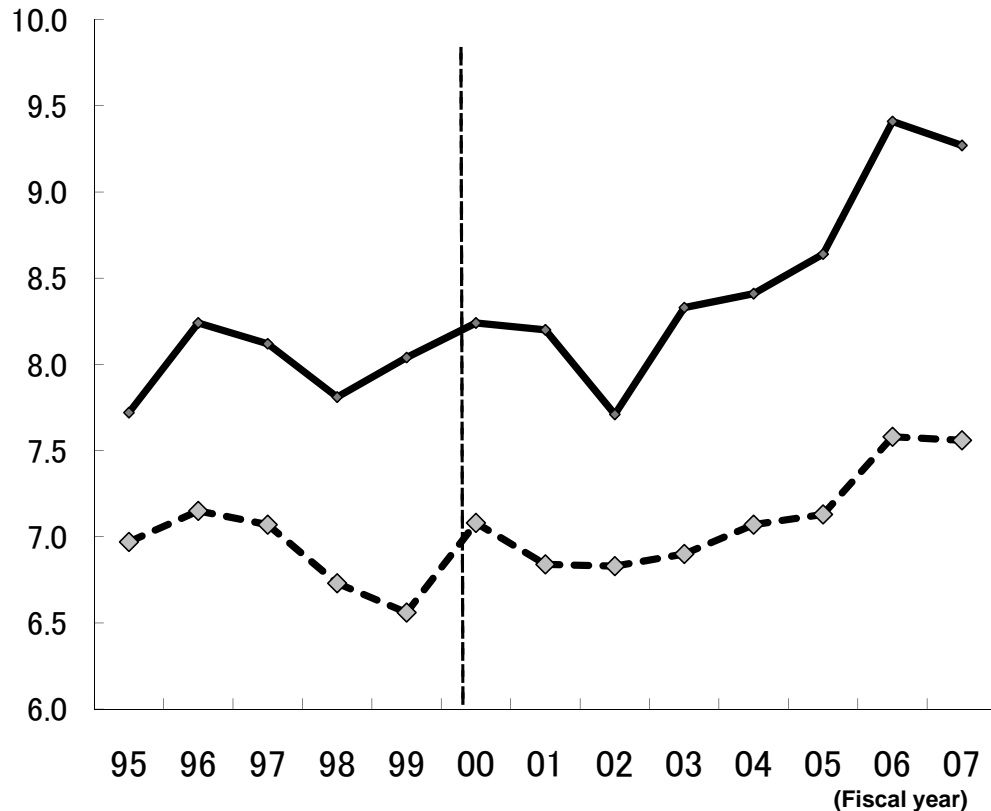
Incorporation of Global Growth Potential

SMEs' labor productivity rose sharply after beginning foreign direct investment, and employment in Japan is also on an upward trend.

Labor productivity of SMEs

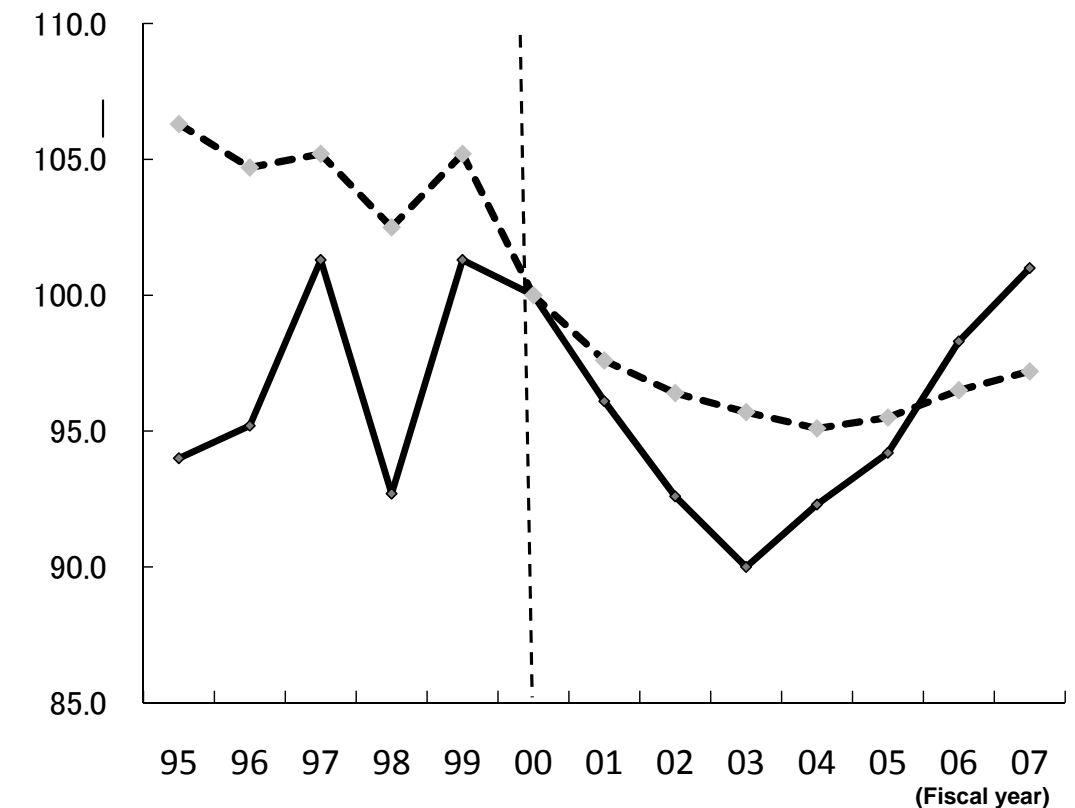
- ◆ SMEs that began foreign direct investment in FY2000 and continued until FY2007
- SMEs that have not been making foreign direct investment from FY1995 to FY2007

(Labor productivity: million yen/employee)



Employee numbers of SMEs

(Employees in Japan: FY2000=100)



Source: 2010 White Paper on SMEs in Japan, Small and Medium Enterprise Agency

Notes: 1. Labor productivity = domestic added value / domestic employees

2. Aggregated SMEs that answered every fiscal year from FY1994 to FY2007

3. Referred to Wakasugi et al. (2008)

✓ SMEs have big chance to grow by incorporating global market needs.

Main Theme

**Strategy for reinvigorating economic growth with dual engine:
SMEs and Asia-Pacific economy**

Sub-themes

**The impact of the economic crisis on SMEs,
and countermeasures implemented in response**

**Short-term prospects for SMEs, and SME measures
required of APEC**

Prospects for APEC SME policy: looking toward 2020