

Seminar Reports

“Strategies for Promoting the Internationalisation of SMEs in the EU and Japan”

21st November 2012, Tokyo

and

“A Workshop on the Challenges and Business Opportunities for EU SMEs in Japan – and how Intermediary Organisations can help SMEs Seize Them”

27th November 2012, Brussels

Introduction

SMEs are considered to be an important source of growth and jobs in both European and Japanese economies and “going international” is one factor for enhancing their growth potential. In Europe, for example, the EU’s ca. 21 million SMEs accounted for 99.8% of all enterprises active in the EU27’s non-financial business economy in 2008, and for ¾ of its jobs. Promoting the internationalisation of SMEs is becoming increasingly important as a policy priority in both the EU and Japan as this will boost competitiveness and growth and will help overcome the current economic crisis.

The EU-Japan Centre organised two events around this theme.

The Tokyo event was designed to set in motion an EU-Japan policy exchange process on this topic of mutual interest. Over 120 people attended the event, including representatives of Japanese regional prefectures and cities. The Brussels event looked at the experiences of EU SMEs going to Japan and heard details of support programmes, suggestions for retargeting help to make it more effective and the results of a survey of SMEs with a strong interest in Japan. 34 people attended the event, including representatives of Enterprise Europe Network partners, think-tanks / consultancies, business organisations and of national, regional and the EU Authorities.

In the first part of the Tokyo seminar, the EU and Japanese public authorities presented the SME policy context and highlighted the rationale behind the current policy objectives. In the second session, perspectives from industry were presented to identify best practices, success stories and policy recommendations. The main issues discussed made it clear that Europe and Japan share many common elements when it comes to SMEs and therefore many areas for possible cooperation exist. There were also observations that, for European SMEs targeting the Japanese market, extra challenges exist as Japan continues to be perceived as “different” and a difficult market.

During the first part of the Brussels event, speakers from Japan and Europe explained why European SMEs should look to Japan and what kinds of assistance are available from the Japanese Authorities, how support programmes should be rethought to target particular kinds of SMEs rather than seeing SMEs as being a homogenous group, the support offered in a particular Japanese Prefecture and concluded with the case study of a Slovenian SME that has opened a branch in Japan. The second part of the event highlighted the issues that European SMEs can confront in Japan, drawing on the results of an EU-Japan Centre survey, and then heard details of EU-level support activities focused on Japan. The final part of the event summarised the previous discussions and heard the views of previous speakers, the EU’s main horizontal business organisation and of the employers’ organisation representing the interests of European crafts, trades and SMEs at EU level.

The EU-Japan Centre has worked for 25 years to play a role in “demystifying” the Japanese market and will continue to reinforce its activities and services for helping European and Japanese SMEs find opportunities in each other’s market.

This report presents the main issues and opinions raised at both events. Reports and presentations from the events are available via the event web pages:

- Tokyo seminar: http://www.eu-japan.eu/global/events/internationalisation_sme_21112012.html?year=2012
- Brussels workshop: http://www.eu-japan.eu/global/events/sme_internationalisation_27112012.html?year=2012

“Strategies for Promoting the Internationalisation of SMEs in the EU and Japan”

21 November 2012, Tokyo

Session I: Strategies for Promoting SMEs Internationalisation: Latest Policy Developments, Opportunities for Policy Exchange and Cooperation

In the first session, speakers from the EU and Japanese public authorities and public support organisations outlined the latest policy developments and priorities in the EU and Japan for promoting the internationalisation of SMEs.

I – 1 “EU Strategy for Helping SMEs Seize Global Opportunities” [presented by Ms Dominique Lambert, Policy Officer, International Affairs & Growth Mission Unit, DG Enterprise & Industry, European Commission]
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To start, we must recall the importance of SMEs and the rationale behind the EU policy dedicated to SMEs internationalisation. SMEs are the backbone of the EU economy: they contribute to nearly 60% of the EU GDP and, between the period of 2002 and 2012, created 85% of all new jobs in the EU market. At a time when the financial crisis persists, Europe needs its real economy more than ever to underpin the recovery of economic growth and jobs. In order to reverse the declining role of industry, the EU considers it crucial to mobilise all policy levers, including the SME policy.

The key EU policy documents currently in place as regards to SMEs are the:

- **Small Business Act for Europe**¹: This is a broad set of pro-enterprise measures adopted in 2008 with three main goals: (1) to help SMEs alleviate administrative burdens, (2) to facilitate access to finance and (3) to support SMEs access to markets,
- **Small Business Act Review**²: In February 2011, the European Commission conducted a stock-taking exercise and adopted a review of the 2008 Small Business Act. Additional measures were also introduced,
- **Communication “Small Business, Big World – A New Partnership to Help SMEs Seize Global Opportunities”**³: In November 2011, the European Commission adopted a Communication (i.e. a strategy paper prepared by the European Commission which includes measures and legislative proposals) with the objectives of reviewing the existing support structures available to SMEs, identifying the main problem areas, proposing a set of measures where European-level action can add most value and setting out guiding principles for the most coherent and efficient use of scarce financial resources in priority markets.

OECD data shows that developing and emerging markets are expected to account for 60% of the world’s GDP by 2030. In reality, however, 1 out of 4 European SMEs export within the EU Single Market while only 1 out of 8 European SMEs are active beyond the EU borders through trade, outsourcing, investment or other forms of business activity or cooperation. Very often SMEs who wish to “go international” encounter difficulties in identifying or using support. Among the EU Member States the level of internationalisation of SMEs tends to vary considerably.

The European Commission considers support for the internationalisation of SMEs as important because “being internationally active” strongly relates to a higher turnover. More than 50% of European SMEs which invest abroad, or SMEs which are involved in international subcontracting, reported an increase in turnover from 2007 to 2008, while the figure was only 35% if we look at all SMEs. Internationally-active SMEs also reported higher employment growth between 2007 and 2008. For exporters, the average employment growth rate was 7%, while it was 3% for non-exporters. The employment growth rate for importers for the same period was 8%, as compared to only 2% for non-importers. SMEs engaged in both exporting and importing achieved

¹ Small Business Act for Europe, COM(2008) 394 final: http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm

² Small Business Act Review (2011): http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba_review_en.pdf

³ Communication “Small Business, Big World – a new partnership to help SMEs seize global opportunities”, COM(2011) 702 final: http://ec.europa.eu/enterprise/policies/sme/market-access/files/com_2011_0702_f_en.pdf

10% employment growth and SMEs with foreign direct investment showed up to 16% employment growth in this period.

The relationship between internationalisation and innovation is also strong. 26% of internationally-active SMEs introduced new products or services within their sector in their country (8% for other SMEs). Internationally-active SMEs are also more active with process innovations new in their sector (11% as compared to 3% for the SMEs without international activities).

In this context, the European Commission adopted a Communication in November 2011 on the issues of SME internationalisation ("Small Business, Big World – A New Partnership to Help SMEs Seize Global Opportunities") and emphasised the following objectives:

- **to provide SMEs with easily accessible and adequate information** on how to expand their business outside the EU,
- **to improve coherence** in order to avoid the potential dangers of the uncoordinated proliferation and fragmentation of support schemes,
- **to improve cost effectiveness** of support activities by reinforcing the cooperation between all suppliers of business support and by avoiding duplication of the instruments,
- **to fill existing gaps** in order to establish a level playing field and provide equal access for SMEs from all Member States.

Through the implementation of the measures foreseen in the Communication, a European SME considering "going international" should have a toolkit to assist it with information or other support at regional, national and European level, addressing the different needs for support at different stages of internationalisation.

The new measures outlined in this Communication included a **mapping of existing support services** to be carried out by the European Commission in cooperation with Member States and various internal and external services. The results are expected to be available in December 2012. Secondly, a new, multi-lingual **portal** is being created as a single virtual gateway to information for SMEs with links to existing information sources and in a language easy to understand by SMEs. A prototype will be presented by the end of 2012. In order to bring a European dimension, **facilitation of cross-border cooperation** and access to complementary expertise among service providers are also envisaged (e.g. an annual forum) and will be financed by the European Commission's new multi-annual programme currently under preparation. This will be called the "Competitiveness of Enterprises and SMEs" (COSME). **Creating a favourable environment for SMEs international activities** by mainstreaming SME internationalisation into other EU policies is also emphasised.

In addition to the new measures, the European Commission currently implements the following actions and tools for SMEs:

- **Enterprise Europe Network:** the network currently has 600 member organisations in 53 countries and will be enlarged to Canada and Brazil next year;
- **Regulatory and SME dialogues:** Regulatory dialogues with third country authorities aim to discuss trade and investment barriers and to explore remedies. SME dialogues are to exchange information between authorities on respective policies as regards to SMEs. The European Commission also established the "European Business Organisations (EBO) Worldwide Network" to provide a platform for organisations to meet regularly and exchange information on their activities,
- **Cluster support measures:** Organisation of partnering events and matchmaking opportunities for clusters and SMEs within clusters in countries which have established a cooperation framework with the EU in the context of the "European Cluster Collaboration Platform" (e.g. Japan, Brazil, India, Korea). Specific training measures and good practice exchanges to reinforce cluster services for internationalisation is also in place under the "Cluster Excellence and Cross-Sectoral Cooperation" action;
- **IPR helpdesks:** ASEAN and Mercosur IPR helpdesks are being planned in addition to the existing China SME IPR helpdesk,
- **Missions for Growth:** a new series of actions or "economic diplomacy" led by European Commission Vice-President Tajani to help European enterprises, in particular SMEs, to develop further economic cooperation, to promote investment, to understand better the business climate and to foster their presence in promising external markets. The countries

already visited have been the USA, Mexico, Brazil, Colombia and Egypt. Future destinations will include Tunisia, Morocco, Chile, Peru, China, India and Russia.

The European Commission's COSME proposal which is currently under consideration by the European Council and the European Parliament will support these new measures. As regards the support for SMEs internationalisation, COSME will underline that specific measures shall aim to facilitate SMEs access to markets outside the EU and to strengthen existing support services in those markets. As regards the support for SMEs abroad, the activities to be financed by the new programme will aim to bring substantial EU added value to existing support services for EU SMEs seizing global opportunities.

I – 2	“Japanese Strategy for Promoting SMEs Internationalisation” [presented by Mr. Hiromichi Moriyama, Director, International Affairs Office, Small & Medium Enterprise Agency, Ministry of Economy, Trade & Industry]
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Awareness and discussions of the importance of SMEs for creating jobs and growth have significantly increased in Japan and in OECD countries following the Lehman shock. Overseas business expansion is becoming important for Japanese SMEs in a world economy where the centre of gravity is shifting towards emerging markets. Today's economy surrounding SMEs is also characterised by the development of global supply chains as shown by the rising share of intermediate products in world trade flows. Expansion of the global trade in intermediate products has an important implication for SMEs who often play a significant role in manufacturing and processing intermediate products in the economy. The development of global supply chains explains the increasing number of Japanese companies (both large and SMEs) with offices in high growth rate countries, in particular, in the East Asian region.

To look at the current situation of the internationalisation of Japanese SMEs, the White Paper on Small & Medium Enterprises in Japan (2011)⁴ shows that nearly 5,600 Japanese SMEs export products on their own and the number has grown steadily in recent years. There are also nearly 5,700 Japanese SMEs with subsidiaries outside Japan. According to the Basic Survey of Japanese Business Structures and Activities in 2010 by the Ministry of Economy, Trade & Industry (METI), nearly 80% of the overseas subsidiaries of Japanese SMEs were located in China (42.8%) and other Asian countries (35.5%)⁵. The top 5 locations for the overseas subsidiaries of Japanese SMEs in 2010 were China (2,381 enterprises), U.S.A. (672 enterprises), Thailand (478 enterprises), Singapore (276 enterprises) and Taiwan (250 enterprises).

The performance of internationally active Japanese SMEs in terms of domestic job creation is a strong reason for METI to promote the internationalisation of SMEs. An analysis by METI on trends in the number of domestic jobs in Japanese SMEs which engaged in foreign direct investment (FDI) between 2002 and 2009, and Japanese SMEs which did not have any FDI over the same period, show that there is a clear and positive correlation between the SMEs with FDI and their rate of domestic employment growth. One hypothesis for this correlation is that Japanese SMEs with FDI often maintain mother factories or main functions within Japan with various functions (e.g. back-up, R&D) to support their subsidiaries overseas and the mother factories and functions contribute to the creation of domestic employment.

When considering the overall strategies and policies for supporting the overseas business expansion of Japanese SMEs, we shall first take note that the level of internationalisation of Japanese SMEs (e.g. the percentage of SMEs engaged in export activity) is significantly lower than those of European and North American countries. This may partly be explained by the close relationship between large companies and SMEs in Japan as well as the prevalence of indirect trading through general trading houses (商社, *shosha*). Yet, as is indicated in the results of a Survey on Globalization and Business Activities conducted by METI in 2009, the lack of experience, human resources, marketing and other know-how necessary for internationalisation is a prominent reason why Japanese SMEs across sectors hesitate to develop international business activities.

To put in place a better framework for supporting SMEs in overseas business expansion, the Japanese Government established

⁴ White Paper on Small & Medium Enterprises in Japan: http://www.chusho.meti.go.jp/sme_english/whitepaper/whitepaper.html

⁵ In this 2010 survey, the percentage of the overseas subsidiaries of Japanese SMEs located in “Europe” was only 5.8% and that of Japanese SMEs located in “North America” is 13.1%.

a “Conference on Supporting SMEs in Overseas Business”⁶ in October 2010. This conference concluded in June 2011 and identified actions for the following 5 key issues:

- **Information collection and provision:** providing necessary information carefully for SMEs and providing consistent support by sharing support records across SME-support organisations,
- **Marketing:** supporting product development, participation in international trade fairs and helping with marketing via the internet,
- **Developing and securing human resources:** supporting the development of, and securing of, human resources for international business expansion,
- **Financing:** enhancing financial consulting structures and facilitating access to finance,
- **Improvement of trade and investment environment:** providing information on establishing business bases overseas and providing support on tax, labour and IPR matters.

Some of the measures related to this framework are explained in the following presentation by JETRO.

I – 3 “Measures for Supporting Japanese SMEs Going International” [presented by Mr. Kiyooki Taguma, Director, Design Industry Unit, Life Culture & Services Industry Department, Japan External Trade Organization (JETRO)]

JETRO has two general pillars of operations for promoting the export activities of Japanese enterprises. The first pillar is support for the development of overseas markets. The second is the promotion of Japanese brands. The target areas for these two operations are: (1) fashion (textiles, apparel), (2) designs (e.g. local traditional products), (3) foods and agricultural & fishery products, (4) contents industry (e.g. movie, anime, game, music), and (5) machinery (e.g. machinery parts, environment and energy-saving, medical devices).

For the development of overseas markets, JETRO provides services for: participation in overseas trade fairs, inviting “buyers” and organising business meetings between the overseas buyers and Japanese SMEs in Japan, sending SMEs on export promotion missions, deployment of overseas coordinators, antenna shop operations and support for individual corporations from exports. For the promotion of Japanese brands, JETRO’s services include: participation in overseas trade fairs for publicity campaigns, organisation of publicity events overseas and inviting key persons (e.g. journalists).

The advantages of participating in trade fairs through JETRO’s support are that trade fairs selected for JETRO’s scheme are (1) rich in content (e.g. a selection of fairs where many excellent buyers gather, country-specific information gathering and preparation for business meetings, language support at booths, availability of JETRO’s staff during the fairs for consultation), (2) low cost (e.g. booths are arranged as group by JETRO and fees are set lower) and (3) SMEs face less hassle (e.g. JETRO handles procedures and negotiations with trade fair organisers).

The main target for JETRO’s export support operations is SMEs. In the seminar, two success stories of Japanese SMEs (in paper product manufacturing) were presented where Japanese SMEs with limited experience in international business developed unique products and found new business opportunities abroad by using JETRO’s support. Both success stories show that the international market can offer diverse opportunities for small enterprises with unique expertise or technologies when enterprises make efforts to identify new demands, innovate and introduce new or unique products or services in the sector.

For information on support and services offered by JETRO, refer to its website at: www.jetro.go.jp

⁶ Members: Ministry of Economy, Trade & Industry (METI), Financial Services Agency (FSA), Ministry of Foreign Affairs (MOFA), Ministry of Agriculture, Forestry and Fishery (MAFF), other governmental organisations (Japan External Trade Organization – JETRO, Organization of Small and Medium Enterprises and Regional Innovation – SMRJ, Nippon Export and Investment Insurance – NEXI), SME organisations (Japan Chamber of Commerce & Industry, Central Federation of Societies of Commerce & Industry, National Federation of Small Business Associations), private financial institutions, public financial institutions (Japan Finance Corporation, Shoko Chukin Bank, Small & Medium Business Investment & Consultation – SBIC), etc.

I – 4 “Enterprise Europe Network” in Japan

[presented by Mr. Fabrizio Mura, Deputy General Manager, EU-Japan Centre for Industrial Cooperation]

In the last three to four years, the European Commission has stepped up its efforts to increase the range of services to support the development of SMEs towards internationalisation and innovation. In particular, the EU adopted the “Small Business Act” in 2008 which is a plan with ten concrete measures aimed at strengthening support for SMEs and micro-enterprises. The Enterprise Europe Network (EEN) is one of these ten measures. Originally intended to promote cross-border partnerships within the 27 EU Member States, the network now covers over 50 countries (including associated countries such as Israel, Norway and Switzerland and a few other non-associated countries such as the USA, South Korea and Japan). The EU-Japan Centre for Industrial Cooperation became a member organisation of the Enterprise Europe Network (EEN) in 2011. Typical member organisations are chambers of commerce and business associations.

The Enterprise Europe Network (EEN) can, among others, assist SMEs with the following services:

- Searching for business or technology partnerships,
- Providing information and advice regarding opportunities offered by the EU market.

In Japan, a dedicated portal (www.een-japan.eu) has been established to give Japanese-language information about partnership opportunities. Essentially, two tools exist for partnership searches:

1. Through an online, dedicated partnership database managed by the European Commission,
2. Through the support of B-to-B meetings held in conjunction with major EEN supported trade fairs, either in Europe or in Japan.

A significant advantage of the EEN Japan service is that it is offered in both ways, that is, for European SMEs looking for partners in Japan and *vice versa* for Japanese SMEs looking for partners in the EU. For European SMEs looking for partners in Japan, the EU-Japan Centre provides a summarised version of a European company's request for partnership in Japanese. Summaries of partnership requests from Japanese companies are also posted in English. A characteristic of the database search process is that the names of the companies are kept anonymous during the initial partnership search process. The database search process is currently split in two separate tools: a database for “business partnerships” and another database for “technology partnerships”. The technology request and offer database hosts 6,000 offers and nearly 1,000 requests, and each item is refreshed every six months.

The general process for partnership searches is as follows:

1. An SME in Europe submits a partnership proposal profile in writing to their local EEN member organisation,
2. The member organisation reviews the profile and makes a request to the European Commission to get the profile submitted to the EEN database,
3. The European Commission performs a quality check and ensures the proposal complies with the guidelines for publication in database,
4. Once the profile is published in the database, it is accessible to search by the entire EEN network of 600 member organisations worldwide,
5. Companies in Japan interested in the profile may respond to the profile with a counter-proposal submitted through the EEN member organisation in Japan (EU-Japan Centre),
6. If the European SME reacts positively to the Japanese expression of interest, it can ask to be put contact with the Japanese company via the EEN organisations.

The EEN is a vast network and is characterised by access to a large, easy-to-use network of partnership facilitators within a standardised process where the confidentiality of user profiles is assured. The service is backed by the European Commission and is currently free of charge for Japan. The services provided by EEN members are not new. They include B-to-B searches and meetings and an information enquiry helpdesk to assist with the search for market, company and legal information. What is new is that the services have been expanded to form a large network with 600 multipliers, each with their own local networks. What is also new is that the tools and processes used to develop these services have been standardised and made available to

all 600 network partners. The standardisation effort and the deployment of the tools were made possible with the use of the internet and an investment, at EU-27 level, into a large and secure database of enquiries.

Session II: Strategies for Promoting SMEs Internationalisation: Industry's Perspectives

In the second session, speakers from the European and Japanese private sectors explored the issues, potentials and recommendations of how policies and measures to assist the internationalisation of SMEs should be improved.

II- 1 "Japanese SMEs Going International: Issues, Potentials and Policy Recommendations" [presented by Ms Mariko Mori, Deputy General Manager, Small & Medium Enterprise Division, Tokyo Chamber of Commerce & Industry]

Today's business environment for Japanese SMEs is challenging. The domestic market is shrinking due to the ageing population, domestic consumption is in a slump with prolonged deflation, and the emergence of new economies is putting pressure on the competitiveness of Japanese brands.

As regards the current situation of the internationalisation of Japanese SMEs, the Tokyo Chamber of Commerce & Industry emphasises the following:

- Japanese SMEs show a strong and increasing desire for international expansion. This can partially be seen in the fact that more than 1 out of 4 overseas subsidiaries of Japanese companies in 2010 were subsidiaries of SMEs,
- China and other Asian countries account for a growing share of the destinations for internationalising Japanese SMEs,
- Japan's export dependency is 17.4%. This is significantly lower than South Korea's export dependency rate (54.8%). More than half of the Japanese SMEs that started an export business in 2000 withdrew from it within five years due to the exchange rate situation (strong yen),
- The rate of international expansion of Japanese SMEs is slowing down. The rate of withdrawal from overseas subsidiaries is higher among Japanese SMEs than among large companies.

In this context, the Tokyo Chamber of Commerce & Industry identified and issued a set of policy recommendations in July 2012 covering three main areas:

1. Support for initiatives to attract foreign demand:
 - Developing sectors in which Japanese companies have international competitiveness,
 - Supporting the internationalisation of SMEs by promoting inbound trade and investment,
 - Overhauling the consulting and support frameworks for the internationalisation of SMEs,
 - Increasing the volume and effectiveness of SME support by using the services offered by the private sector (e.g. the International Expansion Advisory System for SMEs by the Tokyo Chamber of Commerce),
 - Strengthening the coordination between Japanese chambers of commerce overseas and the local chambers of commerce in Asia.
2. Support for strengthening their competitiveness from a global perspective (e.g. differentiation, prioritisation):
 - Improving and enhancing the support for international expansion feasibility studies for SMEs,
 - Supporting the development of international marketing and distribution channels for SMEs,
 - Promoting and supporting international M&A (to take advantage of the strong yen),
 - Increasing the scope of financial support for participating in trade fairs,
 - Promoting greater use of industrial sites overseas by SME.
3. Improvement of international and domestic business environment (e.g. reform of government functions)
 - In the field of Overseas Development Aid (ODA), developing businesses where SMEs can play a significant role,
 - Developing human resources necessary for internationalisation,
 - Diversifying fund-raising tools for SMEs and improving financial support,

- Strengthening the protection of IPR,
- Improving the trade and investment environment by promoting Free Trade Agreements, Economic Partnership Agreements and the Trans-Pacific Partnership (TPP),
- Promoting investment, tax and social security treaties with third countries.

Among these recommendations, the Tokyo Chamber of Commerce & Industry considers that increasing the support for feasibility studies of international expansion is an important issue. This is because, in reality, the number of SMEs who try to “go international” is relatively large but the rate of withdrawal or failure is also substantial. Proper feasibility studies to analyse the markets, potentials, risks and difficulties should help prevent some of the failures⁷. Recently, progress has been seen in this area, and the Japanese Government introduced, under the supplementary budget for the 2011/2 FY, a scheme for providing financial support for feasibility studies for SMEs with a maximum threshold of JPY ¥ 3,500,000 (EUR €32,500) per company. 400 SMEs have applied for this scheme (four times as many applications as places were available) and the continuation of such a scheme is strongly advocated.

Another key recommendation is the utilisation of support offered by private organisations. The Tokyo Chamber of Commerce offers a service called the “International Expansion Advisory System for SMEs” where 209 companies (Japanese and non-Japanese, including European) who meet certain criteria and offer professional services for SME internationalisation are currently registered as “International Expansion Advisors”. Considering the fact that certain limits exist in the quantity (e.g. budget) of support which public organisations could offer, it is recommended that services offered by private organisations should be used. They may incur fees, but it is better than missing opportunities for supporting SMEs because of the limited volume and availability of public support.

For further details of the recommendations by the Tokyo Chamber of Commerce & Industry on SME internationalisation, refer to the full text (in Japanese) at: www.tokyo-cci.or.jp (go to “policy recommendations”).

II- 2 “European SMEs Doing Business with Japan: Issues, Potentials and Policy Recommendations”
[presented by Mr. Michel Theoval, Senior Vice Chairman, European Business Council in Japan (EBC)]

For European SMEs trying to establish business with Japan, the first issue is to identify what they wish to sell in Japan. It is often the case that average European products are not directly sellable in the Japanese market as Japan is a thoroughly industrialised market where a diversity of high-quality products already exists. In addition, several steps exist for European SMEs in order to start exporting to Japan. A majority of European SMEs are oriented to their own domestic markets or export to the proximity of their markets within Europe. When considering long-term export outside Europe, the first priorities for European SMEs are usually the USA, China, the Middle East, India and other BRIC countries, but not Japan. In this context, what could serve as motivations for European SMEs to consider Japan as an export market? The first is specialisation and quality. If a European SME specialises in products (or concepts) which Japan is not producing and if the quality is high, there is a chance (e.g. deluxe brands, foods, highly-specialised measuring and test equipment). Leaders of SMEs may also have personal attraction towards the opportunities in the Japanese market, its customers, potential partners and its generally honest and safe business environment. Japan could also be seen as a stepping stone for further development in Asian countries.

European SMEs trying to export to Japan often realise, at a relatively early stage, that average quality products do not sell well in Japan. This is related to the fact that the Japanese market requires innovative concepts and high-quality, impeccable customer service and support. European SMEs may need to consider restructuring themselves in order to sell successfully in Japan. It is often the case in European SMEs that General Managers handle too many functions alone at the same time (e.g. management and export). Japan requires time and it could be more effective or even necessary to designate a full-time person or team (e.g. an export manager) to understand and meet the demands of Japanese customers. Staff experience is also crucial in this process. There is also an aspect of cultural shock for newcomers. Lastly, there is a time factor, probably the most crucial factor to bear for SMEs with limited resources, as a successful entry into the Japanese market is often preceded by a long

⁷ Some of the common failures or reasons for withdrawal of Japanese SMEs overseas subsidiaries identified by the Tokyo Chamber of Commerce & Industry are: (1) difficulty in producing high-quality products which meet the Japanese standard, (2) labour issues (e.g. relation between workers and management), (3) difficulty in procuring the raw materials necessary to produce high-quality products.

period of observation and establishing personal relations.

As also mentioned in the presentation by the European Commission, studies have shown that SMEs export activity is a real boost for our economy, including our domestic markets, yet in reality, only 13% of European SMEs export beyond the EU's borders today. Therefore a strong potential for growth and jobs still remains through the internationalisation of SMEs. In Europe, smaller countries tend to export more than large countries. It is also little known that European SMEs are more active in the international market than American or Japanese SMEs. For example, in 2011, out of the €430 billion worth of business contracts made in France, only €30 billion came from large contracts (i.e. deals between large enterprises) with €400 billion coming from small contracts.

As studies show, only 16% of European SMEs currently use the public support available for export. Very few SMEs are aware of the public efforts made in this domain or use them. Therefore **more effective communication on the support available is necessary**. Innovation and internationalisation are often linked, especially in Japan. Therefore **support frameworks for innovation and export could be coupled or merged** in some cases. **Protection against asymmetric trading** is also important for SMEs who do not have the means to make cases at the WTO or have their issues heard by national governments. Lastly, it should be noted that the **market access issues** faced by all foreign companies (e.g. non-tariff barriers) can be even more difficult to tackle or manage for SMEs. It is therefore recommended that a specific consideration be made to discuss and establish measures for SMEs within the framework of the coming EU-Japan FTA/EPA negotiations.

II- 3	"European SMEs, Rethinking their Needs and Potentials in Japan" [presented by Mr. Jean-Michel Mollier, Managing Director, ERAI Japan K.K.]
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As illustrated in the previous presentations, supporting the internationalisation of SMEs is an important part of the EU strategy for competitiveness given the role of SMEs in creating jobs in the EU market (e.g. SMEs contribute to 67% of the total employment and created 85% of the new jobs in the EU market) and the still untapped potential for their internationalisation (only 13% of EU SMEs export outside the EU market).

As a long-time expert on the Japanese market, Mr. Mollier presented his observations and ideas on improving the support by public organisations and consulting services. For details, refer to the summary, reproduced below, of his presentation in the report on our "Workshop on the Challenges and Business Opportunities for EU SMEs in Japan" organised in Brussels on 27 November 2012.

II- 4	"Innovative Investment Structures and Industrial Equity Financing for European SMEs" [presented by Mr. Markus Janssen, Principal, Baker & McKenzie - Japan]
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Mr. Janssen presented an idea for industrial equity financing for SMEs by first looking at the "chances" and the "challenges" of the globalisation for SMEs. A SWOT analysis shows that the "chances" may be found in: (1) internal "strengths": innovative products and long-standing values, strong market standing, independent ownership and (2) external "opportunities": hidden champions, attractive for equity finance and independence at value. The "challenges" could arise from: (1) internal "weaknesses": globalisation limited to family view, hesitation to use finance as a hedge, reluctance to enter into alliances and (2) external "threats": global competition excelling the SMEs' business model, lack of finance (because of Basel III) and lack of management capacity.

SMEs should try to use their "strengths" in order to overcome their "weaknesses" for internationalisation. For example, SMEs could integrate products and values of partners in order to increase their prospects for internationalisation beyond their own traditions. SMEs could also use their market standing in order to obtain finance in good times. Using the independence of ownership to find the right partners is also possible. As for external aspects, SMEs could use their attractiveness to equity finance to invite equity finance for the internationalisation activities and use their independence of management to allow the participation of capable management. Based on this analysis, Mr. Janssen considers that SMEs should need financing and management support for internationalisation and presented an idea of industrial equity financing.

Industrial equity means that it: (1) intends to limit its risk by 5 to 10% equity share in a healthy SME with global perspective, (2) grants finance and assistance to SMEs for a defined, internationalisation project, (3) expects high return on low-risk mezzanine equity with exit after mid to long-term engagement, (4) relies on the independence of SMEs as value generator and (5) assists and supports (instead of take-over and turnaround). Some characteristics of the investors looking for industrial equity are that: (1) they are looking for alternatives to stocks, real estates and other "real" values, (2) they see healthy SMEs as long-term values with substantial growth, (3) they see assistance in internationalisation projects as active wealth management and (4) they have difficulties in finding the right SMEs nevertheless.

In this context, a system to match investors and SMEs safely and efficiently is necessary and Mr. Janssen proposed an idea for a safe and protected online platform ("SME Exchange") for matching: (1) investors with SMEs to mediate Globalisation Equity Finance, (2) SMEs with SMEs to coordinate globalisation projects and (3) investors with investors to trade and exchange Globalisation Equity Finance. Such a platform should: (1) be established by stock exchange specialists in compliance with laws, (2) be open to SMEs and investors upon invitation only, (3) allow SMEs to create anonymous enterprise profiles based on a multi-lingual set of questions, (4) meet high requirements of confidentiality by supervised, step-by-step disclosure, (5) increase the value of investments by making Globalisation Equity Finance fungible and (6) stabilise the value of investments as directly depending on the development of the globalisation projects and avoid roller-coaster effects as seen in normal stock markets. It would be important for such "SME Exchange" platform to offer standards and formats (NB: details are not given in this report for reasons of space).

SMEs, investors, trade associations and public authorities could contribute to the establishment of this type of "SME Exchange" by supporting the players involved in establishment, confirming their needs (for terms and conditions), pre-registering for an invitation for "SME Exchange", and providing guidance, etc.

II- 5	"Experience of a European Establishing Business in Japan" [presented by Mr. Michael Van Dorpe, President, Village Island Co., Ltd.
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Village Island K.K. is a Japanese SME in the digital TV industry (e.g. broadcast hardware and software development and distribution) established by a young, European entrepreneur in 2005. Its founder, Mr. Van Dorpe, talked about his experiences working with Japan and establishing a business in Japan.

Finding a good, European product which he believed would be successful in Japan was his initial motivation for establishing a company in Japan. The key issues he learned from the experience of establishing a company and developing business in Japan is that:

- "Good products" for "good customers" are necessary, As a new player in the market, it is necessary to gain the customers' recognition in the market step by step.

In addition, the administrative procedures needed to establish a new company in Japan may be overwhelming and are not well-documented for foreigners. In his case, substantial support from a Japanese partner (associate) was essential. The size of the initial investment is also a typical challenge for micro-enterprises in starting a business in a new market. Furthermore, in order to succeed in Japan, Mr. Van Dorpe believes the following aspects are important:

- Do not try to control the end-user price,
- Make the business profitable for everyone in the distribution channel (e.g. intermediaries, end-users) and try to make profit from volume,
- A stable and reliable interface is a key for customer and market recognition,
- Entrust your partner and gradually build a long-term relationship with them,
- Maximise the quality of your product. When quality issues arise, it is often too late and business may suddenly drop.

The success story of Village Island is also a good example of public support for developing human resources who could

facilitate the link between the EU and Japanese industry. Mr. Van Dorpe was a participant of the EU-Japan Centre's "Vulcanus in Japan programme", which provides a 4-month Japanese language training and an 8-month company internship in Japan for European science & engineering students. Between 1997 and 2012, the programme produced more than 400 alumni, many of whom are serving as 'bridges' between Europe and Japan.

Session III: Discussion – Perspectives for SMEs Growth and Internationalisation in the Framework of EU-Japan Business Cooperation
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The final session was a free discussion to share views on the internationalisation of SMEs in the framework of the EU-Japan business cooperation and included the following observations, ideas and recommendations.

- On the issue of better informing SMEs is about the support available, one participant asked what would be the expected impact of the new EU measures on the SMEs' awareness and access to information and how would the local organisations be concerned in this exercise? Response: Actions taken by the European Commission in this respect will be done in close communication with, and through the participation of, the Member States and the EU Delegations in external countries (e.g. through the "SME Envoy").
- Equity financing for SMEs is often considered as the "kiss of death" (i.e. they pull out at the worse moment and SMEs are left out in the cold). Response: This is a classic problem associated with "private equity" but the idea presented today was that of "industrial equity" as opposed to private equity. It is a new concept which limits the maximum investment to 5-10% with terms which would respect the governance of SMEs but would help them overcome the challenges of globalisation.
- In order to set the scene for discussions on better support mechanisms, it is necessary to identify a target group of SMEs and to have a good understanding of what types of SMEs we are talking about. For example, mechanisms such as the EEN may be effective for relatively large SMEs who are ready to engage in B-to-C business but, for a majority of the typical micro-enterprises we have in Japan, such mechanisms would mean time-consuming and challenging procedures in foreign languages.
- In order to find opportunities for cooperation between European and Japanese SMEs, an investigation of the potential, projects, etc. in third countries is also important.
- It is important to create or improve the mechanisms for match-making, facilitate the "integration" of high-tech components produced by Japanese and European SMEs and assist European and Japanese SMEs in joining forces to create added value with an international dimension. Effective meeting points in this respect either do not exist sufficiently or are not well utilised.

“A Workshop on the Challenges and Business Opportunities for EU SMEs in Japan – and how Intermediary Organisations can help SMEs Seize them”

27th November 2012, Brussels

Introduction

A more detailed summary of the points raised in this event, together with copies of the presentations given, can be found at http://www.eu-japan.eu/global/events/sme_internationalisation_27112012.html?year=2012.

0 – 1 “European Commission support for the internationalisation of SMEs” [presented by Mr. Marshall Hsia, Policy Officer – Enterprise Europe Network, DG Enterprise & Industry, European Commission]

The European Commission realises that SMEs need support if they are to ‘internationalise’. Although it had originally encouraged SMEs to look to opportunities in other EEA Member States, the Commission now encourages them to look increasingly to third countries such as Japan. With 21 million SMEs accounting for $\frac{2}{3}$ of private sector jobs, $\frac{9}{10}$ of new jobs and 98% of EU industry, they will play a crucial role in the EU’s economic recovery. Only 25% of EU SMEs export and only 13% export to non-EU markets. The Small Business Act outlined the Commission’s SME strategy including access to markets and finance, reducing administrative burdens and encouraging entrepreneurship. The Commission has established business help centres in important markets and participates in bilateral and multilateral dialogues on SME issues. The ‘Small Business, Big World’ Communication aimed to raise the visibility of existing programmes, avoid the duplication of support and seek sustainable and cost-effective support. A mapping exercise is underway to identify and document support measures and its results will be accessible via a ‘one-stop-shop’ international web portal.

Session I: Opportunities in Japan for European SMEs

In the first session, speakers from Japan and Europe addressed why European SMEs should look to Japan, the kinds of help available from central and prefectural authorities, how all support programmes for SMEs could be improved and heard the experience of one SME.

I – 1 “Advantages of Doing Business in Japan” [presented by Mr Hiroshi Tsukamoto, General Manager, EU-Japan Centre for Industrial Cooperation]

The Japanese Government is keen to support its SMEs in their overseas activities – they can benefit from information services, marketing advice, HR support and financing. JETRO is the main Japanese body that can help non-Japanese firms with their Japan activities. JETRO’s European offices⁸ can provide information. Help on offer includes rent-free office space and advisory services in an Invest Japan Business Support Centre (IBSC). Since 2003, SMEs have constituted the vast majority of the 320 European firms that have used IBSC facilities. Japan is an attractive market for European companies – its consumers have high purchasing power, appreciate innovation and rate European products as being the ‘smartest / most fashionable’ and ‘unique and the clearest’ when compared with Japanese, US, Korean and Chinese products. Products with these characteristics should succeed. An SME that began to internationalise in Japan is the Belgian biscuit-maker *Maison Dandoy* – it opened its first non-Belgian store there. Attractive and growing sectors that offer opportunities for SMEs include future energy systems, healthcare, automotive components, retail, ICT and biotechnology.

I – 2 “European SMEs: Rethinking their Needs and Potential in Japan” [presented by Mr. Jean-Michel Mollier, Managing Director, ERAI Japan K.K.]

Based on his 30 years working with Japan, he believes current SME-support activities have not been properly targeted and, as

⁸ <http://www.jetro.go.jp/en/jetro/worldwide/europe/>

a result, some SMEs failed to get the help they needed. Instead support schemes should be recalibrated:

- **Rather than treating SMEs as a homogenous group, they should be viewed as sub-groups based on the amount of 'experience' they have had with Japan and on their 'needs':** ("Beginners" have very little experience and require general information, financial help and marketing assistance – *Raidlight*, for example, needed market information and help to find a distributor for its ecological and innovative niche product. "Intermediates" have some knowledge, experience and sales but are potentially unstable and could withdraw from Japan if dissatisfied, so need partners to support them – *European Stretch Fabrics* needed help to develop a step-by-step approach to find new customers to grow its business. "Advanced" SMEs have established relationships and have specific needs and should not need much persuasion to get them to invest further in Japan – *Petzi* needed help to find a distributor to develop a market in a new niche for its existing and successful product),
- **Avoid simplistic 'mono-conceptual' focuses to missions to Japan:** Rather than having a single broad theme (e.g. 'the automotive sector') target sub-sectors (component suppliers, production equipment) as a greater number of SMEs will feel themselves covered by the mission. Similarly, rather than focusing on sectors / sub-sectors, by addressing themes which can apply across several sectors (e.g. 'security' can apply equally to data, people or production processes, etc.) more SMEs can be helped,
- **Organisations providing support services should coordinate their activities better:** thereby ensuring that SMEs that use them benefit from a genuine 'value chain' with coordinated assistance.

I – 3	"Challenges and business opportunities for EU SMEs in Japan" [presented by Ms Honami Yatagai, Representative, Kanagawa Prefectural Government]
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Like other Prefectural Governments, Kanagawa works with JETRO to assist foreign companies looking to establish business in its region. That help can include research services, the setting up of business-to-business meetings, participation in an 'Invitation Programme' (where participants travelling expenses to Japan will be paid to encourage them to attend a specific event), office space under the IBSC activity or a media campaign to announce the opening of a local branch office. Oxford Immunotec KK is an example of an SME that has been helped by JETRO and the Prefecture (since 2005, 46% of the 50 companies helped have been European). It took 2-3 years for it to get the necessary licenses for its novel product type, it benefited from an IBSC office, information services and a media campaign, and it achieved its expected first year results in just 3 weeks. Other success stories include a Norwegian company and a telecoms research unit of a Finnish university. Kanagawa also provides services to non-investors (e.g. organising seminars and inward trade missions).

I – 4	"Experiences of Cosylab in Japan" [presented by Mr. Mark Pleško, CEO, Cosylab d.d.]
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Cosylab d.d. is the leading supplier of control system integration to nuclear accelerators and other large physics projects. Its CEO's first visit to Japan pre-dated the creation of his company. A decade later his company was established and he had worked with Hitachi Zosen on the RIKEN project. He understood that Japanese laboratories respected Cosylab but were unsure whether its services would suit them and realised that he needed to establish a Japanese office. Having a well-respected (local) person to head the office was essential. A young Cosylab-trained engineer (who had previously had a work placement in the Slovenian HQ) was also required, while the company had expected to need a Cosylab manager although in the end the office head performed this role. A similar approach was envisaged for establishing footholds in Korea and China where small projects would gain reputation and local branches could be started. Management must be fully committed to any foreign venture, but should not interfere. The subsidiary had to be self-sufficient, with clear financial targets and able to identify its own business opportunities. With its specialised sales focus, having an external representative was not really an option. Initial approaches made to the Slovenian Authorities did not prove particularly useful. However, JETRO Wien and specialist legal and accounting firms provided useful assistance.

Establishing a branch office in Japan can be challenging (legal and tax issues need to be addressed). Cultural differences exist (for example, Japanese people tend to prefer a fixed salary to receiving company shares). However, if large European world-class companies can open large branches in Japan, there is no reason why a world-class European SME cannot open a

small Japanese branch. In its experience, it can be hard to sell a service in Japan, and it may be worth hiring Japanese students. Distance and time should not really be seen as being major problems. Matching cultures (through building or acquiring a 'social network', people exchanges and investing time) and motivating staff are essential.

Session II: Issues faced by SMEs and possible solutions ... and some possible solutions: (EU-level initiatives to support EU SMEs who work with Japan or wish to do so)

In the second session speakers from Europe identified the issues of concern to European SMEs that have a strong interest in Japan and heard examples of support programmes provided at an EU-level.

II- 1 "SME Internationalisation to Japan – Survey 2012"
[presented by Ms Diane Van Bockstal, Director, EU-Japan Centre for Industrial Cooperation]

Three-quarters of respondents were already active with or in Japan, whilst the rest were actively considering starting activities. Most were manufacturers, a third was involved with technology transfer and a quarter was service providers. Only a seventh imported from Japan and a tenth already had invested in Japan. The main problems identified included language issues, costs, complex business practices, difficulties understanding laws and regulations and conformity with Japanese standards. However, the order that issues were ranked tended to vary between sub-sets (SMEs that already have trading links with Japan, those that have non-trading links with Japan and those that are yet to start activities). Respondents' "needs" could be divided into basic (general) information, advanced (tailored) information and operational support. Satisfaction levels with the support received tended to vary depending upon the kind of need.

A more detailed analysis of the survey and the support programmes mentioned in this session of the workshop can be found in the following chapter.

II- 2 "The experience of an Enterprise Europe Network Partner helping SMEs with Japan"
[presented by Ms Eva Kudrnová, Department of Business Development, Technology Centre ASCR]

The Enterprise Europe Network was created by the European Commission to help SMEs. The Technology Centre ASCR has supported Czech firms attending a Japanese nanotech exhibition. Several partnership agreements have been reached as a result of the last exhibition.

II- 3 "EU Gateway to Japan"
[presented by Ms Ellen Pedersen, Service for Foreign Policy Instruments, European Commission]

The EU Gateway to Japan activity has helped 3,000 firms develop business in Japan. It is a sector-focused programme and works with SMEs of all sizes. By organising programmes around the same themes each year, the Gateway programme has developed 20,000 business contacts that it approaches to invite to attend trade fairs and B-to-B discussions with the programme participants. Participants receive support before, and during, the programme. Additional, tailored help is also possible. It is essential that participants are fully committed and that translation and interpretation services are used to make their discussions and literature more accessible to potential Japanese partners. Participants from creative sectors tend to see the quickest short-term benefit (understanding their markets and gaining contacts), but it is participants in technical sectors who see the bigger impact on their sales figures.

For information on the EU Gateway to Japan programme, refer to its website at: www.eu-gateway.eu

II- 4 "Executive Training Programme (ETP) in Japan and Korea – General Overview"
[presented by Mr. Daniel Van Assche, Service for Foreign Policy Instruments, European Commission]

Another Commission-run scheme is the Executive Training Programme (ETP). Whilst Japan may be a difficult market, it is not

an impossible one to succeed in. The programme's business, language and cultural training can become the foundation of a business strategy for Japan. The compulsory in-company internship will give its participants practical experience of their sector and product in Japan. Participation in ETP provides benefits for the individual participant and for their company alike.

For information on the ETP programme, refer to its website at: www.etp.org

II- 5	"SME support activities managed by the EU-Japan Centre for Industrial Cooperation" [presented by Ms Jessica Michelson, Manager, EU-Japan Centre for Industrial Cooperation]
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The EU-Japan Centre's activities include running training courses for managers to give them first-hand understanding of Japanese business practices (both to help companies, largely SMEs, which are active with or in Japan and European companies that wish to apply best practice principles) and a new activity to promote international cooperation between clusters with a view to benefiting their SME members because clusters have an important role to play in helping SMEs develop and sustain their international activities.

For information on the EU-Japan Centre and its activities, refer to its website at: www.eu-japan.eu

Session III: Panel discussion and closing remarks
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The final session saw Hiroshi Tsukamoto, Mark Pleško, Daniel Cloquet (from BUSINESSEUROPE) and Luc Hendrickx (from UEAPME) give their views of what had been said.

- Daniel Cloquet supported the principle of brokerage events and company missions in Japan, but thought their effectiveness would be boosted by better informing Japanese companies about them. Cultural factors must also be considered and more could be done to promote the EEN 'databank' in Japan. He hoped that the EU-Japan Centre's cluster mission would be the start of long-term cooperation, not a one-off activity, and suggested that considerable attention should be given to the follow-up of the mission. As regards the internationalisation of SMEs, more action should be given to ensure good visibility – particularly for those provided under EEN. He supported the idea of a new division of labour between service providers of European origin in Japan and elsewhere.
- For Luc Hendrickx, a broader interpretation of the "internationalisation" of SMEs should be used: Instead of just focusing on SMEs that export or investing abroad, SMEs that import should also be considered. If so, the proportion of SMEs that are "international" would be 45%, not 25%. Bearing in mind that half of SMEs are 1-person firms, 45% is a significant proportion. Furthermore, the strong yen should be taken into account, as should the fact that Japanese tourists in Europe will use services offered by SMEs in Europe. SMEs need personalised support and differentiation should be made between "experienced" and "beginner" SMEs and between larger SMEs and micro-companies. Differences between Japan and the rest of Asia mean that Japan should not be seen as a gateway to Asia. If an SME is to succeed in Japan, it must be willing to adapt its products to take into account Japanese culture and needs (e.g. labelling or packaging it especially for the Japanese market). Larger SMEs can often be less willing to tailor their product. Ideally, products should be 可愛い (kawaiī or 'cute') and attract women's interest. Japan is a difficult market, but once you have established a relationship you will have it for the long-term. Language can also be a problem in Europe – but language issues can be solved with interpreters. There are no quick solutions. Better recognition should be given to European and international standards and SMEs should have greater access to public procurement contracts in Japan.
- Hiroshi Tsukamoto thought European SMEs could look to recruit Japanese students who have moved to Europe or to European students who have studied or had internships in Japan. Having a good advisor and tailoring your product are, indeed, both important issues.
- Mark Pleško felt *the* most important message was that any SME looking to Japan must be fully committed to it. Only with such a commitment will the SME succeed because Japan can offer high rewards, but it is not a cheap market.