

Niches for SME in Regionalization and Globalization

— Japanese experiences in the 21st Century

Professor Itsutomo MITSUI, Yokohama National University

Ladies and gentlemen, the Chairman Mr. David Ta-Wei Chang, distinguished guests and audience, thank you very much for this opportunity.

Before starting my speech, I would like to show an episode just a couple days ago, in Kaohsiung. At the ISBC Pre Conference, a very successful Taiwanese ice cream maker 翔美 showed a brilliant history, from a small local shop to a growing global business. Then, I was not only surprised and moved, but also start wondering. Oh, I remember I enjoyed a similar ice just weeks ago in Japan, which is a typical local taste in Kagoshima. Why does Kagoshima 'Shirokuma' (White bear) still stay as just a minor local attraction, and why has Charmyfood become a global business from Kaohsiung City? Charmy's sales manager told me they are not only showing own style and taste, but rather adaptable to individual markets and finding good partners for their franchisees.

I cannot come to my conclusion by quoting this episode alone, so please endure for a while.

1. Deepening crisis in regional economies and local industrial districts

Local or regional socio-economic crisis becomes one of the urgent and difficult problems in Japan, and individual governments have been trying to solve for a decade. There are a series of facts which show chronic and deepening crisis; low economic growth rate among remote regions and growing disparity of income per capita between metropolitan regions and others, disparities of unemployment rate and population growth. Aging shows an adverse trend, and remote and declining regions face quickly aging population and less workforce. As a result, many Prefectural and Local governments are now under a painful pressure, i.e. declining revenue and growing expenditure, which was part of the reasons why the aggregate number of local governments decreased by half after a series of synoecism.

There must be a complex of problems behind the local crisis, we admit. Nevertheless, most serious one should be the industrial decline in many parts of Japan, which causes the decline of production, number of business establishments, income and jobs with chain-reaction and vicious cycle. And, as a national economy with 130 million population, 61 million working population

and 4.2 million SMEs, which employ more than 70% out of the aggregate work force, local economic crisis naturally means critical situation for most SMEs and their downfall. Many SMEs are engaged in local industries, not only as manufacturers but wholesale traders or merchants, or service feeders as well, which were classically and theoretically explained as industrial agglomeration by A. Weber and industrial districts by A. Marshall. However, as Florida (2002) suggests, simple production economy based on industrial districts could not sustain local economies in advanced countries anymore.

This paper tries to investigate in the present situation and problem in local industries, as round masses of SMEs, policy supports for them and possibilities for further developments in global niches.

2. Unsuccessful attempts to revitalise local industries

In Japan there have been many local industries based on characteristic agglomeration, which had once supported most of Japanese exports since the Meiji Era. They cover variety of products mainly for consumers, such as textiles, apparel, pottery, tiles, tableware, toys, furniture, processed foods, drinks and so on. Some are based on very traditional craftsmanship, or special local material products, but others are rather modern or using modern technology. In addition, individual industries are depending on high degree of division of labour in a small town or countryside, consist of large number of small specialised manufacturers, and are organised by wholesalers or middleman merchants, who take risks, put-out and coordinate production operations and trade with national dealers or overseas buyers. As a result, many industrial towns have been depending on their sales and achievements, and local people have been able to enjoy business success, job opportunity and economic spill-over for decades. In a number of cases, engineering operations constituted new industrial districts which have not been necessarily depending on single products but offered variety of ones or processing capabilities for many industries.

According to the JSMEA's definition and estimation, local industries (Jiba Sangyo) could be those 'managed by local entrepreneurs, locally agglomerated, materialising local management resources (raw materials, technology or work force), and manufacturing products which would be sold in outside markets.' And once their number was more than 3,000 across the country (JSMEA White Paper 1980).

Everything started changing gradually in the 1970s and 80s. Due to the rises of other developing economies, such as Taiwan, Korea, and mainland China later, Japanese local industries could not keep their competitive advantage in the world market above all in terms of costs and prices, and

the rising Yen accelerated their difficulties. Their exports dramatically decreased, and they could not hold out against new imports even in the domestic market.

In addition, slacking local economy could not attract young generation, and local industries have been troubled by the shortage of skilled craftsmen, engineers, as well as the closedown of small or self-employed manufacturers. Worsening manufacturing environments, due to urbanization and gentrification, also damaged some local industries in big cities. To survive as an independent business, some obviously tried to change their technological bases and products, or to find other opportunities or business partners outside their original districts. Nevertheless, many local industries faced a sort of disintegration within their well organised local division of labour system.

After a temporary economic booming in the late 1980s, situation became much worse than before. Not only declining local industries, but other businesses such as tourism, resort and leisure industries failed in many local towns and villages after speculative venture investments. As a result, not only many businesses collapsed, but local financial systems faced a brink of crisis. It is needless to say about the demise of local retailing businesses and shopping districts in towns. These damaging situations also accelerated the decline of local industries.

For instance, some typical examples among local industrial districts suggest that the decline of product shipment values between 1985 to 2000 was more than 25%, and that of the value added exceeded 30%. The number of persons engaged declined by more than 20% (JSBRI 2003).

The Government had been trying to revitalise local industries by a series of laws and policy measures. Law Concerning the Promotion of Traditional Craft Industries (1974), SMEs in Industrial Districts Promotion Temporary Law (1979), SMEs in Specific Regions Promotion Temporary Law (1986), Regional Industries Upgrading and Specific Business Agglomeration Promotion Law (1988), Specific SME Agglomeration Revitalisation Law (1992) are typical ones dedicated.

The latest one is Regional Agglomeration Revitalisation Law (1997), which was intended to support not only typical local industries but also agglomerated technological specialised firms in Tokyo or Osaka, as well as small attached suppliers in manufacturing company towns. The Law could give variety of supports, including funds, information, R&D activities or marketing opportunities. Nearly 500 plans for revitalisation were approved and assisted, and nearly 200 plans dedicated to local industries also approved in addition. The Law requested every applicant to show its target figure, mostly value shipments of the industry. The evaluation report, however, indicated that only 7% of supported local industries were able to record the attainment of their targets in 5 years, and 1/4 of them even showed the decline of shipments (MRI Report consigned by the JSMEA, 2005).

The Government gave up the conventional idea of promoting local industries as-is, and terminated

the 1997 Law in 2007. Instead, one of new ideas is to rely on advanced technology and R&D activities, which has been exercised as 'Industrial Cluster' policy for 10 years. Another is encouraging new and multilateral business alliances, wider or deeper cross-industrial utilisation of local resources, such as technology, diversified skills, agricultural or fishery products or tourism resources) and emphasis on local characteristics as brand potentials. SME Technological Advancement Law (2005), which promotes innovation, new business creation and new business alliances, SME's Regional Resource Utilisation Promotion Law (2007), which substitutes Revitalisation Law of 1997, Promotion Law of Business Alliances between Agriculture, Commerce and Manufacturing Industries (2008), and a reform in Trademark Registration system in 2006, which can allow local SME associations or cooperative bodies to register toponym and product as an exclusive brand and is called 'Local Brand system,' are typical national measures.

3. The new Democratic Government, its New Growth Strategy and the Charter for SMEs

Japan keeps long tradition of policy framework and variety of policy measures dedicated to SMEs. JSMEA, the governmental agency attached to the METI, was originally found in 1948, and in 1963 Basic Law of SMEs was enacted to eliminate economic differentials and improving entrepreneurs and SME workers' socio-economic positions, by promoting economic growth and business development, adjusting SMEs' disadvantages, and improving their productivity and business transaction positions.

Policies for SMEs in the 1960s and 70s were mainly focused on modernisation and adjustment of SME's disadvantages in a developing economy. Later the basic philosophy was changed and more shift to market principle oriented and SME's independent effort towards innovation and business development, as well as promoting new start-ups, which was reflected to the revised Basic Law in 1999.

In these 10 years SME sector in Japan showed a decline and difficulties in SMEs' existence has been clearly growing, as well as the emerging social problem of unemployment and low paid workers. No matter how important and indispensable their efforts to innovation and business development must be for the national economy, they should be also supported by a sort of public intervention, supply of resources, regulation and adjustment in the market rule and framework, to cover their disadvantage and to make them mobilise their potentiality. Therefore, JSMEA has been expanding variety of supporting policy measures for SMEs, on the ground of SME's "Strengthening of Management Base (Enhancement of Management Resources)," which was also justified by the revised Basic Law of 1999. Support to local industries and entrepreneurs is part of such idea's implementation, which does not seem so successful.

In 2009, Democratic Party of Japan won a landslide victory against the ruling LDP coalition which had dominated for more than 5 decades. Democrat had set its election manifesto, which showed 5 principles and 5 key policy agenda. One of key policies included polices for SMEs, i.e. tax cut on SME's income, protection of SMEs from 'bullying' unfair transactions and creation of new business opportunities in eco, neo energy, welfare and health care industries. Democrats also promised instituting 'Charter for SMEs,' as well as a drastic improvement in financial system, including 'SME finance smoothing promotion law,' and technological supports.

As the Democrat formed a new coalition Government under PM Hatoyama in September 2009, a series of new reforms and policies were launched. As far as policies for SMEs are concerned, 'SME finance smoothing promotion law' was actually enacted after a series of controversial debates, with a series of financial measures for SMEs. JSMEA officially records 8 important policy measures under the new Government; Protecting SMEs in financial, transaction and survival senses, promoting employment in SMEs, supporting small family businesses, creating business opportunities including public procurements, making SMEs core bearers in local communities, encouraging new business start-ups, improving advice and counselling networks for SMEs, and instituting the Charter for SMEs.

The Charter for SMEs in Japan, which was produced by the JSMEA in consultation with a research committee including the author by referring to the Democrat's original Charter draft in 2007, was finally given a Cabinet approval on June 18, 2010. The Charter set forth in a philosophical principle, that SMEs are sustaining and leading economy and life, exercising creativity and ingenuity, honing skills and dexterity, creating majority of job opportunities, and maintaining people's affluent and healthy life. SMEs are contributing to local communities and livelihood as the key players, and constitute like a national fortune, it also affirmed.

The Charter set 5 basic principles and 8 action agenda, including supporting SMEs' overseas business operations. Action agenda No.4 declares that SMEs' new overseas market explorations will be supported under the public-private partnership, and, by mobilising supporting personnel resource, overseas market and trade fair information, supports concerning extension of market and sales promotion, or IPR trouble resolution will be given. SMEs' efforts in training international human resources and employing non-national staff will be also supported.

Democrats Government announced its comprehensive plans in December 2009 and June 2010, namely New Economic Growth Strategy and New Growth Strategy, both of which gave emphasis on the importance of global or Asian strategy for Japanese industries as one of the engines of economic recovery and growth. Though it is not yet clear about the relationship between Growth Strategy and the roles played by Japanese SMEs, global strategy must be understood very indispensable for most of Japanese industries regardless existing or emerging ones. Generally speaking, domestic demands must be increased to recover trade balance and to boost a stable

growth in a macro and, long-term sense, which is also admitted by the Growth Strategy, global market opportunities must be cultivated and international cooperation and alliances must be promoted for the purpose of not only national economic recovery but also for a balanced economic development and prosperous coexistence in the world or Asian community. And, it is obvious that SMEs in Japan, above all in local industries, should take advantage of the development of globalisation of economies and the emergence of new market economies, as well as their potential partners and customers.'

The European Union, which has been achieving progress in European integration in both quantitative and qualitative senses, also strengthening its policies for SMEs. In 2000 it adopted 'European Charter for Small Enterprises,' which clearly inspired Japanese entrepreneurs' organisations and the Democrats with the necessity of its Japanese version, and 'Small Business Act for Europe' in 2008, as the Charter's practical and more binding embodiment. The Act proposes 'The EU and Member States should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities' (Act 4-X). European Commission now carries out a series of supporting measures for European SMEs to succeed in third countries' markets, in order to benefit from the opportunities offered by globalisation.

4. Industrial Cluster policies and policies materialising local resources

As Mitsui (2003) suggested, the Japanese Government launched a series of policy measures to materialise M. Porter's idea of 'Industrial Clusters' in the 21st Century, which was originally called 'Regeneration of local industrial agglomerations' in 2001. Under the Governmental framework initiated by the METI, cluster plans and projects were based on METI's regional economy, trade and industry bureaus; Bureaus expected to develop plans, to become nodes and to coordinate local networking and alliances. Targeted industries are; biotechnology, ICT, electronics, neo manufacturing, new energy, eco and recycling. Promotion of technology licensing, university spin-outs, incubation activities and venture investments was accelerated, and exploiting central Government's variety of subsidiaries and grants for science, R&D, trial experiment, business development and marketing operations as well. MEXT, in charge of education, science, culture and sports, also launched its own 'Knowledge Cluster Creation' policy almost at the same time, depending on universities and research institutes.

Despite their popularity and expectations, cluster policies so far have not achieved so much. In 2005, METI carried out a policy review on Industrial Cluster policy, and found rather slugging progress and the necessity of restructuring of policy framework and projects. Recommendations were made about the necessity of the numerical targets, time range frames, PDCA practices and

evaluation measures; Typological classification among different types of 'cluster' projects and more dedicated and practical supporting measures; More cooperation between ministries, various institutions and policy schemes; Rather smaller scale of mini or niche clusters, which are locally based on existing industries and different sizes of agglomeration, can be promoted, as well as advanced scientific ones.

Though obviously the reform in 2005 indicates more business-friendly and practical approaches and targeted methods, cluster policies have been less effective as far as most of existing local industries are concerned, except some technological developments and new collaboration among small specialised manufacturers in urban areas. University teachers and researchers were able to enjoy favourable environments to start own firms and expect considerable supports and grants under a series of framework programmes, such as the JST's Regional R&D support core program, Regional Innovation programs, or Regional R&D resources utilisation program, but most of SMEs in existing local industries could not expect so much from the development of advanced technologies and collaborations with universities or their researchers. In some cases, though local manufacturers succeeded in developing new products, by applying technological knowledge or skills, their main concerns are how to find market opportunities and business partners to develop successful collaborations in establishing business systems. JETRO (2004) suggests that clusters should be more characterised by own locality and existing industrial basis, and inter-clusters collaborations both in domestic and global markets should be paid more attention to, in order to promote more private investments, human resource developments and marketing opportunities.

Therefore, public attentions shifted towards many attempts in materialising local resources or wider alliances across industrial sectors. For instance, under the supporting scheme of the SME's Regional Resources Utilisation Law of 2007, more than 300 business plans were approved in 1 year. Until now, more than 700 ones have been approved. As far as the Promotion Law of Business Alliances between Agriculture, Commerce and Manufacturing Industries of 2008 is concerned, some 200 plans have been also approved. Nearly 1000 applications so far have been submitted to the National Patent Office, and 457 local brand names are officially registered.

Local business people are now very enthusiastic about developing new products or services, as well as materialising their local advantages, own tradition and culture, original and unique resources and skills, climate and environment, or publicity and popularity. Local identity is no more symbols of inferiority or backwardness, but people's pride and vehicle towards new market opportunities. A typical example is the national B-class Gourmet Contest (B-1 Grand Prix), which attracts nearly 30 participating towns and 250 thousand attendance every year, and offers a competition among local traditional cuisines or new recipes using unique materials and tastes at lower costs.

5. The indispensable development in marketing and public supports

Though B-1 Grand Prix event can attract many people across the country as the potential customers or visitors, most local industries cannot survive unless they succeed in finding new customers and markets by themselves. Very common problem among SMEs which have tried to develop new products is the difficulties in effective marketing measures or negotiations with potential trading partners, or even in finding proper application uses for their products. For instance, a local business community in Aichi Prefecture launched a joint venture to develop processed foods by using local agricultural product supply and applying an advanced technology 'lower temperature steam drying' method, which was developed by Waseda University's researchers. The technology itself is revolutionary and the local government supports them as a part of its own local cluster project, as well as the central Government and other institutions. Nevertheless, the venture so far has been struggling how to find good customers, and one of its difficulties is the fact that its main products are rather intermediate ones, which are not so suitable for consumers' use but for food manufacturers' input, but then price and volume matter seriously. Product differentiation is also far from an easy matter, if compared with other drying technologies, despite the proof that lower temperature steam could keep natural taste and nutritional quality.

This venture in Aichi has been receiving a governmental support measure for commercialising and marketing under the SME Technological Advancement Law, and part of the reason for their difficulties is that most member entrepreneurs of the venture do not know about food products market. Therefore, effective governmental supports are the key for successful and marketable business developments in many cases. The Government has been launching a number of marketing or cultivating support schemes. For instance New Business Activities Promoting Support Program, for which 6 billion Yen was allocated in 2009, is intended to subsidise expenses of trial developments, marketing research, entries in trade fairs, professional advices and IPR registration research in alliance projects materialising local resources. JSMEA, JCCI and CFSCI jointly launched "Feel Nippon" project, which offers comprehensive supports for local small businesses by materialising local resources and attracting tourist visitors to cultivate national market, and more than 200 projects have been supported.

Local industries could also cultivate overseas market again. As will be mentioned later, policies are focusing on the promotion of exports and international operations among SMEs. In 2004 JSMEA launched a large scale 'JAPAN Brand' development assistance program to 'regard these values as the "strength" and "ambition" that local small and medium-size companies can expose surpassing time and country borders. Summarizing these values as the "distinctive, unique values from local small and medium enterprises," with the three key points, artisan quality, practical beauty and regional spirit' (Japan Brand web site). JAPAN Brand has adopted dozens of applied projects every year and supports can continue for several years to complete product development,

brand formation, overseas sales promotion and market cultivation. The image of Japanese products in the world is generally high for their quality, skilled and dexterous work and unique materials and tradition. Local SMEs, however, must develop own product concept, brand image and sales outlet network, without yet relying on simple volume production, lower costs and existing trade and distribution system.

Japanese industries' exports and overseas operations have been supported by the prominent governmental institution, JETRO for many decades. It recently started giving more attention to Japanese SMEs' businesses and international development, and making closer cooperation with JSMEA and SMRJ to offer comprehensive supports to SMEs, the inauguration of which is to subsidise SME's entry in overseas fairs and exhibitions with broad range of advice and counselling. JETRO already subsidised a number of local industrial agglomerations for their overseas activities and international alliances. LL Exchange Program (Local to Local), started in 1996, which could facilitate and complement the Regional Agglomeration Revitalisation Law of 1997 and the Industrial Cluster plan of 2001, encouraged them to globalise and vitalise themselves by expanding markets or introducing technological achievements and design concepts on the basis of inter-cluster alliances, which was given emphasis on by M. Porter. Details will be given later, and JETRO also launched RIT (Regional Industry Tie-up) Program to succeed to LL.

Then, the problem is whether local industries and entrepreneurs could exploit these global opportunities and supporting policy measures to make successful business growth and to revitalise own local economies. There must be well established and sustainable strategies, operations and business systems among SMEs and their local networks.

6. Globalisation and local economies -- potential niches for SMEs

World economy has become borderless and unified year by year. The developments of transportation and information technologies made the world much smaller than before. Economic developments everywhere can also produce new emerging markets, as well as global production network and multi-national business corporations. Though this trend means dominating power of big multinationals, small businesses can also find plenty of niches everywhere which expanding world economy and individual national or regional economies offer. Rather smaller but unique markets or bunch of characteristic customers can be global niches collectively, advanced transportation services and information dissemination media such as Web network can give variety of merchandise to be sold everywhere at cheaper cost, and SMEs in the world can form and sustain own global partnership and alliance across the world to help each other.

Obviously emerging and growing Asian economies, such as China and India, are very

opportunities for all the businesses across the world. For instance, the China economy has been growing by around 10 % for more than a decade, and the average annual income per capita nearly exceeds \$4,000. Though it still keeps a huge population of poor peasants in most parts of the continent, middle and upper classes are enjoying advanced life and luxury imports, whose number would be 100 million supposedly if they occupy only 10% out of the whole population. This year car sales in China will record 16 million, which will be the largest in the world, without including agricultural vehicles and primitive electric powered ones. China is no more a simple low-cost factory in the world.

Not only in China or India, there are many rich populations in smaller countries. Asahi Shinbun August 16, 2010 carries a report that in Saudi Arabia ordinary people are very keen to access to Japanese imports and Japanese entrepreneurs have found there are a big business opportunity. In addition to Middle East countries, Brazil and Latin American ones will be the next growing opportunities, and we must remember there live so many old Japanese emigrants and some young generation frequently come back to Japan as guest workers. This means future potential linkage for Japanese business people to bridge across oceans as the small world network among Chinese immigrants.

Overseas entrepreneurs frequently give advices that Japanese businesses should take Asian or other emerging markets more seriously, offer information about Japanese products and services and establish new alliances with local businesses there. The representative director of the Bai-du in Japan, a successfully growing Chinese Web portal site company, cited a fact that Chinese consumers are making their very effort to catch the latest information in Japan by any means, and they often take advantage in keeping rather common characters, but also wonder why Japanese businesses do not yet offer information in Chinese language. Not only Chinese, but English and other Western languages are not so frequently used by Japanese SMEs when they would like to disseminate information for potential market and customers.

According to the JSMEA's estimation based on Census of Manufacturing 2007, the ratio of individual manufacturing enterprises which make exports differs corresponding to their sizes, from more than 55% of those with 1000 employees and more to 0.3% with 0-5 employees. However, this ratio must be carefully understood by recognising the fact that SMEs are mainly making indirect exports through their contribution as parts suppliers to big exporting manufacturers like Toyota or Sony. Before the 1970s, manufacturing SMEs' direct export ratio exceeded 50%, when local industries mainly sustained Japanese exports. In addition, the average ratio of exports out of sales turnover in SMEs is gradually growing in 6 years, from 2.5% in 2002 to 5.0% in 2008 (Nichigin Tankan (Short-term Economic Observatory)). As far as business operations abroad are concerned, the average ratio of overseas manufacturing turnover in SMEs is contrastingly low, 2.5% in SMEs and 27.5% in LEs in 2007 (METI Survey on Overseas Business Operations). The

ratio of those which own overseas subsidiaries is also contrasting, i.e. 12.1% in SMEs and 28.2% in LEs (METI Basic Survey on Enterprise Activities).

Some challenging SMEs, however, have been already expanding their global activities, including exports. Their main fields are Asia and their subsidiary manufacturing firms are mainly selling their intermediate goods or production equipment to Japanese counterparts in Asia (JSMEA Survey 2009). These trends prove that majority of SMEs are still supporting big Japanese customers as their prime suppliers, which is not so different from the typical image of Japanese production system in the 1980s at home and abroad. Though that image does not seem so exciting, just as an extended enlarged version of integrated and multi-tier Japanese system under the core big firm's powerful and tight control, which also does not demand supplying SMEs' serious efforts in independently managing overseas operations and marketing but they can rely on prime or attached customers' order, supports or help.

This does not necessarily true, and even small supplying firms in Asian regions are struggling to penetrate in new markets and to find new customers or business partners. In addition, some small and medium manufacturers independently established own production network in Asian regions, and succeeded in developing new products sellable in Japanese, third country or even local markets, with high quality, good design and reasonable costs. One of the most prominent success stories is about First Retailing Corporation, namely UNIQLO, which had started growing 2 decades ago from a small local apparel shop and became one of the most successful global businesses both at home and abroad, producing low cost but better quality daily clothes by tailoring a well organised supplying network in China. In contrast, Renown Company, which was once a leading apparel fashion manufacturer in Japan with a long prestigious history and nearly 10 thousand staff at the peak, was reported to be bought by a Chinese enterprise to survive and to resurge in global market.

As far as local industrial products are concerned, their local manufacturing firms cannot simply rely on big parental customers nor good wholesalers or sales agents anymore. Even though, many SMEs in local industrial districts have been trying to expand their sales or to develop alliances in overseas markets. According to the JSMEA's surveys above mentioned, SMEs operating in North America or Europe have established local sales basis, trading with local businesses and selling consumer goods mainly. Emerging and growing Asian markets will be their next targets, and actually many SMEs are now thinking of positive potentialities of Asian markets as their local marketing opportunities and expanding their operations (Shoko RI 2010).

7. Some lessons from international alliances of local industries and governmental supports

The follow-up report on the JETRO's Local to Local or RIT Programs clearly suggest a number of important lessons (JETRO 2008; 2010). Firstly, 4 stages of development in international alliances should be recognised; 1) Preparation stage, 2) Research stage, 3) Action stage and 4) Independent Development stage. The 4th Independent Development stage must be the target of all these assisted and subsidised projects under the JETRO schemes, but only small number of them have been already recognised to be on the 4th stage. The crucial requisite conditions to step up to that stage are; a) clear objectives and intentions concerning international alliance based on the characteristics of own local industrial agglomeration; b) attractiveness for overseas potential partners as an industrial agglomeration; c) potential partners which can be understood to be mutually complimentary each other; d) existing system or climate (milieu) which promotes local businesses' active participation and commitment; e) continuous and persistent relationship with international partners. These conditions are barriers for most projects to clear and to become a truly success story as an international alliance which can make big contribution to the local industry. At the same time, public funding supports sometimes failed in encouraging local entrepreneurs to commit proactively themselves in international projects with clear view and scope for their own business prospects, leaving local governments' or institutions' staff on the front.

Objectives must be clearly set, not as a vague idea such as information or technological exchanges, but a concrete, business-minded and feasible intension or purpose. For instance, a remote rural village in Tohoku Region succeeded in an international collaboration in flower cultivation business with New Zealand and Chilean counterparts. Farmers in Asiro, who are based on agricultural cooperative body and supported by a local research institute (City Floricultural Development Centre) made a clear strategic decision that their main product Rindo (Gentian) could be grown and sold world-wide despite fiercer competition against Chinese ones. Therefore, they started searching a counterpart in the Southern Hemisphere which could grow Rindo by using their own bio-technology method and export products to Japan or other part in the Northern Hemisphere when the latter is in Winter. A New Zealander research institute and farmers agreed and started a joint venture company in the late 1990s.

Both parties in Japan and New Zealand were able to offer different technological achievements, and in production and exporting they could be very complimentary and help each other. Their joint operations have been growing, started exporting to Dutch and European markets in the early 2000s, consigned production in Chile for the American market in 2003 and a joint breeding company to produce a new breed Red Rindo in 2005 which was developed by the New Zealander. Both also have registered common brand names and also plant and seeds according to Plant Variety Protection and Seeds Act, which can protect IPR globally.

As far as local business people's involvement are concerned, Asiro farmers established an incorporated association and made agreements with the local research institute. The association is not only a powerful R&D body, with an agreement that 2% out of total shipment value should be

deducted and invested for the R&D budget, as well as owning IPRs, and also promoting human and information exchange activities with New Zealanders. Many farmers visited there or received home stay. As their business is globally successful and growing, despite emerging competitors, Asiro people's international alliance is clearly independently operated by themselves, with very few ongoing governmental subsidies.

Local manufacturers in rather traditional industries, i.e. textile, apparel, food and drink, furniture, cutlery, pottery, lacquer ware, home ware or interior, as well as rather modern ones such as machinery, metal processing, electronics equipment, IT, medical engineering, pharmaceuticals, or contents and media, have been trying to develop successful international alliances for a decade by receiving JETRO's LL or RIT schemes or other public supports (JETRO 2008). Despite their efforts, out of nearly 200 subsidised projects 60% could be understood 'producing good results' in some senses, which does not necessarily mean high returns from business developments. This includes the achievements of originally planned objectives, actual contracts or exchange agreements, or various spillover effects for the local communities, and at least international activities have not been terminated or abandoned.

This does not be so disappointing facts. For instance, Takaoka City in Toyama Prefecture has been proud of its traditional copper casting products, which are mainly Buddhist statues and altar articles. In order to curb its long-term decline, due to the changing life style and expanding cheaper imports from other Asian economies, Prefectural government applied to the JETRO's LL scheme, the main objective of which was to develop new and high value-added products based on traditional skill and modern design concepts in European arts. Thanks to a home-grown prominent designer's effort in Milan, designers in Italy came to Toyama and many joint activities were done in both regions, including company visits, lectures, trade fairs and exhibitions. Though joint design developments are not successful, a leading foundry in Takaoka, Nosaku, has learned a lot from that project experience. Its present MD Mr. Katsuji Nosaku, who was not originally a local people but a stranger son-in-law, realised that its technological skill should be understood a world-class one and original designs could be created in-house or domestically, with less cost and more familiar concept. Nosaku's new product, an original concept wind-bell, scored an unexpected success as an interior accessory or decoration with modern sense and skilled workmanship. Nosaku successively made hits and its products are now exported world-wide, including NY MOMA's shop. It was also approved by the METI one of the Regional Resources Utilisation plans at the first stage, and admired as a best example of successful local industrial renaissance based on tradition and local resources.

Nosaku's success is also a rather twisted but impressive story how local industrial agglomeration could survive and be internationalised. 'New wine in old bottles' can be workable, when trying to globalise itself under a crucial pressure and challenging spirit, with fresh impetus, self-discovery, new ideas, concepts and restructuring for new products, markets and alliances. With keeping

existing partners and distribution network for traditional Buddhist products, it cultivated new markets and traders by itself, including a big department store in Tokyo. Another example is Hiyoshi-ya, a very traditional small Wa-gasa Japanese umbrella maker in Kyoto, which was nearly on the brink of closure. Its new MD Mr. Kotaro Nishibori, who was also a stranger son-in-law, made up mind to survive it by any means. One of his new business measures is to launch Web sales to find potential customers on a nationwide scale, and next was a perceptual change that traditional umbrella would be very difficult to claim more customers because of the life style change and very cheap imported ones, but that its classic design and image could be understood among interior designers. He made collaborations with designers, and has developed a new design lighting apparatus, named Kotori. It was supported by the JSMEA's Japan brand scheme and now making progress in its global sales. Very surprising underplot is originally Mr. Nishibori was a tax staff of a local government!

It does not matter who tries to play a leading role in local industrial districts, but the key to success exists in the necessity of his/her capability of finding own characteristic advantage or superiority as an industrial basis to demonstrate attractiveness and competitiveness for global partners and customers, needless to say about devoted commitment and sustainable effort to achieve business target and clear long-term objectives. Local industrial agglomeration, network and surrounding social background or cultural climate must be supporting his/her effort and challenge and promoting technological strategic ideas and actions, which could be developed by public policy scheme and local research or support body. Nevertheless, marketable products or services and market itself should be given the persistent and careful attention within the strategic business operation and development.

7. Conclusion - global opportunities for local SMEs and communities

After investigating and studying in 15 cases of Japanese SMEs which had succeeded in operating in the Asian emerging markets, as well as the overall trend and development of Japanese businesses there, JFC (2010) made a conclusion that a systematic development must be practised, concerning quality or brand maintenance, careful human resource management and local collaboration. In addition, the key secrets behind successful Asian operations are relying on the credence on Japan brands, materialising the authenticity aspiration in local niche markets, choosing the best distribution strategy fitting to the targeted market and establishing the best management system. As the local wealthy or leading customers are very keen to access and obtain the best products offered by Japanese businesses, they should understand and take advantage of their own excellence and superiority, and their long-term strategies and business system developments, including the choice of local partners, should be based on these product characteristics.

This JFC report can reinforce the above mentioned facts and findings.

In making a concluding summary, points for successful developments in innovating local industrial districts which can cultivate global market opportunities will be as following:

- a) Establishing a sound and solid vision and business strategy, supposing global market prospect and stepwise approach, under a stable and unshaken leadership
- b) Recognising the potentiality of various local resources, including skills, technology, knowledge base or even business systems^{*1}, and investigating new ways of their combined application and implementation under a novel rethinking
- c) Concentrating efforts on developing and producing really saleable marketable products or services, by responding to the markets and customers' concrete and actual needs, requests and voices
- d) Reviewing and restructuring the existing local production and distribution networks, and promoting more relevant, effective and unconstrained alliances and cooperation still based on local business communities

*1 In that sense, Japanese local industries still keep existing advantages for the development of regional innovation systems:

- 1) Manufacturing bases, including accumulated technologies and skills, and their revitalization should be regarded, as the existing advantage and future ways of development;
- 2) Existing universities, education bodies, as well as vocational training schools and public supporting or technology R&D institutes, should be paid more attention concerning their roles for developing learning regions and technology transfers;
- 3) Existing regional financial institutions, which are more than hundreds and strongly connected to local economies, based on mutual trusts, can play more indispensable roles;
- 4) Existing regional organisations, CCIs, Commerce and Industry Associations, entrepreneurs cooperatives or trade/ industry associations, independent SME federations and managers associations, can be good supporting infrastructures for local industrial clustering, which was seen one of the indispensable factors by M. Porter;
- 5) Inter-firm relationships and alliances, which have been part of industrial structure in Japan, including big and small businesses, should be considered as 'relationship assets' and supportive future developments of new business systems, as Japanese mode of 'industrial agglomeration' materialises well established division of labour, skilful cooperation and regulation. See Mitsui (2007a)

- e) Proactively disseminating information about own products, services or businesses themselves worldwide, by using different measures, expressions, languages and opportunities and promoting bi-lateral dialogues
- f) Making global alliances with best local partners which can sustain mutual win-win business relationship and often promote intangible and human collaboration
- g) Requesting and materialising effective, practical and specific public policy measures, including information offers, consultations and human resource developments
- h) Implementing a long-term and comprehensive development in local communities themselves, including keeping industrially proactive minds, fostering business/ internationally minded human resources^{*2}, and promoting creative, learning, plural, universal and open atmosphere.

Communitarian environment and mutual trust building, which facilitate smooth communication and cooperation with less uncertainty and cost in individual local communities, should be still promoted and materialised, but at the same time innovative upgrading and proactive approach to national or global markets, as well as new ways of thinking and creative actions, are very indispensable for the survival and renaissance of local industrial districts. Local advantages are still working and keep high potentiality, if they are effectively exploited in the global market by local SMEs' devoted efforts.

*2 Not only universities, colleges and technical schools in individual regions, but some public institutions are cultivating internationalised human resources who could work for businesses in their overseas operations. JODC, an independent body, mainly supports SMEs' overseas operations and also trains their staff and future ones, as well as sending experts across the sea. Several organisations, including JODC and AOTS, are receiving trainees from developing economies to give technical or management training who can help Japanese businesses in their motherlands afterwards.

APPENDIX

Asahi Shinbun August 16, 2010

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