EU-JAPAN CENTRE FOR INDUSTRIAL COOPERATION
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An Assessment on the Sources of Finance and Business Support for EU SME's Seeking to Internationalise in Japan

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EXECUTIVE SUMMARY: Sources of Finance and Business Support for EU SME's Seeking to Internationalise in Japan

Aims of the Project in Context

This report is concerned with sources of finance and business support for internationalising European SMEs. Whilst relevant to the process of internationalisation more generally, the report focuses particularly on Japan as a source and destination of internationalising business. Previous research, some of it commissioned by the European Commission has identified finance as the most consistently reported barrier faced by SMEs internationalising. However, more detailed investigation typically shows that the problem here is associated with a shortage of working capital rather than by financial constraints on SMEs more generally.

The methodology is mainly desk based using internet sources supplemented, where possible, with information provided from national sources.

It is important to recognise that internationalisation involves more than just export activity. It includes an increase in competition, for example, in domestic markets and also refers to the internationalisation of capital and loan. This study focuses particularly on export finance for exporting and/or foreign direct investment.

Japan is an attractive market for European companies because of its size, the disposable income of its population and the effective and high wealth index, which contributes to demand for higher value-added products.

As a highly developed economy and a major global investor Japan is a potentially important partner for European SMEs. It is also the third largest economy in the world and in practice is a major trading partner for the EU. The investigation suggests that there is unfulfilled potential for increasing investment by European businesses in Japan. Moreover, it can be argued that there are a number of factors combining currently which point to this being an appropriate time to consider how best to increase investment activity. First of all the low Yen exchange rate has increased the attractiveness of Japan as an investment destination. It is also the case that, given the technology level of businesses in Japan, those countries in Europe which aspire to increasing their investment of this type, should actively consider Japan alongside other possible markets.

The study investigated the sources of finance and business support for European SMEs that were internationalising their activities and, in particular, internationalising into Japan. The important contribution that SMEs make to the European Economy, particularly in terms of employment, means that policy makers are keen to ensure that the development opportunities for European SMEs are exploited. In this context internationalisation represents an opportunity for SMEs to develop new markets as well as finding new sources of components and other inputs. That being the case, it is important to ensure that Europe's SMEs, or at least those that have the potential for internationalisation, are not prevented from doing so by market failures or other barriers that may be eased, if not eliminated, as a result of policy intervention.

Finance and business support from national sources

The finance for internationalisation which is examined in this study, may be divided into two broad categories. The first is export credits and export credit guarantees and the second is funding to facilitate longer term collaboration, which these days tends to focus particularly on technology based programmes.

Most EU member states have some form of export credit guarantees to remove some of the risks that businesses can face when exporting. This is particularly important in the case of smaller companies, where the more limited internal resource base means that non-payment or seriously delayed payment, can cause cash flow problems.

At the same time, there is considerable variation between countries not so much the structure of these export credit systems, but, more particularly their behaviour. Since the risk reduction associated with export credits and export credit guarantees is often shaped around the specific export structure of individual countries, nevertheless there is a fair degree of similarity in the way these systems operate. Other barriers that represent particular challenges for small firms include the financial costs involved in internationalisation and the lack of access to credit, as well as gaps in market knowledge and language skills and insufficient resources and expertise to carry out market research.

Although the variation between European Union countries in terms of the financial support offered to exporting companies there was nevertheless some examples of good practice behaviour that are worth disseminating more widely. One example is the German pool programme, another very similar programme is the Italian Consortia programme. In both cases these programmes provide a focus for financial assistance that goes beyond the principles of export credit and export credit guarantee.

A combination of time and resource constraints made it impossible for all 28 member countries to be investigated in detail. As a consequence, a selection of countries was made, attempting to capture the heterogeneity that exists within the EU. In this context, UK, Germany, Ireland, France and Italy were included as examples of Mature Market Economies; Poland and the Czech Republic as examples of New Member States that were previously operating under central planning; Denmark as our Nordic champion, and Portugal to represent countries in the south and south-west of Europe.

Sources of Finance and Business Support at the EU level

Since the competitiveness of Europe's SMEs affects the European economy, and all those countries that are part of it, the EU adopts a strategic view with regards to competitiveness, the barriers to it, and how these might be addressed. An important role of the EC in this regard is information provision to try to ensure that Europe's businesses are fully aware of the opportunities they have to access funding and business support. Another role is the dissemination of good practice across Europe.

Two financial instruments that became available in August 2014 are helpful from the point of view of increasing access to finance for SMEs. One of these products to be funded from the COSME budget (€1.3 billion) is the loan guarantee facility, where the aim is to help financial intermediaries to provide more loan and lease finance to SMEs. It has been estimated that the impact of this measure will be substantial because of leverage effects. With every Euro invested in loan guarantee expected to release up to €30 of financing for SMEs the EC expects as many as 330,000 will receive loans backed by COSME guarantees, in fact, mainly micro enterprises employing ten or less.

The second financial instrument, which is part of the COSME budget, is dedicated to investment enriched capital funds that provide venture capital and mezzanine finance for the expansion and growth phases of SMEs, particularly those that operate across borders. This programme is known as the Equity Facility for Growth ('EFG'). In this case it is anticipated that around 500 firms will receive equity financing through the programme. At the same time, whilst these measures may contribute to an increase in finance for exporting SMEs, they are not specifically focused on this purpose.

In terms of its role in disseminating information relevant to businesses, in general and internationalisation in particular, the most common way of the EC doing this is through websites. In this regard there are five portals used for this purpose, the Enterprise Europe Network, the SME Internationalisation portal, the Internationalisation of Clusters, Your Europe business portal and the European Small Business Portal.

In terms of business support a key element in the EC's offer is the Enterprise Europe Network, which offers help and advice for small firms in all EU matters, including accessing markets inside the EU and beyond. In Japan the EU-Japan Centre for Industrial Cooperation adopts this role, thereby both representing an entry point for Japanese businesses interested in trading or doing business in Europe, as well as providing some support for European SMEs that are entering the Japanese market.

An important part of the EUs role in relation to business support is channelled through the EU-Japan Centre for Industrial Cooperation, which is co-financed by the EC and the Japanese Ministry of Economy, Trade & Industry. In EU terms the Centre is part of the concept of a global platform to provide EU companies with relevant information about business with third countries. The EU-Japan Centre for Industrial Cooperation is long established, although, its strategic priorities have recently been reassessed and, currently, the main strategic priority is to reinforce the support given to SMEs, with a particular focus on the internationalisation aspects. This is in addition to other activities such as policy analysis, technology transfer, business round tables and others.

Overall the objectives of the Centre are to contribute to developing business support and knowledge access to business opportunities in each other's markets, combined with a more fundamental diplomatic function which has emerged over time, although it may not fit well with the business support function that the Centre is now actively developing. New measures that are being developed within the business support function in the Centre include the formation of a Japan tax and procurement public helpdesk for SMEs and, secondly, a so-called 'Keys to Japan' service which involves selected SMEs being sponsored for a draft business plan being developed for expansion into the Japanese market. Whilst such an entry needs to be adequately researched and translated into business planning it is questionable whether a model where a third party develops the business plan to be distributed to participating businesses is the most effective approach. This is because the principles of business planning may be more important to the firm than the possession of a business plan. The later may only be of a value as a tool for accessing external money. When it is considered that the EU-Japan Centre offers training, policy analysis, seminars, business round tables, it is questionable as to whether grafting on a business support function to such a Centre, is the most appropriate form of action.

There are a number of EU programmes which may contribute to increased cooperation between European and Japanese businesses in the medium and longer-term. However, SMEs inevitably need some help in identifying and exploiting these opportunities. One example is JEUPISTE (Japan & EU Partnership for Innovation, Science and Technology). Preparation for Horizon 2020 is a specific example of this. In this regard, the SME instruments include business innovation grants for feasibility assessment purposes, business innovation grants for innovation, development and demonstration, and business coaching to support and enhance the firm's innovation capacity. This investigation shows that finance and other resources required for internationalisation by SMEs, can be obtained from EU sources as well as from national ones. The current basis of the EC approach is set out in the Small Business Act which contains an advisory component, delivered through the Enterprise Europe Network, and a financial component which is largely as that set out in the COSME programme. Without speaking to a significant number of businesses it is difficult to judge whether or not this is adequate and, secondly, the extent to which Europe's SMEs actually know about it.

Sources of Finance for European SMEs in Japan

There would appear to be a close synergy between the current objectives of the Japanese government and EU member states. On the Japanese side one of the policy objectives currently is to increase the volume of foreign investment into Japan, clearly increasing the level of internationalisation. On the EU side the EU has an interest in assisting it's enterprises to internationalise by helping to reduce some of the barriers to internationalisation.

There are signs that sources of finance for European SMEs are beginning to emerge in Japan. Indeed some key informants interviewed for the project suggested that some of the existing funds available in Japan were open to European SMEs as well as domestic ones. However since we have no independent evidence of this, we cannot state that it actually occurs. Nevertheless, there is a growing interest in it both from national government, because of the commitment of Prime Minister Abe to increasing direct foreign investment into Japan, but also because of the interests of some local governments to try to attract more mobile investment into their territories. As a consequence, a number of major Japanese cities are claiming they have financial help available for European companies who are interested into moving into Japan. On paper at least it would seem that JFC is a potential source of funding for foreign SMEs interested in setting up in Japan, particularly if they are doing this in cooperation with local firms, however at present there is little evidence of foreign companies receiving financial help from JFC.

The Japanese government is also promoting global alliances for Japanese mid-ranking companies and SMEs under a new scheme by METI. This suggests that there is scope for new levels of cooperation between European and Japanese businesses.

Although Japan has come a long way in terms of reforms of regulatory barriers and other unnecessary bureaucracy, the current regulatory frameworks are not as liberal as many in Europe. This issue needs to be addressed if Japan is to be really successful in attracting European businesses to invest in the country.

Recommendations

1. Although all EU Member States have some form of export credit guarantees, there is considerable variation between countries in the scope and orientation of these measures. **It is recommended that the European Commission establishes minimum standards for these financial measures**, which includes some provision for assisting with working capital.

2. Whilst late payments and, the threat of non-payment, affects firms of all sizes, small businesses are particularly affected because of their more limited internal resource base. Therefore **it is recommended that all EU Member States review their practices in this regard, in order to minimise any unnecessary costs falling on SMEs.** Moreover, it is recommended that the European Commission takes steps to actively disseminate good practice across the EU in this regard.

3. Whilst this study is specifically focused on finance, and finance is undoubtedly one of the major barriers to internationalisation for SMEs, it is not the only one**. As a result, it is strongly recommended that the European Commission takes a broad perspective of the barriers to internationalisation and doesn't become overly focused on finance**.

4. The investigation revealed that sources of finance for European SMEs are available in Japan. Some of these are national, such as JFC; others are local or regional. Moreover it was claimed by many of the key informants in Japan that these funds were available to foreign SMEs as well as domestic ones. **It is recommended that these sources in Japan are actively promoted in Europe provided that evidence is available of European businesses benefiting from this finance**.

5. The EU-Japan Centre for Industrial Cooperation has done an excellent job in developing and diversifying into a portfolio of services performing a number of roles. At the same time, **we recommend that the Centre's activities should be better promoted in the EU Member States and better synergised with the business support activities of the Member States (Chambers of Commerce, etc)**. The periodical evaluation of the Centre's activities, which is made by the European Commission should pay particular attention to the experiences and views of European businesses that have either made use of the services of the Centre or are interested in exploring the possibilities of entering Japan to see to what extent they are familiar with the services offered by this Centre.

6. **It is recommended that the strategic partnership agreement currently being negotiated between the EU and Japan–should be used as a basis for the active promotion of Japan as a location for European Investment**, working in close cooperation with the national government, as well as those local authorities that are interested in attracting European investment. This partnership needs to pay particular

attention to the image of Japan in the minds of business owners and entrepreneurs. Japan is an important trading partner for the EU; specifically the second biggest trading partner in Asia after China. Similarly Europe is an important market for Japan and a major target for Japanese investment. As a consequence, both Japan and the European Union have a strong vested interest in continuing to build the framework for international collaboration.

7. One of the more imaginative approaches to export promotion, which incorporates a framework for finance provision, is the German IHK Company Pool programme. **We recommend that this is independently evaluated by the European Commission to see to what extent it could be rolled out across Europe as a successful model**.

8. Taking a long-term view of the internationalisation processes, the extent to which a country is investing in research and development is likely to have some bearing on its medium and longer-term competitiveness. As a consequence, it is in the interests of the economy as well as businesses themselves to participate in longer-term projects which lead towards increased internationalisation. **It is recommended that the Irish model of providing financial support for participants in Horizon 2020 bids should be actively disseminated across the European Union**, particularly where the participants are SMEs and the project would seem to have potential benefits in terms of the competitiveness of businesses.

9. Policy makers and others often speak of exporting and internationalisation as if the two are synonymous. It is important to recognise that there is more to internationalisation than just exporting, in fact there are a range of internationalisation processes of which exporting is just one. **It is recommended that European Union policy makers recognise this fact and show willingness to assist European firms looking for new sources of supply as well as for new markets**.

10. **We recommend that the European Commission actively disseminates and promotes the recommendations of the OECD Working Party on Export Credits and Credit Guarantees**, specifically with regards to the encouragement of small firms and the adaptation of the providers of support to the needs of small businesses.

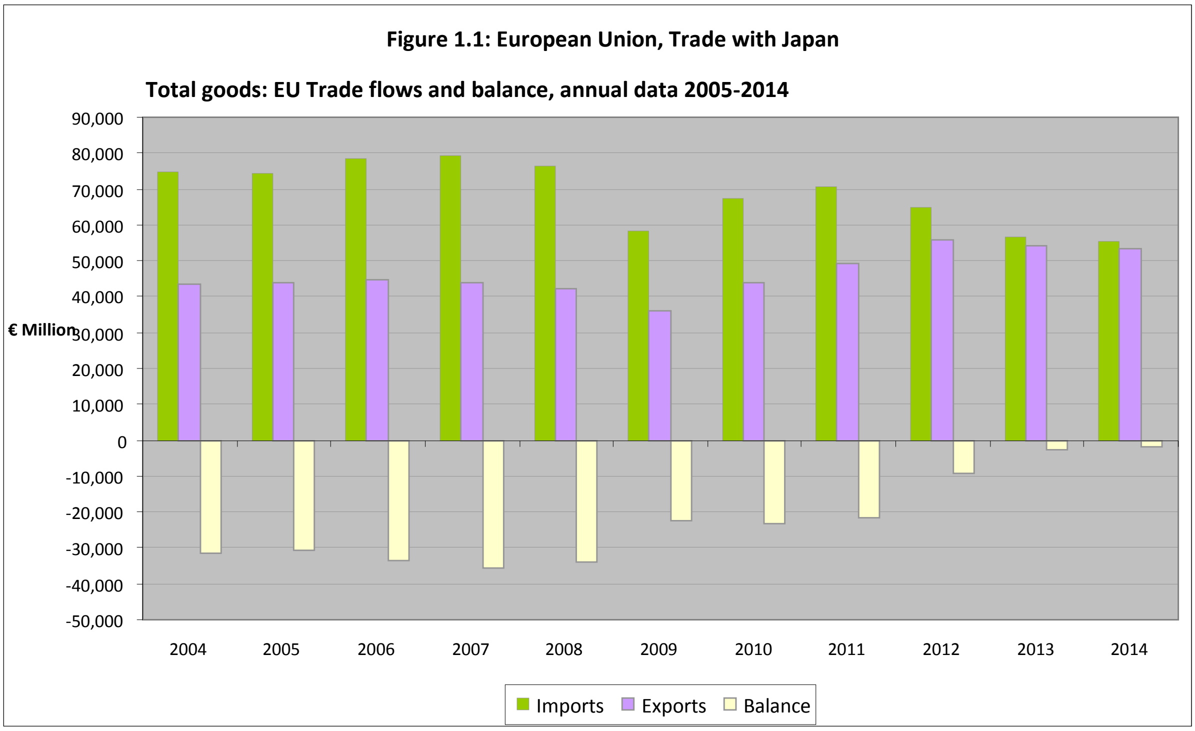
Chapter 1 – INTRODUCTION

This report is concerned with sources of finance and business support for internationalising SMEs. The context of the study is the research evidence which consistently shows that the shortage of finance and, specifically, the shortage of working capital is one of the main constraints for SMEs seeking to internationalise their operations.

An important part of the justification for the study is the result of investigations into the barriers that SMEs face when seeking to internationalise. This is in terms of exporting or establishing a base in foreign markets, which may involve establishing a production plant and/or a sale office and/or some form of collaboration with a foreign partner. With respect to exporting specifically, survey evidence consistently shows that the most commonly identified barrier by businesses themselves is finance. While some of this may be connected with the fact that finance is one of the most commonly reported challenges for small business owners and managers, if there is evidence that the financial markets for SMEs do not work efficiently then there is 'a priori' case for intervention.

In this context, within Europe, there is strong evidence to support the proposition that SMEs contribute significantly to economic progress and development. Policy makers often take an interest in SMEs seeking to internationalise, because of the growing role of SMEs in the economy as well as to employment. One of the largest and most comprehensive studies on internationalisation was commissioned by the European Parliament some years ago and undertaken by a European consortium (EIM 2010). What the EIM report shows is variation in the nature and extent of financial constraints between sectors which, not surprisingly, tends to be more prominent in the case of manufacturing enterprises than service firms.

As Figure 1.1 shows over the period from 2005-2014 the European Union's trade with Japan moved towards balance. What was a substantial trade deficit in 2005 has now been largely eliminated as exports have grown and imports have declined. There tends to be a negative correlation between the size of an SME's home country population and its level of international activity. As a consequence, smaller countries such as Estonia, Denmark and the Czech Republic have a much higher percentage of exporters than the EU average (25%); whereas France, Germany and the UK score below this figure.



Source Eurostat Comext - Statistical regime 4
but seen in European Commission
http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113403.pdf

As a highly developed economy and a major global investor Japan is an important partner for the European Union. It is also the third largest economy in the world. Historically the trading relationship between the EU and Japan has been characterised by a large trade surplus in favour of Japan but, as previously noted, the trade figures have become much more balanced over recent years. In order to facilitate the trading relationships between the EU and Japan a number of informal bilateral dialogues have been established. For example, a cooperation framework has existed since 2004 and an EU-Japan Business Roundtable was established in 1999. Against this background the EU is currently working with Japan to establish a new framework for bilateral trade relations and is negotiating since March 2013 a Free Trade Agreement which hopefully will be concluded by 2017. This emerged initially from the EU Japan summit in May 2001. One of the objectives on the EU side was to get Japan to remove a number of, what from the EU perspective were perceived to be non-tariff barriers. In 2012 the Council authorised the European Commission to start negotiations with Japan and the first round of negotiations took place in April 2013. In addition a strategic partnership agreement between the EU and Japan is being negotiated in parallel with a free trade agreement.

Japan is an important trading partner for the EU. It is the second biggest trading partner in Asia after China. Together the EU and Japan account for more than a third of the world's GDP. Moreover, Europe is a very important market for Japan. Japan is also a major investor in the EU. Imports from Japan to the EU are dominated by machinery, electrical machinery, motor vehicles, optical and medical instruments and chemicals. The EU exports to Japan are dominated by motor vehicles, machinery, pharmaceuticals, optical & medical instruments and electrical machinery.

Based on what the European Commission describes as conservative assumptions about the extent of cost reductions in the EU and Japan, the Copenhagen Economics Model 2011 projects GDP increases for the EU of 0.34% by 2020 (Sunsesen et al 2009). For Japan the increase in GDP is estimated to be about 0.27%. Under conservative scenarios EU exports to Japan are predicted to increase by 22.6% whilst Japan's exports to the EU will increase by 17.1%. In this context, finalising the free trade agreement would seem to be a significant step for the European Union as well as for Japan.

Chapter 2 – FINANCE FOR EU SMES SEEKING TO INTERNATIONALISE: SOME KEY CONCEPTS

The sources of funding for internationalisation may be divided into firstly financial assistance for exporters in the form of export credits and guarantees that lay the basis for longer term international collaboration and secondly finance to assist firms seeking to invest abroad to ensure the experience is a profitable one.

Clearly financing is essential for international trade and the official credit export agencies, play a key role in providing, guaranteeing and insuring such finance. The OECD focus particularly on medium and longer-term export credit business (over 2 years) rather than shorter term (under 2 years). The working party of the OECD on export credits and credit guarantees has presented initiatives taken to encourage the globalisation and export activities of small firms which include streamlining processes, information services and special export related products.

Export Credit

Most European countries make some form of finance available to businesses interested in entering, or increasing their activity in, export markets. This reflects the fact that there are economic benefits to the economy as a whole that stem from export activity operating through multiplier effects to increase employment and income. However, businesses that seek to enter foreign markets face some challenges which may threaten the viability of their internationalisation strategy. It is these firms that governments seek to offer help, particularly smaller businesses.

When an exporter receives an order to supply goods or services to an overseas buyer it can ask to be paid up front, in other words, at the time the buyer places the order, or before the goods and services are delivered, if the exporter requires time to make the goods. From an exporter's point of view this is a safe way of exporting because the exporter knows it will get its money before the goods or services are actually delivered. At the same time, this type of approach may mean that the exporter will not enter into as many export contracts as it otherwise would because its buyers require time to pay. Most buyers these days require credit from their suppliers. One could imagine that a buyer might be unwilling to place an export order unless it is possible to pay for the goods and services only when they have been delivered. This means that the exporter needs to offer some credit before the buyer will actually pay, unless the exporter fails to receive payments. In the UK it is reported that most exports are sold on short credit terms, usually up to 180 days.

When giving credit to its buyer an exporter faces two particular problems:-

- it has to wait for its money, which effects its cash-flow; and

- it is exposed to the risk that the buyer can't or won't pay for the exports. It maybe, for example, that between the time the exporter ships the goods and they arrive at the buyer's premises, the buyer may have gone bankrupt and is thus unable to pay, which could lead to the exporter becoming insolvent if it involves a large sum of money.

To deal with these issues an exporter can go to their bank or specialist financial institution to help them to get finance, or a credit insurer in order to get insurance against the risk of not being paid, but, if some exporters are unable to get help from these private sources, a government agency may well be able to assist. In the case of the UK the agency is UK Export Finance.

These risks can represent a bigger problem for smaller companies because their more limited internal resource base means that, unlike larger firms, they are likely to be in a less resilient position should, for example, a buyer goes bankrupt. So, therefore, many governments justify their intervention in this field by linking to the needs of small companies who, it may be argued, are not in the same position as a large firm entering into, and successfully exploiting, foreign markets. The share and type of export credits extended to SME exporters varies across countries.

Essentially foreign buyer of exporter's goods and/or services to defer payment over a period of time (OECD 2001). Export credits are generally divided between short-term (those under 2 years), medium-term (usually 2-5 years) and long-term (usually over 5 years). These export credits may take the form of supplier credits (which are extended by the exporter), or buyer credits (where the exporter's bank or other financial institution lends to the buyer or their bank). Public policy support through export credit agencies maybe provided as (1) pure cover – i.e. insurance or guarantees given to exporters or lending institutions without financing support; (2) financing supporting i.e. direct credits, financing, refinancing and interest rate support; and/or (3) aid financing i.e. credits and grants.

In the EU it is reported that short-term credits have been mainly privatised (OECD undated). A communication of the European Commission to the EU member states stipulates that official export credit support should not be provided for marketable risks (EC 2001).

In many countries small businesses are major clients of export credit agencies with the vast majority of the latter not having a special category of products designed for SMEs. At the same time some export credit agencies are designing export related products and services with the needs of small business exporters in mind.

Table 2.1. Examples of special products for small exporters

	Short-Term Products	**Medium- and long-term Products**	**Other products**
Austria			*Osterreichischer Exportfonds BmbH*
Belgium (OND)	SME policy and whole turnover policy		
Denmark (EKF)	Reinsurance agreements for small firms; portfolio agreements with banks to cover ILC confirmation	Portfolio coverage of all medium-term transactions of small firms	
Finland			Financing and guarantees to support SME working capital needs and internationalisation efforts
Germany (HERMES)	Simplified comprehensive cover scheme for SMEs	*Small Buyer Credits*	
Hungary (MEHIB)	Partner package for SMEs		Insurance against exchange risk for SMEs
Netherlands		Export Credit Insurance	*Starters in Foreign Markets* programme
Poland	Special provisions for export credit insurance for SMEs, including for high risk countries and foreign market entry costs.		
Spain	*Policy 100* for SMEs		
Sweden (EKN)	New short-term guarantee for SMEs to be introduced in 2003.		
United Kingdom		*Recourse Indemnity Policy*	Increase in amount of foreign components in UK exports

Source: http://www.oecd.org/tad/xcred/2634848.pdf

However, it is reported that a growing number of OECD countries are introducing short-term products such as export credit insurance and export related capital guarantees that are specially designed for small exporters. In addition there are several countries in special short-term insurance schemes for small exporters. Examples include Belgium, Hungary and Poland.

EU Countries that have medium and longer-term products specially designed for SMEs include Germany, the Netherlands and the UK. In Germany, for example, since 2001 there has been a global credit policy enabling SMEs to obtain cover for small buyer credits up to €5,000,000. The Netherlands provide medium and long-term export credit insurance for all exporters including SMEs.

Other products offered to small exporters by export credit agencies can also be identified, which do not fall within the timeframe of short, medium or longer-term. These include programmes for the provision of insurance against exchange risk (Hungary) and general financing to support domestic operations and the internationalisation efforts of SMEs (Finland). The Netherlands has a Start-Up in Foreign Markets programme which provides support up to €9,000 to firms with less than 100 employees that wish to export for the first time. Similarly in the UK there has been increase in the amount of foreign components permitted within a UK export on transactions of up to £10,000,000, which is an attempt to assist smaller exporters.

It can be argued that Europe's export credit agencies and development banks have a necessary and increasing role in influencing the success of European exporter's in developing markets (Picha, 2014). Firms that take advantage of national export credit and guarantee programmes can gain significant competitive advantage in expanding into developing markets worldwide. However a key point Picha, 2014) is that, in order to withstand the pressure resulting from increasing market competition, it is often necessary for exporters to develop tailor-made solutions at a higher level of value added. The provision of subsidised credits to domestic firms is a potentially important policy tool in many emerging markets and is particularly widespread in export sectors. Countries like Japan and other East Asian economies have relied heavily on export credit policies and. during the latter half of the 20th century, experienced export growth rates in excess of 20%.

A key argument developed by Picha is that government banks' export credit agencies (ECAs) were established to provide protection to exporters against possible risks in foreign markets and to assist in making export credit terms competitive with those offered in other countries. In his paper, Picha focuses on the construction sector, which continues to demonstrate poor market conditions without significant signs of recovery. Since Spring 2008 the level of construction in the EU has been more or less in constant decline. The only part of Europe where the situation is somewhat different is in the developing economies of Eastern Europe – where neglected public infrastructure has attracted investment in order to improve it. Construction is a sector which, due to very large volumes of exporting, provides guarantees. Guarantees issued by government controlled export credit agencies. Export Credit Insurance fills the gap that exists amongst commercially oriented insurance tools so that without State coverage neither contractors nor financing banks would have sufficient confidence to participate in these construction projects.

An ***Export Insurance Policy*** insures an exporter against the risk of not being paid under an export contract, or of not being able to recover the cost of performing that contract because certain events have prevented its performance or lead to its termination. The way that it works is that an exporter may incur costs before delivering goods and providing services to the buyer, for example, it may need to buy raw materials, manufacture parts or hire additional staff. The policy provides cover against the exporter not being able to recover these costs because of the incurrence of an insured risk which leads to the contract's termination or prevents its performance. Moreover, as goods are delivered, the exporter may become entitled to payments under the terms of the contact.

The Export Insurance Policy provides cover to the exporter against non-payment of those amounts where the exporter has fulfilled his or her contractual obligations. As the goods are delivered the exporter may become entitled to payment under the terms of the contract. One of the features of the UK offer is the development of an interactive toolkit to support brokers seeking to access the Export Insurance Policy. In order to obtain this export insurance cover there are a number of criteria that must be met by the business:-

- the exporter must be carrying on business in their country;

- the buyer must carry on business overseas;
- in cases where the buyer is located in one of the high income countries (which in the case of UK includes Japan) Export Finance is not available.

The benefits of an Export Insurance Policy such as this are that up to 95% coverage is provided to the exporter and the exporter is covered against loss suffered due to specified risks. These include the insolvency of the buyer; the buyer's failure to pay an amount due under an export contract; political, economic or similar events outside the country that prevents payment from the buyer under the export contract; and lastly, hostilities outside the country] will affect the performance of the export contract.

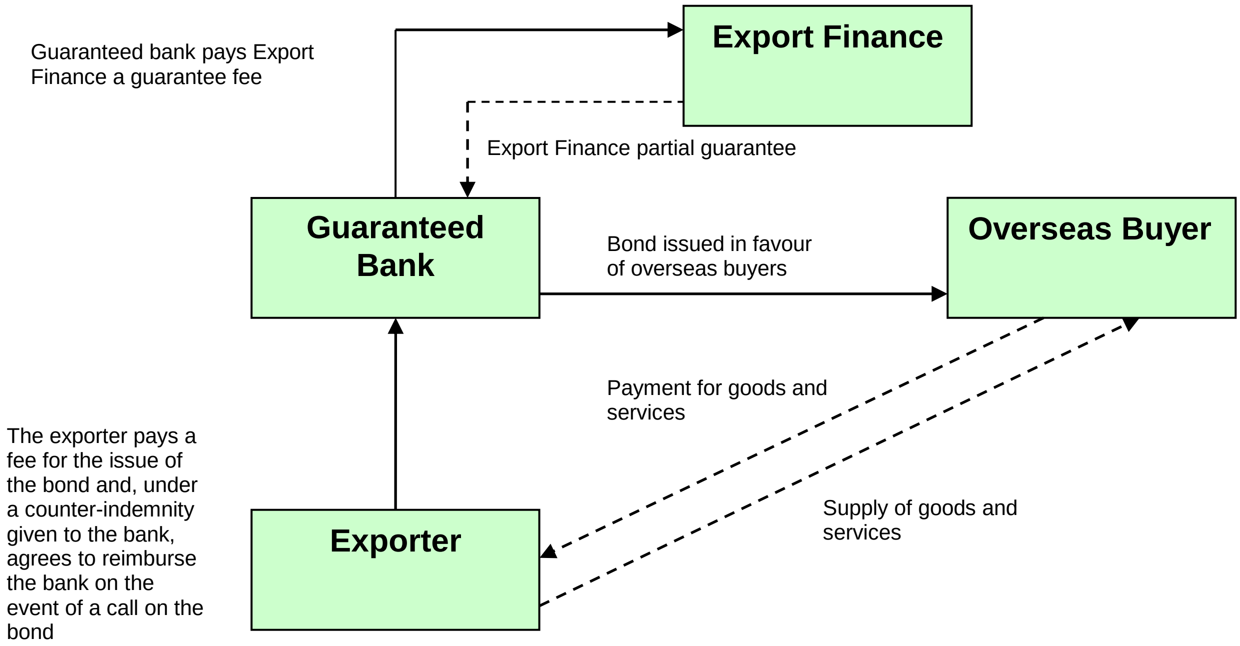
Another export finance measure which some countries use is a ***Bond Support S*****cheme**, which provides partial guarantees to banks in support of exports, so that where a bank issues a contract bond (or indemnifies an overseas bank providing the bond) The proportion of the Bond that is guaranteed can vary between countries. In the case of the UK it is 80% of the value of the bond. The benefits of the Bond Support Scheme are that the guaranteed bank is able to issue the bond or indemnify an overseas bank providing the bond. Secondly, the bank receives a guarantee from the government agency to cover the percentage of the amount due to it if the exporter fails to reimburse the bank; and thirdly, the bank may, for the duration of the guarantee, be able to increase its risk appetite for the exporter.

In terms of eligibility, the exporter must be carrying on business in their own country. ***Bond Insurance Policies are*** available to eligible exporters where a bank issues a bond on their behalf to an overseas buyer or a counter-guarantee to a bank in the buyer's country as a condition of the export contract. The Bond Insurance Policy protects the exporter against loss resulting from either the unfair calling of the bond or any related counter-guarantee or, secondly, the fair calling of the bond due to certain political events.

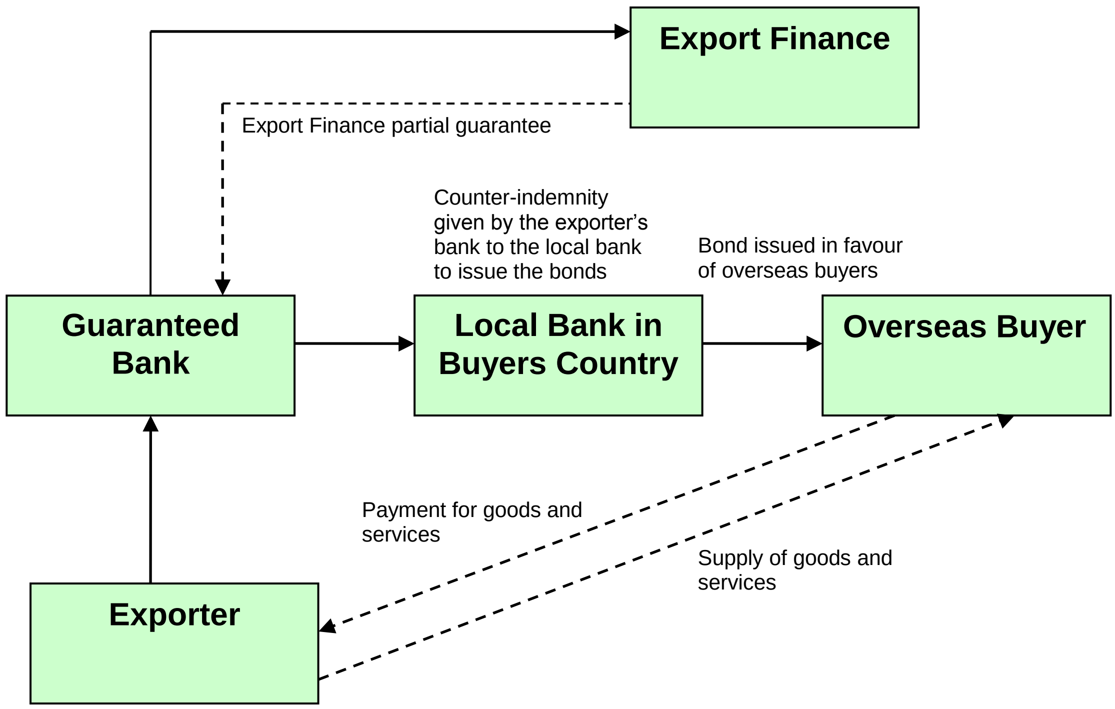
Figure 2.1

Bond Export Scheme

How it works



How it works if a local bank is required to issue bonds

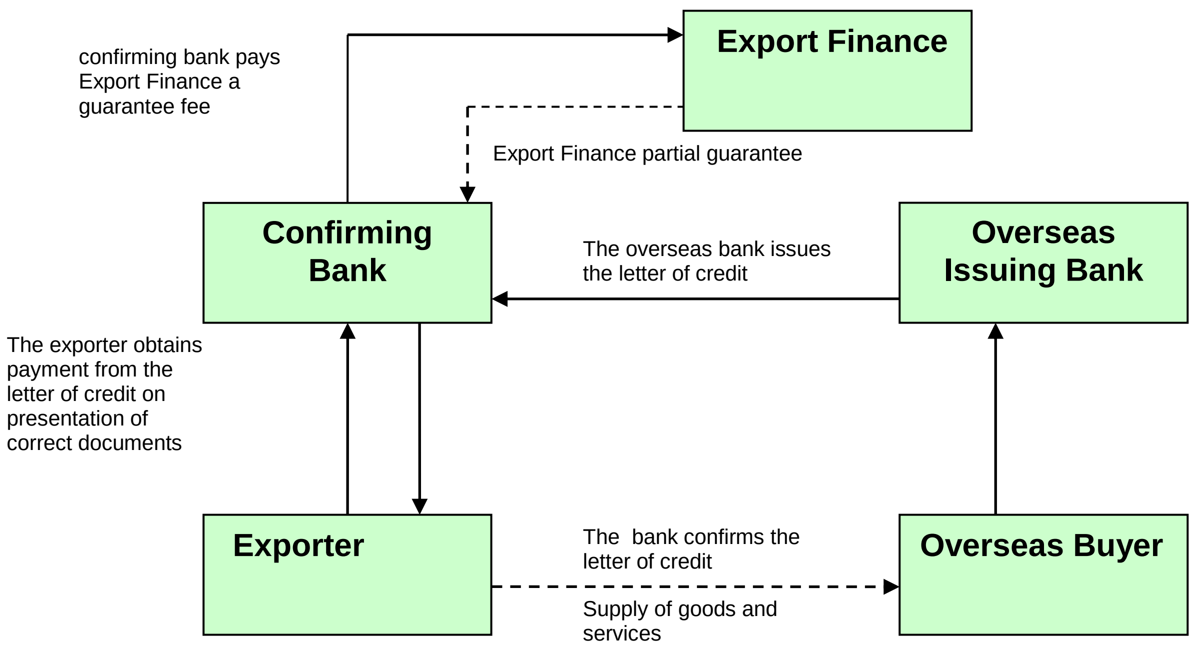


Some governments offer Export Working Capital Schemes, which are probably the most important type of support that governments can offer to their exporters, particularly SMEs, where delayed payment is a common cause of cash flow difficulties. This is potentially an important part of the portfolio of assistance available to exporters. When survey results show finance to be typically the most important constraint which businesses (particularly SMEs) face when internationalising. It is the impact on working capital which is the main problem rather than finance for investment.

This is where a bank adds its confirmation to *a* ***Letter of Credit Guarantee Scheme*** issued by an overseas bank to finance an export from the host country. This scheme is typically aimed at a guarantee between 50-90% of the value of this Letter of Credit. The main benefit for the exporter is that it is protected against default, either by the foreign buyer or the foreign bank.

Figure 2.2
Letter of Credit Guarantee Scheme

How the scheme works



Small exporters

Many OECD countries have introduced into their official export credit systems special schemes to provide assistance to smaller exporters through export credit agencies. These initiatives typically include information provision, fast track application procedures, special export insurance guarantees and other products. Such programmes have in part been prompted by difficulties experienced by smaller enterprises when applying for and receiving export credit and related services. The complaints from smaller companies including burdensome procedures and paperwork, the high cost and complexity of accessing the policy support available, the lack of adequate risk coverage, insufficient export credits and the need generally to get more support for smaller exporters.

With regards to export credits most countries define small exporters by the number of employees, the value of sales or turnover, or some combination of these (Table 2.2) shows how a selection of European countries actually define small exporters for the purpose of export credits. There can also be detailed differences between countries in terms of whether or not small sub-contractors are eligible for export credits. Some countries such as Poland explicitly include small firms acting as sub-contractors. Other countries do not necessarily follow this and the OECD reports that the majority of countries do not extend assistance with export credits to sub-contractors. The UK, for example, propose to assist exporting SMEs directly rather than helping the suppliers to larger firms, which is one approach. Many export credit agencies have introduced streamlined or simplified application and review procedures for export credit services for small companies. Since smaller exporters are usually less experienced and require more hand holding to guide them through an export credit system they generally have rather different needs than those of larger firms.

Several initiatives may be identified which aim to assist small firms in obtaining working capital to initiate or extend their export activities. Within Europe Finnvera in Finland is an example of an organisation which has financing and guarantee products to support the financial capital needs of SMEs. Some export credit agencies have also developed special programmes aimed at private sector intermediaries such as banks, insurance companies and brokers in an attempt to encourage SME exporting activities in these organisations.

Table 2.2: Definition of small exporters

COUNTRY	EXPORT CREDIT AGENCY	DEFINITION
Austria	Oesterreichische Kontrollbank Aktiengesellschaft (OeKB)	Common European Union definition
Belgium	Ducroire/Delcredere	Annual turnover not exceeding EUR 5 million and overseas exports not exceeding EUR 0.62 million
Czech Rep	Export Guarantee and Insurance Corporation (EGAP)	Common European Union definition
Denmark	Eksport Kredit Fonden (EKF)	No specific definition for SME exporters
Finland	Finnvera plc	Common European Union definition
France	Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	No specific definition for SME exporters
Germany	Hermes KreditversicherungsAktiengesellschaft (HERMES)	Maximum 500 employees
Greece	Export Credit Insurance Organisation (ECIO)	No specific definition for SME exporters
Hungary*	Hungarian Export Credit Insurance Ltd. (MEHIB) Eximbank	Maximum 250 employees, less than 4 billion HUF (USD 16 000) turnover or maximum balance sheet total of 2.7 billion HUF (USD 10 800) and fulfils the interdependence criteria
Italy	Istituto per i Servizi Assicurativi del Credito all'Esportazione (SACE)	Common European Union definition
Japan	Nippon Export and Investment Insurance (NEXI)	No specific definition for SME
	Japan Bank for International Cooperation (JBIC)	No specific definition for SME exporters
Luxembourg	Office du Ducroire (ODL)	No specific definition for SME exporters
Netherlands	Nederlandsche Credietverzekering Maatschappij (NCM)	Maximum 99 employees
Norway	Garanti-Instituttet for Eksportkreditt (GIEK)	Maximum 250 employees, annual turnover less than NOK 300 million or total assets less than NOK 200 million.
Poland	Export Credit Insurance Corporation (KUKE)	Common European Union definition
Portugal	Companhia de Seguro de Créditos, S.A. (COSEC)	No specific definition for SME exporters
Spain	Compania Espanola de Seguros de Credito a la Exportacion, S.A. (CESCE)	No specific definition for SME exporters
Sweden	Exportkreditnämnden (EKN)	No specific definition for SME exporters
United Kingdom	Export Credits Guarantee Department (ECGD)	Common European Union definition

Notes: *Country which does not participate in OECD Arrangement on Guidelines for Officially-Supported Export Credits.
Source: http://www.oecd.org/tad/xcred/2634848.pdf

The OECD report identifies the challenges that, small businesses in particular, can face when they are taking their first steps into penetrating new foreign markets, or trying to diversify their existing export markets (OECD undated). It emphasises the importance of the role of public policy is helping to address these barriers. These barriers include financial costs and lack of access to credit as well as gaps in market knowledge, language skills and insufficient resources and expertise to carry out market research. It maybe that finance is top of the list as far as entrepreneurship is concerned but that is not the only barrier that entrepreneurs face. The OECD go on to describe a comprehensive range of what they call ‘fairly conventional’ tools for export promotion, which involve several agencies.

One of the reasons for highlighting the SME dimension in many studies is the behavioural characteristics that typically are associated with the overlapping and sometimes coalescence of ownership and management. In this regard a recent report by the Economist Intelligence Unit (2015) briefly describes an example of a rapidly growing German company that in many ways is different to the regular behavioural pattern. It is not a common form of behaviour in smaller companies. The firm is a German machine parts manufacturer looking to break into the US market through opening a sales operation in Wisconsin. Unlike many German medium-sized companies (mittelstand) this company has moved away from a self-financing model based on retained earnings to develop its export markets on borrowed money, hence the interest in export credit. The EIU report emphasised the distinctiveness of the behaviour of this firm, particularly when set in the context of businesses that are typically family owned. Of course, to be able to finance export development and promotion by retained profit depends on the firm having strong performance in the years leading up to the decision to seek to break into export markets. Clearly not all firms have the same resources in that regard.

Commentary

Most European countries have some form of financial products available to businesses seeking to enter or increase their activity in export markets. This reflects the potential economic benefits to a country that stem from export activity because of the income that this generates, which includes a number of rounds of multiplier effects. The particular challenges that small businesses can face when taking their first steps into entering a foreign market, or perhaps trying to diversify their existing export markets, have been summarised by the OECD. These barriers include financial costs, a lack of access to credit, gaps in market knowledge, limited language skills available and insufficient resources to carry out comprehensive research. One of the issues concerns the risks involved in export activity, particularly with regards to risks that can impact on whether or not an enterprise as an exporter will get paid another is how long it takes to get this payment.

On paper, these export credit and export credit guarantee schemes look very similar although, in practice, the nature and extent of their use tends to reflect the export performance of the country in question. One aspect concerns the conservatism of the country’s banks in lending money to entrepreneurial businesses that are engaged in trying to enter foreign markets.

The problem that exporters face is firstly there is often a delay in payment which has effect~~s~~ on cash flow and, secondly, the exposure to risk that possibly the buyer will not pay, or will not be able to pay, it could be that exporting would result in the death of the company. Surveys of businesses, particularly of SMEs, that have addressed the barriers to export activity, consistently point to the financial constraints, although these points are often made in surveys, they are not usually made in any detail. Where they are detailed, the problem for smaller companies is typically associated with the effects on working capital.

In order to deal with these risks, an exporter can go to their bank or specialist financial institution to help them to get finance or to a credit insurer in order to get insurance against the risk of not being paid. However, there are often circumstances where this help is not available from private sources and, in those circumstances, an export credit or an export credit guarantee maybe the difference between undertaking the export activity and not. Because of the potential effect on the level of export activity export credits and export credit guarantees are regulated. Whilst the issue described applies to firms of all sizes, nevertheless smaller companies face particular barriers in this regard because of their smaller internal resource base.

Chapter 3 - FINANCE FROM NATIONAL SOURCES

This chapter is concerned with finance from national sources that firms seeking to internationalise may draw upon. In the time and space available it has not been possible to cover all 28 member states of the European Union. As a consequence the approach has been selective, whilst trying to capture heterogeneity that exists within the European Union. This heterogeneity is captured in the chapter by highlighting the distinctive characteristics of the sources and approach to supporting internationalisation by SMEs, which does vary between countries.

The countries that feature in this chapter are Germany, UK, Italy, France and Ireland, representing the more mature market economics; the Czech Republic and Poland, representing the new member states of the European Union from Central and Eastern Europe; Scandinavia, in the form of Denmark and Finland and, finally, Portugal reflecting the Southern Western periphery of Europe.

Why Japan ?

Japan is the world's third largest economy, bigger than the UK and Germany combined. In 2014 the Japanese market made up 6% of world gross domestic product. In addition, Japan remains the high-technology power house economy of Asia. <u>In this context, it can be argued that a successful growing company cannot afford to ignore the Japanese market</u>. Moreover, in the World's Wealth Report 2015 Japan was listed second. The World Wealth Reports represent a benchmark for tracking high net-worth individuals, their wealth and the global economic conditions that drive change in the wealth management industry.

Apart from the high level of personal wealth and personal financial assets Japan has the fourth highest spend globally on R&D, currently representing 3.475% of GDP. It is also relatively easy to set up a business. In the ease of doing business rankings produced by the World Bank, Japan is 29th, and it is stated that it is possible to serve a company in 14 days.

Strengths of the Japanese market include a huge open economy:

- a cutting edge business culture,
- an increasingly globalised outlook,
- strong IPR,
- hunger for new trends and new technologies
- high levels of disposable income particularly amongst older people and young singles living with their parents.

At the same time, Japan is a challenging market and the benefits of a strategic approach rather than opportunistic one are considerable. Quick success is possible but a business is more likely to get long-term benefits by being patient and undertaking as much market research as possible. They also need to be willing to make a long-term commitment, to develop and maintain relationships and to visit regularly.

Table 3.1: Imports/Exports to/from Japan for Selected EU Countries

Country	Rank	Import Value to the EU/MS (EURO)	Rank	Export Value from the EU/MS (EURO)
France	7	4,408,063,955	5	6,329,726,945
UK	7	8,594,304,276	8	5,824,899,932
Germany	7	13,963,942,742	8	17,317,114,731
Ireland	13	1,311,713,134	10	1,634,881,019
Poland	16	1,126,405,868	12	3,806,899,141
Finland	17	271,491,941	13	1,081,069,209
Italy	17	3,121,705,498	17	5,517,130,043
Denmark	21	327,442,487	24	514,367,096
Czech Republic	26	1,007,456,392	25	780,589,013
Portugal	38	271,267,664	42	146,289,531

Source: http://exporthelp.europa.eu/thdapp/display.htm?page=st%2fst_Statistics.html&docType=main&languageId=en
Note
(1) N= 209
(2) The ranks listed in the Table include all countries and not just those selected in this report

LARGE MATURE MARKET ECONOMIES

France

Context

In recent times, France has become more involved in trade and cultural exchange initiatives with Japan, which some people explain as being a result of the former French President Jacques Chirac being a Japanophile. Chirac visited Japan more than 40 times and, compared with other international leaders, is an expert on the country. France has started an export promotion campaign 'Le Japon, c'est possible' and an international liaison personnel exchange programme known as JET. At the same time, France's cooperation with Japan needs to be seen in the wider context of French cooperation with other Asian countries.

Although the point is not confined to French FDI it is the case that Japan does look rather different from most of the other Far Eastern economies in terms of the nature of FDI that it attracts. This is because a good deal of the FDI flowing into the region is associated with an increasing international division of labour, involving a fragmentation of production.

Following the production of economic development and innovation strategies in the administrative regions France developed regional business internationalisation plans. In this context the organisation and coordination of support structures have been reformed with the aim of creating synergies and pooling resources. This group which are signatories to the Agreement are sometimes referred to as 'Team Export France'.

Supply of Finance & Business Support

COFACE has been the export credit agency for France since it was founded in 1946. The French government's export programme is working, with more than 1,000 French companies focusing on developing exports to emerging market economies. In February 2014 a new export bank was created in France in order to facilitate the financing of major international trade contracts especially with Africa. The bank was enabled to work in all sectors without restriction provided the contract value did not exceed €100 million. The export bank is administered by the Société de Financement Local 'SFIL' which was set up by the government in 2013 to enhance public sector financing in France. Similarly the Caisse Française de Financement Local 'CAFFIL' , which is a subsidiary of SFIL, will refinance export credit from COFACE, the French export credit agency, issues bonds to the capital markets, which investors can purchase, thereby improving the competitiveness of French export contracts.

The new initiative by CAFFIL is hoped to narrow the gap between the competitiveness of French exporting companies and businesses from other European countries. It is estimated that the new bank will bring about a reduction of about 10% in the cost of exports. In addition to this the government legislated an enhanced role of the Banque Publique d'investissement 'BPI', which is the public bank for small and medium companies, in order to provide direct loans for exports.

Economic Relations with Japan

Figure 3.1 shows the trade between France and Japan in the period 1990-2014. It shows that France has a healthy trade balance with Japan, one which has grown healthier over the period. So that by 2012/2013 France was selling into Japan almost double the value of the imports from Japan. French exports include nuclear power technologies, advance transport technology such as Airbus or TGB, food products and consumer industries. Asia, in turn, finds in France markets for manufactured goods.

According to the OECD France is the seventh largest export economy in the world and the thirteenth most complex; based on an economic complexity index. Overall France has a negative trade balance of around US$96 billion. The top exports from France are helicopters, aeroplanes and spacecraft, package predicaments??, thirdly cars, fourthly vehicle parts and fifthly refined petroleum.

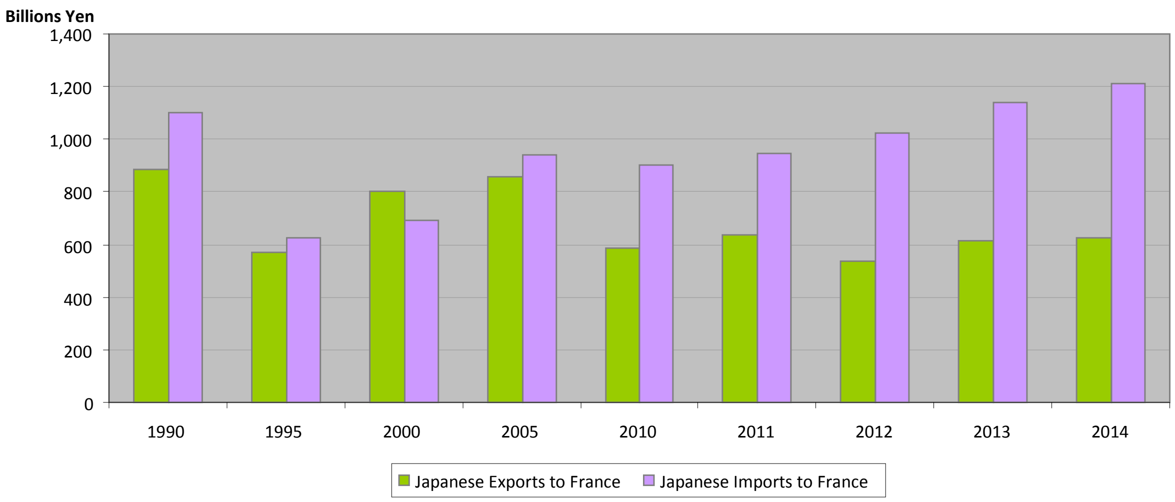
The top export destinations of France are, perhaps not surprisingly, in Europe. Germany is first, Belgium/Luxembourg are second, the US is third and the United Kingdom is the fifth top export destination for French exports. The top import origins are Germany first, Belgium/Luxembourg second, China third, Italy fourth and Spain fifth. The economic complexity referred to refers to the networks connecting products that are likely to be co-exported and can be used to predict the evolution of a countries export structure.

According to official trade statistics the value of exports from SMEs in France represents 38% of all French exports in 2010. Overall French export markets increased by 5% in that year, with some 9,000 companies exporting goods and services to China. Back in 2003 France ranked second in the list of Japanese direct investment in the EU, with the main sectors being transport manufacture, trade and services. French investment in Japan was directed mainly to the finance, insurance and trading sectors.

The number of French companies that are active on international markets is considerably less than in comparable countries. It is reported that France has 120,000 exporting companies which is two-thirds less than Germany and half as many as Italy. In order to increase the international presence of French SMEs and intermediate-sized enterprises, their competitiveness needs to be improved and they need to employ effective, clear and transparent support on foreign markets. Of course, increasing the number of exporting companies is only partly related to finance initiatives; it is also a business support issue, emphasising the greater relationship between financial measures and business support measures. In this context the priority for public provision is to support businesses abroad in the way that some other European governments of comparable sized economies do.

An important source of finance in France is BPI France, which is a public investment bank offering finance to businesses from the seed phase to transfer to stock exchange listing and everything between. One of the activities of BPI France is to assist firms that are developing export activities in partnership with Business France and COFACE; providing support to their innovation projects. BPI France assists businesses of all sizes particularly micro-businesses, SMEs and those in between, recognising the varying finance needs of businesses of different sizes and orientation. Export support and financing is an important feature of the help office in supporting the growth of SMEs in a development phase and strengthening mid-gap businesses in their development. The key principle upon which BPI's bank services are designed is the so-called financing continuum, which means the Bank is present in every key phase of business development. Guarantees of up to 70% are offered to banks to encourage them to finance SMEs in their riskiest phases.

Figure 3.1: Trade between France and Japan (1990-2014)



Commentary

In recent times France has benefitted from the close attention that the former French President Jacques Chirac paid to Japan but, at the same time, the cooperation with Japan needs to be seen in the context of Eastern Asia in general, where France has been a player for a long time.

In the context of France's approach to indicative planning, once strategies for economic development and innovation had been developed in the administrative regions, France then turned its attention to regional business internationalisation plans. In terms of finance, as in other mature market economies, France has had an export credit agency for 60 years. However, historically France has tended to link its development to large enterprises. However, in recent times France has sought to develop a number of policies that are designed to support and encourage the development of its SME sector. One of these was the creation of an export credit bank, which is not solely concerned with SMEs, but is particularly tasked with supporting them.

Germany

Context

Germany has one of the most elaborate systems for supporting trade and exporting in Europe. The system is complex because of the variation in the level of public support available across the country, reflecting wider variations in economic development in different regions. Although virtually all EU countries have a system of export credit guarantees and related products Germany's is perhaps the most comprehensive and it also has been used to boost export activity in the country.

Supply of Finance & Business Support

Turning to financing; **KFW**[1] supports companies with global investments, export projects and imports. However they claim to offer more than just financing and the associated advisory services in that they have considerable market specific expertise as well as a global network of co-operation partners.

The German government supports the activities of German companies abroad through its foreign trade and investment promotion scheme and, in so doing, contributes to maintaining a competitiveness and job security. In this context, the promotion of exports is a potentially important growth stimulus. These promotion schemes are managed by a consortium which includes PricewaterhouseCoopers - appointed by the German government for this purpose. The government guarantees cover for foreign trade and investment activities in order to reduce the inherent risks that are inevitably involved in foreign market penetration more predictable and manageable. The package includes export credit guarantees and investment guarantees (which protect foreign direct investments against political risk); untied loan guarantees (to back commodity suppliers to Germany and to contribute to economic development abroad). With respect to the

[1] https://www.kfw.de/kfw.de-2.html **KfWhttps://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/ kfw Development**

application procedures, exporters are advised to get in touch with the consortium as early as possible and before the export contract is signed.

In the context of the EU Germany has an elaborate system for supporting trade and exporting, ranging from consultancy, financing programmes and guarantees support for participation in trade fairs. It is complex because of the variation in the level of public support available in the different Lander of Germany. The website of the **Förderdatenbank Bank**[2] emphasises the wide range of options that companies face in financing projects that may include internationalisation. These sources include retained earnings, depreciation of perishable goods and primary liabilities in the form of bank loans or government development loans. In addition there is a range of alternative sources of finance available which are greater in some parts of Germany than in others.

German companies also have a German-Japanese **Chamber of Commerce** which has a physical presence in Japan. The Chamber provides a variety of services for its members including market information, tips on doing business in Japan, trade shows, legal and tax information, event management and assistance with start-up in Tokyo. They also produce a newsletter - Japan Market – and provide information on trends in the Japanese market. The Chamber website also refers to a German research and innovation forum in Tokyo which acts as an umbrella for German scientific and research interests in Japan. The aim of this forum is to represent German research organisations and innovative companies in a concerted effort, thereby strengthening co-operation with Japanese partners. This forum was only established in 2010 by the German Rectors Conference and the **German Chamber of Commerce and Industry in Japan**[3], on the initiative of the Federal Foreign Office of Germany and the German Federal Ministry of Education and Research. The forum provides a useful function as a central point of contact for Japanese and German universities, research organisations, businesses and the interested public in general. In this regard it provides a platform for exchange and co-operation by jointly organising events. This forum offers individual consulting and provides experts and the interested public with the following information of service:-

- Consultation on potential co-operation opportunities;
- Contacts in German and Japanese research performing organisations and companies;
- Follow-up and forwarding of incoming enquiries to its partners according to the one-stop shop principle.

Events organised in Japan include conferences, training, thematic workshops, research and educational marketing activities and finally organisational delegations and fact-finding missions to Japan.

Information is a key function of the forum and, in particular, information about the German and Japanese R&D landscape offering the following types of information:-

[2] http://www.foerderdatenbank.de/Foerder-DB/Navigation/Foerderrecherche/suche.html?get=views;document&doc=9307
[3] http://www.dwih-tokyo.jp/en/home/partners/german-chamber-of-commerce-and-industry-in-japan/

- Up-to-date research news from Germany and Japan;
- Profiles, activities and services of its partner organisations;
- Events calendar featuring daily updated events of German and Japanese research organisations and research performing companies.

In addition, Germany offers innovative awards such as the Gottfried Wagener Prize. This award was initiated in 2008 by a number of prestigious German technology based companies under the patronage of the **Federal Ministry of Education and Research**[4]. The aim is to promote, support and encourage co-operation between Japanese and German business partners. The aim of this award is to contribute to promoting co-operation between Germany and Japan in industry and academia. The project is co-ordinated by **the German Research and Innovation Forum Tokyo**[5].

The award has a particular role in encouraging and supporting young researchers in Japan to enhance their internationalisation in academic business partnerships and build networks of R&D departments in German companies with Japanese universities and research institutions. The activities are expected to provide a basis for joint development projects. As well as receiving prize money awardees will also be granted a scholarship by the German Academic Exchange Service or the German Research Foundation for a short-term stay at a German research institute or university of their choice.

An example of good practice

One aspect of the German approach to export promotion is the IHK Company Pool Programme which has been identified in an OECD report as an internationally inspiring practice (OECD, 2014). The programme offers valuable and cost-effective coaching, market intelligence and deal-brokering support to groups of SMEs aiming to export to selected target countries through local Chambers of Commerce & Industry in Germany. The OECD reports that there are currently 31 company pools operated by various local chambers, each of these focuses on market entry in a particular country or a set of countries. A Company Pool programme in Ukraine was established in 1994 and this has served as a model for company pools that have been established since then. A company pool usually consists of up to 15 German SMEs that do not normally directly compete against each other and that intend to enter the same target market. The companies within a pool benefit from comprehensive services provided by a joint representative office in the host country. This office is managed by an experienced business expert who is appointed by the Chamber of Commerce. A standard service package includes preparatory and accompanying services in Germany; such as assistance in developing a market entry strategy and the organisation of regular meetings by participating SMEs in order to exchange information and experiences. In the analysis by the OECD key success factors of this scheme include:-

- permanent accessibility and presence in the target country;

[4] https://www.bmbf.de/en/index.html
[5] http://www.dwih-tokyo.jp/en/

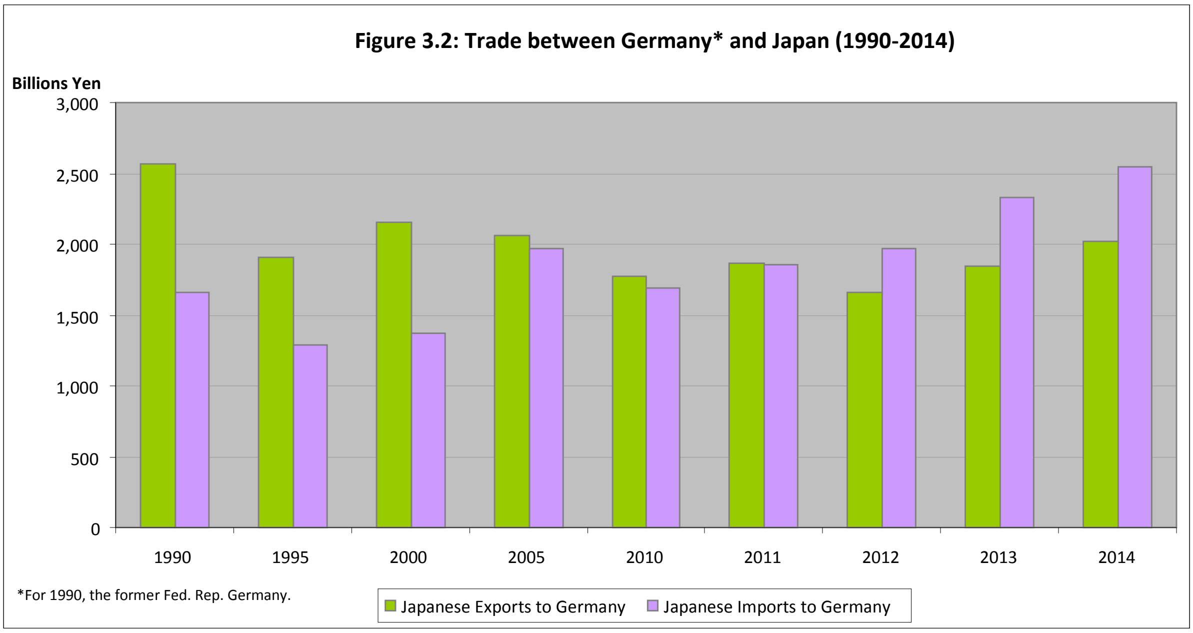
- the use of an already existing business network in the target country;
- staff of representative offices have a special sense for the market and business mentality of the target country; and
- synergies exist through co-operation and exchange of experiences with other company pool members.

The cost of joining one of these company pools varies according to the specific target country and the scope of the services used but, typically, it is in a range of between €5,000-15,000 per annum. Clearly this can be quite a large sum of money for the smallest companies so, to address this problem, the Foreign Trade Support Programme of several German federal states offers financial assistance to cover part of these costs. Participants in these company pools are used in the larger SME manufacturing firms for new entrants to the target country. SMEs typically participate for two or three years in a company pool after which they are able to cope on their own and continue their business activities independently.

Economic Relations with Japan

Following four consecutive years of growth in trade between Germany and Japan, bilateral trade declined slightly in 2013 by 5.9% to €37.6 billion. In 2014 bilateral trade fell again slightly by 2.1% however as Figure 3.2 shows, over the period between 1990-2014 the balance of trade shifted from with Japan in a positive balance between 1990 and 2011, when exports and imports between Germany and Japan were more or less in balance. However since 2012 there has been growth in the surplus of German exports to Japan over their imports. In terms of German imports Japan ranks 17th amongst German foreign trade partners in 2014 and 16th as a buyer of German exports. Although in many ways Japan is a more important market for Germany than these figures suggest reflecting the importance of industrial production in Germany. Many German products are reliant on the supply of components from high-tech countries like Japan. It should also be noted that in some sectors such as electronic control and memory modules Japanese companies are world leaders.

In terms of science and research an inter-governmental agreement on cooperation on science and technology has been in place since 1974. Currently government funded bilateral cooperation focuses on marine research, geosciences, life sciences and environmental field. It should be noted also that in addition to the inter-governmental agreement there are more than 300 cooperation agreements between German and Japanese higher education institutes as well as numerous projects based on cooperation agreements between non-academic research organisations. Cooperation in science and technology between these two countries also includes a regular exchange for scientists and researches and a scholarship programme provided by the German Academic Exchange Service. Finally, in order to increase the visibility of Germany’s contribution to international cooperation in science and research the German House of Research and Innovation was set up in Tokyo.



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

Germany also has a well-developed system of support for co-operation with Japan focussing on the activities of the foreign markets Chamber of Commerce, which looks more active than many similar Chambers in other European countries. So the support for export is a combination of public, private and third sector organisations. Another characteristic of the German approach is the integration of financial support with other types of support in a support package. Indeed one might propose this as an example of good practice in that the most effective business support is that which is integrated in this way.

When looking across Europe the system of export and credit guarantees appears to be like a standard package that is found in most EU countries. One area where Germany does seem to have good practice experience is with respective collaborative calls where smaller companies are able to benefit from external economies of scale by collaborating with larger companies. These collaborations between German companies are reminiscent of the Italian approach.

One of the advantages of the company pool framework is that it brings together private and public bodies which co-operate to provide support for internationalisation efforts. This could be attractive to other countries where there is a need for greater co-ordination amongst the various factors involved in the export support system. The company pool system offers training as well as specialised advice that participants largely pay for themselves. This limits the cost of the programme which is another attractive feature for other governments looking for export support during times of tight budgetary discipline. An indication of the success of the Scheme may be demonstrated with reference to a company pool targeting Ukraine, where approximately 80% of former participants maintained independent business relations with Ukraine after leaving the company pool. Lastly, assistance provided by the programme is intended to be temporary, in other words it has a shelf life after which SMEs that have participated should be equipped with the various skills and knowledge they need to succeed independently in international business.

Ireland

Context

With some 4.6 million people the domestic economy is of modest size. Start-up businesses with high growth potential need to look to export and make a presence on the international stage almost from day one, in a way that perhaps, in the UK, there wouldn't be quite such urgency because of the larger home market.

Supply of Finance and Business Support

The main government agency providing support to SMEs in Ireland is **Enterprise Ireland**[6]. Enterprise Ireland is a government organisation which is responsible for the development and growth of Irish enterprises in world markets works in partnership with Irish enterprises to help them to start to grow, innovate and win export sales in global markets. Enterprise Ireland is involved in both assisting entrepreneurs to be successful and also contributing to the basic security of employment and regional development. Enterprise Ireland has a wide variety of different services which are potentially relevant to the countries' in internationalising SMEs. For example, they offer a range of funding support, for expansion, to support research and development. Each of these could contribute to increasing the potential for internationalisation.

The funding available includes funding for high potential start-ups, some of which may be used to help them to become investor-ready, and there is an innovative, high potential, start-up equity fund. Established businesses employing more than 10 people may access support designed to plan and implement company development projects and there is also funding available for large companies employing more than 250.

Because of the importance of international markets to the long-term growth of Irish businesses a high priority for Enterprise Ireland is the provision of support for business growth through international sales. Enterprise Ireland produces an Export Start Guide which is a practical guide about how to do business successfully in overseas markets.

As part of its export assistance Enterprise Ireland runs a series of monthly workshops in a series called Finance for Growth, which are aimed primarily at exporting SMEs that are seeking to address key issues facing the finance function in the current business environment. The objective of these workshops is to demonstrate how financial information can be used to assist in making strategic decisions within the business. For example, in June 2016 there was a workshop on the topic of expanding businesses internationally, market access and development. This workshop focuses on the various methods for entering foreign markets, examining the tax and financial implications, the

[6] **https://www.enterprise-ireland.com/en/ Enterprise Ireland**

benefits and risks involved in establishing subsidiary companies, using agents and acquiring businesses abroad.

Support for R&D

Alongside the funding that Enterprise Ireland makes available for Ireland's businesses at different stages of their development, they also offer funding to researchers in higher education institutes in relation to three main criteria:

- to help to fund the commercialisation of research
- to fund collaboration with industry in Ireland - in other words to try to bridge the gap between the business community and the universities in the areas of applied research
- funding for international research projects.

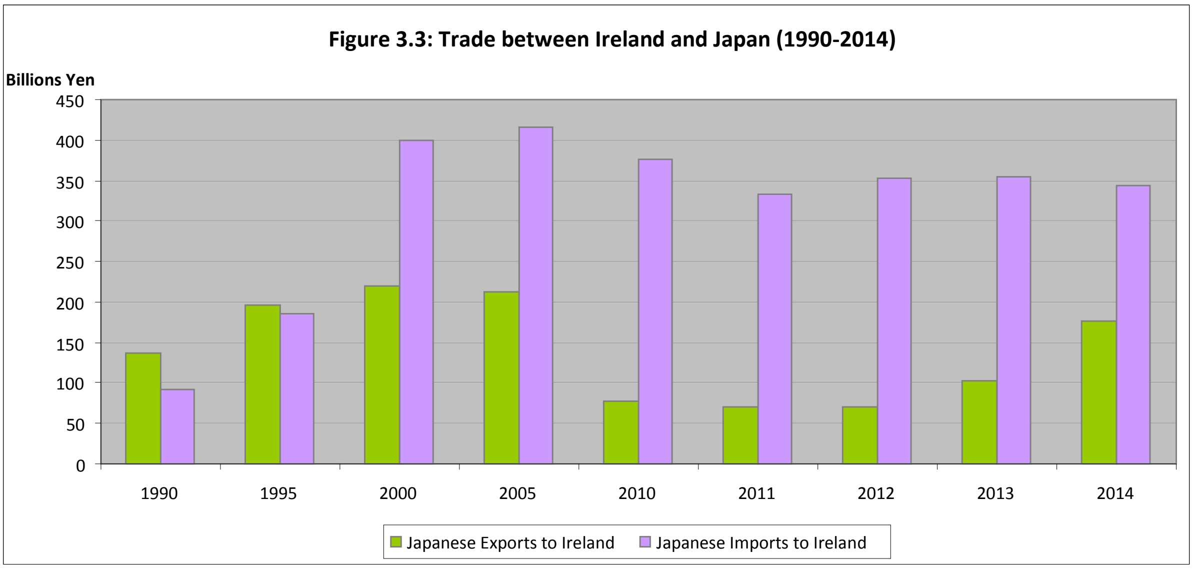
Enterprise Ireland actively promotes involvement in EU programmes on the part of its SMEs, this includes Horizon 2020, the Electronic Components and Systems for European Leadership, the EUREKA programmes, Eurostars, ICT's specific research with companies, joint technology initiatives. In brief Enterprise Ireland is providing a lot of the assistance to enable Irish businesses to access EU programmes, particularly those that encourage collaboration with universities on the one side and with businesses on the other.

As far as the international research project is concerned Enterprise Ireland offers financial support for Horizon 2020 for participants that are based in Ireland. As well as this there is also a dedicated website for Horizon 2020 with information that is tailored specifically to Irish participants. In addition Enterprise Ireland offers travels grants for academic researchers to participate in Horizon 2020 bids.

One of the characteristics of the Enterprise Ireland approach is the mix of funding and advice and expertise. This can be illustrated with respect to the R&D innovation support which Enterprise Ireland offers to Irish businesses. Enterprise Ireland offers financial support from €5,000 in the form of innovation vouchers, through collaborative research and industry-led R&D at the top of the innovation ladder. This support may not necessarily be targeted at internationalisation or particular countries because, the size of the home market in Ireland, makes it necessary for firms to look for international market opportunities at the very early stage of a development of new businesses. It potentially can help to stimulate export activity.

Economic Relations with Japan

Exports from Ireland to Japan were valued at ¥355billion in 2013, while Japan's exports to Ireland were ¥102billion in the same year. In other words Ireland has a very healthy positive trade balance with Japan. The main imports from Ireland to Japan were optical instruments, organic compounds and medicines. As far as Japanese exports to Ireland were concerned the main items were medicines, organic compounds and cars. It was reported this week in Ireland that Japan, together with China, are seeking closer trade links in order to help to ease political tensions (Irish Times 10 June 2014). Figure 3.3 shows that since 1995 Ireland has had a very healthy trade balance with Japan. It has fluctuated to some extent but currently remains twice as much by value as Japanese exports to Ireland.



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

Being a small country and one where, over the last century, there has been a need for economic development. Ireland has been well provided for in terms of business support agencies. Enterprise Ireland, which is the main government agency responsible for development and growth of Irish enterprises in world markets, is involved in helping entrepreneurs to be successful because their success enables them to contribute to employment and also the competitiveness of the economy.

Although not an internationalisation body per se, Enterprise Ireland offers a range of funding support – expansion, for example and support for R&D; both of which contribute to increasing the potential of Ireland’s businesses to internationalise in the longer term. With only a small home market new entrants need to be looking outside of Ireland for markets from day one. Their emphasis on growth has led them towards some more high potential start-ups, some of which may be used to help them to become investor ready and is also an innovative, high-potential growth fund.

To help firms assess foreign markets for the first time Enterprise Ireland offers an online export guide tool which businesses can use to assess their potential benefits before going international. Other than this, it is Ireland’s commitment to technology and technology support that strikes one and, in this regard, Ireland has shown a strong interest in being part of Horizon 2020 bids. Therefore, Ireland’s practical support for Irish businesses in order to internationalise must be seen as a strength.

Italy

Context

Italy has a comprehensive set of measures designed to increase access to finance for small businesses. Bank loans and overdrafts are the most common sources of external finance used by Italian entrepreneurs (OECD 2014). However, obtaining bank loans appears to be very difficult for SMEs in Italy which may contribute to an under capitalisation of Italian SMEs thereby increasing their vulnerability to short-term down-turns. The OECD reported that of the major Euro zone economies, only Spanish SMEs report greater problems than Italian SMEs with access to finance. In this context boosting the export performance of Italian SMEs would seem to depend on increasing the funds that can be drawn upon by internationalising SMEs.

The limited economic growth that Italy has experienced over the last decade or so, means there has been a growing interest in encouraging domestic firms to improve their export performance. As a consequence, a recent report on Italy emphasises the importance of maintaining the current comprehensive support that is offered to exporters and strengthening where necessary (OECD 2014).

A major player in providing support for SMEs seeking to internationalise is the **Italian Foreign Trade Institute (ICE)**[7] which promotes the internationalisation of Italian companies through exporting and direct investment as well as promoting Italy as a destination for foreign investment [inward foreign investment that is].

There are three main roles that ICE has –

- to organise export promotion and events;
- to provide customised information drawing on its branch offices in 65 countries around the world;
- to tailor trade support such as training and to co-ordinate a range of suppliers of business advice, coaching and matchmaking services for exporting. These most basic services are free of charge while tailored products are charged at a non-market price, which is a fairly conventional way of doing things across Europe.

ICE exercises it's co-ordination role through the National Control Room for Strategic Internationalisation which is a government body chaired by the Ministry of Economic Development and the Ministry of Foreign Affairs, charged with co-ordinating the adoption of national guidelines for the internationalisation of business.

SACE provides financial guarantees in favour of private commercial banks funding investment activity by SMEs. Their activities are both directly and indirectly related to internationalisation. It is important to stress that the funds described are not only available to support internationalisation but rather to support any activities directly or indirectly related to export, internationalisation and/or projects of strategic importance for the

[7] http://www.ice.gov.it/

national economy. These funds may be used to support internationalisation projects towards Japan. But not specifically Japan; they can be used in relation to projects at any destination country.

One of the specific measures in Italy is a fund entitled Guarantee for the Internationalisation of SMEs. Financial guarantees on loans are provided to commercial banks at market rates by SACE which encourages the banks to support growth and internationalisation of the less capitalised Italian companies such as SMEs. As a result SACE intervenes to guarantee loans that are granted by the banking system for internationalisation projects which releases the bank's guarantee on each loan granted by a quote not exceeding 17%. Businesses that are eligible for this fund are export driven SMES with an annual turnover below €250 billion with at least 10% of this in foreign markets. The funds are aimed at supporting the internationalisation activities such as debt financing, working capital, acquisition and new facilities being set out, R&D projects and attendance at international fairs.

There is also an export fund. This is a debt investment fund aimed at subscribing bond issues by unlisted Italian companies, particularly SMEs that are pursuing export and internationalisation strategies. The budget for this fund is €350 million. The funds are provided 50% by SACE and 50% by the European Investment Bank (EIB). The application procedure is relatively straight-forward. Interested companies are invited to contact their reference account manager at SACE. This fund is open to all companies with no more than 3,000 employees, operating in sectors such as machinery, consumer products, health care, communications and communications technology, infrastructure and transport. The funds must be ear-marked for investment related to exporting or internationalisation.

There are other important actors involved in export support for SMEs in Italy, apart from **SACE**[8]**.** One is **SIMEST**[9] which is charged more generally with supporting Italian firms that operate in foreign markets. SACE and SIMEST are both owned by a joint private public stock company which, itself, is owned by the Ministry of Finance and Italian banking foundations. SIMEST finances both pre-feasibility and feasibility studies, technical assistance and a number of other programmes that are designed to help SMEs break into foreign markets. It also provides interest rate support to Italian companies internationalising outside the European Union, it does this by working with banks to reduce interest rates that are payable by Italian firms seeking to finance equity stakes in non-EU foreign companies and in which the agency itself also invests. Finally SIMEST has the facility to make limited-term cash infusion by providing minority stakes in export based companies with the aim of increasing the international presence of Italian firms. It has been reported that there are currently 157 firms in the SIMEST portfolio (OECD 2014).

In addition to the support described from the public sector, the Chambers of Commerce in Italy also provides support for export promotion particularly through the network of Italian Chambers of Commerce abroad. These Chambers work in collaboration with Italian embassies. They have an annual plan that is approved by the Ministry of Economic Development and aligned with the government's own internationalisation plan. In 2013 it is reported that these Italian Chambers of Commerce abroad were involved in initiatives that were mainly business missions and business-to-business meetings aim at launching

[8] http://www.sace.it/en
[9] http://www.simest.it/

partnerships between Italian firms and foreign partners. It is reported that these initiatives led to some 300,000 business contacts involving more than 70,000 Italian firms. It should be emphasised that these Chambers are for the most part private sector funded; only about 15% of their annual budget actually comes from the State.

In 2013 the Union of Chambers of Commerce and the Ministry of Economic Development co-operated in a new initiative to create one stop shops for internationalisation in the form of what was described a the World Class Network. The aim was to help the very smallest companies obtain information about opportunities in foreign markets as well as international legislation import\export regulations and export insurance services. These World Class offices are hosted by the Chambers of Commerce across Italy and the intention is that they will represent the entry point into the export support system for firms at a local level. In a mildly critical note the OECD report comments that in addition to providing information and advice the Chambers of Commerce could do rather more to showcase and spread the experience of successful exporters, through their own websites and also perhaps through seminars.

At a strategic level the Italian government launched a new national export plan to cover the period 2013-15 setting out the actions that it intended to undertake to Improve Italy's export performance. One of the themes of the plan was a call for the consolidation and enhancement of public resources for trade promotion. The plan referred amongst other things to the need to strengthen the financial instruments offered by SACE and SIMEST and to create a new export bank.

Direct exporting is only one of a number of internationalisation processes. It totals approximately 35% of Italian SMEs who have internationalised across one or more of the various internationalisation dimensions. Increasing competition from emerging economies and the prospect of continued slack internal demand means that many Italian SMEs may have to approach international markets in order to survive.

Export consortia

In terms of financial assistance the **Ministry of Economic Development**[10] provides some soft loans, but its major export promotion tool is grants to SMEs that form internationalisation consortia. These consortia are voluntary alliances of firms designed to enhance their export performance through joint actions. SMEs that have signed network contracts are also eligible.

The Internationalisation grants are substantial, worth around €2-3M per year and are received by over 1,600 companies in 110 consortia. The funds are typically used to finance workshops, visits abroad and advertising. The Ministry's rules stipulate that these consortia must comprise of a minimum of 8 SMEs. **The Italian Federation of Internationalisation Consortia (FEDER Export**)[11] represents the 110 consortia and provides tax and legal advice as well as arranging its own trade missions, conferences and market surveys. Moreover, the inclusion of micro and small enterprises in these networks can help to strengthen them

[10] http://www.sviluppoeconomico.gov.it/index.php/en/

[11] http://www.confindustria.it/wps/portal/!ut/p/a0/04_Sj9CPykssy0xPLMnMz0vMAfGjzOJ9PT1MDD0NjLwMPMMMDBy9nYyNLc1MjNyDzPULsh0VAY6wln0!/

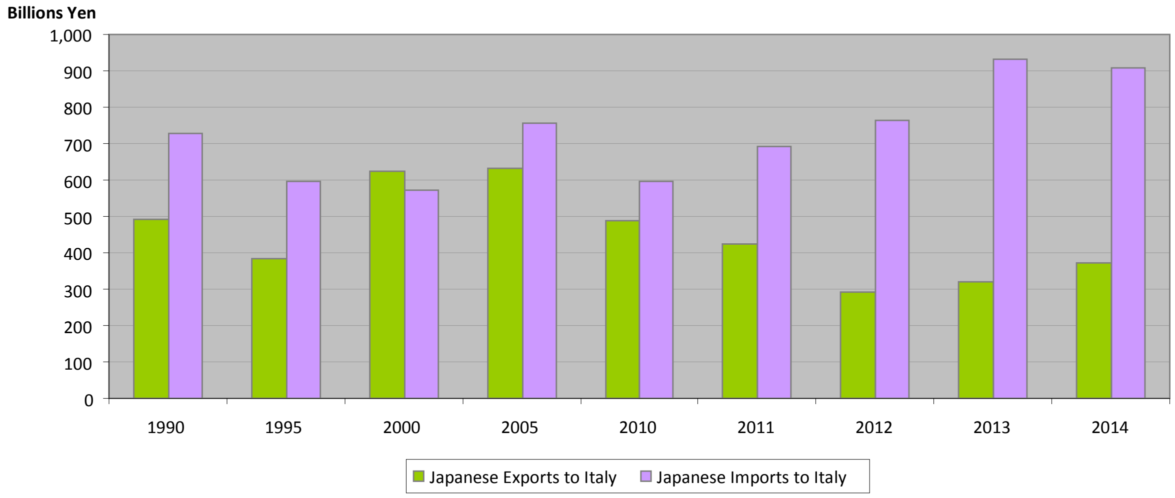
and develop the skill that they need in the short-term for internationalising a company overseas whilst, at the same time, providing a learning experience for the medium and longer term. Another approach to supporting networking, which is offered by an Italian entrepreneurs association, involves business-to-business matchmaking, the purpose of which is to assist small companies to increase their sales both nationally and overseas.

A more recent report has drawn attention to some increase in the financial resources made available to businesses through the Italian business support programme. In addition the Chambers of Commerce have increased the number of promotional initiatives which they are involved in on the public sector side. Since 2014 the **Cassa Depositi e Prestiti (CDP)**[12] has been able to offer loans guaranteed by credit institutions or by insurance companies other than SACE. In implementing this new facility new possibility CDP has created an export facility reserved for small and medium exporters. During the 12 months 2014-15 SACE increased its supply with important new financial services and products. These included trade finance, export development funds, a bond issue and new rural services.

Economic Relations with Japan

Italy is a major advanced economy with a GDP of US$2,148 billion in 2014. It is the second largest manufacturer in Europe after Germany. In recent years Italian businesses have taken a major step towards increasing internationalisation, most of these are small and medium enterprises which require professional services in order to grow internationally. Italy's relations with Japan and other Far Eastern countries have been affected by the contraction of the Italian economy following the global economic crises although Italy's economy is now emerging from this.

Figure 3.4: Trade between Italy and Japan (1990-2014)



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

[12] http://www.cdp.it/en/index.html

Commentary

The Italian case emphasises the importance of considering the context in which policy and policy measures are introduced. Italy needs to boost its export effort and to do this is required to maintain and strengthen the current comprehensive provision of support for Italian exporters.

Clearly this approach, based on co-operation between SMEs, to strengthen their foreign market presence, is a distinctively Italian approach that would warrant robust evaluation to see to what extent it is possible to transfer at least some of the principles into other European countries. One of the points made in the OECD report (2014) is that this approach of focusing grant provision with respect to internationalisation on consortia has an additional potential benefit in that it may have a leverage effect whereby the benefits of financing is spread over a number of firms and lasting synergies can be created between them.

As emphasised in the National Export plan there is a need to improve the coordination of what the OECD describe as a fragmented system of support. This is potentially confusing for the user which is an important point because it is a recurrent issue in public policy. In particular no matter how good a programme or the measure is, it has to be known about by its target market and therefore a highly fragmented system of support is potentially confusing to user firms.

One of the themes in the OECD review is the need to assess the level of awareness and take up of interventions by SMES, how effective how each measure is and where there is overlap. Once a streamlined policy has been agreed then it needs to be better publicised and implemented than perhaps these things have been done in the past. This OECD review also referred to the fact that there are some cases where the resource budgeted does not seem to match the announced ambitions. The halving of ICE's budget in 2012 was quoted as a case in point. Moreover, some other schemes such as the internationalisation grants have been largely symbolic budget outlays. The second area where the OECD report takes a more critical stance is the need to be more aggressive in its focus on emerging markets.

UK

Context

In the UK the support of government for UK exporters in based on a recognition of the important role that SMEs play in the economy. The approach to business support is holistic in that both finance, in the form of export credits and guarantees are combined with advisory support, including specialist support, in relation to specific markets.

Supply of Finance & Business Support

In the UK public provision of export finance and insurance is provided through **UK Export Finance**[13], which is part of a larger organisation, **UK Trade & Invest (UKTI)**[14]. UK Export

[13] https://www.gov.uk/government/organisations/uk-export-finance
[14] https://www.gov.uk/government/organisations/uk-trade-investment

Finance is willing to consider supporting exporters both large and small, and for services as well as goods exported. In addition, UK Export Finance cover is available for most overseas markets although the terms may not be the same. In Japan, for example, UK Export Finance is able to support credit insurance businesses with a horizon of more than 24 months; reflecting the restrictions of European law which prevents governments supporting credit insurance of less than 24 months in this case.

UK Export Finance offers a range of products to UK businesses seeking to export. These include

- Credit insurance – which is designed to insure against commercial and political risk of a firm not being paid under an export contract

- insurance protection to exporters against the unfair calling of the contract bonds

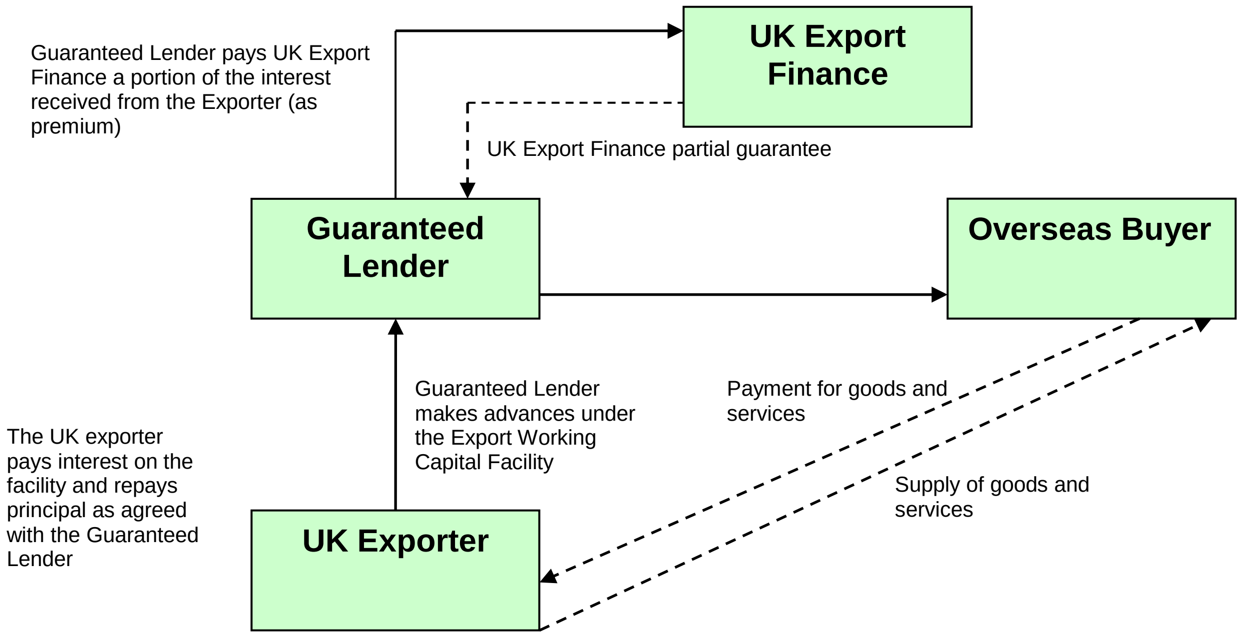
Although the risks involved in exporting affect businesses of all sizes small firms can face a particular challenge because of their more limited resource base. The UK has introduced a fast track system for processing applications for support for exporters, with smaller contracts under the export insurance policy and supplier credit financing facilities. In this way small exporters benefit from streamlined procedures where the buyer is known to have a good track record.

The ***Export Working Capital Scheme*** helps UK exporters to gain access to working capital finance both before and after shipment in respect of specific export contracts. Under the Scheme the government department provides partial guarantees to lenders to cover the risk associated with export working capital facilities where-under they provide such a facility with respect to a UK export contract. UK Export Finance will typically guarantee 80% of the risk. In practice the Scheme is particularly useful in circumstances where a UK exporter wins an overseas contract that is higher in value than is typical for it, or it succeeds in winning more overseas contracts than previously. In such circumstances, the potential risk of what’s called overtrading, which is where a firm may be forced to expand faster than it’s able to increase the scale of its internal resource base. This Scheme can only be accessed through lenders that have signed up to participate in it. There are clear benefits emanating from this Scheme for UK exporters because they are able to obtain the necessary working capital finance from the lender to support an export transaction in circumstances where the lender doesn’t have a sufficient risk appetite for the full facility amount. In other words, the working capital provision is increased as a result of this Scheme. Under the Scheme the lender is protected to the extent of the guarantee from UK Export Finance against the failure of its exporter to repay amounts due under the working capital facility upon its expiry, cancellation or termination.

Figure 3.1

<u>Export Working Capital Scheme</u>

How the scheme works



Other schemes offered by the UK government include a Buyer Credit Facility; a Direct Lending; an Export Refinancing Facility; lines of credit; overseas investment insurance; and debt conversion schemes. It is also worth mentioning that the UK export support includes a free consultation with an export finance adviser, these are distributed across the country for convenience. The export finance advisers are, in practice, regional representatives of UK Export Finance, their role includes acting as local contact points to introduce exporters and businesses with export potential to finance providers, credit insurers, insurance brokers, trade support bodies and sources of government support.

Economic Relations with Japan

Japan has so far attracted 450 British companies which includes major FTSE 100 companies as well as small British businesses. Incentives to businesses exporting to Japan include:

- a strategic stepping stone for other Asian markets,
- strong political, trade and social ties between the two countries,
- highly educated consumers who are typically early adopters of new products and services,

- a large and rich consumer market based in urban areas and the Tokyo conurbations is the world's largest at around 35 million.

At the same time, the promotional material produced by UKTI in the UK emphasises that the majority of SMEs that enter the Japanese market do so with support from local partners. In this respect a successful entry strategy has some similarity with the situation in China, reflecting the need to find a way of removing problems that are associated with what is a large cultural gap in both cases.

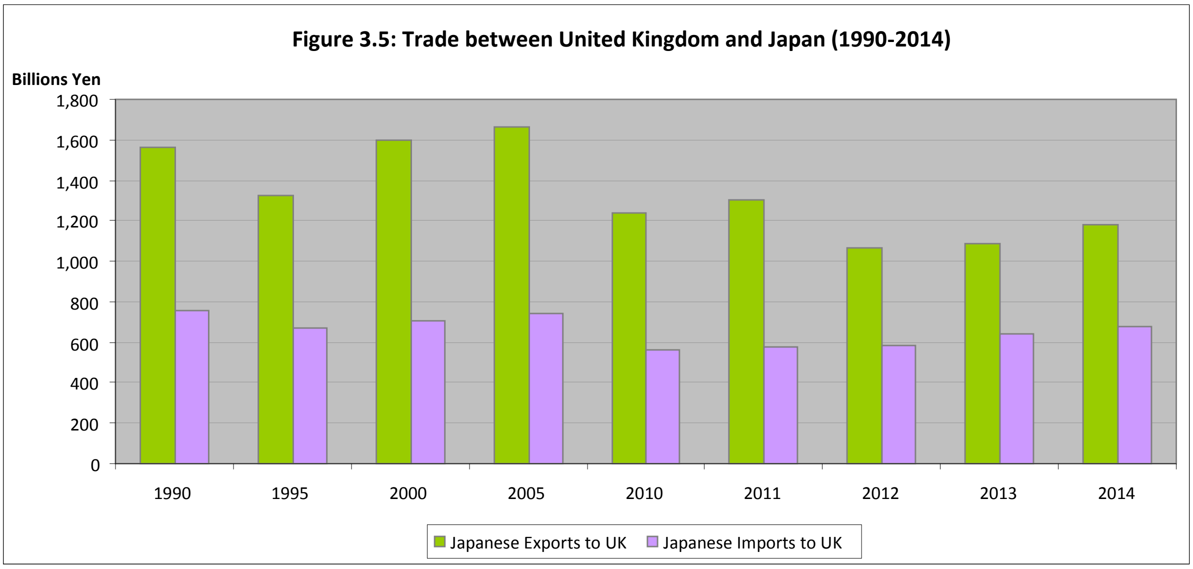
Under Prime Minister Abe Japan has being trying to tackle the low levels of FDI into Japan which has been attempted by implementing a wide range of economic reforms and policies designed to promote growth in Japan. These include, new economic stimulus packages, signing new free trade agreements and breaking down barriers through deregulation. Certainly an EU-Japan free trade agreement would bring together two training partners responsible for a third of the global output. This would have a significant impact on UK-Japan bilateral trade with improved opportunities for UK exporters.

In 2012 UK exports to Japan were worth more than £9.4 billion, almost evenly divided between goods and services. The UK's biggest visible exports are machinery and mechanical appliances, nuclear reactors, power generation equipment and vehicles, chemicals – including medical pharmaceutical products. In total these industries mentioned account for £2.5 billion. Other successful sectors include scientific and medical equipment, food and drink, clothing, clothing accessories, transport and media. Japan is the second biggest market in the world for the UK in royalty and licensing income, accounting for 10% of all such earnings. Recent exports from the UK to Japan have involved providing knowledge and know-how to assist in the decommissioning and decontamination work currently taking place in the nuclear plant which exploded some time back. Another area is services for a rapidly ageing population. This provides further opportunities for companies in the life science sector while the 2020 Tokyo Olympics will also be a chance for British companies to shine.

British companies in Japan typically opt, initially, to operate through distributors or another form of partnership, although more than 450 British firms have generated enough momentum to set up their own presence. These range from large FTSE multi-nationals to small companies, for which Japan is a key market. In terms of wider cooperation Japan and the UK are in the process of exploring a deepening of the defence cooperation to include possible joint military exercises and pushing ahead with the development of a new air-to-air missile. Whilst not primarily an economic action, nevertheless this should provide business opportunities in the future for UK based companies.

The UK has the third highest exports (after France) by value, and on an equal footing with Italy. In 2015, of those countries selected for inclusion in the study, only Germany exports more. Alongside this, it has the second highest value of imports from Japan. However the figure also shows that the value of UK exports to Japan are a fraction of its exports to China. Figure 3.5 shows that there has been a substantial trade imbalance between the UK and Japan over a period since 1990, although this is improving.

Based on the FDI stock of Japanese investment abroad the UK is seventh in terms of volume of business stock. In terms of the importance of investment in Japan for UK companies, the UK comes lower in the rank order than it does to Japanese companies investing in the UK.



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

The wide range of products available to assist UK exporters to deal with the potential financial constraints and risks of exporting into a foreign market, are part of the wider government programme of support for exporting businesses. They are delivered in the main through an organisation called UK Trade & Investment (UKTI) which incorporates UK Export Finance but also advisory services.

This programme of support may be accessed by businesses but also with economies of scale at the centre. Where development, specialist knowledge and expertise in particular markets, including Japan are located. The programme of support also includes specialist advisors for different sizes of businesses, specifically SMEs and large companies. First time exporters are also a target for specialist support

UKTI also provide other services which include digital and online support that can help all types of business. As well as accessing their services exporters and potential exporters can search for free international export sales leads; find UKTI events; trade fairs; trade missions and webinars; use Open to Export (which is a free online advice service for exporters); get financial support from UK export finance as we've seen; and finally, use the business finance and support pages for support for an individual business.

NEW MEMBER STATES OF THE EU

Czech Republic

Context

Comparison between the German and Czech export credit systems shows that, in principle, they are not surprisingly very similar. However many decades of experience gained by the German institutions as well as the nature of the agency in Germany makes it a model type (according to Picha). As is often the case, the devil is in the detail. The devil is not in the terms but rather in their application, and in this regard it is difficult to avoid the conclusion that the availability of credit insurance is much higher in Germany than it is in the Czech Republic. As a consequence this contributes to the competitive advantage of German exporters**.**

Supply of Finance & Business Support

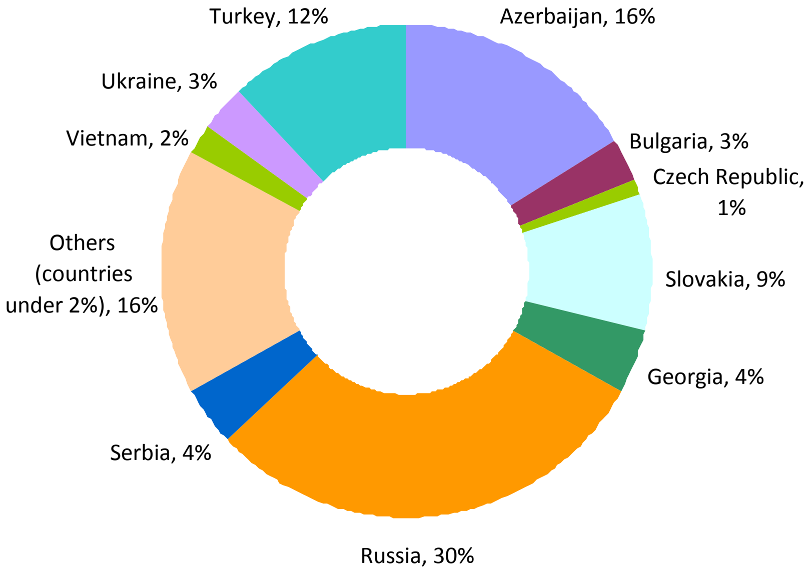
Governments in most industrial countries offer national export credit programmes as a means of facilitating exports and thereby stimulating their own economies. In the Czech Republic the official domestic agency is the Export Bank which is a specialised state owned banking institution through which state support for exporting is channelled. It was established in 1995 and is one of the main pillars of the government's programme to support export activity. The objective of this institution is to provide state support for exports through the provision and financing of export credits and other services connected with exporting. In this regard the **Czech Export Bank** [15] supplements the services offered by the domestic banks, and in volumes that are not available to exporters on the banking market under current domestic conditions. The Czech Export Bank (CEB) mainly supports projects linked to countries with high territorial risk and a high demand for Czech products or services. Export credits with maturities exceeding 2 years are preferred.

There is also an export credit agency (EGAP)[16] which is a national organisation insuring credits connected with the exports of goods and services from the Czech Republic against political and commercial risks that are un-insurable by commercial insurers. It may be argued that the agency fills a gap in the market. It acts as a standard export credit insurance company providing insurance services to all exporters of Czech goods, services and investments irrespective of their size, legal form, or volume of insured exports. This agency was formed in 1992 as a joint stock company completing owned by the Czech state. The agency provides guarantees mainly for credits to the countries of Eastern Europe and the Former Soviet Union; where the Czech firms traditionally hold a strong position. This emphasis is in line with the national export strategy. The comparison of Figure 3.2 and Figure 3.3 emphasises the link between Credit Guarantee institutions and the structure of exports and their markets.

[15] https://www.ceb.cz/en/

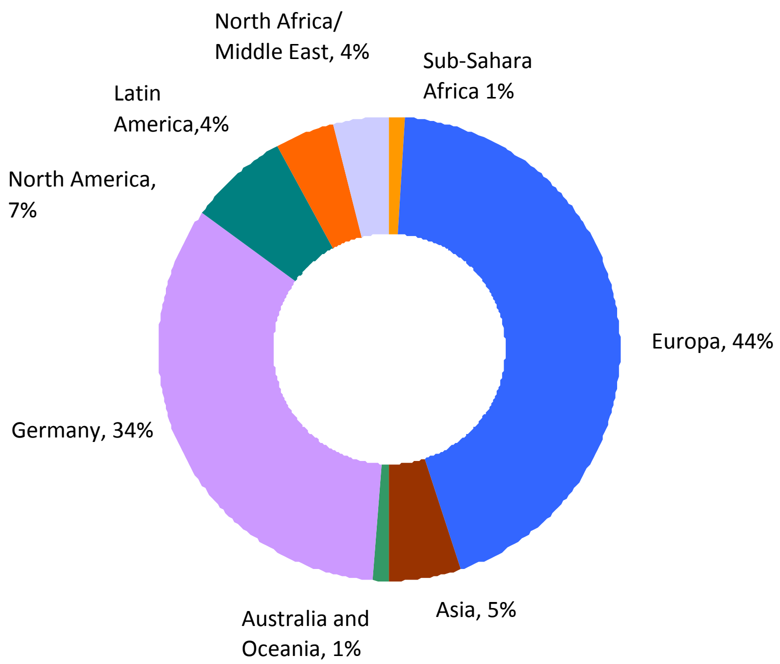
[16] http://www.egap.cz/index-en.php

Figure 3.2 : Structure of credit guarantee commitments of EGAP as of 12/2012: Source: EGAP



Source: (http://www.conference-cm.com/podklady/history5/Prispevky/paper_Picha.pdf)

Figure 3.3: Structure of credit commitments of KfW IPEX as of 12/2012



Source: (http://www.conference-cm.com/podklady/history5/Prispevky/paper_Picha.pdf)

Participation in international tenders requires speedy responses by exporters in order to secure export financing for a foreign investor. However, in the Czech Republic, it is argued, Czech exporters are often limited by lengthy approval procedures by the export credit agency which are inconsistently managed in accordance with the current political interests. By contrast, in Germany, decisions are made much more promptly in order to support the efforts of German exporters, which arguably helps to make the case for private provision to be contracted, rather than operated, through a state owned bank directly.

EGAPs[17] annual report for 2014 emphases the important role that EGAP performs as a key instrument in the diversification of Czech exports, especially from the viewpoint of exports outside the European Union. This is supported by the fact that, despite problems in some of the Czech Republic's target markets such as the Ukraine, EGAP manage to insure exports worth a total of Kč47.2B distributed across 38 countries of the world.

It is reported on the EGAP website that SMEs represent a significant customer base for EGAP. Supporting the export activities of SMEs is one the priorities of the EGAP company. Having said that, the international rules for state supported exports restricts the sphere of activity of state export credit insurance companies to that part of the market which is not covered by commercial credit insurers. Because speed can be of the essence in terms of securing an export contract, EGAP offers to SMEs, in co-operation with several banks, a substantially simplified administrative procedure in the insurance of credits for pre-export financing and bank guarantees.

Unlike many countries EGAP does not examine the credit-worthiness of a client but it assumes the rating prepared by a bank and, provided it is within a pre-determined limit, EGAP will issue the pre-export credit or bank guarantee automatically. This is important because it reduces the time necessary for processing an insurance policy. The exporter saves time and money because the insurance premium can be lower since many of the costs can be associated with an entry audit for example; therefore many of these costs will be reduced as a result of this process.

Financial Instruments related to R&D

Taking a longer term view of internationalisation processes; the extent to which a country is investing in Research and Development is likely to have some bearing on its medium and longer-term pattern of internationalisation. That is not to say that this investment is necessarily focused on that aspect but one might see it as in indirect consequence. The Research and Development funding in the Czech Republic is administered by a series of national institutions including: the Academy of Sciences of the Czech Republic, the Grant Agency with the Czech Republic, the Technology Agency and 7 Czech Ministries. The main types of financial instruments are target oriented funding – such as for grant projects, programme projects, public contracts assigned in the form of subsidies and loans, and institutional funding based on the evaluation of research results.

In the Czech Republic there are two main institutions that finance Research and Development activities:-

[17] http://www.egap.cz/index-en.php

- **Czech Science Foundation**[18] (which is also known as **the Grant Agency of the Czech Republic**) this supports basic research;

- **The Technology Agency of the Czech Republic**[19] which supports technology based research projects. Among the main activities of the Technology Agency is a programme called Delta which is "aimed at supporting collaboration and applied research and experimental development projects through joint projects of enterprises and research organisations supported by the Technology Agency of the Czech Republic and major foreign, technological and innovation agencies and other similar agencies . "In addition there are **7 Ministries** supporting R&D; two of which are the most significant, namely the

Ministry of Education Youth and Sport[20] – (which has amongst its competencies the International Dimension of R&D Co-operation) administers the operational programme, Research Development and Education, where the main relevance of the topic is Priority 1, which is focused on enhancing the capacity for quality research. The Ministry also runs R&D oriented EU programmes including EUPRO, EUREKA CZ, Ingo 2, Cos C7 and Kontakt2. The last of these focusing on international co-operation in R&D. So, although none of these programmes are specifically targeted at, or more specifically include, Japan, nor are they specifically designed to promote internationalisation, but, as stated above, the latter is one of the potential effects of such programmes.

Secondly the **Ministry of Industry and Trade**[21] which is in charge of innovation and is also responsible for administering the operational programme Entrepreneurship and Innovation for Competitiveness.

The Czech Republic also participates in Horizon 2020 where there have been two EU-Japan forums so far, but it is not executed by the Czech national institutions. The limited involvement of Czech firms in Horizon 2020 may be because of the perception of the difficult preparation of materials for such projects, the administrative burden, in other words, it is a negative factor influencing the take-up of some of these programmes. It must be emphasised that participation in most of these R&D support programmes may have an indirect effect in helping companies to internationalise, although this is clearly difficult to demonstrate.

Economic Relations with Japan

In terms of trade between Japan and the Czech Republic, Japan's exports to the Czech Republic are almost double the value of the exports from the Czech Republic to Japan. With the latter comprising mechanical components for the most part, Japan's sales to the Czech Republic consist mainly of electrical machinery. According to the Czech Prime Minister, Japan is one of the biggest foreign investors in the country. A total of 237 Japanese

[18] https://gacr.cz/en/
[19] https://www.tacr.cz/index.php/en/

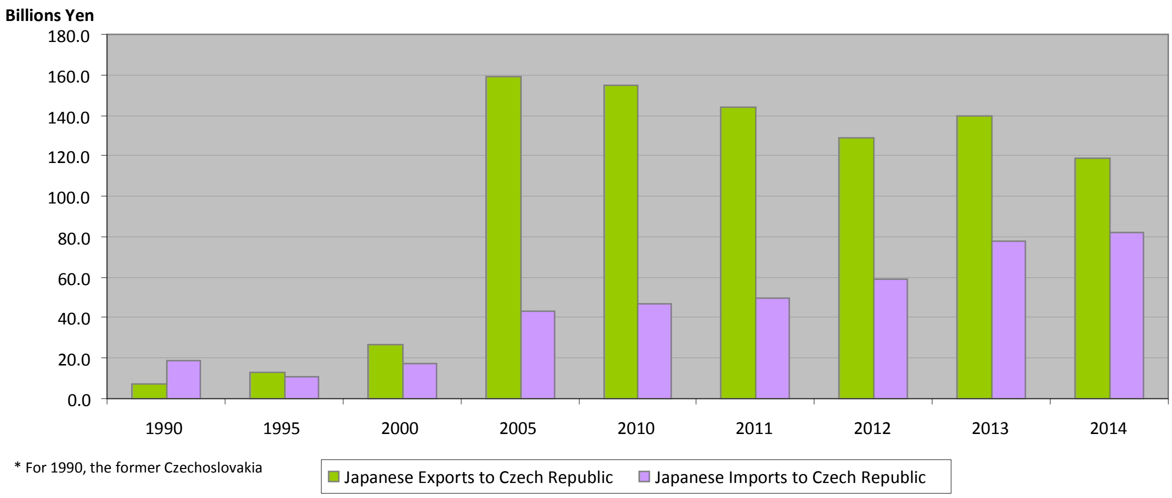
[20] http://www.msmt.cz/research-and-development-1
[21] http://www.mpo.cz/default_en.html

corporations have invested in the Czech Republic, 94 of these being manufacturing companies. Information technology is one area of partnership between the two countries.

Turning to trade between the Czech Republic and Japan. What is most noticeable in Figure 3.6 is that from 2005 onwards there was a marked increase in the volume of exports from Japan to the Czech Republic. At the same time, the volume of imports also grew, but at a lower rate. So, the process of transformation from a centrally planned economy appeared to have a major impact on the opportunities for the Czech Republic to consume Japanese goods whilst also selling their own.

In terms of foreign direct investment, as the Czech Republic is the 12th most attractive location for Japanese investment based on the stock. In view of the fact that 10-20 years ago, the Czech Republic –was under central planning, the pace of change in this regard has been quite significant. At the same time, of course, the Czech Republic has not built up sufficient resources or had sufficient time to be a major player in terms of foreign investment itself.

Figure 3.6: Trade between Czech Republic* and Japan (1990-2014)



* For 1990, the former Czechoslovakia

Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

As in other EU countries the Czech Republic export credit policies are delivered through the export bank; which is a specialised state-owned banking institution to which state support for exporting is channelled and also EGAP. Although the system of export credits, export credit guarantees and related products, is the familiar one that is found across Europe, closer examination shows that the behaviour of Czech institutions is not the same as in countries like Germany for example. This reflects a greater conservatism on the part of the Czech banks which contrasts with Germany where the accumulation of experience over a number of years has helped to make German banks a little more flexible. Comparisons between the Czech Republic and more advanced mature market economies again shows similarities and differences. Whilst the business support structures may look very similar, their operation is not and, in this regard, the Czech Republic, as a new member state of the

Union, suffers from a lack of resources which effects their ability to fully implement some of the programmes.

As in the case of other EU countries, the Czech Republic offers a national export programme as a means of encouraging exports and thus stimulating the economy. The Czech export bank supplements the services offered by the domestic banks which are available to exporters on the banking market.

Turning to the financing of R&D as part of a longer term view of internationalisation processes, the Czech Republic's administration of R&D funding is in the hands of a number of agencies, including the grant agency for the Czech Republic and Technology Agency and 7 ministries.

There have been two EU-Japan forums so far in preparation for Horizon 2020 but there is a perception in the Czech Republic that preparing the materials for such projects is very burdensome. As a consequence Czech institutions have decided that they don't have the resources to chase these opportunities.

Poland

Context

In the early days of the transition from central planning to a market based system the SME sector was one of the main sources of dynamism in the Polish economy. At the same time as the transition process evolved so it became increasingly important to address the competitiveness of Polish SMEs, which in the early days of transition concentrated on personal services and sectors such as clothing, where competition from lower-cost producers was always a risk. In this context a policy of promoting exporting based on more sophisticated higher value-added sources of competitive advantage, became a major issue. Building market orientated innovation systems at both regional and national levels became a high priority whilst also remaining a major challenge. In this context, encouraging export activity amongst the country's SMEs gained an important policy priority.

Supply of Finance & Business Support

At the forefront of the Polish government's approach to encouraging and supporting entrepreneurship and SME development is the **Polish Agency for Enterprise Development (PARP)**[22]. Indeed, PARP's main purpose is to support entrepreneurship with the implementation of actions aimed at using innovative solutions by entrepreneurs in the development of human resources, the expansion into international markets and regional development. Moreover, its mission refers to the improvement of the competitive position of the Polish economy in both European Union and wider international markets. As a consequence, the main activities of the Agency focus on stimulating and creating enterprising attitudes. Significantly PARP also carries out activities to support international co-operation including Polish participation in prestigious international and world exhibitions.

PARP is the government agency that has been providing support to entrepreneurs in the implementation of competitive and innovative projects for more than 10 years. The main object of the activity of PARP is to develop the SME sector in Poland. In order to achieve this PARP uses the funds from the State budget as well European funds. Support for export activity is one of the key tasks of PARP and this includes strengthening the competitive position of Polish firms on foreign markets and making it easier for SMEs to get in touch with foreign companies in their business. This is the rationale for PARP offering Polish SMEs an opportunity to participate in economic missions, co-operative exchanges and fairs.

Moreover, through the EU's Enterprise Europe Network (PARP operates this network in Poland) providing an opportunity for entrepreneurs that are looking for foreign partners to publish their company profile in the co-operation office database, which is accessible by around 600 network units in Europe and different parts of the world. The Enterprise Europe Network offers a range of services covering information, training and counselling - mainly in the field of European law and policies, business activity in Poland and abroad, access to sources of funding, the internationalisation of enterprises and the transfer of technologies and internationalisation in EU framework programmes.

As in other new member states of the EU, co-financing is the key principle in the current development programme. In this regard PARP is responsible for managing the funds assigned from the State budget and also from the European Union for the support of entrepreneurship and innovation, with particular consideration given to the needs of SMEs. The EU money refers to Structural Funds and specifically to the period 2007-13. Financial support is available for, firstly, entrepreneurs to develop their research and development activities and secondly, for investment projects with regard to the application of new product technological services or organisational solutions. In addition, there is support for innovative enterprise development, in particular by strengthening the co-operation between the education and economies spheres, as well inter-regional development in the east of Poland. Clearly the operational programme in innovative economy focuses on supporting innovative enterprises and should help to improve the competitive position of Polish enterprises on international markets. Indeed priority 6 of this operational programme is concerned specifically with the Polish economy on international markets.

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[22] **http://en.parp.gov.pl/ Polish Agency for Enterprise Development (PARP)**

Bank Gospodarstwa Krajowego (BGK)

Another of the important players in the market for export financing is **Bank Gospodarstwa Krajowego (BGK)**[23]. BGK is a development bank and its main mission is to support social and economic growth in Poland and the public finance sector in the performance of its tasks. As a state development bank BGK both implements and initiates various programmes supporting the economic development of Poland. It is the pillar of the Polish investment programme under which it organises long-term funding of investment projects, including projects which are of strategic importance for the national economy. It is responsible for managing export support and infrastructure programmes and has developed a system of guarantees and sureties in this regard. Polish exporters are assisted by the bank who takes part of the risk related to the trading activities of Polish companies in collaboration with other financial institutions. BGK improves access to funding for business.

One of BGK's strategic objectives for the period 2014-17 is to include the availability of funding and scale of operations and support of export activities by Polish companies. One of the functions of BGK is to deliver the government's programme for export support. In this regard BGK grants credits for financing purchases of Polish goods and services for foreign importers either directly or through the importer's bank. Credit funds are dispersed directly to Polish exporters. Foreign importers repay the credits on completion of goods and services being delivered. The system of grants of credits described date from July 2009 when the council administration passed legislation which established the government programme for export support. More specifically this government programme includes the following instruments to support Polish exports - medium and long-term financing, whether in payment period of two years or more; buyer's credit granted through the importer's bank; buyers credit; short-term financing for periods of less than 2 years; post-financing documentary letters of credit

Economic Relations with Japan

In terms of the trading links between Japan and Poland, in 2013 Japan exported a value of ¥157 billion ~~o~~f goods including liquid crystal devices and motor vehicle components. Japan imported rather less from Poland at a ¥100billion, a shortfall of ¥57 billion. These products include cigarettes, pork meats motor and vehicle components. Poland has also been an attractive investment location for inward investment. In 2014 there were 292 Japanese companies located in Poland. For reasons already stated Poland appears as a relatively attractive location for Japanese foreign investment but there also appear to be good opportunities for Polish companies.

In March 2016 the EU-Japan Centre's Office in Brussels organised a seminar in Poland to draw the attention of the Polish entrepreneurs to the untapped business potential between Poland and Japan. It was emphasised in the seminar that, although there is considerable cooperation already between these two countries, there is clearly untapped business potential but this should be reinforced by the Free Trade Agreement currently being negotiated between the EU and Japan. This Agreement will eliminate both tariff and non-tariff measures and will contribute to improving the regulatory cooperation and market

[23] **https://www.en.bgk.pl/ Bank Gospodarstwa Krajowego (BGK)**

access in both directions, thereby maximising business opportunities. The seminar was organised by the EU-Japan Centre in cooperation with the Polish Confederation of Entrepreneurs.

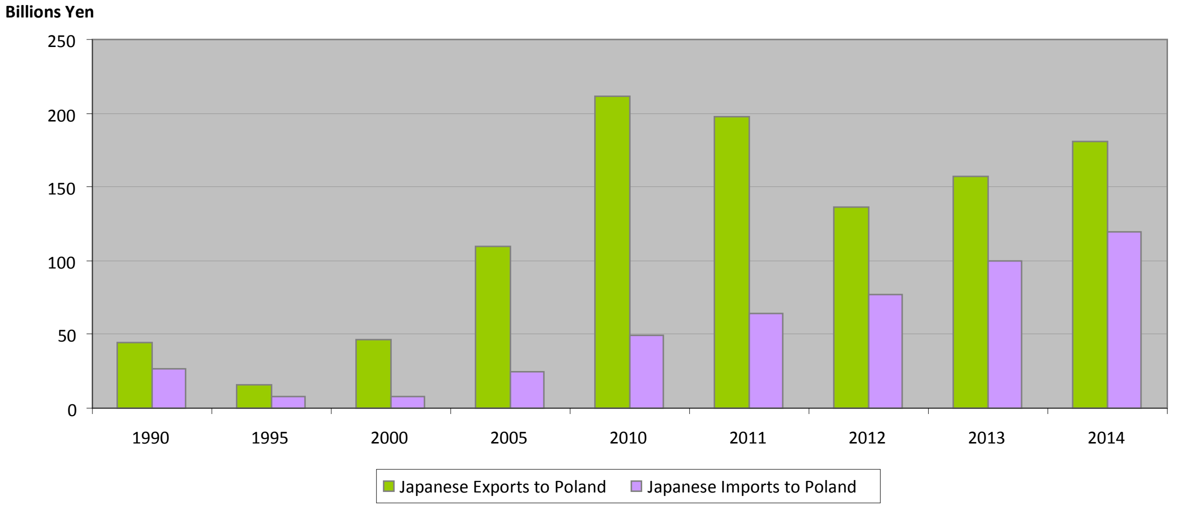
Turning to international co-operation with Japan – Poland together with the other Visegrad group countries have signed a Memorandum of Co-operation to promote development of increased research and innovation by funding joint research projects. This agreement was signed in Bratislava in 2014 by the following institutions:-

- The Ministry of Education Youth and Sports in the Czech Republic
- Scientific Research Funded in Hungary
- The National Centre for Research and Development in Poland
- Slovak Academy of Sciences in Slovakia
- Japan Science and Technology Agency in Japan
- The International Visegrad Fund

It is recorded that the first call for proposals came in 2014 in the area of material science and engineering.

One of the missions of BGK is to promote international co-operation. This includes co-operation with international financial institutions including BGK's counterparts in other countries as well as with associations of these institutions.

Figure 3.7: Trade between Poland and Japan (1990-2014)



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

Poland is another example of a country where current policy priorities including boosting export activity particularly by SMEs. In the early days of the transition process SMEs were one of the main sources of dynamism in the Polish economy. However, most of their international activity at that time was very cost\price focused. The clothing industry is a good case in point, since not surprisingly new and cheaper sources of clothing have emerged on global markets and Poland has been left with an industrial economic structure that is less than ideal. As a consequence Polish policy makers have considered it important to promote exporting as an important activity for the country.

In this context, it is an advantage to have a one-stop agency like PARP that is responsible for supporting entrepreneurship and small business development in the country, involved in the delivery of export support. This is because it is easier to effectively disseminate information about the export assistance available through an agency which small businesses are already familiar with. Support for exporting is currently one of the key tasks of PARP, this includes strengthening the competitive position of Polish firms on foreign markets thereby making it easier for them to get in touch with foreign companies in their business.

Since the decision was made to join the European Union Poland has developed a comprehensive range of policy measures designed to assist SMEs and entrepreneurship development. This includes those that focus on the promotion of export activity and wider internationalisation but it also includes measures that are part of national small business policy, an example is the national loan scheme similar to those found in many European countries. As a consequence, alongside PARP is BGK. This is currently focused on the period 2014-2017. However, in addition to the standard measures to encourage SME export activity; there is also a commitment to wider international co-operation particularly in the fields of technology and knowledge development.

NORDIC STATES

Denmark

Context

Business support in Denmark has recently been subject to a major review, which provides an important context for the support described below.

Supply of Finance & Business Support

Denmark scores well in terms of making information available in an accessible way to the nation’s businesses. A recurrent characteristic of government interventions with regards to encouraging entrepreneurship in small business activity is that the target groups often know little about what is available and, as a result, these schemes become under-utilised. Sometimes one suspects this is a deliberate strategy on the part of the public sector bodies, to limit their financial commitment to these interventions, but that is not easy to prove.

A website created by the **Ministry of Growth**[24] and contains all growth schemes and funds provided by the various ministries, municipalities and other institutions in Denmark. In addition, the website contains a checklist for export readiness, recognising the differences between domestic and foreign customers. The website **Eksportguiden**[25] is a website created by the Foreign Ministry and containing all schemes related to export growth provided by ministries, municipalities and other public institutions in Denmark. **Eksportkredtfonden (EKF)**[26] contains information about finance for internationalisation projects to SMEs specifically and **Investeteringsfonden for udviklingslande (IFU)**[27] contains information about the finance available for projects in developing countries.

EKF provides help with financing businesses, increasing sales, protecting businesses exports from loss, recording and presenting some success stories, providing simple explanation of export credits & guarantees operate, EKF also provides country information for SMEs so the funds can be used either within Denmark or abroad and similarly, with technological development. There are no programmes that are specifically targeted in Japan but many of the programmes at Eksportguiden can be used in Japan. Denmark has a number of schemes which can be used to access finance for the purposes of internationalisation. One is called Growth Loans, the second is entitled Growth Guarantees, the third Growth Loans for Entrepreneurs, fourthly Danish Growth Capital, fifthly Syndication Loans, sixthly The Danish Green Investment Fund (see Appendix 1).

A recent review resulted in an export promotion strategy which involves a public export platform containing information about funds and grants available to Danish exporting companies. One of the key features of the Danish approach is its emphasis on growth. Indeed its SME policy is very much focused on high-growth companies and has been for a number of years. As a result, in view of the small size of Denmark's domestic market it is necessary for growth-orientated companies to look to international markets at a very early stage in their development. Since this is a key part of national strategy it is necessary for the state to provide an effective programme of support

EKF also undertakes risk assessments which are provided to businesses that are exporting to particular countries including Japan. The current assessment of Japan is low payment risk as a rule EKF will cover risks associated with business transactions in the country.

Economic Relations with Japan

Denmark is somewhat unusual among EU countries in that it has enjoyed a trade surplus with Japan for a very long time. The two main products which Denmark sells to Japan are pig meat and pharmaceuticals. The three big pharmaceutical companies in Denmark each has a subsidiary in Japan and have formed strategic alliances with Japanese companies. Welfare technology is an area where the two countries have collaborated to find practical solutions for the aging society. Renewable energy is another area of mutual interest and cooperation.

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[24] https://www.evm.dk/english

[25] http://eksportguiden.um.dk/

[26] **http://www.ekf.dk/en/Pages/default.aspx**

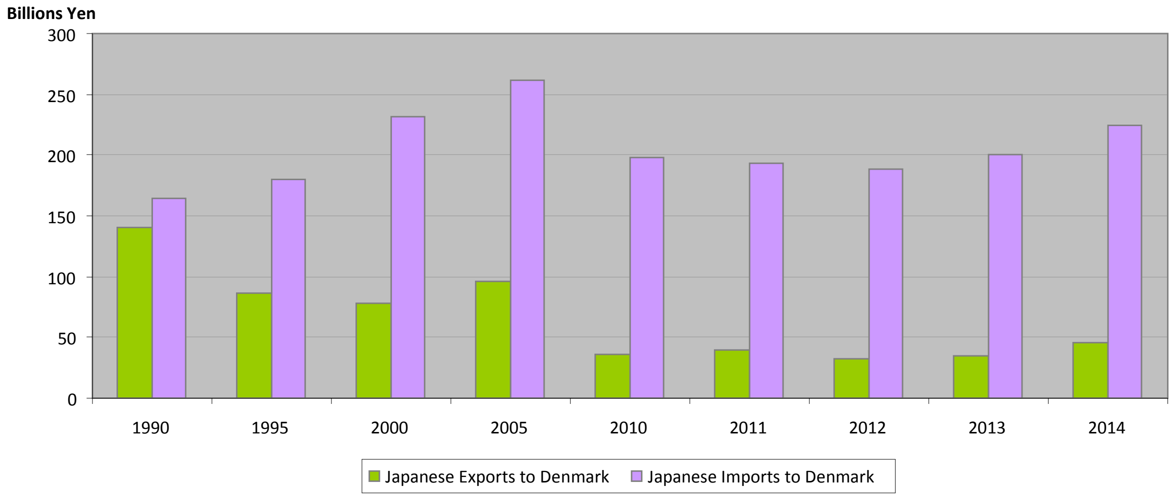
[27] **http://www.ifu.dk/en**

Denmark and Japan share a common problem in terms of the issues surrounding an aging population. Whilst on the one hand the cultural differences may lead one to expect the opportunities for cooperation in this area to be limited, the opposite appears to be the case. Japanese exports to Denmark include cars and electrical appliances.

Turning to direct investment, the number of Japanese corporations that have offices or subsidiaries in Denmark is 35. The main business fields are pharmaceuticals, food, IT. Denmark has been engaged in cooperation with Japan for some years in the field of science and technology. In this context Japan is an attractive country to collaborate with because, after the UK and China, it is the country in the world with the strongest research and innovation budget. Moreover, measured by the number of international patent applications, Japan is number 2 in the world after the US.

Figure 3.8 shows that Denmark is quite distinctive in comparison with the majority of the EU countries insofar as it has been in trade surplus with Japan for the whole period since 1990-2014. Currently, the sales of Danish goods to Japan are four or five times greater than the purchases by Danish customers of Japanese products.

Figure 3.8: Trade between Denmark and Japan (1990-2014)



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

There are two distinctive features of the Danish approach to export financing. One is the close attention that is paid to the dissemination of information. The Danes do seem to have taken on board the problems that many small business owners face in actually finding out about and accessing public sector finance sources. This is achieved through a website which is more comprehensive in its coverage than is usual. Denmark has recently undertaken a review of export support in Denmark for its businesses.

EKF is the export credit fund, containing information about finance for internationalisation projects, which it makes available to SMEs in particular, and this source provides help with financing businesses, increasing sales, protecting businesses exports from loss and so on. It also will provide country information for SMEs in a way that is current within UKTI (the British equivalent).

The other main characteristic of the Danish approach is the relationship between export support, export financing and support for growth, in other words businesses that are growth-oriented are the most likely to require export support.

Finland

Context

It appears that there are considerable changes in the financing of internationalisation of SMEs which is currently under review. Within the Team Finland network it is possible to obtain finance as well as advisory support and access to Team Finland's networks. A wide range of financing services is available from aid and grants to loans and guarantees. These loans can be used for investment in machinery, equipment of building, financing working capital, corporate restructuring and, in special circumstances, they can be used to finance a company's business operations abroad.

Supply of Finance & Business Support

The business support system for SMEs in Finland is comprised of both public and private organisations. In addition, there is the Finnish Japanese Chamber of Commerce, whose activities are to support Finland- Japan commerce. The Finnish Japanese Chamber of Commerce was established in 1981. It may be considered third sector as it is a non-profit making organisation with a purpose to develop the relations between Finland and Japan in the fields of trade, industry and other lines of business, as well as seeking to create better awareness and existing possibilities to enhance business relations between these two countries.

To pursue its aims the Chamber arranges meetings and lectures and other festive events for its members and gives information on trade between Finland and Japan. It currently has approximately 70 company members, 29 individual members and three honorary members representing sectors that include trade, industry, services, banking, transport and tourism.

Public sector organisations which are involved in providing finance include **Finnvera plc**[28] – which is a public risk financier, offering loans or collateral for SME internationalisation and development. Finnvera has specific instruments for SMEs attempting to internationalise their activities. It is also Finland's official export credit agency the clients of which are mainly larger companies although there are some SMEs. Finnvera's promotional material refers to financing for growth and internationalisation and this is the title of its 2014 Annual Report.

Finpro[29] is a semi-public organisation which focuses on promoting the internationalisation of Finnish companies. It assists Finnish SMEs to go international, encourages FDI in Finland and promotes travel to Finland. Finpro offers a range of export services. It organises events

[28] https://www.finnvera.fi/eng/Finnvera
[29] http://www.finpro.fi/

to help to draw potential market opportunities to the attention of Finnish companies. It provides advisory services to help Finnish SMEs to succeed in international markets, emphasising the importance of working with an expert partner to choose the most suitable route for their companies to go international. In order to promote international business operations by Finnish companies several programmes are run each year offering companies opportunities to network with Finnish and international operators in their sector abroad.

Finpro is actually a group of companies focusing on different aspects of internationalisation which include exports (i.e. Export Finland) but also attracting investment and international tourists to Finland. Together these organisations make up Team Finland which aims at supporting Finnish companies entering international markets and attracting investments from around the world to Finland.

There is also an organisation called **Tekes**[30] which is part of Team Finland. This is the Finnish funding agency for innovation. Most of its activities are globally driven but the organisation is focused on R&D innovation. Tekes offers innovation funding which enables companies to grow faster. In this respect SMEs that are seeking growth through internationalisation are the most important target group for Tekes funding. Finance to assist business development for SMEs is available through the centres for Economic Development, Transport and the Environment. In this regard it provides various R&D programmes as well as different financial schemes, including loans and venture capital. As a result Tekes is the most publicly funded organisation for financing research, development and innovation in Finland. Each year Tekes finances approximately 1,500 business research & development projects and almost 600 public research projects at university research institutes and so on. Tekes is part of Team Finland. Tekes offers innovation funding and services to internationalising companies, it also promotes the internationalisation of companies and supports efforts to attract foreign investment to Finland.

Finnvera also offers loan guarantees which can be used to secure credit from banks, insurance companies or other lenders. In certain circumstances this finance can be used to finance Finnish company's business operations abroad. Finnvera is the organisation responsible for dealing with export guarantees. One of the partners in Team Finland is Finnish Industry Investment (FII). FII invests in the most promising Finnish companies in the growth and internationalisation phases. Its investments are part of a funding package put together on the same terms as private investors so, effectively; FII is a source of venture capital. In addition Finnfund provides long-term financing for projects for Finnish companies in developing countries including Russia.

Economic Relations with Japan

As Figure 3.9 shows, in recent years Finland has had a healthy trade surplus with Japan, although, prior to 2005, Japanese exports to Finland exceeded the imports. From 2005 onwards the opposite has been the case, and from 2013 the gap has been quite considerable.

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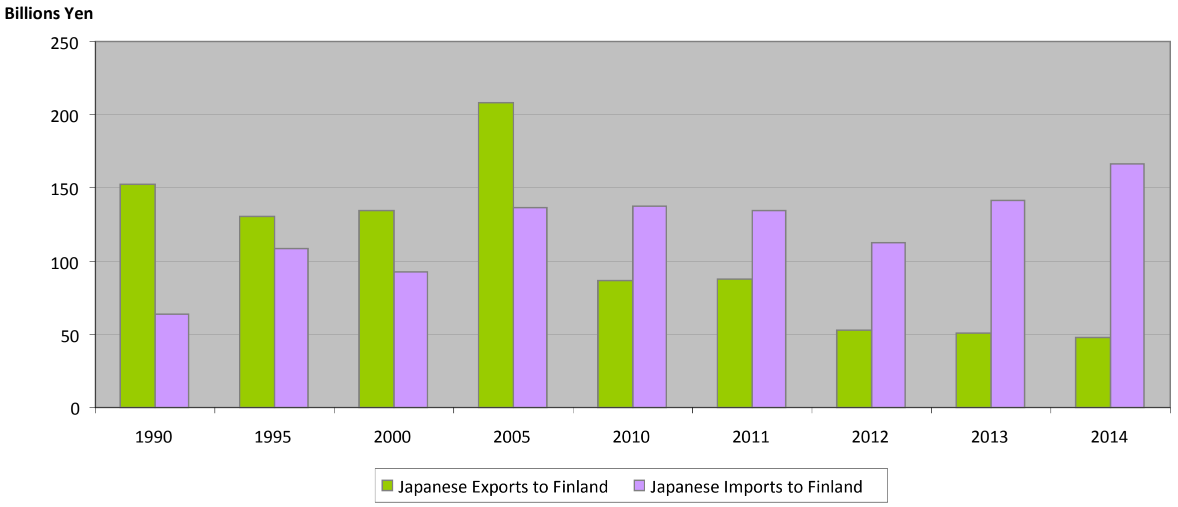
[30] https://www.tekes.fi/en/

Japanese sources describe the bilateral relationship with Finland as based on broad cooperation in areas of mutual interest, which include welfare, science & technology, cultural & academic exchange, as well as trade and investment.

Figure 3.9: Trade between Finland and Japan (1990-2014)



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

As a relatively small economy on the Northern periphery of Europe, Finland has for some years made a commitment to a strong business support system for SMEs which consists of both public and private organisations, in addition to the usual Chambers.. The Finnish-Japanese Chamber of Commerce, which was established in 1981, is essentially a third sector organisation.

There are a number of public sector organisations which are involved in providing finance for the internationalisation of SMEs. One of these is Finnvera which has a particular brief with regards to technology and programmes of technology support. Another is Tekes, which is an exclusively technology focused organisation. However Finland's location has implications for its main markets and, in this regard, both Russia and Japan are important targets for Finnish businesses. The Finns approach to internationalisation in a comprehensive way. In terms of agency support they have Team Finland, which consists of agencies that deal with different aspects of internationalisation these include Tekes, Finnvera and others.

Like Denmark, Finland has recently been involved in a review of business support for exporting and the full implications of this are not yet fully known. Within Team Finland there is Finpro - which is a semi-public organisation focusing on promoting the internationalisation of Finnish companies. There are a number of key features that are related here. One is that the Finnish approach to encouraging and supporting internationalisation of different sorts seems to be integrated and comprehensive. Finland was actually an early starter some 10 years ago, when most other governments in Europe were still focussing their attention with regards to internationalisation on exporting. The

Finnish government, faced with Nokia looking at locations in China and Brazil, actually encouraged suppliers to the company to move with it. The Irish actually did something similar. Finland was an early player on this internationalisation support stage and also one that now presents a rather comprehensive picture.

SOUTHERN MEMBER STATES

Portugal

Context

In Portugal public policy at the national level has been developed in order to plug into EU programmes. This contrasts with the more mature market economies in longer established EU member states for whom entrepreneurship and the policies to promote it is less novel.

In Portugal there are two main government institutions for supporting SMES, both of which play a role with regards to foreign market activity and the internationalisation of Portuguese firms. The first is **IAPMEI**[31] which is the public agency for competitiveness and innovation. This organisation provides incentives to invest, training and assistance for SMEs, entrepreneurship promotion programmes and also help with export promotion. IAPMEI is the main government body involved in SME support. The second institution is Portuguese Global AICEP and this organisation is dedicated to promoting the internationalisation of Portuguese firms as well as promoting FBI into Portugal. There is also a Japanese Chamber of Commerce.

In the context of its wider mission to promote the competitiveness and business growth of SMEs IAPMEI grants investment incentives through non-refundable and refundable schemes for projects based amongst other things on international roll-out strategies. IAPMEI is a member of the European Enterprise Network.

Supply of Finance & Business Support

AICEP - Portugal Global Trade and Investment Agency[32] is a government business entity created in 2007. Their role is to focus on encouraging the best foreign companies to invest in Portugal and, alongside that, contribute to the success of Portuguese companies abroad in their export activity or wider internationalisation processes. Its mission is to increase the competitiveness of Portugal by boosting structural investment and making companies more international in scope with a special emphasis on SMEs. Portuguese Global has a global network which it uses to help to identify and promote foreign investment in Portugal offering interested foreign companies information on the Portuguese brand, sector and distribution, products and services. In terms of helping Portuguese firms to export, Portuguese Global uses its extensive foreign network, which is integrated with the Ministry of Foreign Affairs, to assist Portuguese companies in their internationalise effort or, more narrowly, their export activity.

[31] http://www.iapmei.pt
[32] http://www.portugalglobal.pt/EN/Pages/Index.aspx

The Portuguese Global product is high profile and is part of the government attempt to offer Portuguese companies the opportunity to globalise. The offer of the organisation in terms of what they claim to be able to do for businesses includes:

- An ABC of markets – which is essentially what businesses need to know for each market and each sector;

- How to sell in the different markets;

- More than 2,000 documents - basically economic information which is helpful to businesses to develop their marketing plans;

- Access to an export forum which provides training in key areas of exporting;

- Exporter's Guide – this is essentially an A-Z to of exporting

- Internationalisation Guide – a step-by-step approach to internationalisation

IAPMEI operates directly through central services in a regional network of entrepreneurship development centres across 12 cities. It works through partnership networks with other public and private entities that are directly involved in supporting entrepreneurship innovation and business development. IAPMEI is the main government body addressing SME support.

Portuguese Global or AICEP is organised into two distinct business areas. Firstly, large commercial companies and Portuguese Global assists companies of all size in Portugal, both individually and as part of groups. The second area is commercial small and medium-sized companies. In this case AICEP assists SMEs in all matters relating to promotion of exports in international markets and also towards boosting outward foreign investment; both key processes with respect to internationalisation. As far as this target group is concerned, the organisation also carries out market research to identify and select companies with potential international market strengths (e.g. works with individual companies in order to launch their businesses on international markets).

AICEPs international network of offices abroad are responsible for the identification of new potential foreign investors and their respective markets as well as for identifying business opportunities for Portuguese companies in those same countries and providing local assistance to Portuguese entrepreneurs that are visiting. Working in close partnership with Portuguese companies, AICEP acts as a public sector partner and provider of value added services. Within this context the key account manager is the specialist liaison person between AICEP and the target business. This key account manager is an important player in strengthening the competitive capabilities of Portuguese companies and performing a fundamental role in the provision of information and facilitation of the internationalisation process.

There is also a Portuguese Japan Chamber of Commerce which runs trade fairs and provides services for members including business training, translation and interpretation services and also provides some help in identifying business opportunities. In terms of Japan, Portuguese companies can connect with Japanese firms through the Chamber. The Chamber also supports successful internationalisation of businesses. The Chamber promotes Japan as an attractive led market which, due to its high level of development and excellent production, is a trend-setter across Asia.

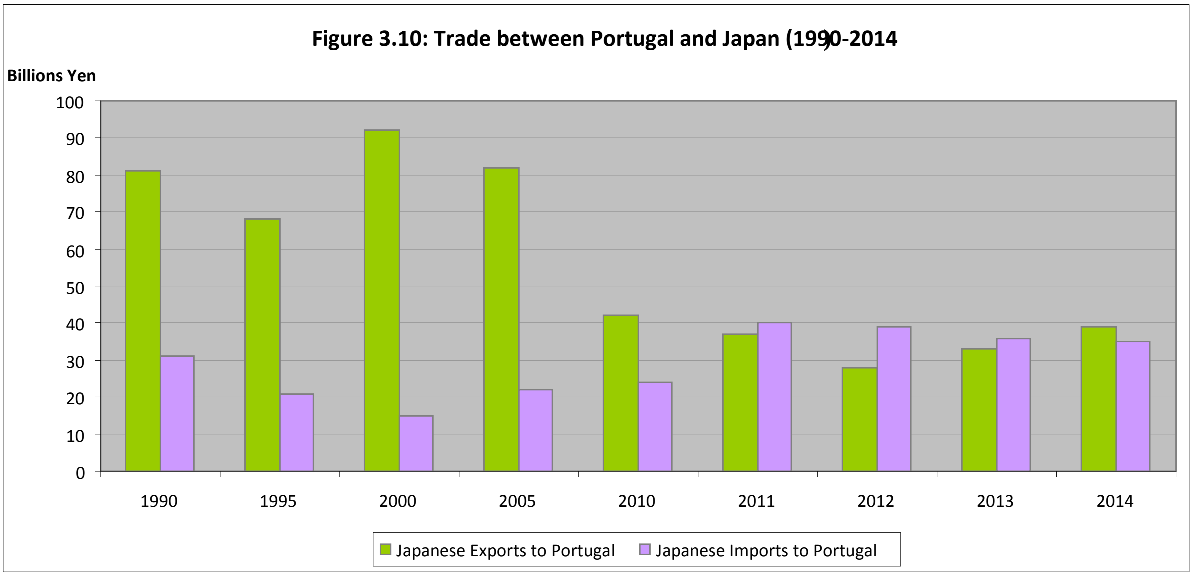
It is suggested on the Chamber website that Japanese consumers are traditionally receptive to foreign products that effectively combine quality, innovative design and price. Apart from trade missions, other specific services provided by the Chamber include, where possible, the provision of lists of companies and general contacts, these lists can include name, address, telephone, fax, email and website; there is a fee for this service. The Chamber also provides a forum for companies and their products or services to be presented to potential customers in Japan. The Chamber also provides essential information required to be successful in business in Japan as well as promotional material for example. There are also some follow-up services provided.

As in other countries the Chamber provides generic information about specific markets such as Japan which are either free to members or heavily subsidised and for a fee they will also provide customised investigation of opportunities for individual businesses.

Economic Relations with Japan

Japan and Portugal don't have particularly close relations with each other from an economic perspective. The amount of trade between the two countries amounts to only 0.2% of Japan's exports and 2.2% of imports. As a consequence, Portugal's relations with Japan look quite different from most other European countries. In terms of the composition of exports from Japan to Portugal the main ones are related to the vehicle industry – cars, trucks, diesel engines, motorcycle parts etc. Cars alone amount to 38% of the entire export volume from Japan to Portugal. Portuguese exports to Japan include leather shoes (20% of the total), wood pulp and cork, as well as some frozen fish and pureed tomatoes.

With regards to investment; Japanese manufacturing enterprises are particularly welcome in Portugal although, from a Japanese company perspective, the costs of operation in Portugal do not look particularly competitive, these include a relatively high labour cost. 2013 data shows that Japan exports by value were ¥39billion and imports in the same year from Portugal were ¥35 billion roughly in balance. Direct investment from Japan in 2013 amounted to ¥3.2billion.



Source http://www.stat.go.jp/english/data/nenkan/1431-06.htm

Commentary

In Portugal there are two main organisations that are concerned with research and development. One of these, IAPMEI, offers grants to SMEs to assist them in their internationalisation efforts. There is also a partner responsibility is the promotion of FDI (foreign direct investment) and a Portuguese Japan Chamber of Commerce. Once again, unlike the mature market economies, Portugal is one of the poorer peripheral economies in the union. The Portuguese approach recognises the multi-faceted nature of internationalisation, which includes investment by foreign companies in Portugal, alongside the export activity or wider internationalisation processes practiced by Portuguese companies. Like most other European countries Portugal is plugging into the wider global network through an organisation called Portuguese Global, which integrates the foreign network. The Ministry of Foreign Affairs with its own extensive foreign network. These two organisations, IAPMEI and Portuguese Global, are critical in influencing the nature and extent of internationalisation.

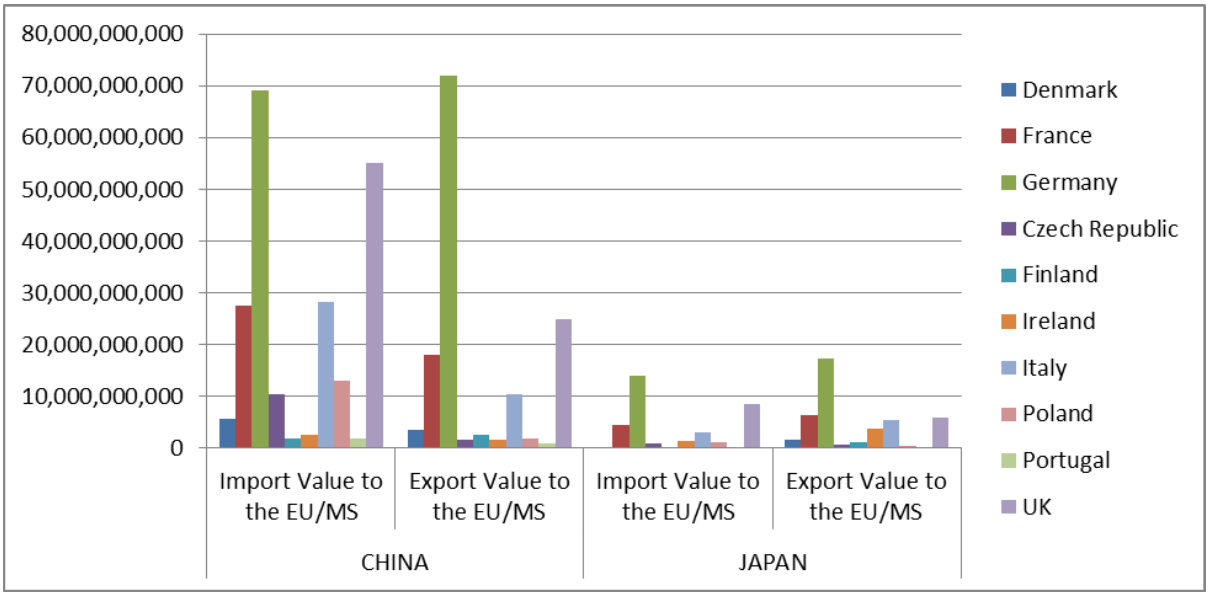
The approach adopted by the Portuguese government to deal with internationalisation, and indeed to exploit it, certainly makes sense and the products that these two organisations produce as part of the government's attempt to offer Portuguese companies some help in a globalised world, look good. What is less clear is their quality, how effectively they are delivered and whether the businesses are satisfied with them.

A Brief Comparison Economic Relations between EU Member States with China and Japan

As Figure 3.11 shows although Japan is an important market for European businesses China is a significantly larger one for most of them. As the figure shows Germany, which has the most trade with Japan by value (both exports and imports) is even more active in the case of China.

At the same time, from a business perspective China is a much less sophisticated market than Japan. Moreover, Japan's high score on the Wealth Index is of particular interest to European businesses operating at the very high value end of the consumer goods sector. Whereas China is still predominantly a mass market. As a consequence, both China and Japan are important potential partners for Europe's businesses albeit in different ways.

Figure 3.11: A comparison of trade between the EU and CHINA and the EU and Japan



http://exporthelp.europa.eu/thdapp/display.htm?page=st%2fst_Statistics.html&docType=main&languageId=en

A Summary of External Sources of Finance for EU Exporters

The study investigated the main sources of finance available to exporting companies in each Member State at an EU level and also in Japan. As Table 3.2 shows the most common type of financial assistance offered by governments to help exporters is help with export credits and export credit guarantees, in order to reduce the risk involved in exporting and, thereby, attract more firms to undertake it.

Table 3.2: External Sources of Finance for EU Exporters

Country	Source of Finance	Type of Finance
Portugal	AICEP	Financial assistant to attract foreign investment and to help Portuguese enterprises to internationalise
	IAPMEI	Investment of grants for internationalisation projects
Finland	Finnvera	Loans or collateral for SME internationalisation; export credits; loan guarantees
	TEKES	Funding for innovation
Denmark	EKF	Export credit and guarantees; growth loans; and guarantees
Czech Republic	Czech Export Bank	Export Credit and related services focused on countries with high risk and high demand for Czech products
	Export Credit Agency	Act as a standard export insurance company
	Czech Science Foundation & Technology Agency of the Czech Republic	Grants to support R&D
	Ministry of Industry and Trade	Loans and grants linking entrepreneurship and innovation
Poland	PARP	Loans and grants linking entrepreneurship and innovation
	BGK	Export credits; finance for R&D; and international cooperation
Ireland	Enterprise Ireland	Funding to support expansion and research & development; innovation vouchers (€5,000); grants to enable firms and academics to participate in EU funding bids
Italy	SACE	Financial guarantees; guarantee for the internationalisation of SMEs; export fund; bond issues, particularly for SMEs, with internationalisation strategies;
	SIMEST	Interest rate support for SMEs breaking into foreign markets outside the EU; ministry of Economic Development;

	Ministry of Economic Development	Soft loans plus grants for internationalisation
	CDP	Loans for exporters
France	COFACE	Export Credit and Insurance
	CAFFIL	Bonds
	BPI	Loans for SME exporters
UK	UK Export Finance	Credit insurance; Bond Support Scheme; Bond Insurance; Working Capital for Exports
Germany	Förderdatenbank Bank	Loans
	KFW	Investment Finance
	Consortium	Export credit guarantees, investment guarantees, loan guarantees
	IHK Company pool programme	A service package which including information, advice, and funds to cover participation in the programme
EU	COSME	Loans and equity to support business growth
	JEUPISTE	Funding for science, technology and innovation
Japan	Invest Japan	Preferntial tax treatment;
	Japanese Ministry - SME growth support fund	Funding to support alliances between medium-sized companies at home and abroad; SME credit guarantees
	NEXI	Export credits and guarantees
	Tokyo Metropolitan Government	Tax concessions and credits
	Kanagawa Prefectural Government	Tax concessions; low interest loans for SMEs; special zone funding to attract overseas businesses; subsidy for start-up
	Japan Finance Corporation	Soft loans for Japanese and foreign SMEs
	SME Support Japan	Loans
	Regional Banks	Loans to domestic and foreign companies

Chapter 4 - SOURCES OF FINANCE AND BUSINESS SUPPORT AT EU LEVEL

Introduction

In addition to financing and business support from national sources European SMEs also have an opportunity to access funding from the European Union. This raises the question of what the division of labour is between national governments and the European Union and the role of the European Commission. In principle, they are concerned with Pan-European issues rather than simply national issues. Since the competitiveness of Europe's SMEs affects the European economy and all those countries that are a part of it, the European Union adopts a strategic view with regards to competitiveness, barriers to it, and how these may be addressed.

An important role of the European Commission in this regard is information provision, in other words, to try to ensure that Europe's businesses are fully aware of the opportunities they have to access funding. Another role is the dissemination of good practice, in other words to ensure that all member states of the union are fully aware of the possibilities with regards to particular types of initiative. The Small Business Act which was adopted by the European Parliament in 2008 is an overarching framework for EU policy on small and medium enterprises. When introduced it aimed to improve the approach to entrepreneurship in Europe to reduce the regulatory burden, to improve access to finance and to improve access to markets and internationalisation.

Competitiveness of Enterprises and Small and Medium Enterprises (COSME)

One of the EU programmes that is potentially useful when helping firms to internationalise is COSME's financial instruments. COSME refers to the Competitiveness of Enterprises and Small and Medium Enterprises in Improving Access to Finance for SMEs through two financial instruments that became available in August 2014. Clearly COSME is a major intervention on the part of the European Commission into financial markets aiming to improve the flow of finance to small and medium enterprises. Although COSME does not offer finance for exporting per se, its priorities focus on promoting and supporting growth. Since growth for many firms involves developing markets outside their national territory, exporting can attract finance from the COSME programme. In the longer term, steps taken to improve the competitiveness of an SME are likely to increase its potential for selling abroad in the medium and longer term. So, in this sense, although COSME doesn't offer direct funding for export activity, the funds that it is dispersing could be used for businesses at a certain stage of their development.

COSME has a budget of more than €1.3 billion to fund these financial instruments which are used to facilitate access to loans and equity finance for SMEs where market gaps have been identified. In this context it will be possible to mobilise up to €25 billion from financial intermediaries through leverage effects. The financial instruments are managed by the European Investment Fund (EIF) in co-operation with financial intermediaries in the EU countries.

One of the products to be funded from the COSME budget is the Loan Guarantee Facility (LGF), the aim of which is to help financial intermediaries to provide more loan and lease financing to SMEs. This facility will also include the securitisation of SMEs debt finance portfolios. By sharing the risk, the COSME guarantees will allow financial intermediaries to expand the range of SMEs in that they will provide support for, and they will also help to expand the types of financial transactions that can be supported. It has been estimated that the impact is substantial because of leverage effects, in fact every Euro invested in a loan guarantee is expected to release up to €30 of financing for SMEs. Therefore these guarantees should help SMEs to obtain funding that might not otherwise have access to, either because they are perceived as higher risk, or because they lack sufficient collateral. The EC expects that up to 330,000 SMEs will receive loans backed by COSME guarantees with a total lending value of up to €21 billion.

Based on the results of the Competitiveness and Innovation Framework Programme 2007-2013 the Commission expects that under COSME 90% of beneficiaries will have 10 or less employees, with an average guarantee loan of about €65,000 e. This is significant because it is the micro-enterprises who currently face the most difficulty in obtaining finance. A call for Expressions of Interest has been launched and will remain open until 30th September 2020.

Another financial instrument which is part of the COSME budget is dedicated to investment in risk capital funds that provide venture capital and mezzanine finance to SMEs in the expansion and growth stages; in particular those operated across borders. This programme is known as the Equity Facility for Growth (EFG) and the aim is that fund managers working on a commercial basis should ensure that investments are focused on SMEs with the greatest growth potential. It is expected that approximately 500 firms will receive equity financing through this programme with overall investment reaching up to €4 billion. It is estimated that beneficiaries will have an over-all investment through this facility of approaching €4 billion, although it is estimated that further finance will be attracted through the leverage principle. Recognising that accessing public sector funds is often perceived to be problematic by most small business owners, it is worth outlining how businesses can access the COSME financial instruments.

In terms of access to COSME financial instruments, information can be drawn from the EC's Access to Finance portal. In addition, financial intermediaries can obtain information about the call for Expression of Interest in accessing COSME financial instruments can be found in the COSME loan guarantee facility call, or in the equity facility for growth call.

One question that arises is concerned with the role of the Commission in terms of improving the access to finance for SMEs. The Commission works with financial institutions to improve the funding available to SMEs by stimulating the provision of loans and venture capital through specific financial instruments. The Commission also helps EU countries to share good practice policy with respect to improving access to finance and this allows them to benefit from the experience of others. Businesses need to understand that EU financing programmes are typically not provided as direct funding but, instead, the finance is channelled through local regional and national authorities or through financial intermediaries such as banks and venture capital organisations.

Web Based Sources of Information

In describing SMEs access to markets, the European Commission's own website, refers to the difficulties that small companies face when seeking to internationalise their business. Only 25% of EU SMEs export at all and an even smaller portion export beyond the European Union. In this context the Commission aims to help European businesses face competition in response to its own analysis of the problems of accessing market information. SMEs can find information on SME support on the SME support web page or through the following portals:

The Enterprise Europe Network

SME Internationalisation Portal

Internationalisation of Clusters

Your Europe Business Portal

European Small Business Portal

Alongside this the EU has an interest in how effectively SMEs in Europe are able to access information that can help them to reduce any barriers that exist to internationalisation. Another role of the EU is to actively disseminate good practice, in other words to ensure that all member states of the EU are fully aware of the types of measures that can be successful as well as possible insights into how policy interventions can be made more effective.

European Small Business Portal

The **European Small Business Portal**[33] includes a section entitled "Money" and, starting from a very basic level, describes the different types of finance available to start or expand businesses. The European Union provides finance for small firms in the form of grants, loans, and in some cases guarantees. In addition the European Union funds specific projects.

The information that the site contains on funding includes a map to locate banks and venture capital companies; a beginner's guide to EU funding; and a summary description of EU grants, funds and programmes including calls for proposals. The latter represent direct access to all open calls for proposals published by the Commission, including many SME specific programmes. Since 1 January 2005 enterprises have been classified as micro, small and medium-sized companies according to three criteria: number employed, sales turnover, balance sheet (see Box 1).

In terms of direct funding opportunities the website recommends that if a business wishes to know if a particular programme is relevant to its they should contact the local European Enterprise Network partner who can give one-to-one advice and support in applying for EU funding.

[33] http://ec.europa.eu/small-business/index_en.htm)

Box 1:

SME DEFINITION

- Number of employees - less than 10 is micro, less than 50 is small, less than 250 medium sized. Anything above that is large

- There is an annual turnover\annual balance criterion, so, for example, micro enterprises are defined as enterprises that employ fewer than 10, whose annual turnover\annual balance sheet does not exceed €2M

- A small firm is defined as an enterprise employing less than 50 and who's annual turnover or annual balance sheet total does not exceed €10M

- medium-sized firms that employ fewer than 250 people, have an annual turnover that does not exceed €50M or annual balance sheet not exceeding €43M

It should be emphasised that these thresholds apply to independent companies, not firms that are parts of a group.

Source: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm

Turning specifically to the assistance available from the Commission to enable small businesses to enter global markets, there are different EU programmes, different networks and information sources available to help SMEs to take on this challenge. First of all, accessing non-EU markets which is known as the ASEANIPR SME helpdesk, which supports SMEs to protect and enforce their IPR rights related to ASEAN through the provision of information and services.

The Enterprise Europe Network

The **Enterprise Europe Network**[34] offers helps and advice for small firms in EU matters, including accessing markets both inside the EU and beyond it. An online database also provides business-to-business contacts and information about funding. It is worth mentioning the market access database, MADB, which gives key information to EU exporters on tariff, trade barriers, and provides the possibility for businesses to report trade obstacles to the European Commission. There are instruments that are designed to try to ensure fair trade for EU SMEs. This deals with competition from subsidised and low price import from non-EU countries. It is essentially an anti-dumping instrument.

The SME portal describes the Enterprise Network as a key instrument in the EU strategy to boost growth and jobs. There are currently around 600 business support organisations in more than 60 countries currently involved in the Network. What this means, therefore, is that many of these branches are located outside the EU itself. The website reports that member organisations of the Network include Chambers of Commerce and Industry, technology centres, research institutes and development agencies; most of them having been involved in supporting small local businesses for a long time. As members of the

[34] http://een.ec.europa.eu/

Network they are linked through powerful databases sharing information and sourcing technologies and business partners across all Network countries but they are also closely linked with the Commission which allows them to keep up-to-date with EU policies to feed the views of small companies back to Brussels. All this is very commendable in theory, although one issue is to do with the status of some of the partners, because, whether or not small firms are able to benefit from the network depends on whether or not they relate to, and are in touch with, and recognise and trust the local partner and this will vary between institutions as well as between different countries.

In mainland Europe, for example, Chambers of Trade and Commerce may well be the most appropriate bodies but in a country like the UK, that is certainly not the case, because there are a very limited number of Chambers which are actually effective as business support organisations. This means that some would not attract the interest from local businesses. It is reported that the Network is co-financed under **COSME**[35]; which is an EU funding programme designed to encourage the competitiveness of European enterprises. The services provided by the Network are tailored for SMEs but are also available to other businesses, universities, and research centres.

The Network was launched in February 2008 and it now claims to be a true one-stop shop for small businesses, with around 3,000 experienced staff involved in the Network, ready to advise these businesses. The services offered through the Network are listed on the website as support packages for innovation, technology transfer, access to finance, advice on EU law and standards, IPR, speaking up on EU law, research funding and last, but not least, going international.

The Enterprise Europe Network aims to help small businesses make the most from business opportunities in the European Union. It is a one-stop shop for all business needs, providing support on access to market information, overcoming legal obstacles and identifying potential business partners around Europe. The Network offers a range of services to small and medium companies in meeting its aims which are:

- to help SMEs find international business, technology and research partners in the EU, COSME, participating countries and other non-EU countries.
- to develop a service to help SMEs become active in a single market and beyond.
- to improve SME competitiveness through internationalisation and innovation,
- to involve SMEs in the policy-making process, by giving feedback to the European Commission,
- to strengthen support for SMEs interested in participating in Horizon 2020 and it's corresponding call for proposals and to encourage SMEs to participate in the SME instrument,
- enabling SMEs to convert the resource efficiency challenge into opportunities that contribute to future client action and agreed action plan,

[35] http://ec.europa.eu/growth/smes/cosme/

- to improve SMEs awareness of access to finance; and
- to ensure visibility recognition and local awareness of other networks.

SMEs that are seeking to internationalise beyond the EU, can find more information from studies on internationalisation and support tools for it. On the SME Internationalisation portal, entrepreneurs and the owners of small businesses can easily access information about support service providers which are able to help EU based SMEs extend their business into markets outside the EU. The portal provides a database of support services, such as the local Chambers of Commerce, that can help businesses to start doing business in the country which they have targeted. In addition, the Guidebook on SME Internationalisation has been produced.

EU Japan Centre for Industrial Cooperation

The EU Japan Centre for Industrial Cooperation is co-financed by the European Commission and the Japanese Ministry of Economy Trade and Industry. The mission of the Centre is to promote all forms of industrial trade and investment cooperation between Japan and the European Union seeking to strengthen the technological capabilities and competitiveness of the European and Japanese industrial systems.

The Centre is part of a concept of a global platform to provide EU companies with relevant information about business with third countries. In this context, the EU-Japan Centre for Industrial Cooperation has launched a new website which is intended to serve as an online portal of information for all EU SMEs seeking to do business in or with Japan. In this regard there is some similarity with the EU SME centre that has been established in Beijing, China. The strategic priorities of the EU-Japan Centre for Industrial Cooperation have recently been re-assessed and currently the main strategic priority is reinforcing the support for SMEs with a particular focus on internationalisation aspects.

Other activities referred to on the website include policy analysis, SME support and providing information to SME businesses, in particular, in the EU about the Japanese market. One of the specific service centres, within the Centre, is a transfer technology help centre. This is a new service aimed at supporting EU and Japanese companies, as well as individuals, who are looking for acquired technologies, as well as addressing the knowledge gap.

Compared with other EU initiatives to provide business support for internationalising SMEs, the EU Centre for Cooperation with Japan is unique insofar as its formation dates back to 1987. Not surprisingly the purpose of the centre has evolved over the years. The Centre has two offices, one in Tokyo and the other in Brussels and, since its formation, the Centre has become a bridge between European and Japanese business and policy circles through its development of a full range of activities. These include training and business support programmes, seminars, policy analysis, business round tables, information services and cooperation with research and development (R&D).

The economic objectives of the partners jointly trying to develop business support/opportunities in each other’s markets is also combined with, perhaps, a more fundamental diplomatic role which is associated with the longevity of the Centre and the activity of its staff. In this context the Centre's mission has been to seek to de-mystify Japan for European companies through a series of training programmes and information support provision. This was very relevant in the 1980s and is still very relevant today. In most recent years the Centre has been operating within a period when the Free Trade Agreement has been under negotiation but, despite difficult negotiations, the Centre has continued to actively follow-its purpose.

Business Support Services

It should be noted that the Centre has recently consolidated and significantly extended its business support function, particularly for SMEs, through enhancing the services offered through the Enterprise Europe Network. As far the Enterprise Europe Network is concerned in Japan it was suggested there is a need to convince top stakeholders in order to grow the number of strategic partners particularly at the regional level. Some participants considered that there was a need for more EC money to help to justify the Enterprise Europe Network to their stakeholders.

One of the distinctive roles of the Centre in recent years has been the offer of business matchmaking services through the Enterprise Europe Network. This role was established in 2011 and business-to-business opportunities are also identified for participants in their training or cluster support programmes at the Centre. It is reported that the type of information most commonly requested by European businesses is concerned with finding a partner or a distributor in Japan.

As part of the business support offer the Centre has recently developed two new products. The first of these is entitled the **Japan Tax and Public Procurement Helpdesk** for European SMEs which received a total of 21 enquiries in 2014. The Helpdesk supports the market access of European companies to Japan through the provision of free information and services in synergy with other business support services already offered.

The government procurement portal with online database and automatic English translations services of Japanese local and municipal public procurement information continues with Japanese government support and in close cooperation with Japanese local authorities. As far as the Centre is concerned better ways are being sought to develop synergies between this and other aspects of their business support services.

A second product is **The Keys to Japans Service,** which involves selected SMEs being sponsored for a draft of a business plan to expand into the Japanese market. The business plans were delivered to each SME in May 2015. The generic reports for these plans where then in the finalisation stages. Such an initiative has a laudable aim, but it is questionable as to whether preparation of the business plan, by someone other than the organisation that will be using it, is justifiable as a useful intervention. Many would argue that, with the experience of the last 25 years, this is not the way to help the cause of business planning in SMEs.

A more detailed picture of the business support services offered by the Centre may be gained from the activities report for 2014. These business support services include(d) training programmes such as the **50th Human Resources Training Programme,** which is focused on training EU SME executives on how to succeed in Japan.

The third area of business support activity was with regard to **cluster support missions** which were targeted at European SMES that were located in clusters. In 2014 they included a cluster support mission of biotechnologies for life sciences. One on nano technologies, and one on partnering support mission in the space sector. These missions were facilitated by providing introductory seminars and visits to Japanese clusters as well prearranged individual businesses. Since joining the Enterprise Europe Network the Centre has rapidly developed a range of activities related to this. A further element of the business support services is the Centres **cluster support helpdesk** which offers information and advice and contact points in Japan to European customer representatives.

A fifth element in the Centre's business support services is the info web portal entitled **EU Business in Japan**, which is an operationalisation of DG Enterprises attempting to develop a global platform to provide EU businesses with relevant information about business in third countries.

Another activity is the Step In Japan initiative which seeks to provide logistic support for SMEs. This was launched in 2013 as a free-standing service aiming to support EU based SMEs entering and expanding in Japan. The initiative includes a hot-desk in Tokyo within the Centre's premises, access to meeting and seminar facilities within the Centres premises and an information enquiry helpdesk on Japan, which provides assistance in using the Enterprise Europe Network service while in Japan. There is a need to integrate these projects into the Centre's other activities in order to develop synergies is recognised by the Centre and clearly is an important part of ensuring their effectiveness and impact.

Training

As well as supporting businesses the Centre has also established a one year training programme for European science and engineering graduate students. This is a programme entitled 'Vulcanus in Japan'. One of the underlying aims of this programme is to contribute to the long-term impact of the future of EU-Japan relations and, since the programme attracts talent young graduates, it represents a significant investment in the future. As a consequence, the number of participants has been doubled from 25 to 50.

Policy Analysis

The business support activities of the Centre need to be considered in a wider context than that of comparable business support centres in other target countries. In the case of this Centre one area of activity is with regards to policy analysis and recommendations. The agenda of these policy seminars have tended to evolve as perhaps the bigger picture shifts. This activity involves networking with other individuals and organisations as well as with the European Commission and similar bodies in Europe.

Seminars

The Centre also organises and co-organises seminars which, in 2014, attracted a total of 1344 participants on a variety of topics. In seeking to increase the attractiveness of Europe as an investment destination for Japanese FDI the Centre has developed promotional material which followed a delegation of the European Union to Japan. The titles of these publications are listed below.[36] In 2014 there was a special project focusing on opportunities for European companies in the building and construction sector in Japan.

EU-Japan Business Round Table

Another activity of the Centre is to organise the annual EU-Japan Business Round Table. 18 of these meetings had taken place by April 2016. An important topic discussed at the Round Table was the Tokyo 2020 Summer Olympics the fourth arrow of Abenomics. Which it was suggested should be seen as an integral part of the aimed government massive investment stimulus through significant investment in infrastructure projects. In this context, there should be opportunities for European companies, provided that the process of bidding is open and transparent. At the same time, there may be limited opportunities for SMEs, and those that do exist are likely to come way down the supply chain. There is considerable experience of this in relation to previous Olympic games, including those held in London at the most recent games (Smallbone et al 2012). An interesting idea to emerge from Round Table discussions is the possibility of EU-Japan joint projects. For example in the field of infrastructure in third countries.

An important issue identified in these meetings was the sustainability of the Centres with other entities. Since it is suggested the services require self-sustaining revenues at the post-grant stage it is well established in the field of SME policy that many good initiatives are not known about by SME managers and require more active promotion. In this regard, the meeting recognised that European business stakeholders did not always have knowledge of the support that was available through the Japan Centre and therefore there was a need to increase the visibility in Europe. The meeting felt that the recently launched EC SME Internationalisation Portal is in need of further development in order to make it an effective and attractive tool. Many organisations seem rather reluctant to host their web pages in front of these people.

Cooperation in Research and Development (R&D)

On innovation and R&D activities it was concluded that proper guidance on Horizon 2020 was needed through dedicated helpdesks and perhaps the Centres and European Chambers would consider assigning an officer in order to assist businesses in accessing the Horizon 2020 funding projects.

A project known as JEUPISTE (Japan EU Partnership in Innovation Science and Technology). aims to promote EU Japan Cooperation in the fields of science, technology and innovation (STI) through supporting policy dialogues and employment deployment of bilateral information services organisation of networking events focusing on specific technologies, helpdesk services and the contribution to the development of human resources with

[36] 'Destination Europe – The EU Single Market An Attractive Destination for the Japanese FDI'; 'EU Japan Industrial and Technological Cooperation Potential'.

collaborative projects. The national contact point for Horizon 2020 is the official contact point for Horizon 2020 in Japan and reinforces the helpdesk services.

A second Horizon 2020 funded project started in January 2014 and its activities were focused on promoting the European Global Satellite Navigation System 'Galileo' in some Asian countries including Japan. Other projects included GNSS Japan which involved promoting EU cooperation on global satellite navigation systems and space.

Preparing for Horizon 2020

The SME instrument applies to SMEs that are EU based or established in a country associated to Horizon 2020. These businesses are eligible for EU funding and support for innovation projects that will help them to grow and expand their activities into other countries. In total the SME instrument has around €3 million allocated for the period 2014-2020, which is targeted at high potential SMEs, that are potentially capable of developing ground-breaking/innovating ideas for product services or processes. However, it is only available to SMEs who organise a project in the way that best fits their business needs. This means that sub-contracting is not excluded and, in terms of the support that is available through the SME instrument, the SME instrument is supporting close-to-market activities rather than more fundamental research and development.

High potential SMEs are those with a clear commercial ambition and a potential for high growth and internationalisation. These high potential firms are the main targets. In terms of what's on offer the SME instruments include:

- business innovation grants – for feasibility assessment purposes. €50,000 per project is available up to 70% of the total cost of the project

- business innovation grants for innovation, development and demonstration amount in the range between €500,000-€2.5 million is available. 70% of the total cost of the project is the maximum in general

- free of charge business coaching in order to support and enhance the firm's innovation capacity and help align the project in strategic business needs and

- access to a wide range of innovation support services and facilitated access to risk finance in order to facilitate the commercial exploitation of the innovation.

In summary the main EU Initiatives are:

- Communication and action plan to improve access to finance for SMEs which recognises that Europe's economic success depends largely on the growth of SMEs although difficulty in accessing finance removes an obstacle to their growth

- the 2014-2020 programme for the competitiveness of enterprises and small and medium enterprises (COSME) - which should make it easier for SMEs to access equity finance

- the 20014-2020 competitiveness and innovation framework programme (CIP). Financial instruments that are part of this programme helped SMEs raise equity and debt finance

- COSME financial instruments operating in conjunction with those of Horizon 2020 framework programme for research and innovation.

- The EU finance for innovators

- The SME instrument of the Horizon 2020 framework programme for research and innovation offers funding and support for innovation projects that help SMEs to grow and expand their activities into other countries.

Commentary

Finance and other resources required for internationalisation by SMEs can be obtained from national sources but it can also be obtained from EU sources. This raises the question of the division of labour between the two levels in terms of what the focus of their attention should be. This is an important policy question because it can be associated with duplication and a lack of clarity of what the role of the different institutions is supposed to be. It can also have a very important practical effect, insofar as that, if there is a fuzziness about the division of labour, this may contribute to a greater uncertainty in the minds of potential users of the resource about what exactly they can claim the money for.

The current basis for the approach of the European Commission to SME policy in Europe is set out in the Small Business Act. There is an advisory component which includes the Enterprise Europe Network and there is also a financial component which basically is set out under the COSME programme. EU funding for business is largely indirect through national and local interventions in which the European Commission may be a partner; certainly the second is a lot more common than the first. As mentioned previously, there are inter-relationships between the soft support and access to finance. In theory at least, the advice and consulting that is offered should be able to help SME businesses (a) to increase their draw on EU funding, and (b) make better use of it. The Enterprise Europe Network covers all countries within the European Union and also countries and some that are currently targets for improving and increasing trade and cooperation include China, India, Brazil and Japan. Since the Enterprise Europe Network seeks to improve SME awareness of access to finance and to ensure recognition and local awareness of other networks, this makes it very pertinent to the project reported here. The EU-Japan Centre for Industrial Cooperation is the EEN partner in Japan offering a range of business support services.

In terms of the respective roles of the European Union and national sources in assisting businesses; essentially the public sector at the European Union level seeks to adopt a strategic view which may also incorporate a medium to long objective which represents ways that individual businesses can rarely afford. The Horizon 2020 programme and other technology based programmes would help to illustrate this point.

In its drive to improve the information available to SMEs, the European Commission’s own website refers to the difficulties that companies face when seeking to internationalise their businesses. The mechanism for the European Commission to disseminate information for SMEs is essentially a series of websites. The first is the Small Business Portal, which includes a section entitled ‘Money’ and starts on a very basic, describing the types of finance available to start or expand a business. This might be a useful reference source, especially for people who may not be particularly versed in the financial side of internationalising their businesses.

Chapter 5 - SOURCES OF FINANCE IN JAPAN

Introduction

This chapter is concerned with alternative funding sources available to European SMEs in Japan. The main objective is to identify and document relevant financing schemes that are available through central and regional Japanese governments and FDI policy instruments. In addition, the chapter is concerned with the availability of alternative funding sources for innovative ideas and documented cases of foreign enterprises and SMEs which have already used such funding instruments in Japan.

Overseas Businesses and Investments in Japan

According to the JETRO's Annual Report (2015), inward investment dramatically increased in 2014 by 19.4%, thanks to the economic recovery in Japan and the favourable exchange rate. However, their size is still 1:6.2 less than the outward investments from Japan. The gap indicates that there is a lot of space left for potential foreign investors in Japan's economy. At the same time, obstacles for foreign businesses remain that affect investment and the establishment of business operations in Japan.

As mentioned above, despite the long-term economic growth and expanding market opportunities in Japan, the overall trend of investments from Europe does not seem to be growing so strongly. Despite the notable growing presence of Asian businesses, JETRO's[37] report suggested that the largest share of inward investment in Japan is from Europe, ¥10.9 trillion out of ¥23.3 trillion, but the size is not enough to reflect the aggregate size of Japan's economy (European Commission 2011)

It must be emphasised that European firms face a series of difficulties and barriers, which particularly applies in the case of SMEs. In recent years it has become potentially attractive to foreign investors, due to the low Yen exchange rate, and has been attracting more overseas investments. However it may be that the Earthquake disaster 5 years ago may still affect European businesses' attitude. Another serious problem is the shortage of accurate information about the legal, institutional frameworks, business practices and any concrete advantages for overseas businesses in Japan's market.

In this context, to offer information about access to funding and financial supports given by public bodies or private sectors will be an indispensable and useful help for European SMEs that are thinking about the possibility of investing and operating in Japan.

Policy measures at the national and regional levels

The Government, national agencies and policy frameworks

Prime Minister Abe launched his government's policy frame called the "Three Arrows" strategy in 2013, which is intended to launch policies to end deflation and revitalize the

[37] https://www.jetro.go.jp/en/

Japanese economy. Three Arrows is an 'aggressive monetary policy,' 'flexible physical policy' and 'the growth strategy to stimulate private investment'. Very dramatic policy implementation actions have been exercised by all the government ministries, Bank of Japan and public agencies. The 3rd Arrow of growth strategy involves "putting globalisation to use in developing an environment in which people, goods and money can come and go freely." The Japan Revitalization Plan and new Growth Strategy are the keys of the 3rd Arrow, and the Strategy of Global Reach is taking advantage of Japan's strengths in order to secure growing international markets and work toward global economic growth by attracting people, goods and money to Japan from around the world.

INVEST JAPAN ideas and programs

The Japanese Government has been concentrating its efforts on attracting more overseas investment and business operations. One of the recent programs is called "**INVEST JAPAN**," which was launched in 2006, with a target of the balance of foreign inward investment contributing 5% of Japan's GDP. Actual measures involve many ministries, agencies and local governments, combining their efforts in practical and effective activities, by promoting Japan's cost competitiveness, its business-friendly environment, advanced technology, infrastructure, and highly-skilled workforce.

On the other hand, INVEST JAPAN should seek to overcome the following problems, which have been often been identified as the main obstacles facing inward investors in Japan. They include:

- Japan's stagnating macro economy;
- the nation's self-contained economic system combined with tighter supply chains;
- a rather biased attitude against foreign "vultures";
- a difficult domestic market with tough consumers, stiff competition, high costs;
- language barriers;
- insufficient information from governmental bodies.

Considering these problems, PM Abe's government accelerated the implementation of policy measures to exercise the Strategy of Global Reach.

- Act on Promotion to Make Japan an Asian Business Center (preferential tax treatment etc.);
- A review of the points-based system that provides highly skilled foreign professionals with preferential immigration treatment; "Towards Creating The World's Most Business-Friendly Environment";
- PM Abe called two meetings in 2014/15 dedicated to inward investment promotion, inviting many professionals and experts as well as Ministers in charge.

Recently, under PM Abe's leadership, governmental bodies have been putting more emphasis on 3 key factors as far as **INVEST JAPAN** activities are concerned. These are; more effective marketing measures by strengthening the ties between central and local governments; more effective information diffusion including "top sales" and Invest Japan seminars in key cities overseas and a more attractive business environment.

JETRO's business-friendly activities

JETRO, Japan External Trade Organization, offers many services for overseas businesses. Potential overseas investors may obtain information, both in Japan and at home, with respect to counselling and advice services, access to resources including professionals, temporary office space, and so on. As **JETRO** has many offices in many countries, it is easy to obtain information and advice in advance before making decisions about starting business operations in Japan.

JETRO's ISBC, International Business Support Center, offers temporary offices for newly formed businesses, which are located not only in central Tokyo but in big cities across Japan. Offices are well equipped and facilitated and tenants can enjoy consulting services. The leasing term is fixed for several months, but the office space is free for 50 days, as well as the information and consulting services.

ISBC opened the **Tokyo One-stop Business Establishment Center** in 2015, by collaborating with the Tokyo Metropolitan Government, to boost inward investments, especially in the Tokyo Special Zone, by offering a one-stop service concerning the legal and institutional application procedure.

JETRO has many local branch offices that collaborate with local governments to attract more inward investment, by promoting the advantages of individual local economies and industries and encouraging partnership with local businesses. It is noticeable that **JETRO** offices can offer committed, detailed and friendly activities on a face-to-face basis. Individual cases in regions will be explained later.

Dedicated programs offered by the Government

Promoting global alliances

The promotion of Global Alliances for Japanese Mid-ranking Companies and SMEs is METI's new scheme. This scheme involves relevant organisations forming supportive investment alliances where relevant organisations support forming investment alliances between Japanese mid-ranking companies and SMEs, and foreign companies, in order to promote overseas expansion by utilizing potential technologies owned by Japanese partners. In this way, both parties can share alliance advantages and expect developments at home and abroad. **JETRO, SMRJ, Shoko Chukin** and **METI** jointly support new alliances, and fund support can be expected, by using the **SME Growth Support Fund**.

NEXI[38], Nippon Export and Investment Insurance, another governmental body established

[38] http://nexi.go.jp/en/index.html

in 2001, is dedicated to covering risks that arise in international transactions but are not covered by regular commercial insurance systems. Through the trade and investment insurance program that was established in 1950 as part of Japanese Government's export promotion policy, an incorporated administrative agency has been recently created as a 100% state-owned agency to efficiently manage this programme.

NEXI is still mainly supporting exporting businesses from Japan, but it has arranged agreements with other countries to support exporting businesses in these countries jointly. For instance, if a French firm exporting to Japan faces non-payment, French agency COFACE and **NEXI** can jointly insure its exports. These schemes clearly assist the development of international business alliances.

Local Government Programmes to Attract more Inward Investment

Not surprisingly most of the prefectural or local governments are keen to attract more overseas investments and businesses in their own areas, including Tokyo. Their main offers in this regard include information, counselling, guidance, meetings or matching events and business fairs as their "soft" activities. At the same time, they offer many "hard" measures, including industrial sites, premises, facilities, tax concession, credits and subsidies.

Examples of local initiatives include the Kanagawa Prefectural Government, a neighbour to Tokyo, which offers some advantages and services for overseas businesses. Kanagawa started its large scale new location incentive scheme several decades ago, "Invest Kanagawa," and, in 2005, overseas businesses were included in the target for the development programme. Under Invest Kanagawa, newly located businesses can benefit from a series of support measures. These include tax concessions for real property acquisition tax, low interest loans for SMEs, a subsidy for joint R&D ventures with local SMEs and a subsidy for the training of newly recruited staff in SMEs. In 2013, a new subsidy for businesses located in Special Zones was launched. In addition, up to ¥100 million will be allocated to reduce the real property acquisition tax burden for high-tech or ICT firms in the Special Zones. Overseas businesses, which must be 100% owned by an overseas parent company, can enjoy a dedicated subsidy, which amounts to 1/3 of monthly rent expenses for 3 months. They can also use **JETRO ISBC** Kanagawa's office rooms, free for 50 days, as well as their information and advice services.

Thanks to these incentives and supports, Kanagawa Prefecture has succeeded in attracting more than 70 overseas businesses to this new location, and 1/3 of them are of European origin. In FY 2016, Kagnagawa Prefectural government will change the name of the scheme, from "Invest Kanagawa" to "Select Kanagawa 100," and try to boost the number of success stories, by focusing on giving more advantages and support to target businesses. Overseas businesses will be able to receive a new subsidy for their start-up expenses of up to ¥2 million. Other neighbours in the metropolitan region, Saitama and Chiba Prefectures, also operate dedicated centres and give incentives to attract overseas investments effectively.

Yokohama City Government, the capital city of Kanagawa, is also very active in attracting overseas businesses. Subsidies for acquiring buildings or leasing buildings will be offered for relocating overseas businesses, as part of the Yokohama business location incentive program. Due to these incentives and the favourable location for international businesses, Yokohama has succeeded in attracting 24 overseas or domestic businesses in FY 2014 alone and among them 7 are of European origins.

Tokyo Metropolitan Government, is now actively promoting policy measures to attract more foreign businesses. This seems somewhat surprising because of the fact that, in the past, most businesses would choose Tokyo for their preferred place to locate and operate without any public supports or promotion. The reason for this changing attitude is the recognition of the important role of the 'Asian Headquarter' ideal and the necessity of long-term strategic efforts to survive Japan's economy in the 21st Century. Tokyo's Metropolitan Government applied for Special Zones for Asia Headquarters in 2011 and the Act on Promotion to Make Japan an Asian Business Center in 2013, followed by the designation of National Special Zones, made Tokyo the most distinctive region, again, in Japan to attract large-scale investments in hi-tech, high value-added, global or Asian scale businesses. Special Zones are attracting healthcare, IT/electronics and environmental sectors, which are mainly located in the centre of Tokyo.

The Tokyo Metropolitan Government emphasises 4 important advantages;

- huge market and sophisticated consumers with 37 million population in the metropolitan region; wealth of potential business partners and skilled human resources;

- attractive business environment, including a high quality transport network, high-performance office buildings and MICE facilities;

- world's top class living environment;

- a number of public services, providing business support, including Tokyo One-Stop Business Establishment Center (mentioned above), Business Development Center Tokyo, Tokyo Employment Consultation Center, free consulting services, subsidy program, introduction of office space at reduced rates, tax incentives and others. Foreign companies newly establishing their Asian headquarters or R&D centre in the Special Zones can receive subsidies of up to one-half of the expenses incurred in setting up businesses including recruiting cost (maximum ¥5 million). Corporate tax rate, investment tax credit deduction and a special depreciation rate can be applied to companies in Asia Headquarter Zone or National Special Strategic Zones.

Osaka City Government also offers many incentives for newly located businesses, and operates its OSAKA International Business Promotion Center (IBPC Osaka) to attract more foreign businesses and to promote business partnerships and trades. Its Investment Promotion Center was established to attract domestic and foreign investment to Osaka City. The mission is to promote the city's advantages as a destination of investment through global networks. Osaka Investment Support Program (OISP) is a service provided for companies and organisations in Japan and abroad that are interested in establishing operations or reinvesting in Osaka City and have concrete business plans.

OISP's location subsidy program was enacted in 2004, and has been expanded, giving incentives to high-tech or advanced businesses as well as universities and research institutes. The scheme offers considerable subsidies according to the size of investments up to ¥3 billion. As far as the Global Comprehensive Strategic Special Zones are concerned, Osaka City Taxation Incentives will reduce local tax to the corporations/organisations that have established their business operations in the designated area of Kansai Innovation Comprehensive Global Strategic Special Zones within Osaka City and those that have started their new business in the new energy, life science and related business fields. Corporate citizens' tax and office tax will be reduced by 100% for the first 5 years and 50% for the following 5 years. Fixed asset tax and city planning tax will be also reduced.

For foreign-capital enterprises, a subsidy will be given by the Osaka Prefectural Government when they establish a new head office or an Asia centre inside Osaka Prefecture according to their employment size. If that business, with more than 200 regular employees, acquires a building, up to ¥1 hundred billion will be given. O-BIC (Osaka Business & Investment Center), which is affiliated to the Osaka CCI, also gives foreign businesses subsidies to cover expenses for obtaining registration: ¥100,000 per applicant, and expenses for obtaining status of residence: ¥50,000 per applicant. Thanks to the IBPC Osaka and O-BIC's actions, nearly 20 foreign businesses decide to come to Osaka every year.

Strategic alliances between local government, businesses and European partners for regional collaboration and innovation

Several local governments in Japan have established long-term partnerships with foreign counterparts, including local or national governments and public institutions, thanks to the Japanese government and/or JETRO's support. JETRO launched its LL (Local to Local) Project more than 2 decades ago, and later changed the project into the RIT (Regional Industry Tie-Up) project. The basic idea is to promote a wide range of exchanges, partnership activities and business alliances between Japanese local regions and overseas ones, and, by utilizing various resources and opportunities and promoting human collaboration, to contribute to successful innovation and business developments on both sides and to revitalize local economies. Not only JETRO's projects, but several local governments utilised the same idea with a view to creating or upgrading an advanced industrial cluster by collaborating with foreign businesses, associations, research institutes and public bodies. The key points are that they are mainly based on long-range strategic objectives, combining different parties and resources, involving a broad range and multiple spread within their regions.

A typical example can be found in Sendai City, the centre of Tohoku region, where the City Government made an agreement with the Finnish Government in 2003. The agreement was called "Sendai-Finland Wellbeing Center Project agreement," which was to research and develop new welfare equipment and services to export to the world market, by combining research products, new technology, manufacturing skills and business ideas. In Sendai, the City Government, Sendai City Industrial Promotion Organization, Tohoku University, Tohoku Fukushi University, the Development Bank of Japan, the JETRO Sendai Office, Sendai CCI and other bodies joined together. The basic idea is to promote the collaboration between industries, academia, governments and finance and to create innovative products and commercialisation. From Finland, Finpro (Finland Trade Board), the National Institute of Health and Welfare (THL), the City of Oulu, Laurea University of Applied Science and other bodies joined. In 2005, the Sendai-FWBC building was completed, to accommodate Finnish business people, governmental staff, research laboratories, and new entrepreneurs from both sides. The building is combined with an elderly people care home, to connect research results and testing exercises.

Sendai-FWBC is supported by a strong business association, Sendai-Finland Wellbeing Center Promotion Council, and its membership is more than 200. Although members are keen to develop new products or services by taking advantage of FWBC facilities, testing equipment, professional advices, information services, matching or trade fairs, as well as various financial supports, the Project itself has passed more than 10 years, and is gradually widening target products or services, covering IT software, foods or apparel designs.

The Financial System in Japan

Japan is an advanced economy with a GDP of ¥525 trillion, US$4.6 trillion in 2014, which means US$36.23 thousand per capita. Though the GDP per capita shows a downfall downturn for 2 decades, still Japan's size of GDP keeps it at the 3rd largest position in the world.

Therefore, the financial system in Japan is very advanced, and, according to the Nippon Bank's (Japan Central Bank) data, the aggregate sum of private financial institutions' Loans and Discounts is around ¥5 trillion in 2015, and their aggregate sum of Deposits and Credits is ¥8.8 trillion Yen. This is accompanied by very low interest rates. More recently, the Nippon Bank announced that "minus interest rates" would be applied to the accounts of private financial institutions in February 2016. In this way, the Japanese economy currently has a "plethora of money."

However, this does not mean that fund raising in Japan is always easy, nor available without difficulty. For many years, the financial sector caused a number of problems, and the Government introduced tighter regulations and controls, which are still operational. Part of these regulations are designed to protect SMEs and give more opportunities for fund raising and this is mentioned below.

An unfortunate fact is that, in the transition period from fund shortage economy to surplus one, Japan faced "economic bubbles" and the collapse in the late 1980s and after. Many financial institutions faced crisis, and the FSA (Financial Service Agency) and MOF were obliged to intervene to stem a financial crisis, which is a sort of reverse direction to the policy trend of the financial liberalisation in the 1980s. Therefore, the financial sector would be under the FSA's tough regulation for a further 2 decades and a number of discrepant phenomena can be found. For instance, banks keep more deposits than loans but are rather resistant to new loan applications. Security issues, as well as money laundering problems, cause banks to have cautious and unfriendly attitudes.

As a result of the FSA's regulation and control, big high street banks merged together in the last 2 decades and their number decreased from 17 to 5. On the other hand, new financial institutions have entered the market, mainly from retailing, teleshopping and IT business sectors. They are exploring new markets and new customers. 53 foreign affiliated banks are also operating in Japan, although and their presence does not seem so important. From Europe, 16 banks are operating in Japan.

As far as the direct financing is concerned, it will be more difficult for foreign businesses to take up and raise funds. Stock exchange markets are also heavily regulated, and their listing criteria are very hard to fulfil. New stock exchange markets were opened in the last decades, such as JASDAQ and Tosho Mothers and they offer looser listing criteria, including deficit making companies, for instance. Nonetheless, the aggregate number of listed companies is around 3,500, and most SMEs never think of the possibiliy of being listed at Tosho and issuing new stocks.

Private bond issuing can be carried out under the FSA's regulations and rules. Corporate bonds issue is a popular way of fund raising among large companies, but the amount of issued bonds has declined by nearly half in the past 10 years. In contrast the issue of private bonds increased by 5 times at the same time. This may be good news for SMEs that are thinking of new investment in business expansion without relying on loans. However, issuing private bonds is regulated in order to prevent them being sold to third parties and the general public without clear measures, rating and reliability. Without this regulation the public might suffer fraud, as is frequently reported in the newspapers. Small group private funds, which means less than 50 purchasers are fixed in advance, which may be an easier way for SMEs as they don’t have the same strong regulatory controls. Large scale issue of private funds may be rather similar to bank loans because, in many cases, the banks support the issuing procedure and buy most of them. As a result, the difference between bank loans and private bond issues is seem rather small; the main difference being that bonds do not involve collateral.

SME Finance in Japan

Public Sector

SME policies in Japan managed by dedicated government institutions have a long history, and they offer direct and indirect support for SMEs, including extensive financial support.

JFC (Japan Finance Corporation)[39] offers loans exclusively for SMEs, with more favourable conditions such as a lower interest rate. In 2008, the National Finance Corporation and the SME Finance Corporation merged into the JFC. The merged institution still keeps two divisions; the Micro Business and Individual (sic) Unit and the Small and Medium Enterprise (SME) Unit. Neither Unit discriminates against foreign businesses provided they meet Japan's definitional requirements for SMEs. Under the SME Basic Act (1963)'s criteria that SME's employ 300 or less, or have a capital size of ¥30 million or less and meet Japan's legal requirements for a business.

At the present time, the proportion of overseas businesses among **JFC'**s loan customers is not clear, although it is almost certain that some exist. In Japan, foreign residents are mainly Koreans and Chinese; they operate many businesses for years and receive financial support. They keep permanent resident status, or some are naturalised. Some Europeans keep the same status.

There are other financial institutions the Government is involved in such as **Shoko Chukin**

[39] https://www.jfc.go.jp/n/english/

Bank (Bank for Industrial and Commercial Cooperatives)[40] which was established in 1936 and by receiving investments both from the government and the private sector, has been supporting SMEs' business associations or cooperatives. As a result, SMEs that aspire to becoming a customer must be a member of one of these organisations. However, once again, it is claimed that there is no discrimination against foreign-owned businesses. **Shoko Chukin Bank** is now privatised, but its role for supporting SMEs and their business organisations has not changed.

JFC and **Shoko Chukin** keep many local branch offices, and keep good relations with local businesses.

SMRJ[41], or **SMESupport, Japan**, is a government institution which offers not only finance but also so-called soft support. It can be seen to be the key body concerning SME policies in Japan, and is also keen to promote SME's internationalisation and overseas development. As far as financial matters are concerned, **SMRJ** is in charge of the **SME Upgrading Fund**, which is part of Government Special Budgets to support SME's business developments as their collective activities by improving the infrastructure such as constructing industrial parks, wholesale complexes, shopping centres and so on, by collaborating with prefectural governments. Disaster rescue programs are also its important mission, as was seen after the Big Earthquake and Tsunami of 2011. The Fund size is ¥900 trillion and the aggregate size of annual loans is around ¥10 trillion Yen. This reflects the recent decline of new investment demand in SMEs which has shrunk by nearly 90%.

SME Growth Support Fund, is a venture investment fund jointly provided by **SMRJ** and private venture capitals. Its mission is to support new business development/business realignment of SMEs by investing in the funds set up to assist management of SMEs that aim to grow and develop further. The Fund forms a limited liability investment partnership, which private fund manager's control, and **SMRJ** supports business development planning and operations in the chosen investee as "hands-on" commitments.

SMRJ also offers a number of dedicated subsidies and loans, as well as business counselling and consulting.

SMRJ is involved in a number of supporting measures for SMEs and regional economies, including some safety nets such as the Small-Scale Enterprise Mutual Aid System or Business Safety Mutual Relief System. They are able to offer emergency loans to prevent business failures or to provide stopgap funds. **SMRJ** also has its branch offices in many regions, and can offer location supports, including providing industrial land or sites.

An important policy measure for SME's finance is the **SME Credit Guarantee System,** although its operation is rather unclear. Private financial institutions are often criticised because they are said to be too tough when dealing with SMEs' loan applications by demanding tighter conditions including collaterals and a personal guarantee. A personal guarantee can be the most difficult for an SME to produce so their loan applications are often accompanied by 3rd person guarantees. The Government introduced the **SME Credit**

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[40] http://www.shokochukin.co.jp/english/index.html

[41] http://www.smrj.go.jp/english/index.html

Guarantee System in as early as 1950 and later established the SME Credit Insurance Bank. The system involves an SME requesting a loan guarantee from a prefectural credit guarantee association for which they must pay a charge. The prefectural credit association will take out insurance with the national SME Credit Insurance Bank in case the borrower fails to repay the loan.

The **SME Credit Guarantee System** has been very popular but, at the time of financial crisis after the collapse of the bubble economy, the SME Credit Insurance Bank faced serious problems as a result of excessive payment demands. The Government restructured the system and now the SME Credit Insurance is operated by the JFC. As might be expected, JFC's lending services and credit insurance are completely separate. Nevertheless, the annual value size of insured credit with JFC's Insurance Division was nearly ¥850 trillion in 2014, although this is declining. At the same time, prefectural credit guarantee associations were guaranteeing a total figure of ¥2,770 trillion Yen for SMEs. They accepted 714 thousand new proposals, which amounted to ¥8,940 trillion loans in FY 2014.

In 2007, the Government changed the **Credit Guarantee System** so that now 80% of an individual loan amount may be guaranteed, which has been described as "responsibility sharing". Before the change, 100% of the loans could be covered by the guarantee system, this was criticised as allowing private financial institutions to engage in opportunistic conduct without risk sharing. However, the world financial crisis in 2008 and Big Earthquake in 2011 obliged the Government to suspend the reform and, for the moment, most SME's loans are still 100% covered by the credit guarantee system. However the Government announced its return to 80% guarantee coverage from the FY 2016.

SME Finance by Private Institutions

In Japan, there are many private financial institutions, including world class mega banks such as Mizuho, Sumitomo-Mitsui and Mitsubishi UFJ. Obviously they open the door for domestic SMEs, but are often criticised as being unfriendly, particularly at the time of economic depression. Instead, Japan also has a long history of SME finance supported by **local banks, credit associations and credit cooperatives**.

Regional (local) banks are not necessarily dedicated to SMEs alone, which are joint stock companies and profit based, but their main customers have been local SMEs and business people. Now there are 105 regional banks, which may be divided into 64 regional banks and 41 second regional banks. The latter are former Sogo Ginko (Mutual banks), which were mainly based on mutual credit aid company system, a traditional primitive fund raising community.

For the most part, **regional banks** are tied to local economies, and are enthusiastic in their efforts to support SMEs in these economies in order to boost local economic developments. At the same time, where the local economies are stagnant or declining, it is often necessary for regional banks to be merged in order to survive, which is a process supported by the FSA.

Some **regional banks** are interested in giving credits to overseas businesses which have launched operations in Japan. Partly because they face the unbalanced deposit-loan ratio and difficulties in finding good local borrowers and because of the depressed state of their local economies which may include a decreasing number of SMEs. In this context, foreign businesses may be valuable as potential customers.

Credit associations (Shinkin Banks) were originally part of credit cooperatives. They are still membership based associations, limited to their market territories, and are 'not for profit'. Their main advantage is their close relationship with local customer SMEs. These credit associations can offer not only loans but also many other forms of business support. This can include organising joint trade fairs, business matching, organising trade missions and offering training seminars for business successors. There are currently 267 **Credit Associations** in Japan, with 7,400 branches, and an aggregate membership of 9.3 million. They are regulated as legal membership organisations based on communities and citizens. Savings accounts can be offered to anyone, but loans are given to association members, leaving an exceptional ratio of loans for non-members. Large businesses cannot be members.

Credit cooperatives are typically small-scale and often locally organised by industry. They are part of a cooperative system under a mutual support principle. Their membership is limited to local SMEs and residents. **Credit Cooperatives** in Japan support local micro businesses and residents, but their size and operational restrictions often involve difficulties. After the collapse of the bubble economy, a considerable number of **Credit Cooperatives** faced bankruptcies or obliged absorption. Now there are 157 **Credit Cooperatives**, with 1647 branch offices and nearly 4 million aggregate members. The number has been considerably reduced. Not only loans but also savings are limited principally to members alone. Some ethnic groups organise their own **Credit Cooperatives**.

New Financial Support Opportunities

Issuing **private bonds** itself is a rather new way of fundraising in Japan, as mentioned above. For instance, an elderly home located in Shonan, in the southern part of the Kanagawa Prefecture, issued **private bonds** dedicated to the local residents and neighbours and succeeded in raising the funds to construct a new home. Like this example, many new financial measures are connected with the value of public benefit or high public nature that the targeted business itself is attached to.

Another example is the case of **crowd funding** which was intended to rescue suffering local businesses by collecting nation-wide investments. In 2011, just after the disaster, a 'voluntary recovery fund investment' was jointly set up by an investment company, NPOs and volunteers, in order to raise funds for local manufacturers which had lost all their equipment, machinery and buildings. At that time, the name **'crowd funding**' was not so popular, and legal frameworks were not legislated. In 2014, the Government amended the Financial Instruments Sales Law to facilitate investment-type **crowd funding**, whilst avoiding the dissemination of fraudulent opportunities, for example, on the Internet, as well as to prohibit any diverted use of collected funds other than the original intent.

Later, in Fukushima Prefecture, which was hit by the 2011 earthquake and tsunami, **crowd funding** is effectively used to rescue and boost local businesses.

High-tech, innovative businesses, potentially high-speed growing businesses can also attract the interest of investors. OK Wave, an Internet information service company that was established in 1999 offers multi-language Q&A services, announced to offer and support investment platform for **crowd funding** actions in 2015.

In the 1980s venture capital became very popular in Japan, but after the collapse of the bubble economy, this type of finance had a bad reputation for fund management. This is not surprising because most venture capital funds in Japan are founded by existing financial institutions, and risk taking is unfamiliar for most of their staff. As a result, the rise of **crowd funding** and fund operators may be good news for both foreign and domestic businesses in Japan. The fact that crowd funding can easily cross national borders is an additional advantage.

Overall trends of foreign investments in Japan and their problems

JETRO's 2015 report carries its survey on foreign businesses' opinion about Japan's investment climate. Among more than 1000 companies, some 150 replied. About 1/3 feel their conditions is improved and more than 3/4 are planning business expansion and employment increases. The attractiveness of the Japanese market indicates "the Japanese market" itself (73.6%), "well-developed infrastructure (transportation, logistics)" (73.5%), "existence of good partners, companies or universities with outstanding technology or products" (56.8%), and "high quality of R&D" (52.1%) successively. The main obstacles to doing business in Japan were "complicated administrative procedures and business permits" (46.3%), "difficulty in finding human resources" (44.9%), "difficulty of the Japanese personnel in communicating in foreign languages" (44.2%), and "particularities of Japanese market"(35.4%) successively. Though "high business costs" was the biggest obstacle in 2013 survey, this time it was only the 5th. This reflects the weaker Yen and higher rent costs in Singapore and Hong Kong. Even wages in Tokyo are no more than some other Asian cities. Moreover, tax rates are not as high as they were as a result of recent reductions in corporation tax. Foreign affiliated companies can also expect lower tax burdens.

On the other hand, the European Business Council in Japan (EBC), which has more than 2500 members, welcomed PM Abe's leadership and bold strategies, but criticized the fact that the growth strategy was not accompanied by fundamental reforms. New investments and innovation are decisive and will be boosted by stronger links between universities, research institutes, venture capital and industry. Revised visa/ residency rules will attract more skilled professionals from overseas (EBC 2015). However, as far as regulations or barriers are concerned, EBC still finds many obstacles against foreign investment and successful business operations in Japan. Bellow, are extracts from the EBC Annual “White Paper” on business conditions in Japan.

The Government wants healthcare to become a major growth industry for Japan, yet its own price reimbursement scheme is so unpredictable that it deters companies from developing and marketing new products:

- *The Government wants to attract more inward investment and boost home-grown innovation, but only offers tax relief on R&D expenses incurred in Japan if those expenses are borne locally. Most foreign firms take the cost of R&D at the level of their headquarters (wherever they may be) and so are not eligible for relief in Japan, making*

Japan less attractive as a destination for such activities;

- *The Government wants to increase tourist travel to Japan but its main international airports are blighted by excessively high fees. In addition, Haneda Airport, has inadequate infrastructure, which inhibits the development of profitable routes;*

- *The Government wants Japan to be at the forefront of ICT development, yet the Japan Fair Trade Commission is proposing changes to its "Guidelines for the Use of Intellectual Property under the Antimonopoly Act", which could reduce the value of cutting-edge proprietary technology used in open standards, such as LTE and 5G, and consequently reduce incentives to invest in R&D.*

Therefore, PM. Abe's growth strategy must be accompanied by a far more holistic and outward-looking approach. The EU-Japan Free Trade Agreement will be an important step forward and the following details must be covered;

- *Mutual recognition of standards, product certifications and marketing authorisations, adoption of international standards, for example in terms of medical equipment, environmental technology, consumer products, cars, and food;*

- *Lifting of barriers, such as high costs and unnecessary bureaucracy that prevent or delay products from reaching the market – for example, in terms of tariffs on materials and foods, and Japan-only product labelling requirements;*

- *Ensuring fair competition and equal treatment of all companies, domestic and foreign, for example in the airline, express delivery and insurance sectors;*

- *Ensuring fair and open tenders for public contracts in the railway and construction sectors;*

- *Improving conditions for foreign direct investment, including the removal of requirements unique to Japan in the banking and asset management sectors.*

These regulatory and policy framework issues should reflect European businesses' difficulties in Japan and should be considered seriously to boost inward investments and global business alliances in Japan.

Case Studies

Several cases in Japan were investigated in detail, by visiting individual head offices and interviewing their MDs or representatives in detail.

Generally speaking, they had common characteristics and problems, as well as differences which mainly come from their business size and history.

Objectives

European businesses in Japan are mainly targeting Japan's market itself, i.e. its size, advanced and matured characteristics, as well as its potential as a manufacturing base.

Above all, interviewed businesses are mainly engaged in not B to C, but B to B activities. Industrial demands, such as advanced control systems, fashion design concepts and trends, testing, certification and technological services. Although Japan is proud of its distinguished manufacturing and exporting industrial basis in the world, more sophisticated product development, highly advanced integrated technology, or world-leading designs and standards are still its keys for future development, and European achievements and leading ideas can be widely demanded. In that sense, Japanese technologies and manufacturing basis can be combined with European creation, standardization and world-wide marketing systems.

On the other hand, exporting businesses from Europe are not seen as so active in Japan, as far as European subsidiaries or satellites are concerned. To sell products or merchandise in Japan's market does not require European businesses' direct local operations, but their counterparts, such as importers and traders, can promote and sell them on behalf of European partners. Where a language problem still exists, the well-developed economic system and the presence of a huge number of traders, distributors and professional service providers in Japan enables imported European products to be effectively distributed and sold. This particularly applies in the case of high quality consumer goods which are demanded by affluent people in Japan. Japan also offers a gateway to the large Asian markets. The potential size of the Asian market may be in sight and some businesses are deliberately acting, but it is not so easy to conclude that Japan is the best gateway to the Asian market.

Despite the higher costs and the cultural gap, the reasons why European businesses come to Japan and establish their own branches or subsidiaries are specified. One reason is the need to maintain direct contact with potential customers or clients, and maintain regular communication with them in order to address their particular needs. Standardised or ready-made products or services are less likely to require direct operations. Another reason is the need to develop new markets which hitherto have remained under-developed in Japan. Typically the existing legal or institutional frameworks in Japan do not fit the global trend, and require reform in order to facilitate the introduction of new business concepts.

Location selection

As many local governments are trying to attract more investment, including foreign-owned businesses, the choice of location is a major strategic issue. Although recent empirical evidence is not available on this point, previous research has pointed to the importance of access to potential markets and the convenience of public transport which both are very important. The main public transport systems in Japan are high-speed railway and airline services, which are both very centralised, and provide access to other large Asian cities. In addition, government bodies, public institutions, large businesses' head offices and universities are located in Tokyo and the surrounding metropolitan areas. One result of this is that information and human resources are relatively easy to obtain.

In some cases foreign businesses seeking to enter Japan may be attracted to the industrial heartlands where their potential customers may be located. Alternatively, assisted areas designated by the local government, may be attractive. Designated areas may include some where there are long-term R&D projects or collaborative strategic plans in operation.

However, as Special Zones are now not only in remote regions but also in Tokyo, Kanagawa and Osaka, more convenient locations are the key target for European businesses. An interviewee pointed out that the glossy and modern appearance of the urban office building where his office is located is important to give a good impression to both customers and even parent company's bosses, regardless of the high rent. Another respondent replied that when choosing a location it is important to be within 30 minutes of major transport links, not least because of the importance of easy access for their customers.

JETRO's temporary office space or other public facilities are welcome and widely used. Naturally accompanying information services and advices are very popular. As mentioned earlier, subsidies and tax concessions are extremely popular and highly used. At the same time, as many governments and public bodies are offering various incentives and subsidies, it can be said these are less decisive for location choice than they used to be.

Regional collaboration and innovation projects

As mentioned previously, local governments in Japan are actively promoting regional collaboration projects, which involve many parties both locally and globally. At the same time it cannot be assumed that European or other foreign owned businesses are attracted to these projects.

In the case of the Sendai-FWBC project, there has been some progress, but not so much as the case of Finnish or European businesses, although there is some evidence of Finnish and European businesses increasing their sales of products or services. One example is that of a Finnish welfare manufacturer that has been selling its handrails for handicapped people in collaboration with a Sendai wheelchair manufacturer. The Nordic Walking method is popular in Japan, actively promoted by the JNFA association located at FWBC. In addition, there are a number of joint R&D projects, including one which is collaboration between Oulu University, Newtest, Oulu Innovation Center and Tohoku University to develop a dowager's hump prevention exercise program. A local business successfully developed visual software for orthodontics treatments especially suitable for Western people, by collaborating with Tohoku University, Oulu University and Mauel Company. Nevertheless, these success stories are unlikely to attract many Finnish or European businesses to locate in Sendai, despite the support measures and incentives provided. Several Finnish staff stayed at FWBC for a number of years, but left after a decade.

This case might involve some location difficulties, but the most serious problem seems to be the shortage of a proper workforce in the region. Competent professional people, with enough English or foreign language communication skills, are not so prevalent in the business community and this affects the living environment for overseas guests.

On the other hand, new collaboration projects are growing in many remote regions. One of them is in Yamanashi Prefecture, where the traditional local weaving industry has faced long-term decline and the crisis of extinction. Recently the Prefectural Government and a European firm started a joint project to revive that weaving industrial district by combining the modern European sense of design and craftsmen's skills. Examples such as these ones can be found in many remote regions, with the prospect of mutual benefits.

Challenges

Most of the problems faced by European business in Japan have been frequently pointed out and remain applicable. The barriers of regulation and business practices, together with the language and cultural issues, are well-known. A feasible solution for European businesses is to hire competent Japanese native staff or managers, who know the society and business practices, regulations and bureaucracy well, and also have technical skills and know-how.

The next problem is the difficulty in finding and hiring skilled or experienced staff in Japan. Professional engineers are reluctant to work for an unfamiliar foreign business and typically lack English language skills. Some companies are obliged to provide staff language training. European or other foreign staff are likely to experience not only cultural barriers, but also practical problems of everyday life. Issues related to visas or resident status have been improved by the Government's positive policy, but it is still difficult for them to rent a room or condominium for a few years because of tenant contract conditions. A common problem is that its owner refuses to let a room to a foreigner without a Japanese personal guarantee or guarantee company's backing which demands a considerable deposit. The renting term length is also a problem and even the public sector housing is not friendly for foreigners or foreign companies.

Local fund raising and finance

As some European operations in Japan are still in the initial stages of development, their funds are based on the parent company’s investments as the initial capital stocks or inter-firm lending whilst carefully avoiding illegal transfer pricing. As a result, they are still 100% owned by a European parent company, and are consequently not going to find local fund raising opportunities. However, local fund raising is the typically a target of their interest. Keeping bank accounts and obtaining their own credit lines are necessary to discount bills which are commonly used in transactions in Japan. Bill payable is rather unfamiliar for European businesses, but still common in many transactions in Japan.

Larger businesses, with a longer history in Japan, are keeping good relationships with big high-street banks, by keeping current accounts and receiving credit lines. Banks can make long-term loans for their new capital investments, nearly ¥300 million for instance. This is a good example to show that European businesses in Japan can find opportunities for local fund raising. Other financial opportunities were not mentioned in the interviews conducted.

Commentary

One of the key policy objectives of the Japanese government in recent times has been to try to attract more foreign investment and business operations in Japan. The launching of INVEST JAPAN in 2006, with a target of attracting inward investment to the extent that it would account for approximately 5% of GDP, signals this. At the same time, for this to be effective, it is necessary to note the change in composition of internationally mobile investment. This is because there are not only new sources of FDI, but also differences emerging in the characteristics of firms that are internationalising. No longer is the supply of FDI dominated by large US multi-nationals. These days a growing number of medium-sized companies are interested in investing abroad as part of their expansion into some of the more developed economies, including the European Union but also including Japan. It may be argued that developing a strategy to attract this type of firm is likely to become increasingly essential. What this means is that co-ordination of the export effort of Japanese companies with market institutions is a common characteristic.

In this context, it is likely that Japanese institutions responsible for attracting more foreign investment will need to take into account the implications of these changes, particularly with respect to the typical size of firm that may be attracted. To achieve this requires high quality information made available in ways that SME owners and managers are able to understand and are able to develop. The close relationship between FDI and SME policy is that the backward linkages that may be developed from the incoming businesses themselves create business opportunities for local SMEs which, if they are flexible enough, can mean strong local markets.

Looked at in this way, the current strategies used by the SME support agencies responsible for delivering the export programme need improving. It is one thing to state that the institution does not discriminate against foreign businesses. However, if there is a feeling that this is not the case, it will need to be demonstrated. The absence of discrimination needs to be demonstrated in the marketing of these organisations. It would be good to seek to promote a diversity dimension as this can be used to motivate staff. So, essentially, the challenge for policy makers in Japan is to convincingly deliver to the potential customer the claims that they are currently making, particularly with regards to the excess of foreigner SMEs to Japanese funds.

Funds are available in Japan for joint alliances with foreign businesses. The most common of these may be the SME growth support fund.

Japan is a potentially attractive market to many European SMEs but, at the same time, it is also a difficult market, not least because of the cultural divide between Japan and Europe. This means that to be successful in doing business in Japan, European SMEs need to be fully briefed on the finer points of Japanese customs and etiquette. In this context, agencies such as JETRO, SMRJ and similar organisations need to be fully aware of the perceptions of many European business owners towards Japan; which need to be taken into account in the development of an attractive offer.

It is encouraging to see active policy being developed at a city and regional level because this type of approach is most likely to be successful in view of the nature of the demand. It is encouraging to see the metropolitan governments in Japan becoming more active in seeking to attract more foreign investment and business into their areas. Based on information previously presented in the report, what is on offer at the local level is, in principle, within the broad terms of the report. The experience elsewhere in the world is that medium sized companies, when they look to internationalise, are more interested in co-operating with a local business than simply trying to go it alone. This is because, in proportionate terms, the extra investment required for them to become established in foreign markets is considerably above what would be needed by a large enterprise.

There is very considerable competition for mobile investment so that Japanese metropolitan or remote areas are in competition with foreign destinations as well as with other cities in Japan. Experience elsewhere in the world, in London for example, suggests that, for this type of medium-sized company, they are very interested in the extent to which there are local communities into which their own staff could easily fit. This tends to favour the larger cities, where there is more likely to be a concentration of particular groups, such as Japanese people. Above all, the availability of competent professional staff or engineers who have enough English or other language skills is an important matter, and all the parties in Japan should make efforts in this regard. Not only the issues of economic regulations and barriers, but also those of social or institutional barriers and problems must be recognised and reformed.

It would seem that the Japan Finance Corporation (JFC) is a potential source of funding for foreign SMEs interested in setting up in Japan, particularly those that are seeking to do this through co-operation with local companies, simply because this tends to increase the impact of what they are generating. However, at present, there is little evidence of foreign companies among the client base of JFC, nor are foreign SMEs successful in local co-operation and collaboration projects. Regional banks may also be potential sources, particularly where they are located in depressed regions and are committed to participating in industrial collaboration projects. However, these developments are less known to European businesses and information, not only on these local projects, but also various opportunities and supporting measures, must be better diffused and utilised.

Chapter 6 – CONCLUSIONS

1. The study investigated the sources of finance and business support for European SMEs that were internationalising their activities and, in particular, internationalising into Japan. The important contribution that SMEs make to the European Economy, particularly in terms of employment, means that policy makers are keen to ensure that the development opportunities for European SMEs are exploited. In this context internationalisation represents an opportunity for SMEs to develop new markets as well as finding new sources of components and other inputs. That being the case it is important to ensure that Europe's SMEs, or at least those that have the potential for internationalisation, are not prevented from doing so by market failures or other barriers that may be eased, if not eliminated, as a result of policy intervention.

2. As a highly developed economy and a major global investor Japan is a potentially important partner for European SMEs. It is also the third largest economy in the world and in practice is a major trading partner for the EU. The investigation suggests that there is unfulfilled potential for increasing investment by European businesses in Japan. Moreover, it can be argued that there are a number of factors combining currently which point to this being an appropriate time to consider how best to increase investment activity. First of all the lower Yen exchange rate has increased the attractiveness of Japan as an investment destination. It is also the case that, given the technology level of businesses in Japan, those countries in Europe which aspire to increasing their investment of this type, should actively consider Japan alongside other possible markets.

3. Previous research, some of it commissioned by the European Commission has identified finance as the most consistently reported barrier faced by SMEs internationalising. However, more detailed investigation typically shows that the problem here is associated with a shortage of working capital rather than by financial constraints on SMEs more generally.

4. Other barriers that represent particular challenges for small firms include the financial costs involved in internationalisation and the lack of access to credit, as well as gaps in market knowledge and language skills and insufficient resources and expertise to carry out market research.

5. The study investigated the main sources of finance available to exporting companies in each Member State at an EU level and also in Japan. The most common type of financial assistance offered by governments to help exporters is help with export credits and export credit guarantees, in order to reduce the risk involved in exporting and, thereby, attract more firms to undertake it.

6. Although export credit institutions exist in most countries, their orientation and behaviour does show some variation. One reason for this is different levels of involvement in export markets by SMEs in different countries, different perceptions of what constitutes the main source of competitiveness and the main competitors in each market. In this context there is a risk that some countries may use export credits

and export insurance as a way of subsidising their products sold internationally. As a result of this the OECD acts as a regulator and they have done this for the last decade.

7. Differences between countries is reflected in the need of both France and Italy to improve the export performance of their businesses, particularly SMEs. The UK government place a high priority on British businesses developing export activity and, to achieve this, they have created UKTI as a one stop shop for internationalising firms. In the case of the Czech Republic the infrastructure to support export credits and guarantees has had to be developed over the last 25 years as part of the economy's transformation to a market-based system. The Czech Republic's export credit and credit insurance is particularly oriented towards CEECs.

8. Adopting a longer term perspective one of the areas where there is undoubted synergy between some European countries and Japan in the fields of science, technology and innovation. That being the case, a project known as JEUPISTE (Japanese EU Partnership Innovation Science and Technology) should be considered. In addition, SME instrument of the Horizon 2020 Framework Programme for Research & Innovation offers funding and support for innovation projects that help SMEs to grow.

9. There are signs that sources of finance for European SMEs are beginning to emerge in Japan. Indeed some key informants interviewed for the project suggested that some of the existing funds available in Japan were open to European SMEs as well as domestic ones. However since we have no independent evidence of this, we cannot state that it actually occurs. Nevertheless, there is a growing interest in it both from national government, because of the commitment of Prime Minister Abe to increasing direct foreign investment into Japan, but also because of the interests of some local governments to try to attract more mobile investment into their territories. As a consequence, a number of major Japanese cities are claiming they have financial help available for European companies who are interested into moving into Japan. On paper at least it would seem that JFC is a potential source of funding for foreign SMEs interested in setting up in Japan, particularly if they are doing this in cooperation with local firms, however at present there is little evidence of foreign companies receiving financial help from JFC.

10. In terms of EU support one of the key elements in the European Commission's portfolio of support is the Enterprise Europe Network. It is reckoned that there are now approximately 600 business support organisations currently involved in the Network, covering more than 60 countries. As a consequence, clearly, a significant number of these are not within the EU but are outside it, and, in the case of Japan, the EU-Japan's Centre for Industrial Cooperation is the Enterprise Europe Network partner. The aim is to increase the flow of information to small businesses within Europe and beyond.

    The EU-Japan Centre for Industrial Cooperation has diversified its support services significantly in recent years, to the extent that it now has a business support function, as well as other functions for liaising between EU and Japan. The business support services that are provided by the Centre appear relevant to the needs of SMEs, but what we don't know is to what extent European SMEs look to this Centre for help; if they are interested in entering the Japanese market.

11. One of the EU programmes that is potentially useful in helping firms to internationalise is the COSME fund. Although it does not offer finance for exporting per se its priorities focus on promoting and supporting growth. Since growth for many firms involves developing markets outside their national territory, exporting can attract finance from the COSME programme and this aspect really needs to be emphasised and applied by those that are assisting SMEs to access finance for export activity.

12. One of the products that the EU-Japan Centre offers is a so-called 'Keys to Japan' service which involves selected SMEs being sponsored, with a draft of a business plan being produced to enable them to expand into the Japanese market. There is no doubt that such an exercise could be helpful to businesses, particularly SMEs, that are seeking external finance to expand in/or establish a presence in, Japan. The concern is the question of who produces the business plan, because economic development literature and experience is littered with examples where the preparation of a business plan by a third party has little impact on management behaviour. It is likely that it will simply be a device for accessing external funds.

13. Information provision is an important part of business support. At the EU level there are a number of portals, the Enterprise Europe Network portal and the SME Internationalisation portal, for example. But what is not known is firstly, the extent to which small businesses are aware of these sources and; secondly, their experience in using them and their assessment of the value of them. In this study it has not been possible to talk to business owners, simply because of the resource limitations of the study. This is an essential priority if we are to be clear about the extent to which these various initiatives, that are designed to assist small businesses to internationalise, are being successful.

14. A consistent theme in public policy assessment is the notion that policy is only as effective as the way it is delivered. In other words, you can have a very well designed, very logical, policy intervention which can achieve very little because the organisations responsible for delivering this to SMEs don't sufficiently penetrate the SME market, they have some difficulties in establishing their credibility with SMEs and, as a result, there is perhaps more suspicious on the side of business than there needs to be.

    In principle the foundations for long term cooperation between EU member states and also between EU member states and third party countries may be justified on the basis of its influence on the longer term competitiveness of the European economy. Horizon 2020 is one way of achieving this however one of the issues identified in this study is that the initial entry cost of joining such a programme are not inconsiderable because of the time required to prepare applications. This was emphasised by the respondents in the Czech Republic as a disincentive to prepare such applications. Alongside this, the Irish government have adopted an enlightened view by providing financial support to both businesses and academics interested in preparing bids for Horizon 2020 funding.

15. The most common method of that European Commission uses to make available information to businesses is through websites. In this regard, the investigation within the EU member states has suggested that a number of portals were potentially useful to internationalising SMEs. One is the Enterprise Europe Network portal, the second is the SME Internationalisation portal, the third is the Internationalisation of Clusters portal, next European Business Portal; the last is the Small Business Portal.

16. The Japanese government is also promoting global alliances for Japanese mid-ranking companies and SMEs under a new scheme by METI. This suggests that there is scope for new levels of cooperation between European and Japanese businesses.

17. Although Japan has come a long way in terms of reforms of regulatory barriers and other unnecessary bureaucracy, the current regulatory frameworks are not as liberal as many in Europe. This issue needs to be addressed if Japan is to be really successful in attracting European businesses to invest in the country.

Chapter 7 – RECOMMENDATIONS

1. Although all EU Member States have some form of export credit guarantees, there is considerable variation between countries in the scope and orientation of these measures. **It is recommended that the European Commission establishes minimum standards for these financial measures**, which includes some provision for assisting with working capital.

2. Whilst late payments and, the threat of non-payment, affects firms of all sizes, small businesses are particularly affected because of their more limited internal resource base. Therefore **it is recommended that all EU Member States review their practices in this regard, in order to minimise any unnecessary costs falling on SMEs.** Moreover, it is recommended that the European Commission takes steps to actively disseminate good practice across the EU in this regard.

3. Whilst this study is specifically focused on finance, and finance is undoubtedly one of the major barriers to internationalisation for SMEs, it is not the only one**. As a result, it is strongly recommended that the European Commission takes a broad perspective of the barriers to internationalisation and doesn't become overly focused on finance**.

4. The investigation revealed that sources of finance for European SMEs are available in Japan. Some of these are national, such as JFC; others are local or regional. Moreover it was claimed by many of the key informants in Japan that these funds were available to foreign SMEs as well as domestic ones. **It is recommended that these sources in Japan are actively promoted in Europe provided that evidence is available of European businesses benefiting from this finance**.

5. The EU-Japan Centre for Industrial Cooperation has done an excellent job in developing and diversifying into a portfolio of services performing a number of roles. At the same time, **we recommend that the Centre's activities should be better promoted in the EU Member States and better synergised with the business support activities of the Member States (Chambers of Commerce, etc)**. The periodical evaluation of the Centre's activities, which is made by the European Commission, should pay particular attention to the experiences and views of European businesses that have either made use of the services of the Centre or are interested in exploring the possibilities of entering Japan, to see to what extent they are familiar with the services offered by this Centre.

6. **It is recommended that the FTA as well as the SPA (Strategic Partnership Agreement) currently being negotiated between the EU and Japan-should be used as a basis for the active promotion of Japan as a location for European Investment**, working in close cooperation with the national government, as well as those local authorities that are interested in attracting European investment. This partnership needs to pay particular attention to the image of Japan in the minds of business owners and entrepreneurs. Japan is an important trading partner for the EU; specifically the second biggest trading partner in Asia after China. Similarly Europe is an important market for Japan and a major target for Japanese investment. As a consequence, both

Japan and the European Union have a strong vested interest in continuing to build the framework for international collaboration.

7. One of the more imaginative approaches to export promotion, which incorporates a framework for finance provision, is the German IHK Company Pool programme. **We recommend that this is independently evaluated by the European Commission to see to what extent it could be rolled out across Europe as a successful model**.

8. Taking a long-term view of the internationalisation processes, the extent to which a country is investing in research and development is likely to have some bearing on its medium and longer-term competitiveness. As a consequence, it is in the interests of the economy as well as businesses themselves to participate in longer-term projects which lead towards increased internationalisation. **It is recommended that the Irish model of providing financial support for participants in Horizon 2020 bids should be actively disseminated across the European Union**, particularly where the participants are SMEs and the project would seem to have potential benefits in terms of the competitiveness of businesses.

9. Policy makers and others often speak of exporting and internationalisation as if the two are synonymous. It is important to recognise that there is more to internationalisation than just exporting, in fact there are a range of internationalisation processes of which exporting is just one. **It is recommended that European Union policy makers recognise this fact and show willingness to assist European firms looking for new sources of supply as well as for new markets**.

10. **We recommend that the European Commission actively disseminates and promotes the recommendations of the OECD Working Party on Export Credits and Credit Guarantees**, specifically with regards to the encouragement of small firms and the adaptation of the providers of support to the needs of small businesses.

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