

IN SEARCH FOR GROWTH:

TOWARDS A NEW ROLE  
FOR SMEs IN EU-JAPAN RELATIONS



25 YEARS  
周年



日欧産業協力センター  
EU-Japan Centre  
for Industrial Cooperation



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Published by the EU-Japan Centre for Industrial Cooperation

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Printed in Brussels, Belgium, 2012

# 25 YEARS OF THE EU-JAPAN CENTRE FOR INDUSTRIAL COOPERATION

**DANIEL CALLEJA CRESPO**, DIRECTOR GENERAL,  
*Directorate-General for Enterprise and  
Industry, European Commission*

Since 1987 the EU-Japan Centre has consistently contributed to facilitating increased industrial cooperation and communication between the EU and Japan. It has carried out and constantly renewed many activities from training courses and exchange programmes to seminars and, since 2011, is member of the Enterprise Europe Network.

I am very pleased that to celebrate the 25th anniversary of the EU-Japan Centre, the Centre has decided to publish this booklet dedicated to the internationalisation of SMEs.

At a time when the economic and financial crisis persists, the real economy needs more than ever to underpin the recovery of economic growth and jobs. In order to strengthen the needed competitiveness of our enterprises all the available levers must be mobilised and this includes a policy dedicated to SMEs' welfare.

For the coming years, growth will come from developing and emerging countries. However, today only one out of eight EU SMEs exports outside the Single Market. In addition, internationally active SMEs show better indicators than those who do not: higher turnover and employment growth, better innovative capacities. In November last year the European Commission adopted a Communication which proposes tools to address this problem: "Small Business, Big World – a new partnership to help SMEs seize global opportunities".

Through an EU-Japan perspective this publication brings a useful contribution to the strategy we are putting in place and I am grateful to the Centre for its initiative. I am confident that the EU-Japan Centre will be an active partner of our strategy towards the internationalisation of the SMEs.

**NOBUHIKO SASAKI**, VICE MINISTER FOR  
INTERNATIONAL AFFAIRS  
*Ministry of Trade, Economy and Industry*

I congratulate the EU-Japan Centre for Industrial Cooperation on its 25th anniversary.

In the last 25 years, relations between Japan and the EU have developed substantially and have now reached a point where their initial trade disputes have been overcome. Both regions are now aiming to build a mutually beneficial economic partnership.

Since its creation in 1987, the EU-Japan Centre has been contributing to the development of Japanese and European industry and trade relations by way of training courses for business executives, study abroad programmes for students as well as various seminars. Furthermore, by acting as the secretariat of the EU-Japan Business Round Table, the EU-Japan Centre also plays an important role in allowing the business community to strengthen trade and investment relations between Japan and the EU.

*I would like to pay a tribute to the commitment of the EU-Japan Centre for reinforcing mutual cooperation between both regions, including its efforts towards the opening of negotiations for a Japan-EU Economic Partnership Agreement and for supporting the EU-Japan Business Round Table on its recommendations in this regard.*

The extent to which Japan and the EU will manage to revitalise their respective economies will depend on common issues, realising the Economic Partnership Agreement and advancing, in parallel, their growth strategies. A key element of this revitalisation will lie in how smoothly and efficiently the overseas expansion of Small and Medium-sized Enterprises will be promoted.

In the same way that I consider this publication to be making a precious contribution towards this end, I expect the EU-Japan Centre will keep on playing an active role in the development of mutual cooperation between Japan and the EU.



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# FOREWORD

From the Editors

Established in 1987 as a non-profit organisation, the EU-Japan Centre for Industrial Cooperation is a unique venture between the European Commission (Directorate General for Enterprise & Industry) and the Japanese Government (Ministry of Economy, Trade & Industry). With two offices (Tokyo and Brussels), it is co-financed and co-managed by both Authorities.

Over the past 25 years, the EU-Japan Centre has become an effective bridge between European and Japanese business and policy circles by developing a full range of activities such as: seminars, reports, business round tables and training programmes for executives, internships for technical students, information services and promoting cooperation in R&D activities.

The Centre has undertaken a number of new activities in the past few years. In 2010, the Centre launched 'J-BILAT', a 3-year project, to foster the participation of the Japanese research community in the EU's 7<sup>th</sup> Research Framework Programme and to assist in the implementation of the EU-Japan Science and Technology Agreement. In 2011, the Centre joined the 'Enterprise Europe Network', as its first member in Japan, and signed a Memorandum of Understanding with the European Cluster Cooperation Platform to formalise its role as helpdesk for EU and Japanese clusters seeking to internationalise. In 2012, we have been exploring new niches such as post-Fukushima economic and business opportunities (energy & green technologies, raw materials etc.) and the potential for cooperation on satellite navigation-related industry and services in view of the forthcoming operation of the Galileo satellite system. Furthermore, given the importance of public procurement in the EU-Japan trade and investment dynamics, in 2012 the Centre started a new comprehensive information service, in English, highlighting government procurement tender notices in Japan.

The Centre maintains six activity-specific websites and employs a staff of 26. To date, more than 2,600 executives, students and researchers have benefited from the Centre's various training schemes in both Japan and the EU.

Some might wonder about the relevance of the EU-Japan Centre after 25 years, now that we have a lot more information sources, primarily the internet, and with 20 years of regular industrial dialogue between the EU and Japan. We would dare to say that the EU-Japan Centre is as important now as it was 25 years ago... Japan is still perceived as a particularly "different" and difficult market and the feedback from our European corporate trainees still confirms the need to "demystify" Japan. The joint venture nature of the Centre still has a substantial symbolic significance and it is still unique among the plethora of EU Business Centres established more recently in the Asian region. Nevertheless, we are well aware that we

cannot live exclusively on the back of our heritage and the Centre needs to continuously evolve, expand its activities and calibrate its mission to the present needs of the EU and Japan industrial and business communities.

Therefore, with this in mind, we defined our new strategic priorities in 2012, the main one being to reinforce support for SMEs with a particular focus on aspects related to internationalisation. The mutual importance of this issue is obvious. SMEs represent the backbone of both the EU and Japanese economies. The share of SMEs in the economy is more than 99% in both the EU and Japan, with a fairly similar percentage in terms of employment creation (70-80%). Both in the EU and Japan, SMEs are being seen as engines for economic growth, particularly through internationalisation into outside strategic markets. The increased focus on SMEs fulfils the need to identify new drivers for growth, badly needed by the stagnant economies of the EU and Japan. However, while "Small is Beautiful", it is also challenging, particularly when it comes to exploring new frontiers. Indeed, the challenges associated with "going global" are similar for both the European and Japanese SMEs, namely, a lack of information and a lack of capital. Therefore, with so many commonalities, it appears clear that there is a huge untapped potential for SMEs in EU-Japan trade and industrial relations and the topic should be more closely approached in the framework of the regular EU-Japan industrial policy dialogue.

This publication specifically marks this new strategic focus of the Centre for the coming years. The topic of SME internationalisation is approached from several angles and perspectives. The issue of trade and market access to Japan is treated extensively, including views from industrial sectors as diverse as aerospace and footwear, whilst cross-cultural aspects are also tackled. The recent EU policy strategy is critically analysed and the publication is further enriched with the inclusion of two recent seminar reports on the specific aspects of SME internationalisation. The picture is further completed by the results of a survey on obstacles, opportunities and what supports are needed conducted among a sample of European SMEs investing in, or wishing to expand in Japan and by a number of testimonials from SMEs which have benefited from the Centre's training programmes and subsequently made it "Big in Japan". Since this publication is built upon the opinions of authors with different professional backgrounds (policy makers, academics, business consultants) and different levels of experience with Japan, the content might appear uneven at times, but this makes this even more relevant for the diversity of views and issues that are part of the EU-Japan "mosaic".

With this publication we do not intend to provide any definitive answers but rather to mark the beginning of a process, open a debate and highlight the importance and potential for SMEs in the EU-Japan relations.

*Hiroshi Tsukamoto*

**Hiroshi Tsukamoto**  
General Manager- Japan side

**Silviu Jora**  
General Manager- EU side

*Silviu Jora*





CHAPTER 1

REFLECTIONS AND ANALYSIS  
ON THE INTERNATIONALISATION  
OF EUROPEAN SMEs  
FROM DIFFERENT PERSPECTIVES



ARTICLE 1

# FDI AND MARKET ACCESS ISSUES IN JAPAN FOR EU-SMES

By **Wolfgang Pape and Christine Zander**

## 1. INTRODUCTION

Japan, the world's third biggest national economy, is not only for its size highly attractive to European Small and Medium-sized Enterprises (SMEs). Once European businesses have overcome any initial obstacles in the island country, they embark in most cases on paths of long-term, particularly lucrative relationships with their discerning Japanese partners and demanding customers. In spite of the changed circumstances since the Fukushima incident in 2011, two-thirds of foreign companies in Japan expect further growth and only 6 percent have considered scaling-down their Japanese operations. In some aspects, notably with the appreciation of the Japanese currency, the business situation has actually improved for European SMEs.

Of course, Japan is not the country of the 'fast buck', but it certainly rewards steady engagement. Foreign Direct Investment (FDI) in Japan still remains comparatively low. Nevertheless, with policy changes introduced since Prime Minister Koizumi and more recent developments after the Fukushima incident, investment from abroad is increasingly welcome by means of various incentives, depending on the specificities of different provinces and localities.

Since the establishment of delegations in Tokyo and Bruxelles in the early 1970s, the subject of access to Japan for goods, services and FDI have been the focus of EU-Japan relations, but have often been marred by unbalanced flows of trade and investments. Tariffs were gradually reduced by the GATT/WTO, but non-tariff barriers (NTBs) then came to dominate the agenda. While at first the EU deficit in trade was tackled by favouring more vociferous big businesses, the importance of innovative SMEs and their potential to improve trade and FDI flows have become increasingly recognised. The EU-Japan Centre, regulatory dialogues, high level meetings and numerous initiatives and mechanisms, have helped to better understand each other's economy and business culture.

However, in the sense of Ricardo's trade theory of comparative advantages, differences remain, and they can result in positive benefits on both sides. Such differences are particularly evident in the services sector where divergent human relations, social patterns and culture in general still exert a stronger influence on the market. European experience is in demand, particularly with the rapid-ageing of Japanese society, divergence of generations, splitting of families and further individualisation in general. Europe's history of developing know-how, services and goods in the welfare sector gives EU-SMEs a competitive advantage on the Japanese market. In particular, service efficiency and effectiveness - traditionally associated with Germany and more recently learning from Finland, has become an area where European SMEs could exploit a great commercial potential in the Japanese health care sector. One can add parallel arguments for the inroads of EU-SMEs into finance, insurance and real estate markets that depend greatly on personal trust and, in Japan, often still neglect the objective and efficient information collection required. With general trust in the government, big business and nuclear energy at a low after Fukushima however, a lucrative market for EU-SMEs has opened up in the sector of renewables, thanks partly to the positive reputation of Europe in terms of environmental protection and precautionary security. The latter two arguments similarly count in favour of EU know-how, services and goods in the bio-food sector.

The eventual conclusion of an EU-Japan FTA could exert a significant impact on trade and FDI flows as has already been observed at an early stage in the case of the EU-Korea FTA. However, since big business in general influences, and consequently profits more than SMEs from complicated bilateral agreements, a new FTA with Japan should promote more directly the interests of internationalising SMEs from the very start. Transparency and

reduction of red-tape for smaller traded quantities and even FDI arrangements should clearly benefit SMEs.

Studies show that there is a connection between company size and the degree of internationalisation. Not only do SMEs differ from large enterprises in the way they carry out internationalisation, but due to their size, many SMEs face resource constraints when intending to do business abroad. Consequently, large enterprises are more involved in international trade than SMEs. A report on behalf of the European Commission summarises the three main categories of obstacles faced by SMEs<sup>1</sup>

- a) Insufficient managerial time/skills,
- b) Lack of financial resources,
- c) Lack of information on foreign markets.

When intending to do business abroad, enterprises need to invest extra resources, for example, in finding appropriate foreign partners and establishing a business relationship. Furthermore, they have to comply with specific regulations and laws, adapt products and services to foreign standards, hire and/or train employees and face extra costs regarding transportation, tariffs and/or taxes. Consequently, due to their limited human and financial resources, SMEs require additional support, information and easier market access in order to seize opportunities abroad, in particular with physically as well as culturally far-away countries like Japan.

In addition, the FTA should provide a wide platform for exchange ranging from subjects such as industrial standard setting all the way to meetings of students, academics and civil society of both partners, because they are relevant for enhanced EU-Japan relations in general that in the end also affect trade.

## 2. HISTORY

### 2.1 EU-Japan relations: From confrontation to cooperation

With the establishment of the first institutions of European integration in the 1950s, and Japan acceding to GATT in 1955, the island country produced an initial plan to liberalise its economy only upon Western pressure (so-called “*gaiatsu*”). However, in this plan of 1960, the primary importance for Japan remained with the expansion of its exports, and import liberalisation was only to serve the purpose of enhancing its supply of raw materials. Actual reductions in the tariffs on consumer goods were hardly implemented before the 1970s. The growing floods of exports from Japan -while it kept its home market tightly closed- led to sharp criticism and confrontation not only with the Europeans. Subsequent voluntary restraint agreements brought a

1 European Commission (2007) *Supporting the internationalisation of SMEs. Final Report of the Expert Group.*; [http://ec.europa.eu/enterprise/entrepreneurship/support\\_measures/internationalisation/report\\_internat.pdf](http://ec.europa.eu/enterprise/entrepreneurship/support_measures/internationalisation/report_internat.pdf).

temporary easing of trade friction, and the focus of attention shifted from protective tariffs that gradually came down, to non-tariff barriers within Japan. Various factions with vested interests against imports, allegedly ranging from ‘infant industries’, the domestic mafia (“*yakuza*”) involved in the trade of counterfeits, all the way to the mighty agricultural lobby against produce and food imports, managed to maintain the upper hand in Nippon for a long time.

#### 2.1 Non-tariff barriers of the past

The importance and current situation of non-tariff measures or barriers (NTBs)<sup>2</sup> for commercial relations between the EU and Japan is best understood through a detailed explanation of their geopolitical context and historical background<sup>3</sup>. Likewise, in this regard, the central role of the Japanese Ministry of International Trade and Industry (MITI, now METI) deserves explanation.

In general terms, for the EU and the USA, as the trade partners furthest away from East Asia, NTBs in their widest definition *cum grano salis* can be said to be ‘naturally the bigger a burden the wider the cultural gap’ between the trade partners involved. That means with Lipset’s observations of America’s exceptionalism and Japan’s uniqueness being at opposite ends of the scale in cultural terms<sup>4</sup>, their risks of perceiving NTBs behind each other’s borders must also be the highest. *Argumentum e contrario*, China, Korea and Japan as neighbours having millennia of shared cultural flows<sup>5</sup> for example, introducing rice cultivation, chopsticks, sino-script, Confucianism and Buddhism etc. should find fewer NTBs amongst their trinity than the West with it.

As a simple example: just as food labels of ingredients with Latin-derived terms create less of a problem for many educated Europeans, this is the case with labels written in meaningful sino-script for most Chinese, Japanese and Koreans, although pronunciation of these labels may be completely different amongst the three nations. Likewise, cultural affinity clearly helps to naturally find more commonality also in industrial product standards. The obviously higher level of mutual familiarity and cultural as well as geographical proximity within Europe has facilitated trade

2 In recent publications, the Commission has preferred the term non-tariff measures (NTMs) as to indicate that they can (easily) be eliminated by countermeasures. However, notably in the historical context it is appropriate to use the broader understanding of non-tariff barriers to trade. According to the OECD glossary, the term NTBs refers to all barriers to trade that are not tariffs, although even NTBs sometimes were reduced to measures by the authorities, namely quotas, quantitative restrictions as well as differential internal taxes and administrative rules and policies (sic Graham Evans and Jeffrey Newham, *Dictionary of International Relations*, Penguin Books, London 1998, pp.381-382).

3 For details on past Japanese NTB’s see Wolfgang Pape „*Nichttarifäre Handelshemmnisse in Japan*“ in *Recht der Internationalen Wirtschaft*, September 1990, p.726-734.

4 Seymour Martin Lipset, *American Exceptionalism*, 1996, p.211-263, notably table on p.224

5 See Wolfgang Pape, *Models of Integration in Asia and Europe*, Luxembourg, 2001, p.13

amongst member states here as well as amongst these neighbouring economies internally in the Far East.

Nevertheless, even some Japanese insiders still regard their island country as a ‘closed economy’<sup>6</sup>. Korea - a peninsula with a similar homogeneity and still rather mercantilist policies, is not very different in this regard either. Nor is continental China. China only started to open up in the 1980s -albeit slowly- has seen increasing imports from Europe (especially if they include our much sought after know-how), particularly since joining the WTO in 2002. All three East Asian countries have hardly advanced their trade model from protective Ricardian to domestic competition-stimulating Schumpeterian.

However, since the intensification of consultations between the EU and Japan, the opening of diplomatic delegations in Tokyo and Bruxelles in the 1970s and growth of trade, the importance of obstacles to imports into Japan have come more and more into the focus of bilateral relations, as European exporters have increasingly sought to enter the Japanese market. While tariff issues have mainly been dealt with, and gradually reduced, in the multilateral framework of GATT, NTBs came to dominate the agenda first of bilateral, and since the early 1980s, also multilateral consultations. This saw a further shift of weight amongst the actors on the side of Japanese officialdom. Under GATT (later WTO) and in particular at its HQ in Geneva, the prerogative of the official representation of Japan in international consultations was formally with the Foreign Ministry, whereas it was an early insight for the Community that without the involvement of the Ministry of International Trade and Industry (MITI, later METI) hardly any of the trade obstacles behind the border could be tackled successfully. Hence, the role of MITI will first be analysed, before entering into the details of the multitude of traditional Japanese NTBs as community exports and investments encountered them in Japan towards the end of the 20th century.

Under the slogan of *Nihonjin Ron* (日本人論, lit. theories about the Japanese people, with a connotation of emphasising the particularities of the Japanese), bestsellers in the 1980s within Japan often referred to the ‘uniqueness’ of the islanders as perceived during the period of isolation over more than two centuries up to the mid-1800s.<sup>7</sup> In the context of the role of MITI and NTBs, there are particular relevant features of the Japanese, such as their strict distinction between in- and outsiders, the vertical structure of society (*tate shakai* 縦社会) and the resultant respect for authority (*kanson minpi* 官尊民卑) as well as a low level of awareness of individual rights. How much these traditions still played a role in the Japanese mindset in the 1980s was underlined by the fact that Prime Minister Nakasone, when proclaiming his *Action Programme* for market opening in July

1985 to the media, used the slogan *gensoku jiyū, reigai seigen* (lit. Freedom as principle, restriction as exception 原則自由、例外制限). This basic democratic principle of freedom as a fundamental right in any democracy apparently had little currency in Japan until then although it was clearly defined in Article 13 of the Japanese constitution.

### 2.2.1 Role of MITI

Experts on the Japanese economy and insiders of the government regarded the Ministry of International Trade and Industry (MITI) in the 1980s as one of the most powerful administrative agencies of the Japanese government, although in terms of number of staff, it remained one of the smallest ministries.

MITI was established in 1949 as a division of the Ministry of Commerce and Industry (MCI) on the basis of its *New Foundation Law* (*tsūshō sangyō shō settchi hō* 通商産業省設置法). This provided it with far reaching competences and wide discretion to coordinate international trade policy. From the very beginning, MITI focused on the promotion of exports. With the “*Import Trade Control Ordinance*” (*yunyū bōeki kanri rei* 輸入貿易管理令) this Ministry controlled major sectors of the Japanese economy through its policy implementation, direction of investments, and coordination and funding of research. Its wide scope of legal remit and competence encompasses in particular the international trade areas of exports and imports, and all domestic industries and businesses that were not specifically supervised by other administrative agencies. In its heydays, often stretching its legal basis to the maximum through extralegal means such as administrative guidance (*gyōsei shidō* 行政指導)<sup>8</sup>, MITI had managed in a ‘soft law’ approach to give direction and considerably influence economic agents in their market behavior. The resulting intimate relationship of MITI with the Japanese industry, trading houses and their associations (i.e. ‘Japan Inc.’), in particular in international trade policy, has often smacked of collusion. While for years it sought to protect domestic manufacturing industries from import competition, it also helped them by facilitating access to technological know-how, licenses from abroad, international mergers and acquisitions and even allocation of foreign exchange.

MITI saw its influence suddenly diminish in 1971 with the switch to a floating exchange rate with the dollar. Its impact had reached its peak in the 1960s, before domestic industries grew strong enough to succeed on international markets. In particular, car manufacturers were fighting off cartellisation under MITI’s guidance when their exports started booming. Under foreign pressure (*gaiatsu* 外圧), MITI’s policies had to change with the phenomenal growth of Japanese exports and subsequent trade

<sup>6</sup> Sic Prof. Shujiro Urata, Waseda University and Stanford in his presentation on ‘Japan’s strategy in Asia’ on 9.7.2012 at Madariaga in Bruxelles

<sup>7</sup> For details see „*Sakoku - Zu den Hintergründen von Japans’ Abschlusung unter den Tokugawa*“ (OAG aktuell, Tokyo 1989) by U. Paily.

<sup>8</sup> See Wolfgang Pape, “Gyoseishido und das Anti-Monopol-Gesetz”, Köln 1980 (especially p.82 for details on “administrative guidance”).

friction (*bōeki masatsu* 貿易摩擦) with its main trade partners in the USA and Europe. MITI's guidance swiftly shifted in part towards restraining exports of certain manufactured goods to these markets through voluntary restraint agreements to avoid being singled-out and to allay criticism from abroad.

At the same time, *gaiatsu* began to push MITI towards – though still reluctant – liberalisation of carefully selected sectors for imports, yet another turnaround of a traditional policy of MITI, namely the protectionist bias of old days.

A similar shift in policy was required by MITI's main agency for trade promotion, the *Japan Export Trade Organization* (JETRO), which had to replace the 'export' bias in its name with the wider meaning of 'external' to show that it would also help imports into Japan. JETRO was originally an independent government agency established as a non-profit corporation in the merchant city of Osaka in 1951, and reorganised under MITI in 1958 by providing more than half of its budget to support Japan's industry and trading houses in their export activities. At the end of the 1980s, JETRO collected and distributed information through more than 70 offices in almost 60 countries abroad as well as 30 bureaus in Japan. They had a staff of more than one thousand employees, with management often temporarily dispatched from MITI itself under conditions of *amakudari* (天下り, lit. descent from heaven of former officials into related associations or firms), which allocated lucrative jobs to former high ranking officials for exploiting their useful personal connections.

### 2.2.2 Impact on the Japanese Economy and NTBs

MITI exerted enormous influence over the Japanese economy since its wide scope of competence, as listed in its law of establishment, covered not only international trade, but also all domestic industries and businesses that were not specifically supervised by other administrative agencies. In addition, unlike the more restrictive principles in continental European law, MITI not only exercised wide discretion over the choice of the measures to be taken (i.e. 'how to act'), but also in interpreting underlying facts as justification for taking measures at all (i.e. 'if to act'). Furthermore, the compliance with national product standards on the basis of the *Industrial Standards Law* (*kōgyō hyōjunka hō* 工業標準化法) of 1949 is of great importance for the Japanese economy as the law deviates from Western certification and acts to the detriment of imports. Although these standards were originally often just translations of standards in Europe or America, the Japanese applied them in concrete cases quite differently according to their own interest. This difference in standardisation was often arbitrary and upheld under the pretext of Japanese 'uniqueness' in order to protect in particular, the infant industries in the past.

This was, for example, the case in the mid-1980s for domestic ski-producers. With young Japanese moving into fast-growing leisure sports, well-known European brands had started to build a lucrative market in the country. However, when a MITI-subsidised conference of the so-called *Consumer Product Safety Association*, (although originally in Japanese without mentioning the Consumer in the name, *Seihin Anzen Kyokai* 製品安全協会) in Tokyo in 1986 featured a local academic who justified a new divergent certification norm for skis in Japan on the grounds of Japan's 'different snow', new administrative barriers against imports were suddenly put up, which the so far successful European producers could only overcome at the high cost of adapting their skis. With the foreign press ridiculing this obviously untenable pretext for protectionist standards, and their subsequent deliberation at the Minister Conference with the European Commission in December 1986 in Bruxelles, MITI came round and brought the issue to a face-saving solution with a compromise that allowed, under certain conditions, European skis to be sold as certified goods in the Japanese market again.

As mentioned before, Japan became a Contracting Party of GATT in 1955, but – unlike West European countries – its government first submitted plans of systematic trade liberalisation only at the beginning of the 1960s and only under pressure from abroad (*gaiatsu*), especially by the USA and the European Community, after a decade of strict protection policy. One of the first amongst these plans was the project of liberalisation of foreign trade and currency exchange (*bōeki kawase jiyūka keikaku* 貿易為替自由化計画) of June 1960, which focused on the expansion of Japanese exports. In order to enhance the procurement of raw material for the heavy and chemical industries, liberalising measures were proposed for imports. Nevertheless, the domestic opposition (*naiatsu* 内圧) and public opinion against any opening-up of imports had grown considerably, in particular from interest groups linked to 'infant industries' of the time (i.e. car and steel industries as well as SMEs) and from the politically-influential agro-lobby. Only in the 1970s with the start of the Tokyo Round of GATT negotiations, some customs tariffs came down and other measures of liberalisation were introduced. The subsequent oil crisis considerably reduced imports of consumer goods from Europe, even before the Tokyo Round further reduced import tariffs. However, chocolate, milk products and leather goods, which were of particular interest for European exporters, remained at a high level.

American analysts calculated in the early 1980s that about 60% of industrial products were hindered in their access to the Japanese market by NTBs, while the Japanese government simply denied the existence of such NTBs, even in their bilateral consultations with the EC. Since 1976, the Community had repeatedly requested the abolition of certain NTBs, for example, against imports of European cars, in the biannual High Level Consultations. When

official customs tariffs no longer sufficed to protect its economy's interests, Japan often had fallen back on non-tariff barriers to supplement or even replace formal protection. However, only in 1982, the Japanese government gave in to growing *gaiatsu* and admitted the inclusion of NTBs in the negotiations with its trading partners. Three years after its signing of the GATT Agreement on Technical Trade Barriers as a result of the Tokyo Round, and following the broad approach by the Community under Article XXIII of GATT to open the Japanese market, Japan saw itself obliged to change its policy. The EC conducted three rounds of consultations with Japan in 1982. On the basis of detailed written submissions that addressed amongst others specific testing and certification procedures for pharmaceuticals, cosmetics, agro-chemicals, veterinary medicine, cars, tractors, electrical appliances and plants, the Community claimed to have suffered disadvantages in trade under GATT and considered the relevant Japanese systems as measures which 'nullified or impaired its benefits' under the agreement. At the same time, in March 1982, the German *Bundesverband der Deutschen Industrie* (BDI) also presented a detailed study called *Administrative Import Limitations in Japan (Administrative Importbeschränkungen in Japan)* and thereby further substantiated the Community's claims for a 'de facto opening' of the Japanese market in most of those sectors.

However, based on their bilateral contacts and agreements prior to 1970 with individual Member States, the Japanese were all too well aware of divergent priorities among the main constituents of the EC. As the Japanese are highly conscious of the need for consensus in order to act effectively as a group in view of their own socio-culturally homogenous background, time and time again they applied tactics of *divide et impera* by playing one Member State's interests against those of the others. Thus the Community's endeavors to present a coherent approach on the basis of concrete proposals discussed with the Member States were often frustrated by the Japanese trying to split the EC into particular national interest groups. However, the growing internal cohesion of the Community as a supranational entity – especially *vis-à-vis* the surging flood of imports from the Far East, caused the Japanese to shift their preference towards negotiating solely with the Commission. The Japanese were also concerned that the EC would bring issues of market access before GATT panels, consolidating an international front against them and thus eventually isolating Japan in the multilateral trading system which originally had made the success of its export drives possible.

This fear, coupled with growing *gaiatsu*, led to the first major attempt by the Japanese government to reduce NTBs. Prime Minister Nakasone managed, in 1983, to amend seventeen specific laws referring to the recognition of certain foreign test data and the acceleration of procedures to implement the principles of the so-called *Gotoda Review*. Again, however, the Japanese initially

tried to satisfy their 'legalistic' Western partners by merely *de jure* exercises of amending the text of the seventeen laws to conform to the principles of the *Gotoda Review* of non-discrimination, transparency and internationalisation. Soon, European criticism grew louder again because the actual implementation of these principles was missing. The discrepancy was that of *tatema* (建て前, lit. public position or attitude as opposed to private thoughts) and *honno* (本音, lit. real intention), one that is frequently misjudged by outsiders. From then, the implementation of the *Gotoda principles* into actual practice by the Japanese public and private sectors remained an ongoing task for years to come.

Then, for the first time, internal criticism towards the excessive bureaucracy and even hints at the interests of consumers were aired, giving insiders hidden indications as to where *gaiatsu* and *naiatsu* could meet in unison. Next, the *Maekawa Report* of 1986 added macroeconomic arguments for opening the market. Nevertheless, even 'mighty MITI' occasionally fell victim to internal pressure to allow new NTBs to be created, like the embarrassing claim that "snow is different in Japan" in order to stem the surge of ski imports from Europe, or the absence of relevant domestic standards as a pretext to keep foreign wind turbines out of the market, although they would generate renewable energy without pollution.

On the one hand, increased expertise was required by the Community in each trade sector to convince the Japanese, who were putting up defenses with minute details on each issue. But on the other hand, once a case was clear, the internal lobby often ceded only to pressure from the highest political level, thus frequently involving Ministerial Consultations with the EC as they had to discuss curious particularities of Japanese politics. These issues ranged from 'overkill', (pretended for safety reasons in certain pharmaceutical tests, in many cases with animals), to counterfeits of famous European brands, often under the control of the *yakuza* (Japanese mafia).

In addition, problems of small 'mom'n pop shops' monopolising alcohol licenses to the detriment of imports for competitive large-surface supermarkets for wider consumption had to be discussed in detail at high levels, as did the almost impenetrable distribution system that blocked newcomers. Already in the comprehensive approach of the Community under GATT in 1982, the difficulties of the distribution system formed part and parcel of the closed nature of the Japanese market. They featured repeatedly and prominently on the list of complaints in the consultations. The Japanese distribution sector is complicated by a variety of unclear levels from the producer down to the retailer. This multitude of levels was connected through very personalised links of interdependence ranging from financial credit, return-sales and special rebates to direct control of vertical cartels (cf. *keiretsu* 系列, i.e. conglomeration of businesses linked by cross-shareholdings) and even monopolies of the commercial chain by producers. In

the mid-1980s, up to 500,000 wholesalers were themselves partly interlinked while selling to some 1.6 million retailers, half of which were mini-enterprises with staff of 4 persons or less. They narrowed down the distribution channels like capillary tubes and drove-up the prices of goods on sale, in particular for foreign goods in small and exclusive niches. These established dealers at various levels (about 2 million) had their vested interests well-represented locally as well as nationwide in conservative political circles and pressure groups, e.g. chambers of commerce, which then successfully fended off the expansion of competitive large-scale supermarket chains that could open up the mass market for goods imported from Europe. Hence, the number of big supermarkets and discounters reached only about 16,000 in the year 1989. The *Large-scale Retail Store Law* (*daikibo kouri tenpo hō* 大規模小売店舗法) has formed the main legal basis for this policy since 1974 when new supermarkets threatened to flood Japan and meet a need in the market aside of the established 'captive dealers'. As a result, the law was strengthened even further to serve MITI as an alleged legal basis for discretionary interventions into free competition on the retailing market, often under *gyōsei shidō*, in order to protect the barely competitive small retailers who often held decisive consulting functions in the relevant local fora supervising the opening of new supermarkets. The 75 administrative applications required for a new store allowed plenty of discretion by the bureaucratic authorities to discourage newcomers, not at least with the allocation of alcohol licenses, which were then received by only 10% of supermarkets and which significantly held down the sale of imported foreign wines, whiskies and cognacs. It was exactly this big chain of superstores that had the capacity to directly import European brands in quantities which allowed the leapfrogging of costly stages in the myriad of the distribution channels. At the end of the 1980s, with the emerging recognition that to compete internationally and meet citizens' demands, it had to start 'deregulation', or in its own understanding *kisei kanwa* (relaxation of regulations 規制緩和), of the 173 laws that regulated its economy at that time. Not by coincidence, the Japanese Fair Trade Commission had come forward with studies providing a careful critique against the vertical cartels and *keiretsu* restraining competition in the distribution system. However, the Large-Scale Retail Law remained aloof for many years from such attacks and stayed untouched as taboo and bulwark for the politically-influential small retail business, even under the auspices of the more rigid Commission for Administrative Reform at the end of 1988. The then growing criticism from the Americans and the Community, led MITI in June 1989 to come forward with a "Vision for the Distribution Industry for the 1990s" where it gave more positive consideration to streamlining the Japanese wholesale and retail trade into bigger units. This subsequently became a welcome *omiyage* for then Prime Minister Uno Sōsuke to announce at the Paris Summit Conference that his government would finally address the distribution sector as a structural problem of

the Japanese economy. Nevertheless, the wider issue implied here, namely the general tendency of the Japanese to cartelise and collude in numerous, often overlapping associations to exclude newcomers, often in violation of their foreign-influenced *Anti-Monopoly Law* (*dokusen kinsbi hō* 独占禁止法) was hardly investigated in the 1980s.

Toward the end of the 1980s, increasing and broader contacts at all levels between Europe and Japan helped to create a shift from an atmosphere of confrontation to one of more cooperation. The policy of the EC attempted a balanced approach through a combination of continuous pressure to bring down the remaining barriers to trade in the Japanese market, and through sustained efforts to develop, strengthen and diversify cooperative links. Political dialogue with Japan was therefore strengthened.

Despite these positive developments, the Community believed that its continued high trade deficit with Japan was a manifestation of a fundamental imbalance in their relationship. Overall foreign investment in Japan was extremely low: 1% of Japan's assets were owned by foreign-controlled companies in 1986, compared with 14% in the United Kingdom and 17% in Germany. In France, the dominance of foreigners was even greater. The insignificant overseas commercial investment in Japan became even more evident when it was realised that the largest part, namely US\$ 4 billion of this 1%, came from Kuwait alone.

Likewise, investment flows with Europe showed a persistent imbalance. Partly due to a general absence of administrative transparency, Japan invested much more in the EC than *vice versa*. Hence, the belief in Europe remained that exports to Japan were seriously hampered by obstacles to the Japanese market, mainly in the form of NTBs. The Commission therefore embarked on policies aimed at securing better access. Complaints from Member States and European industry had born witness to the difficulties that non-Japanese economic actors experienced in the Japanese market. These problems could be divided into two basic levels. The first level of obstacles was caused by technical and administrative barriers to imports. The second stemmed from the structural obstacles that prevailed in the Japanese economic system. The problems with regard to access for manufactured goods related mainly to NTBs. Discriminatory tariffs on imported products had mostly been eliminated by the end of the 1980s, with only a few remaining tariff peaks still imposed on products in which European producers were particularly competitive, such as leather and leather footwear, as well the processed food sector. Among the NTBs that affected European products, the most important were the phytosanitary restrictions imposed on fresh fruits and vegetables, and on cut flowers and frozen meats.

However, problems accessing the Japanese market also existed within the service sector, especially in legal and financial services. Registered foreign lawyers, for instance, were still prohibited from



employing or entering into a real partnership with a Japanese lawyer. This restriction made it difficult to provide badly-needed integrated legal services for the foreign business community in Japan. The issue of restrictions on foreign lawyers was taken up bilaterally by the Commission after 1986. It had also been raised in the framework of the Uruguay Round, which promised some improvements.

Other administrative problems persisted into the 1990s. The lack of transparency in the application of regulations – even after the *Gotoda Review* of 1983, which *expressis verbis* called for increased transparency – was often cited as a major obstacle. It remained difficult for outsiders to get a clear idea of which permits, approvals, registrations, and other requirements were needed for doing business in Japan. Nor were the required criteria to obtain these approvals – not to mention the length of time involved – made clear. This lack of clarity is a consequence of the elasticity of Japanese law: wide-ranging administrative discretion was still given to governmental ministries, and often took the form of unclear *gyōsei shidō* and informal consultation between government officials and industry. Although this regulatory apparatus generally resulted in impeding competition, it also added disproportionately to the transaction costs of less-familiar foreign companies.

A lack of transparency in was also evident public procurement. Experience regarding the procurement of satellites had shown that the fairness of treatment of European companies engaged in bids was at best questionable. The Commission had therefore requested that future procurement programmes be based on the principles of non-discrimination, transparency and open competition. Japan's restrictive bidding procedures effectively excluded foreign firms from many government contracts. This was especially true in the construction industry, where the practice of *dangō* (談合), or bid-rigging, was firmly entrenched.

Proposals to liberalise the financial services sector, as well as the various proposals aimed at improving and easing market access procedures, were also welcomed by the Commission. The measures considered, however, were far from comprehensive: Japanese regulation continued to inhibit imports in many areas, and the EC pressed for a further extension of the deregulation programme.

Structural obstacles remained the most important barriers to exporting or investing in Japan. The fundamental problem was the lack of effective enforcement of the existing competition laws in Japan. The EU had proposed that the Fair Trade Commission of Japan undertook studies in such sectors as insurance, distribution of chemicals, and agriculture.

Some aspects of Japanese business culture were fundamentally antipathetic to the functioning of the market. Japanese industry, for example, often relied exclusively on long-term relationships between buyers and sellers: this *de facto* discrimination made it

impossible for newcomers to break into the market. The close links within the *keiretsu* enterprise groupings were further cemented by cross-shareholdings, which imposed a major block against foreign mergers and acquisitions. Although some signs of the weakening of *keiretsu* practices of interlocking directorships and the like were seen already at the end of the 1980s, it was still very hard in the service sector, for instance foreign insurance companies, to compete on the basis of cost and efficiency since Japanese companies tended to buy their insurance services within the *keiretsu*.

The European presence in Japan has greatly contributed toward finding mutually beneficial solutions. Earlier; Europeans used two outlets to address market access problems in Japan: the bilateral diplomatic missions of their countries, and their respective Chambers of Commerce. In 1972, the German and Dutch chamber residents took the initiative to bring together the leaders of the EC chambers under the umbrella of a *Steering Committee* to discuss common issues and exchange experiences. These originally informal gatherings soon turned into serious meetings on highly-technical subjects and led to the establishment of sector-specific subcommittees designed to identify NTBs encountered in the Japanese market. Though official membership was limited from the very beginning to nationals from EC Member States, other Europeans were granted observer status. In practice, this meant that a few Swiss nationals were allowed to bring in their expertise, in particular in such sectors as banking and pharmaceuticals. The importance of the work of the subcommittees grew unmistakably, but increasingly the impression was that the Steering Committee limited its activities more and more to routine work; and the result was that it lost much of its attraction for its members. In these circumstances, the Dutch chamber again took the initiative. In 1983, it brought together the presidents of the chambers of equivalent organisations of EC countries in Japan to form the *European Business Council*. In 1986, a new constitution was drawn up – and subsequently amended in 1989 – to form the *Council of the European Business Community* (EBC Council). The stated aim of the EBC has been to promote, support and protect business interests, with the objectives to aid and encourage the development of trade and commerce with Japan and investment in Japan and the European Community. More specific was the work of the committees: from the very beginning, they have served as expert groups for the European Commission, and were increasingly recognised as such, especially by the relevant Japanese agencies. The EBC was in almost all cases supported by the European Commission and its Delegation in Tokyo, which has often paved the way for the EBC to access Japanese authorities.

The two-way flow of information between the diplomatic mission of the EU and the representatives of the EBC ensured a coordinated approach on NTBs to promote imports and investment into Japan. The EU Japan Centre for Industrial Cooperation forms an even

more direct link with European business, and was established by MITI and the Commission in 1986, with a base in Tokyo, and later a branch in Bruxelles.

Only following increased and broader contacts and consultations between the EC and Japan toward the end of the 1980s there was a steady shift from confrontation to cooperation. Since the Joint Declaration of 1991, trade conflicts no longer dominate the agenda between the European Union and Japan. Sustained efforts by both sides to develop and diversify cooperative links also have enhanced their political dialogue.

### 2.3 Recent developments of trade and FDI to Japan

Before gradually opening its market to trade and FDI, Japan's economic policies were driven by the fear of its vulnerability regarding a shortage of own commodities and energy resources and its dependence on foreign supply.<sup>9</sup> In order to protect local enterprises, it imposed high taxes, import restrictions and additional administrative procedures on foreign enterprises wishing to penetrate the Japanese market. These measures, and the fact that Japan was running trade surpluses *vis-à-vis* other countries, resulted in protectionism against Japanese products and thus obstructed a quicker growth of trade and deeper cooperation.

An Action Plan for Japan-EU Cooperation was introduced in 2001. Besides this, different dialogues such as the Regulatory Reform Dialogue were set up to facilitate market access and to strengthen cooperation.<sup>10</sup> Moreover, in 2010, the Japanese government concretely demonstrated its willingness to tackle NTBs. Issues such as information provided for government procurement, requirements for construction materials, quality standards for medical devices and the safety assessment of vehicles were addressed. Furthermore, the Government Revitalization Unit adopted regulatory reforms targeting NTBs in the field of automotive regulations, the wholesale of alcohol as well as food safety. Nonetheless, the European automobile sector especially has still expressed scepticism as to how far the intended reforms will be implemented.

Over the past decades, trade and FDI between the EU and Japan have developed positively and both are now important trading partners for each other. Nevertheless, bilateral trade and FDI fall short of the opportunities. Consequently, it was decided between the European Commission and the Japanese Government during the 20th EU-Japan Summit in 2011 to start the process for FTA

negotiations. The adoption of an FTA (or EPA, i.e. Economic Partnership Agreement) could reinforce trade relationships and help enterprises seize so-far neglected opportunities. An impact assessment undertaken by the Commission outlines the benefits an FTA could have on both economies: including growth in GDP, an increase in global exports as well as imports and a rise in labour demand and competitiveness.<sup>11</sup> Moreover, SMEs are expected to benefit, for example, from streamlined regulations and reduced administrative costs. Likewise, Japan's Growth Strategy of 2010 states that foreign competition could revitalise the country's economic growth,<sup>12</sup> thus recognising the Schumpeterian approach to trade.

Following a scoping exercise, the European Commission has recently recommended and asked Member States for a mandate to open formal negotiations with Japan. This was given by the European Council in October 2012, but without details of its underlying conditions. From an EU perspective, negotiations would particularly focus on the elimination of non-tariff measures and improvements in public procurement and are directly linked to the achievement thereof. An FTA would thus not only reinforce current relations, but contribute to the expansion of trade and FDI in the wider sense.

## 3. CURRENT OBSTACLES AND OPPORTUNITIES

Both economies are now highly developed markets and thus deeply involved in global trade and investment. Recently, the EU's exports to Japan have been negatively affected by the financial crisis.<sup>13</sup> In addition, current trade and investment flows are influenced by the fact that the Japanese economy is in the process of recovering from the aftermath of the earthquake, tsunami and the Fukushima incident of 2011. EU exports to Japan, worth €49 billion in 2011, mainly came from machinery, transport equipment, chemical and agricultural products.<sup>14</sup> In general, statistics show a downward trend in trade over the past 10 years. While exports from the EU increased by 3.8% in the period 2006-2010, exports of goods to Japan fell by 0.6% per annum.<sup>15</sup> Moreover, between 2000 and 2008, the share of exports from the EU to Japan declined from

11 European Commission (2012) *Commission Staff Working Document, Impact Assessment Report on EU-Japan trade relations*; [http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc\\_149809.pdf](http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149809.pdf).

12 European Parliament, Directorate-General for External Policies, Policy Department. (June 2012) *Policy Briefing, Trade and economic relations with Japan: assessing the hurdles to the FTA*. DG EXPO/B/PolDep/Note/2012\_243, PE 491.428.

13 Dr. Kim Moller & Jakob Bom (2011) *Opportunities for the internationalisation of SMEs, Background Document 1: International Trade Flows and Economic Development in Target Countries*.

14 <http://trade.ec.europa.eu/doclib/press/index.cfm?id=823>.

15 European Commission (2012) *Commission Staff Working Document, Impact Assessment Report on EU-Japan trade relations*; [http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc\\_149809.pdf](http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149809.pdf).

9 Werner Draguhn (1993) *Neue Industriekulturen im pazifischen Asien, Eigenständigkeiten und Vergleichbarkeit mit dem Westen*.

10 Dr. Kim Moller & Jakob Bom (2011) *Opportunities for the internationalisation of SMEs, Background Document 1: International Trade Flows and Economic Development in Target Countries*.

5.4% to 3.2%.<sup>16</sup> Similarly, a slight decline in the export of services can be observed. To some extent these developments can be explained by the emergence of other markets and their growing share in international trade flows. On the other hand, trade flows between the EU and Japan fall short of their opportunities because of remaining tariffs and particularly NTBs.

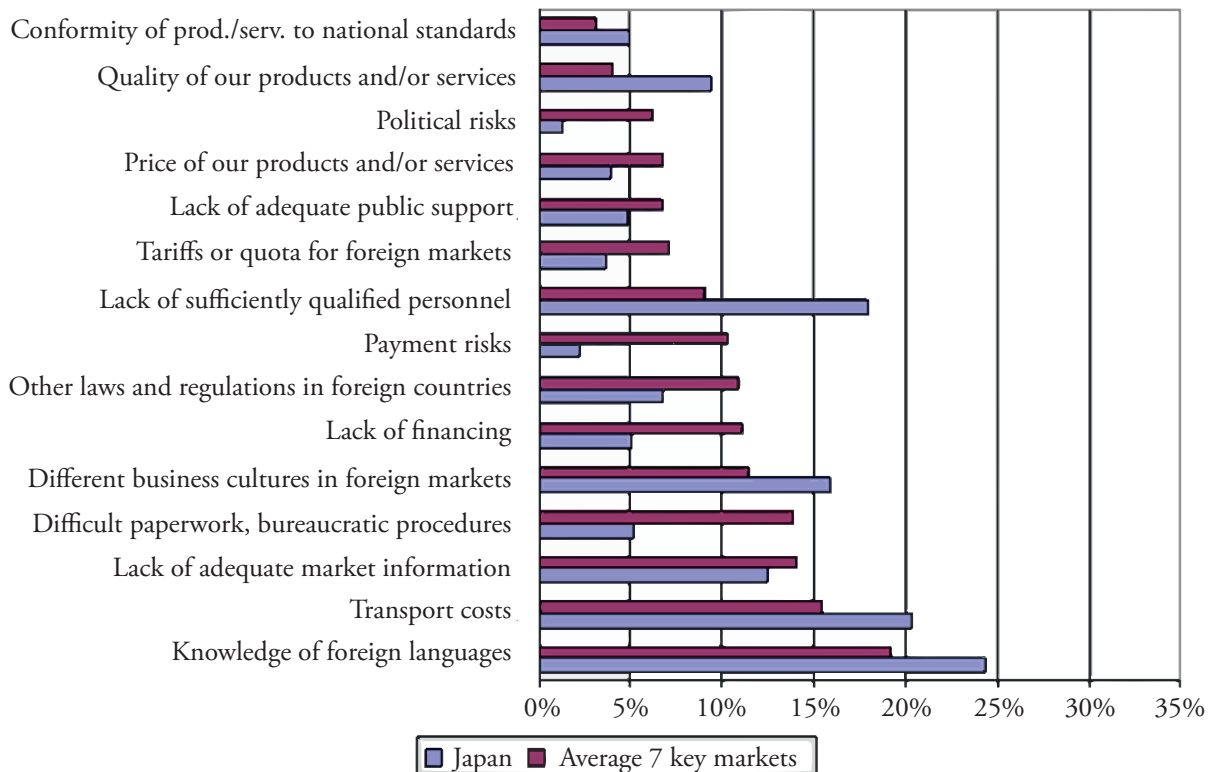
### 3.1 From tariff to non-tariff issues

The Japanese market is very lucrative for EU enterprises that can demonstrate a long-term commitment. It is the third strongest economy behind only the United States and China<sup>17</sup> and thus provides many opportunities for trade and investment. However, a public consultation recently carried out by the European Commission suggests that current tariffs, as well as NTBs, still limit those opportunities and lead to imbalances in trade and investment.<sup>18</sup>

When dealing with Japan today, NTBs and obstacles regarding the access to government procurement are considered as most obstructive. This partially results from the fact that, apart from a few exceptions in the automotive, IT and agricultural sector, tariffs between the EU and Japan are already low.<sup>19</sup> On the other

hand, many NTBs derive from the distinct national preferences of Japanese customers and cultural as well as structural differences which are difficult to tackle.<sup>20</sup> FDI, for instance, is affected by the prevalent Japanese reluctance to sell one's company and the fact that even among domestic enterprises, mergers and acquisitions rarely take place.<sup>21</sup> However, there are several common issues which could facilitate EU-Japan cooperation, for example the difficulties encountered by SMEs regarding generational changes, and the increased need for digital skills. Cooperation in these areas could provide solutions through joint-ventures and even mergers and acquisitions and direct take-overs of enterprises.

As can be seen in the table below, the main obstacles faced by SMEs in Japan are language barriers, transport costs and the lack of sufficiently qualified personnel, followed by differences in business culture, lack of adequate market information and the quality of own products/services. In addition, in each of the following categories, around 5% of the SMEs questioned consider different laws and regulations, national standards as well as difficult paperwork/ bureaucratic procedures and a lack of public support as barriers to market access.



Graph: Major barriers for Japan, percentage of SMEs<sup>22</sup>

16 *ibid.*

17 European Parliament, Directorate-General for External Policies, Policy Department. (June 2012) *Policy Briefing, Trade and economic relations with Japan: assessing the hurdles to the FTA*. DG EXPO/B/PolDep/Note/2012\_243, PE 491.428.

18 European Commission (2012) *Commission Staff Working Document, Impact Assessment Report on EU-Japan trade relations*; [http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc\\_149809.pdf](http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149809.pdf).

19 European Parliament, Directorate-General for External Policies, Policy Department. (June 2012) *Policy Briefing, Trade and economic relations with Japan: assessing the hurdles to the FTA*. DG EXPO/B/PolDep/Note/2012\_243, PE 491.428.

20 European Commission (2012) *Commission Staff Working Document, Impact Assessment Report on EU-Japan trade relations*; [http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc\\_149809.pdf](http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149809.pdf).

21 *ibid.*

22 European Commission (2011) *Opportunities for the internationalisation of SMEs, Final Report*. <http://ec.europa.eu/enterprise/policies/sme/market-access/>

An appropriate FTA could help remove some of these prevailing NTBs. The harmonisation of laws and regulations as well as the recognition of each other's and/or international standards would facilitate the reduction of bureaucracy, which in turn would greatly ease SMEs' market access. Furthermore, establishing transparency in procedures through 'trade facilitation' (also under the WTO) and an accelerated processing of registrations, licensing and approvals, could have a positive impact on future investment and trade flows. According to estimates by the European Commission, an FTA could increase Europe's exports to Japan by between 22.6% and 32.7% and result in considerable cost reductions which are presently caused by NTBs.<sup>23</sup>

### 3.2 Foreign direct investment from EU

European investments in Japan are currently volatile and mainly focused in the areas of telecommunications, car manufacturing, retailing and insurance. So far EU SMEs only play a minor role.<sup>24</sup> In general, the Japanese market is still considered as difficult compared to other OECD countries for FDI. Nevertheless, it is one of the major FDI markets for European enterprises and grew by 5.5% between 2007 and 2010,<sup>25</sup> albeit from a low basis. In the near future this growth could be enhanced by the changing requirements of Japan's society and consequently different economic priorities, notably in energy policy and environmental concerns. This in turn will bring about new opportunities for EU enterprises and innovative SMEs in particular, even taking the current Euro-crisis into account. In addition, the Japanese government has started to understand the necessity to further open up and expose domestic enterprises to international competition (Schumpeterian approach to trade) as well as to implement structural reforms in order to boost its economy.<sup>26</sup>

## 4. ASPECTS OF EU POLICY SUPPORT FOR SME INTERNATIONALISATION IN EAST ASIA: THE CASES OF JAPAN, CHINA, KOREA

Over the past few years, a variety of actions, programmes and networks which address the needs of SMEs when internationalising, have been established in Europe. These measures have been implemented at a local, regional, national as well as EU level.

files/web\_internationalisation\_opportunities\_for\_smes\_final\_report\_aug\_2011\_en.pdf.

<sup>23</sup> *ibid.*

<sup>24</sup> Dr. Kim Moller & Jakob Bom (2011) *Opportunities for the internationalisation of SMEs, Background Document 1: International Trade Flows and Economic Development in Target Countries.*

<sup>25</sup> European Commission (2012) *Commission Staff Working Document, Impact Assessment Report on EU-Japan trade relations*; [http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc\\_149809.pdf](http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149809.pdf).

<sup>26</sup> [http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/japan/index\\_en.htm](http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/japan/index_en.htm).

For example, alongside the Market Access Strategy, the European Commission has created Market Access Teams and a database providing information on tariffs as well as NTBs for key export markets. Likewise, the European Customs Information Portal facilitates access to market information. Moreover, the Small Business Act for Europe (SBA) called for further support for SMEs. A review of the SBA in 2011 highlighted the need for action by the Commission in areas such as the elimination of NTBs and market assistance.

While a network of private European Business Organisations provides support in more than 20 non-EU markets, the Enterprise Europe Network, with more than 600 partners, supports SMEs directly at the local level. In addition, the European Commission aims to deepen international cooperation of SMEs through research and innovation by means of the EU Framework Programme for Research. Furthermore, various specific programmes are run and financially assisted in the Asian region. Here actions range from the Indian European Business and Technology Centre, the IPR SME Helpdesk in China, the EU SME centres in Thailand and China and assistance for the EU Gateway and Executive Training Programmes in Japan and Korea. In addition to the support provided at EU level, a number of Member States offer various activities through their chambers of commerce, embassies and specific national programmes.

Given the variety of support measures currently in place and the resulting overlaps and existing gaps, a Communication published by the European Commission in 2011 states the need for increased efficiency, transparency, coherence and collaboration.<sup>27</sup> Hence, the Commission has set out a plan to analyse and map existing measures in cooperation with the Market Access Teams and Member States. This will also help in assessing the need for further actions and improve the overall visibility of programmes for SMEs. Moreover, the Communication sets out the need to improve the functioning of the Enterprise Europe Network and to establish a multi-lingual online portal which combines market and sector specific information with targeted information about available support programmes. In addition, the Commission has announced the promotion of export consortia which support cross-border cooperation by means of clusters and networks.

### 4.1 The Role of EU-Japan Centre for Industrial Cooperation

Rising trade friction in the 1980s led to a cooperative effort between Japan and the EU to establish a joint centre where concrete programmes of training and information on both sides would improve mutual understanding, and businesses would learn to mutually better exploit their chances in both markets. The EU-Japan Centre for Industrial Cooperation is unique in its set-up as a joint endeavour financed

<sup>27</sup> European Commission (2011) 'Small Business, Big World – a new partnership to help SMEs seize global opportunities'. COM(2011) 702 final.

by DG Enterprise of the European Commission and METI of the Japanese government, with its HQ in Tokyo and a branch in Bruxelles. Thus, unlike similar organisations recently set up and funded by the Commission in India, China, Thailand etc., it is co-financed and co-managed with the host country, i.e. Japan. Consequently, most of the staff at the HQ in Tokyo are Japanese locals and bring in their intimate knowledge and experience on the spot. Almost all the training and information programmes on offer are for free or at low-cost and notably target SMEs wanting to penetrate the Japanese market.<sup>28</sup>

#### 4.2 EU SME-Centre in Beijing<sup>29</sup>

For the fast developing and quickly changing Chinese market in particular; SMEs require specific and reliable information before being able to tap opportunities. The EU currently funds an SME centre in Beijing in order to facilitate SMEs market access. It works in partnership with Member States, chambers of commerce as well as industry associations and provides in-depth information on market entry, technical standards and human resources. EU SMEs can also access a vast database, specific guidelines as well as market reports providing professional expertise. Besides, in-house advisors are available for queries and advice. Additionally, the centre offers a conference and training room and organises trainings, workshops, seminars and networking events which can be tailored to specific needs. Furthermore, a temporary office space is available to all SMEs wanting to explore opportunities on-site and to develop an understanding of local business requirements. Hence, the centre offers a first contact point for many EU SMEs that are either considering of doing business in China or have specific queries related to their sector. On the other hand, as with almost all programmes and measures undertaken to support SMEs' internationalisation efforts, awareness campaigns are necessary in order to attract SMEs to the available opportunities and to draw their attention to these measures which already exist.

#### 4.3 EU-Korea FTA – any impacts for SMEs ?

After five years of bilateral negotiations between the European Commission and the South Korean Government, and additional months of procrastination by the European Parliament, a Free Trade Agreement, KorEU, was put into force in July 2011, even before the longer negotiated KorUS FTA. Although most of the tariff reductions and other benefits will only have an impact after several years, in the first nine months of its implementation, EU exports to South Korea had already increased by 35%.

Some studies have concluded that bilateral FTAs benefit big business rather than SMEs because of the latter's difficulties in dealing with the variety of rules in the FTAs (the so-called 'Spaghetti-Bowl'). Nevertheless, SMEs will certainly also profit from the

implementation of the KorEU FTA. In order to tackle the difficulties faced by SMEs, both sides are conducting seminars and information campaigns especially targeted at SMEs. To this end, Article 11.11 of the FTA allows such assistance by directly referring to SMEs and exempts them as recipients from the general prohibition of subsidies.

#### 4.4 The potential of a China-Japan-Korea trilateral FTA

There are still considerable differences in the political and economic situations of these three countries which affect EU SMEs' business with, and in, these countries. According to a study conducted in early 2011 before the Fukushima Incident, in terms of political freedom, China ranks by far the lowest amongst them and Japan hardly better than South Korea; similarly as for economic freedom in terms of security of property rights and regulation of credit, labour and business. However, as far as freedom to trade internationally is concerned, China enjoys the highest level among the three followed closely by South Korea and lastly Japan.<sup>30</sup>

Nevertheless, Japan, China and South Korea started feasibility studies to lay the groundwork for trilateral negotiations of an FTA amongst them in 2012, which could facilitate trade also for those EU SMEs established in any one of the three countries.

As pointed out, notwithstanding the reduction of some trade barriers through bilateral or even trilateral FTAs, their rules are only negotiated among these respective partners and are not the same and thus often require additional expertise which is mostly lacking with SMEs. Hence, the progress of the multilateral system under the WTO, or idealistically an omnilateral approach for common rules under global governance, would best serve SMEs worldwide.

## 5. CONCLUSION

There is no doubt that the Japanese market presents a huge untapped potential for the committed, diligent and performing European SMEs with a clear and long term business vision. There are many promising niche markets in Japan particularly suited for dynamic SMEs, ranging from the high-tech sector to the bio and gourmet food product markets. Thus, we conclude by highlighting only two of the most obvious sectors: the "Silver Market" and the service sector opportunities in Japan.

### 5.1 Japan's 'Silver Market'

Statistics demonstrate a trend towards a fast-ageing Japan, with 36% of the population expected to be 65 years or older in 2050.<sup>31</sup> As Japan faces

<sup>28</sup> For details see <http://www.eu-japan.eu>  
<sup>29</sup> <http://www.eusmecentre.org.cn/>

<sup>30</sup> For details see Freedom Barometer Asia 2011, by Miklos Romandy & Corinna Johannsen, Friedrich Naumann Stiftung Für die Freiheit, Bangkok 2011 ([www.freedombarometer.org](http://www.freedombarometer.org))

<sup>31</sup> James Brooke (2004) *Push-button nursing. A graying Japan counts on*

a declining and ageing population, demand will slow, while the costs of taking care of an ever-growing number of elderly people are expected to rise. These developments require not only the government to adapt its policies for the future, but also demand businesses to adapt their products and services. As a result of these demographic effects, Japan will have to reinvent itself and increase productivity as well as efficiency, notably in the service sector, in order to sustain and create new growth.

Companies, for their part, have discovered that customers over 50 years are a new profitable target group with a great market potential. The so-called ‘Silver Agers’ are, despite the effects of the financial crisis, able and willing to spend money on entertainment, convenience and other services. However, they demand high quality products and services. Due to the fact that the Japanese market was, and still is, highly protected by government measures, available products and services available differ from the wants and needs of customers. Clark and Kay argue that Japanese industries such as health care, housing, information technology, agriculture and financial services are underserved, of low value and provide little convenience.<sup>32</sup> Furthermore, it is argued that an uncompetitive economy such as the Japanese economy negatively affects customers’ choice as well as overall efficiency and effectiveness of productivity.<sup>33</sup> Currently customers are often deprived of choice between offers as well as access to latest equipment, treatments and personal care. In addition, they are exposed to higher prices due to a lack of local competition.

European enterprises, and in particular innovative SMEs, could fill these gaps and provide the Japanese markets with the required know-how, progress and productivity gains. Additionally, enterprises could bring about change in market access by establishing good relationships with Japanese customers, who in turn, will demand easier access to better products and services. Above all, EU SMEs benefit from a competitive advantage in the areas of health care, renewable energy and bio-food given their experience and in-depth expertise. Moreover, SMEs are a source for innovation and growth given their flexibility and ability to adapt to changing market requirements. Provided they are given the chance to access the Japanese market without burdensome tariffs or NTBs, Europe’s and Japan’s economies as well as customers will benefit from their entrepreneurial spirit.

## 5.2 Service sector opportunities in Japan

A recent study<sup>34</sup> confirms the weaknesses of service sectors in Japan. The general share of services in the value-added of the Japanese economy in 2010 reached only 73%, while in France services contributed 80%. In communication, finance and business services in particular, the share

of value-added of Japan is lagging far behind for instance France where the percentage grew from 18.9 in 1990 to 22.0 in 2010. During the same twenty years, the sector’s share in Japan increased only from 13.6 to 17.2 %. The Japanese media admit and report that the strength of European banks in Asia is a reason for Japanese banks cooperating with other Asian financial institutes in order to enhance their business chances.<sup>35</sup> Hence, in conclusion one has to emphasise that it is mainly in the service sector, which now covers almost three quarters of the economy of Japan and keeps growing, where European SMEs with an appropriate long-term strategy can successfully benefit from the still huge potential of the Japanese market, following the title of the book by Clark and Kay “*Saying Yes To Japan*”.<sup>36</sup>

### About the Authors

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Before joining the European Commission, Wolfgang Pape worked as Advisor and Speech-writer at the Japanese Embassy in Bonn. Until 2001, he was in charge of external relations at the ‘Cellule de prospective’ of the President of the EC and contributed to the White Paper on Governance. Previously he coordinated cases of anti-dumping and served the EC as diplomat in Tokyo in the 1980s, where he co-managed the EU-Japan Centre for Industrial Cooperation while posted at the EC Delegation as First Councillor from 2004 to 2008.

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robotic care. The New York Times.

32 Tim Clark and Carl Kay (2005) *Saying Yes To Japan. How outsiders are reviving a trillion dollar services market.*

33 *ibid.*

34 „Developing the Services Sector as Engine of Growth for Asia“, Marcus Noland, Peterson Institute for International Economics, Washington, Working Paper Series WP12-18, October 2012

35 Amongst others NHK World Services Radio (in Japanese) on 14.10.2012 announced a conference in Singapore for Japanese bankers to expand and improve their cooperative efforts with banks in ASEAN in view of strong European presence in Asia.

36 See footnote 28

ARTICLE 2

# REFLECTIONS ON EU-JAPAN TRADE AND INDUSTRIAL RELATIONS – OPPORTUNITIES FOR SMES

By Jacques Dupouey

The objective of this paper is to analyse the current situation/landscape of European SMEs doing business with/in Japan with a view to designing the most appropriate support schemes for SMEs, taking into account the specificities of the Japanese market. The thoughts expressed in this paper should be considered in the context of the debate preceding the opening of EU-Japan negotiations for an FTA agreement.

As explained in the Call for Tenders No 146/PP/ENT/2012, “*Multiple framework contract with reopening of competition to provide economic analysis in support of SME policy*” issued on May 2, 2012, “the European Commission has developed and implemented a range of policy measures to assist SMEs in Europe. These policies are aimed at creating the conditions in which small firms can grow and creating more and better jobs, it will be SMEs which play the biggest role. In particular, SMEs are responsible for much of the innovation which leads to new higher value products and services (even if ultimately larger firms may take on production and mass marketing of such innovations). ... Member States have also committed themselves to develop an SME-friendly business environment. A particular strength of action at EU level is to enable Member States to learn from each other’s experience in designing and implementing policies by benchmarking best practices.”

The trade and investment relationships by/between an estimated 23 million SMEs are important within the European Union. But they are also important with other countries, in particular the United States, Japan and BRICs and creating a friendly business environment with SMEs located in these countries must be properly considered.

According to government estimates<sup>1</sup>, there are 4,190,719 small-to medium-sized enterprises (SMEs) in Japan, accounting for 99.7 percent of all enterprises. Under the new framework for supporting SMEs in overseas business established in June 2011, the Japanese Government aims to support their overseas expansion by, among other measures, setting up 50,000 business deals between Japanese SMEs and foreign companies.

Europe is currently Asia’s largest trading partner and ASEAN’s largest export market (with a total bilateral trade in 2009 amounting almost to €170 billion).

Japan is on the brink of entering an economic downturn due to the slowdown of economies abroad and the super-strong yen. The country will be required to take additional measures to stimulate the economy and to get out of deflation. It is also important to consider the fact that these grave economic issues have recently been exacerbated by factors outside of the nation’s control.

Despite the devastating Tohoku earthquake, tsunami, and nuclear crisis of March 2011 with large-scale destruction of communities and property, and the contamination of land, despite the relative continuous decline of the country since the last decade and decrease of shipments to Europe since the beginning of 2012, despite the evident insecurity and pessimism surrounding this situation, despite the high value of the yen and also despite the stark contrast in the way of thinking between Japan and European member countries, Japan remains an attractive investment destination where European

<sup>1</sup> Report on Implementing the OECD Anti-Bribery Convention in Japan, Dec. 2011

SMEs should look for more opportunities. The context of socio-economic crisis does not negate the fact that Japan is still attractive for European companies, in particular SMEs. Why can we say this?

Many factors must be highlighted:

*Japan is a country with a well-educated and industrious workforce.*

*The level of corruption is rather low in Japan according to World Bank and International Transparency institution rankings.*

*Japan has a strong research and scientific base.*

*Japan has still a relatively high level of savings.*

*There is a high potential in the tourism industry.*

*The health system is very good and life expectancy is among the highest in the world.*

*With a rapidly aging population, appropriate support services are very much needed in this country.*

*Japanese citizens have a great sense of community.*

*There is a strong need/demand for developing foreign language skills, mostly English, and European SMEs can certainly respond to Japanese needs in that field.*

*Special Economic Zones have been created, in particular in Tohoku Japanese central, prefectural and municipal governments, to create a more business-friendly environment (tax incentives, favorable regulatory environment for recruiting employees). There is an appealing tax environment for foreign investors, especially for European SMEs.*

*Since the Fukushima catastrophe, Japan has had no other choice but to substantially explore alternative sources to nuclear energy (Japan is a nation rich in alternative-energy potential, including wind, solar, hydro, geothermal and ocean); this is certainly an area of ample opportunities for cooperation with European SMEs.*

*There are quite low taxes in Japan (only Korea, Mexico and the United States of America have lower taxes in the world; only corporate taxes are higher than those in the USA or Europe).*

How can European Small and Medium Enterprises ensure the best chance of success in Japan? What can they do to contribute towards reinventing and revitalising the world's third largest economy, society and policy?

As pointed out by Glen S. Fukushima <sup>2</sup>“Newcomers and outsiders are disadvantaged in most markets, but in Japan this is magnified by the tendency to value stability, continuity, predictability, precedence and long-term relationships.” Programmes such as ETP (Executive Training Programme), which have the potential to introduce key aspects of Japanese culture and society and business practices, should be reinforced and tailored to accept more candidates, including consultancy firms with proven knowledge of Japan's culture or interest in doing business in Japan or with Japanese companies. The programme should, in particular, promote internships in Japanese companies aimed at developing joint projects with European SMEs.

A similar initiative to the EU SME Centre in China which opened in November 2010, could be developed to provide better guidance for European SMEs willing to export to or invest in Japan and its Asian trading partners.

To support European and Japanese SMEs (with a turnover from 10 to 200 millions €) in their growth and internationalisation, Europe and Japan should also create investment funds in the following strategic sectors: infrastructure, environmental products, medical services, robotics, space, defense and cultural industries. Those investment funds should not however, be aimed at acquiring stakes in Japanese or European companies.

On both sides of the planet, SMEs need to become more globally competent and these investment funds should contribute to the improvement of the global skills of the workforce and the hiring of foreign talents.

On its side, Japan should further eliminate its non-tariff barriers which are particularly burdensome in the fields of, (but not limited to), finance and medical equipment devices.

It is likely that Japanese companies will need to decide whether to modify their global production chain to capitalise on the benefits of EU – Japan FTA tariff reductions. Since the FTA is likely to require local processing and delivery by manufacturers to comply with rules of origin, Japanese companies will need to produce EU-bound items domestically.

Action should be taken to avoid misunderstandings and confusion on the part of SMEs due to differences between the EU and Japanese coding systems.

There is no doubt that the services sector in Japan is a new area of growth. European and Japanese SMEs could jointly develop innovative solutions to cater for the demands of an aging population. Since Japan has the highest number of people in the older age group, there are opportunities to test-drive new innovations, such as those in the health and financial

<sup>2</sup> Removing Barriers to Trade, Investment and Business, East Asia Forum Quarterly, July-Sept 2012



sectors, insurance products and indeed other services. There is also a significant demand for financial services and financial innovation to provide better returns for surplus savings. Japan should create more soft power, such as in multilateral settings, and support all activities that increase its communicative power, including improving presentation and persuasion skills.

It is good that Japan has adopted the “Cool Japan” export strategy: Japan’s cultural exports are valued at ¥4.6 trillion a year, according to government figures<sup>3</sup>. Most of that comes from singing groups, *anime* and manga, plus other pop-culture products. The government is said to be seeking to increase those profits to ¥11 trillion by 2020.

The Japanese government’s encouragement of small businesses and helping them to move abroad is a positive step. But that process should also be about exporting Japan’s powerful traditions, genuine craftsmanship and uniqueness of artistic expression.

The language of international trade is English. Many Japanese think that in their country, education should be much more tailored to individual students’ aspirations and apprehensions and vigorously designed and implemented. For that purpose, a sizable number of its citizens should be able to use the English language. The *lingua franca* for the 21st century should be acquired and used at ease in Japan. For that purpose, immigration must be encouraged.”<sup>4</sup> Foreign enrollment at universities, in particular of students who are likely to be multicultural and multilingual, has started to be promoted in some Japanese universities outside the major Japanese cities, in particular at Ritsumeikan Asia Pacific University in Beppu, Oita Prefecture. Academic programmes and “*eikawa*” (English conversation) classes, held completely in English with native English teachers, are also being progressively developed in Japanese universities, junior high and high schools, as well as in a few kindergartens, but they should be reinforced in the near future. There is high potential in that field.

Interestingly, the University of Tokyo initiated a four-year all-English degree in 2011-2012. The shift toward more internationally-minded campuses in Japan should be accelerated, with strong support from the Japanese government.

Some private companies such as Rakuten Inc., the famous Japanese internet shopping-mall operator, have recently launched what they call “Englishnization” projects to introduce and promote the use of English-language in internal emails, documents and cafeteria menus, and during internal meetings,

<sup>3</sup> Exporting “Japanland”, The Japan Times: Sunday, June 10, 2012

<sup>4</sup> Japan in Search of a Grand Strategy, by Takashi Inoguchi, Asia Times Online, 27 March 2009

even when meeting participants are all Japanese. Such kind of initiatives should be widely promoted among Japanese as well as European SMEs involved in international trade relations and committed to export and/or import activities with respective government support.

As part of its push to expand Japanese business abroad, the Japanese Government established a new “Framework for Supporting SMEs in Overseas Business” in June 2011, led by the Ministry of Economy, Trade and Industry’s (METI) Small and Medium Enterprise Agency (METI, “Establishment of the Framework for Supporting SMEs in Overseas Business: Comprehensive Assistance to SMEs Advancing into Overseas Markets”, June 2011 ([http://www.meti.go.jp/english/press/2011/0623\\_01.html](http://www.meti.go.jp/english/press/2011/0623_01.html)); METI, 2011 White Paper on Small and Medium Enterprises in Japan, July 2011 ([http://www.meti.go.jp/english/press/2011/0701\\_04.html](http://www.meti.go.jp/english/press/2011/0701_04.html))).

It is recommended that a joint EU-Japan Committee meets for annual discussions about the follow-up of the implementation of such a framework.

What kind of policies and programmes should the EU and the Japanese should implement in support of SMEs’ internationalisation?

We can only make some suggestions, such as developing additional programmes to:

Identify and encourage joint ventures and collaborations in third countries, in particular in “green business” or disaster risks and rescue (in Africa and Asia), so as to capitalise on each side’s complementary strengths.

Enhance knowledge-sharing and education in support of energy-smart, low-carbon communities and earthquake disaster management;

Facilitate foreign communities’ acceptance in Japan: the Japanese government should consider further welcoming messages towards foreign residents and workers so that the latter feel more affinity towards the Japanese nation, and better integrated into it in the long term.

Current trade between European countries and Japan remains below its potential and is therefore failing to help stimulate commercial relationships and investment growth.

In several European countries, in particular in France, memories of the ‘Japanese Challenge’ of the 1980s are still very much alive.

An annual study of major characteristics of Japanese ODI in European countries and *vice versa*, in terms of function, sector or mode of entry, should be made available online. A listing of major acquisitions made every year in Europe by Japanese

companies or by each European member state in Japan should also be published with the following minimum information: Acquirer - Acquired - Activity - Year – Participation.

On both sides, the government should provide market information to SMEs so that they can enter into public procurement and private brand markets.

The world needs a dynamic Japan and a dynamic Europe. A well-negotiated mutually beneficial and thoroughly implemented EU-Japan FTA should certainly contribute to such dynamism.

### About the Author

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ARTICLE 3

# SUPPORT FOR SMES ON THE PATH TO INTERNATIONALISATION

## AN ASSESSMENT OF EC POLICY

By **David Smallbone**

### 1. INTRODUCTION

In view of the fact that 85% of the new jobs in the EU between 2002 and 2010 were created by SMEs<sup>1</sup>, it is not surprising that Europe's policymakers are looking for opportunities to exploit the dynamism within the sector to the wider benefit of EU society. The share of new jobs is considerably higher than the 67% share of total employment in SME's. Moreover, the average annual employment growth rate of 1% was double than that of large enterprises over this period. In this context, seeking to promote and support the economic activities of SMEs outside the EU is viewed as part of the EU's approach to competitiveness. Since the EU needs to find new sources of growth to provide employment and wellbeing for EU citizens, there is a simple logic in encouraging SMEs to look to the most rapidly expanding global markets for future business growth. The fact is that recent survey evidence shows that only 13% of EU SMEs have been internationally active outside the EU through trade, investment or other forms of cooperation with foreign partners, with the 25% that have been internationally active within the single market. Superficially at least, this would suggest significant unfulfilled potential within Europe's SME sector for increasing the level of involvement in foreign markets outside the EU. At the same time, the point needs to be made that this potential is certainly substantially less than it might appear at first sight, because of the large number of small firms that are tied to local markets and where business owners do not prioritise business growth. That is not to say there are not opportunities for market growth, but rather that these opportunities should not be exaggerated.

Before turning to the main focus of the paper, there are two definitional issues that need to be addressed. The first is

internationalisation, which has been described as the process of increasing involvement in international operations<sup>2</sup>. Exporting typically attracts the most attention from policymakers although internationalisation is much wider than this and includes import activity, such as the supply of parts and components, and foreign investment. The point to stress is that the type of support SMEs may need is affected by the way in which they are internationalising. Compare for example an SME seeking to export to China or India for the first time with another SME that is looking for new suppliers. Internationalisation can be achieved through a variety of international market entry and development modes, which include, amongst others, direct and indirect exports, licensing, franchising, international subcontracting, joint ventures, strategic alliances, mergers and acquisitions and the establishment of wholly owned subsidiaries in foreign markets. From a policy perspective, the choice of method used to enter a new market can have different implications for the home economy, including direct effects on employment. In this regard, policy support for exporters may be easier to justify than assisting European SMEs to set up subsidiaries in foreign markets since the direct employment effects will occur in the host economy. At the same time, the principle of specialisation based on the law of comparative advantage suggests that support for a more broadly-based concept of internationalisation may be justified if it is part of a strategy of shifting resources from lower to higher value-added activities.

The progression from home-based internationalisation modes (e.g. exporting) to overseas production modes and from non-direct direct investment require increasing resources and involves higher risks. Differences may therefore be observed between large and small

1 DG Enterprise and Industry newsletter, 16 January 2012

2 Bell J, Crick and Young S . (2004). Small firm internationalisation and business strategy], *International Small Business Journal* 22, 1, 23-54

enterprises in their approach to internationalisation. SMEs are more likely to supply their international markets from domestic production bases through direct and indirect export activity and sales/service subsidiaries. This helps to explain why the bulk of the literature on SME internationalisation results from exporting research.

This leads to the second definitional issue, namely SME, which may surprise some people given the apparent simplicity of using the numbers employed, supplemented by financial resources to distinguish SMEs from large enterprises on one hand and micro-enterprises (or very small firms) on the other, although in practice micro-enterprises are often viewed as part of the SME sector. Whilst the simplicity of these size classes makes them administratively convenient, they are not ideal in relation to support needs of businesses and how best these support needs may be addressed. More specifically, because the term SME includes businesses employing between 10 and 249 people, there is considerable variation within this category in characteristics that affects both support needs and how best the support is effectively delivered. Compared with small firms, medium-sized enterprises are more likely to benefit from a managerial division of labour; a higher propensity to employ professionally qualified managers and a larger and more diverse financial resource base. Whilst they may also share some common characteristics with small firms, such as behavioural features that stem from an overlapping or coalescence of ownership and management, some of the other characteristics described affect their ability to receive and implement external assistance. In other words, in the field of business support, one size of cap does not fit all. As a result, there must be flexibility on the supply side to accommodate this diversity, both in designing programs but also in terms of how they are delivered.

The rest of the paper is divided into three main sections. The first considers what support SMEs need with regards to internationalisation. The second reviews the support currently available at an EU level and third considers the EC communication issued in 2011<sup>3</sup> which sets out the future EU approach. This is followed by a conclusion.

## 2. WHAT SUPPORT DO SMES NEED?

Clearly the support needs of SMEs with respect to internationalisation relate to the reported barriers they experience, as well as the underlying strengths and weaknesses of the firm. A recent communication from the European Commission prioritises access to market information, locating

3 EUROPEAN COMMISSION (2011) COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS 'Small Business, Big World, Brussels, 9.11.2011 COM(2011) 702 final

possible customers and finding the right partners. In addition, it is suggested that SMEs face more complex issues such as compliance with foreign legislation, managing technology transfer and protecting intellectual property rights. Whilst these issues are also experienced by many large enterprises, SME face more challenges in dealing with them not least because their smaller size offers less scope for the employment of specialists and managerial division of labour.

As mentioned above, most of the existing literature on the international activities of SMEs relates to exporting. One of the main themes in this regard has been characteristics of exporters and the problems they face at different stages of export development. The latter can be important because it affects the nature and extent of the experience a SME has in dealing with such issues. More generally it emphasises the need to recognise the variety of needs and the importance of avoiding a 'one size fits all' mentality. Nguyen, Ghatak and Daly (2006), for example, stressed the need to include both internal and external characteristics, pointing out that most empirical studies of SME exporting tends to emphasise internal factors, such as a firm's structure, operations and decision making.<sup>4</sup> Similarly, Gurrieri and Petruzzellis (2008) emphasise how a SMEs export performance is affected by its structural and organizational characteristics.<sup>5</sup> Lautanen (2000) explores the relationship between the decision maker's age and language ability, and export performance.<sup>6</sup> In this regard, Knowles et al (2006)<sup>7</sup> show that language skills make indirect contributions to international business success, which is more useful than their direct contribution to communications. In contrast, few studies investigate the importance of networks on exporting, although Tomiura's (2006) study shows that export feasibility is also enhanced by inter-organizational relationships which create human contacts.<sup>8</sup> Nassimbeni (2001) reveals that SMEs' participation in consortia positively impacts on their export performance.<sup>9</sup>

The point to stress is the variety of obstacles that SMEs may be confronted with at different stages in their internationalisation, including, but not confined to, the initial stage. One of the more robust frameworks for analysing these barriers is that of Leonidou (1995), who defined export barriers as '*all those attitudinal, structural, operational and other constraints that hinder a firm's ability to initiate, develop or sustain international*

4 Nguyen, Ghatak and Daly (2006),

5 Gurrieri and Petruzzellis (2008)

6 Lautanen (2000)

7 Knowles D, Mughan and Lloyd Reason (2006) Foreign language use among decision makers in successfully internationalised SME, Journal of Small, Business and Enterprise Development 13,4,620-641

8 Tomiura (2006)

9 Nassimbeni (2001)

operations'.<sup>10</sup> In an extensive review of export barrier research, Leonidou identified four main sources, each of which is briefly summarised below:

**Internal domestic**- these are barriers that emanate from within the firm and relate to the home country environment. They include a lack of export marketing capacity, reflected in few staff with the requisite knowledge and experience of dealing with export marketing. It can also include a lack of expertise in dealing with foreign government regulations, negative perceptions of the risks involved and management emphasis on developing domestic market activities.

**Internal foreign**- these barriers also arise mainly from the firm's limited marketing ability and experience in the foreign market environment. For example, if modifications are required to meet safety standards or customer specifications, this can be enough to inhibit some SMEs from exporting because of the initial investment required. Other examples include the provision of technical and repair facilities.

**External - domestic**- these barriers emanate from the SMEs domestic environment and are typically outside its control. The most commonly cited examples include the large and complex documentation that is required in some foreign markets, although this is an area where effective policy intervention can help to reduce the barrier effect.

**External foreign**- these barriers are external to firms operating in international markets. They include the effects of decisions made by foreign governments that can affect, for example, exchange rates, and tariff and non-tariff barriers. However, equally important for SMEs are the effects of language and cultural barriers, which some form of cooperation agreement with the foreign enterprise, for example, may help to overcome.

Leonidou's framework draws attention to the variety of challenges facing SMEs seeking to enter and exploit foreign markets. It draws attention to the role of external influences and internal firm characteristics but also draws attention to the role of the domestic environment in influencing the extent to which a firm is challenged when seeking to exploit foreign markets. In addition, it implicitly recognises the role of a firm's previous experience in foreign markets. Just as the support needs of an SME varies at different stages of business development, so are their support needs with respect to internationalisation affected by the stage of internationalisation reached.

By drawing attention to the respective roles of the domestic and foreign environments, we are implicitly acknowledging the role

of context, which is increasingly recognised as an important theme when analysing any form of entrepreneurial behaviour. Rather than taking external conditions as a given, location is a key element in the context in which the firm is operating. In general, SME internationalisation tends to be greater in small open economies than in larger, more self-contained countries. In Ireland and Finland for example, the small domestic markets mean that growth-oriented, niche-focused producers need to export almost from day one if their growth ambitions are to be achieved.

A simple point that is often forgotten is that for the individual firm, exporting must be profitable if it is to be sustainable. Whilst this may seem obvious, it is not always emphasised. It results partly from the ways in which some small firms get drawn into exporting (such as through unsolicited enquiries), but more importantly because of their failure to fully assess the resource implications which can impact on the rest of the business. Export activity in SMEs in particular must be seen within the context of the total activity of the firm. This is necessary if it is to be underpinned by adequate resources (particularly management capability, capacity and commitment), in order to ensure that foreign market development does not result in negative impacts on other aspects of business activity<sup>11</sup> (Wyer and Smallbone 1999). While in many instances export activity may be derived initially from the adaptive capability or opportunism of its management, it can be argued that sustained and profitable exporting depends on the firm's ability to successfully develop its export effort without adversely affecting other activities by over committing resources or by exposing the firm to excessive risk.

This emphasis on the need for exporting to be profitable if it is to be sustainable may be used to promote the potential benefits that an SME can gain from seeking out expert advice to support its export effort. At the same time, it can also be used to draw attention to the different perspectives of the public policymaker and the SME owner. For example, in a 20 page communication from the EC, the word profit does not appear once. Public policymakers are increasingly looking to SMEs to export because of the potential welfare gains for the economy and society as a whole. Not surprisingly, most SME's have different objectives.

Of course, the European Union is not alone in 'banging the export drum', because of the potential gains of growth in the economy through the generation of external income and the associated multiplier effects. But from an SME perspective, exporting must be profitable and it is a message that one hears infrequently from the policy community. The issue is a real one because of the variety of circumstances in which SMEs can enter foreign markets, often in an unplanned way. Some SMEs may have found themselves in international markets whilst lacking a strong motivation for being there. Such firms may have entered foreign markets accidentally

<sup>10</sup> Leonidou (1995) Empirical research on export barriers: review, assessment, and synthesis, *Journal of Industrial Marketing* 3, 1, 29-43

Wyer P. and Smallbone D. (1999) 'Export Activity in SMEs: a Framework for Strategic Analysis', *Journal of the Academy of Business Administration* 4, 2, 9-24

<sup>11</sup> Wyer and Smallbone (1999).

reacting to unsolicited foreign orders. The priority in terms of business support in these cases is to help with business planning including the provision of appropriate management information, in order to ensure that the export markets are exploited profitably and thereby enhancing the overall performance of the business.

### 3. WHAT SUPPORT IS CURRENTLY PROVIDED FOR SMES?

The support offered by the EU to SMEs for internationalisation is only part of the total support available. Most countries offer support at the national and often sub-national levels, although the budgets allocated to this vary enormously. Some support measures may be classified as direct in that they are specifically designed to support international activities or businesses, whilst others may be considered indirect in that they focus on enhancing the overall competitiveness of SMEs, rather than on internationalisation *per se*. In many ways the latter may be considered more important because the former are assisting firms to exploit their potential competitiveness on international markets whereas the latter are seeking to assist firms in achieving competitiveness

Direct support measures range from raising awareness of opportunities, market research, support for export preparation, foreign market entry, to export market development and expansion focused activities. These measures have been classified by Crick and Czinkota (1995) into export service programs, such as seminars for potential exporters, export consultancy and export financing; and market development programmes, such as dissemination or sales leads to local firms, participation in trade fairs and preparation of market analyses.<sup>12</sup> Much of the direct support is delivered in the home territory, with inputs from commercial attaches attached to foreign embassies although in the case of larger EU countries there is considerable additional support available from private sector institutions such as Chambers of Commerce.

Indirect assistance essentially comprises economic infrastructure which can be hard (e.g. financial, tax and machinery leasing) or soft (e.g. training advice and information). In combination, programs of direct and indirect support might include access to information about foreign markets; some forms of financial assistance (e.g. export credit or foreign investment guarantees, grants and subsidies; advice and assistance aimed at upgrading management competence, sometimes involving specific help with R and D and technology; a better business environment by facilitating networking, and simplified one-stop shop assistance.

The existing measures at an EU level designed to support European SMEs to benefit from the growth of markets outside the EU may be divided into a number of categories:

<sup>12</sup> Crick and Czinkota (1995)

Infrastructural support, including the Enterprise Europe Network which claims more than 600 local partners worldwide. The rationale is to enable SMEs to find guidance on their doorstep when seeking to go international. The principle is a sound one although its effectiveness in practice depends on whether or not the local Enterprise Europe partners are organisations that local SMEs look to access support.

Market access strategy, which is based on a partnership approach between the EC, member states and the European business community. The aim is to lobby foreign governments to address trade barriers experienced by European SMEs. The market access database is a tool used as part of the market access strategy to provide information on tariffs and important non-tariff issues.

The European Customs Information Portal which provides practical information to prospective traders as well as e-learning tools and online databases.

Financial support for the SME centres in Japan, Korea and China (IPR SME help desk). The EU also supports a network of 20 private business organisations operating in different markets varying in their purpose and in services provided by sharing a common focus on helping mainly SMEs.

Financial support from the European Parliament has been used to set up Centres in India, China and Thailand, with an objective to provide comprehensive services for European SME in non-EU markets

Clearly, in developing a strategy for supporting the internationalisation of European SMEs, the European Commission is not starting with a clean slate. There is already a substantial infrastructure in existence, some of it provided by the EU, but much of it financed by individual member states, particularly the larger countries. This raises questions of possible overlap on the one hand and gaps in provision on the other, although the support is provided by a multiplicity of organisations many with different national interests.

A recent study for the European Commission identified more than 300 support programs aimed at assisting business internationalisation in the EU and its member states, although the effectiveness of many of these appeared limited<sup>13</sup>. Whilst the European Commission was required to take into account existing provision when formulating its current policy, existing measures are largely outside its control. The fragmentation of business support measures is recognised as a problem in a number of European countries (including the UK) not just because of possible inefficiency in resource allocation, but also because fragmentation hinders SMEs finding the help they need even where it is available.

<sup>13</sup> European Commission (2010) The Internationalisation of European SMEs, Final report, Entrepreneurship Unit, Directorate-General for Enterprise and Industry, European Commission B-1049 Brussels

Despite the apparent comprehensiveness and overall appropriateness of the policy measures available, empirical findings on the level of awareness, usage and satisfaction with these programs has generally been negative<sup>14</sup> (Ibeh, 2006). The EU Communication recognises that some internationalisation support measures are more effective than others. Significantly, it also recognises that the large number of measures and bodies active in this field actually contribute to a situation where SMEs find it difficult to identify and make use of the assistance that is actually available. It is also encouraging that the EU recognises the importance of cost-effectiveness in the delivery of publicly funding support programs. It is particularly pleasing to note that evaluation of pilot actions concerning the SME centres will help decide whether or not these actions should continue. It is important that these evaluations are undertaken by independent organisations.

#### 4. DOES THE EC COMMUNICATION PROVIDE THE RIGHT ANSWERS?

Clearly in undertaking any assessment it is important to acknowledge positive as well as negative features. In this regard, it is encouraging to see policy development being supported by an evidence base specifically assembled for the purpose, although it would have been preferable for it have been developed earlier in the process. The rest of this commentary on the EC communication considers the appropriateness and likely effectiveness of specific aspects of the strategy proposed.

##### The focus on information provision

One of the main objectives of the strategy is *'to provide SMEs with easily accessible and adequate information on how to expand their business outside the EU'*, which immediately raises a number of inter-related questions: firstly, is information provision high on the list of SME support needs?; Secondly what types of information are to be provided; and thirdly is the provision of information sufficient for SMEs? Is information of the types required? Is information on its own sufficient, particularly if firms have not internationalised previously.

Support for an emphasis on information provision is provided by survey evidence in the 2009 report showing that 44% of SMEs reported a lack of adequate information as an important barrier to internationalisation. Moreover, one of the conclusions of a seven country study of internationalisation and SME development that I conducted some years ago was that: "SMEs in all surveyed countries face difficulties in obtaining information about foreign markets as well as in promotion, not least because of their tendency to rely on informal marketing methods. Whilst the latter may be adequate

in some domestic markets, it is more difficult to rely upon them abroad"<sup>15</sup>. Although this supports an emphasis on information provision, particularly market information, it also raises the question of the ability of some SMEs to effectively use this information, particularly those firms with limited marketing capacity.

It is also important to look at the information needs of businesses engaging in other forms of internationalisation, such as investing to establish a subsidiary or firms looking for new sources of supply. The latter have tended to attract less attention from policy makers in the past than exporters because their contribution to job generation in Europe is less direct. However, if more cost-effective supply solutions can be found in emerging markets then the competitiveness of European SMEs will be increased if they can tap into these sources.

The Commission is also planning to launch an online portal that will integrate and streamline existing information and provide sector specific information about target markets including a detailed overview of the different support services available. This would seem to be a good idea and follows a recommendation made in the 2010 report about organising information provision of market developments and legal and institutional environment at an EU level<sup>16</sup>. It is suggested that this online portal will link to online content in business support providers in each member state and will not duplicate existing information. Whilst this represents a positive development, its success will depend on the Commission's ability to persuade agencies in the member states to share existing information.

##### The proposed mapping exercise

The EC Communication contains a proposal to undertake an in-depth mapping and analysis of existing support services both within the EU and non-member countries, with a view to identifying potential overlap and gaps in existing provision, initially for priority markets. The intention is to use the results as a starting point for deciding on any future actions. This is a logical step towards building an evidence base for future policy development, which is necessary if coherence between the EU and national policy measures is to be maximised.

At the same time, it raises the question of why a basic mapping exercise was not conducted previously, in order to identify the most cost-effective use of EU resources, such as when decisions were made about establishing SME centres in target market countries. If it had been, then it would seem unlikely that the China centre would have been located in Beijing, in view of the fact that a high proportion of existing support provision by individual EU member states is heavily concentrated in the Beijing - Shanghai region.

<sup>15</sup> Smallbone et al, 1999

<sup>16</sup> European Commission (2010) *op cit*

<sup>14</sup> Ibeh k (22=092996)

### The importance of local access points

The field of business support is littered with examples of programmes that are well-designed, and an apparently logical response to the support needs of enterprises whose impact is limited by the mechanisms used to deliver the programme. Indeed the Communication explicitly recognises the low take-up of business support services as one of the barriers SMEs face when seeking to internationalise.

In this regard, the communication quite rightly recognises the importance of local access points as the point of entry into the business support system for SMEs seeking assistance with their internationalisation. At the same time, it needs to be recognised that convenience may not be the most important criterion influencing whether or not a SME uses the local access point, but rather the credibility of the organisation involved with SME owners. The most effective local access points to business support services will be those organisations that SME owners typically look to when they have support needs. In this regard, the Commission view is that the Enterprise Europe Network with its 600 local partners is the main vehicle for achieving this. Whether or not this proves successful is likely to depend on who local partners are and the extent to which they are seen as one of the first ports of call for SMEs looking for information. The answer is likely to vary between countries.

### Bringing a European dimension to the supply of services for SMEs in priority markets

Although the initial emphasis in EU support has been on assisting SMEs with market entry, the Commission have recognised that SMEs may require specific support once they have begun to operate in a third country. As a result there is now a commitment to develop, by the end of 2012, recommendations for improving the effectiveness of the entire support system available to European SMEs in non-EU markets. One key idea is to assist European companies changing from one market to another.

In an attempt to avoid duplicating existing support, which is what happened when the EU SME centres were established, it is intended that the approach to future support provision will incorporate existing service providers. This contrasts with the approach adopted previously which led to the establishment of EU SME centres in various target markets. Whilst the aim is very laudable, the proof of the pudding is in the eating. It remains to be seen whether or not national providers which vary considerably in the nature and extent of their offer can be persuaded of the benefits of co-operating to provide an integrated support system that SMEs can easily find their way through to access the support they need.

What is proposed makes good sense as it builds on the results of the mapping exercise, seeks to incorporate good practice and avoid unnecessary duplication. At the same time, successfully

integrating existing national provision will be a challenging task. The Commission hopes to encourage member states to open up their services in non-member countries to all EU SMEs on a voluntary basis. This is idealistic although there are some examples of this happening at present, to some extent at least (for example in China where the German Chamber have assisted Slovenian SMEs on an *ad hoc* basis, referred by the Slovenian embassy). But it is difficult to imagine this happening systematically and on a large scale without payment being involved. This is a particular problem in the case of new member states, where support provision in target markets is typically very thin on the ground.

### Intensifying the work of market access teams

Although the focus of the Communication is on providing support for individual SMEs in their efforts to internationalise, there are also potentially important contributions at the macro level where the European Union is using its influence to seek to ensure foreign market access. This refers to the work of the market access teams whose strategy has recently been renewed. Working in partnership with the member states and the business community, the European Commission actively seeks foreign market access with varying degrees of success. Certainly, in the case of China, there would seem to be a case for intensifying the efforts of the market access teams to avoid a repeat of the recent situation where foreign firms were barred from acting as suppliers when the new high-speed rail system was under construction. As a consequence, the work of the market access teams remains an important part of the EU's internationalisation strategy; to the potential benefit of firms of all sizes. The European Commission needs to remain active in seeking to maintain unrestricted access for European SMEs to target markets.

## 5. CONCLUSIONS

As national economies become increasingly internationalised, businesses are presented with new sources of threat and opportunity. Whilst this applies to firms of all sizes, the more limited internal resource base of SMEs compared with large companies can place them at a disadvantage when seeking to identify and/or exploit international business opportunities. However, the inherent flexibility found in smaller firms with flat organisational structures and direct management styles is potentially a source of competitive advantage. As a group, their stronger employment growth performance compared with large enterprises often attracts the attention of policymakers, who can see potential welfare gains for the economy as a whole emanating from the selective use of public funds to help SMEs overcome size-related constraints.

In this context, does the recent communication from the European Commission suggest they have got it right in terms of providing types of support that SMEs need, and delivered cost-effectively?



My overall assessment is that in some respects they are getting it right; in other respects, it is not clear if they are getting it right or not because of certain vagueness about what is being proposed; whilst in other cases they are almost certainly not getting it right.

In this assessment, the positive features include an attempt to develop policy on the basis of a systematically gathered evidence base. In this regard, the European Commission should be congratulated in having the vision to commit substantial resources to undertake such a large and diverse study from which many of its recommendation and proposed policy measures are drawn. There is also evidence of some policy learning, which can be illustrated with reference to the change in approach in target markets moving away from a top-down SMEs centre type intervention towards a more bottom-up approach based where possible on the use of existing service providers. At the same time, there is little reference to the geography of business support which in larger target countries such as China and India is a major issue. This is because existing provision is highly concentrated in a few large urban centres (e.g. Beijing and Shanghai in China) whereas increasingly European SMEs and potential investors will need to look beyond the traditional centres as competition intensifies. In these circumstances there will be a real need for information about potential and emerging markets within these countries. The multilingual online portal is a positive step providing third country and sector-specific information about priority markets together with details of the various support services available. Although primarily a site where businesses can obtain information about markets, support available etc, this might be the place to post video clips of SMEs that have successfully established in target markets overcoming the main barriers with the help of business support providers as demonstrators.

However, there are a number of areas where the future shape of business support provision in target markets is unclear. Uncertainty exists where future policy measures are dependent upon the results of the mapping exercise, which although a good idea, comes rather late in the process. Uncertainty is associated with a lack of detailed descriptions of future policy measures. How will the mapping exercise be conducted? Will it include any attempt to assess service quality because the simple existence of a service does not mean many firms are using it nor reveal the extent to which users are benefiting from it. Economic impact assessments are notable by their absence, yet could help considerably to inform decisions about strengths and weaknesses on the supply side of the business support system. There is uncertainty about whether or not there will be good local access to business support across the whole of Europe. The European Commission propose to use the Enterprise Europe Network for this purpose but despite some proposals to strengthen the functioning and governance of these organisations, they are not the first support agency of choice for SMEs across Europe countries, which may reduce their effectiveness as local

access points in this program. The Communication itself recognises that one of the main challenges is to raise awareness of support services available among SMEs. Since the success of the various measures proposed in the communication depends on SMEs across Europe finding out about them, key potential partners for the EC are the most commonly used business support networks in each of the 27 member states. Once again one size will not fit all.

One issue that is not adequately dealt with in the Communication is the position of SMEs in new member states, some of which only have the part-time services of a commercial attaché in some target markets, often without a Chamber of Commerce presence. SMEs in these countries potentially have the most to gain from EU initiatives whether this takes the form of the EU SME centres or co-operation either with experienced business support providers in larger states and/or with each other. Either way, if businesses require advice and consultation rather than simply information, there is likely to be some cost involved.

In many cases, SMEs in new member states have very limited ability to pay and based on current experience, funds set aside from national budgets for this purpose are typically small and used up very quickly. Hence those SMEs that perhaps need EU support the most are arguably in the weakest position to access it.

Finally, two important issues raised by the Communication are firstly the overall coherence of what is proposed and secondly its contribution to the competitiveness of Europe's SMEs. In answering the first question we distinguish between internal and external coherence, both of which require detailed analysis in order to be answered fully and accurately. Internal coherence refers to the complementarity between the measures themselves. External coherence refers to the relationship between support measures proposed and existing provision. In the first case, a more explicit rationale needs to be provided for the respective roles of national and EU policy, as well as for the private and public sectors. The second question concerns the extent to which the measures proposed will help to make Europe's SMEs more competitive on a global level. Business support measures do not form the basis of a firm's competitiveness which is based more on the business model, its innovative capacity and performance, the effectiveness of its marketing and so on. But the extent to which the SME can exploit its potential competitiveness in the marketplace often depends on its ability to draw in external resources. The question of the nature and extent of the impact of this external support requires robust evaluation, which hitherto has been noticeable by its absence.

### About the Author

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David has been involved in research relating to SMEs and SME policy since the late 1980s and has been a regular presenter at national and international conferences during this period.

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He has extensive experience of research-based consultancy for a range of national and international clients, including central government departments in different countries, the European Commission, UNDP and the OECD.

## ARTICLE 4

# REFLECTIONS ON THE “SMALL BUSINESS, BIG WORLD – A NEW PARTNERSHIP TO HELP SMEs SEIZE GLOBAL OPPORTUNITIES” – WITH SPECIAL REFERENCE TO JAPAN

By Magdolna Sass

“Distance is dead” says the title of a famous article. Globalisation and technological advances have significantly reduced distances and the significance of national borders in various areas and made tradable up till now non-tradable goods and services. They have enabled even smaller companies to build economic relations with faraway countries. For small and medium sized enterprises (SMEs) these changes have also brought opportunities and challenges. Even for those whose presence is concentrated on the local market, the business environment has become more competitive. On the other hand, many SMEs have been able to access faraway markets, to increase their imports and exports and their overall presence even in the form of foreign representatives or affiliations. Their interaction with foreign partners, even from distant countries, has become more frequent, increasing their access to technology, strategic assets, new consumers and various inputs.

Internationalisation is of crucial importance as it can enhance the competitiveness of SMEs. Empirical studies have traced a direct positive link between internationalisation and the various indicators of company performance: growth, innovation, productivity and competitiveness.<sup>2</sup> However, SMEs are usually less internationalised than larger firms. The lower level of internationalisation of SMEs compared to large enterprises can be explained by the fact that

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<sup>2</sup> See among others Harris and Li (2007), Hessels (2007) or O’Cass, Weerawardena (2009).

SMEs are more vulnerable and have fewer resources than large companies in many fields (for example financial resources, human capital, knowledge or organisation), which pose significant barriers to internationalisation. But the group of SMEs is not homogeneous. Some of them, (especially quickly growing firms in knowledge-intensive industries, which reach a relatively large size), are able to accumulate the financial and human resources for supporting their needs in foreign markets, mainly in the form of being able to hire the necessary personnel with the required knowledge. Others would not succeed without various forms of help which addresses market failures (for example asymmetric information) hindering their industrialisation. There is support provided from public (through government agencies and institutions or government programs) and private sources (for example from consultancy firms, chambers of commerce, industrial associations). However, there are some considerations which need to be thought over when (public) support for SME internationalisation is further developed. When evaluating these support schemes, one important aspect to consider is that the social costs of government/public support need to be lower than social benefits accruing from the positive externalities linked to increased internationalisation.

Furthermore, other problems must also be taken into account, which are especially relevant when an EU support strategy for SMEs’ internationalisation is developed.

These highly inter-related problems are the following:

- the existing “labyrinth” of support
- the problem of vested interests
- bottom-up versus top-down approach
- targeting versus general support
- cooperation versus competition
- particular problems for outside-European markets, with special reference to Japan.

## THE “LABYRINTH” OF SUPPORT

SMEs are usually not aware of the various types of support available to them, and in many cases they feel lost because of the large number of various support schemes.<sup>3</sup> For example, an inventory of various national support schemes in member states<sup>4</sup>, the aim of which was to help and promote the internationalisation of SMEs, identified 310 different measures in the 27 member countries. There were 216 general policy measures, and the remaining ones targeted selected faraway countries. Thus there are a large number of support measures per country. For example, more than 20 schemes were available in France, Germany, Hungary, Slovenia and the UK. On the other hand, five or less are available in Bulgaria, Cyprus, Latvia, Lithuania, Luxemburg and Portugal. Some measures are European level initiatives, such as Enterprise Europe Network, European Research Area Network (ERA-NET), EUREKA, Eurostars, the EU Gateway Programme, Executive Training Programme, the EU Framework Programmes and more importantly the elements of the Commission’s Market Access Strategy (Market Access Teams and the Market Access Database) and so on. On top of these, selected chambers of commerce and various private sector sources offer support for internationalising companies, large and smaller-sized alike. As the European Commission’s paper rightly points out, SMEs usually do not have the sufficient resources to find programmes which are the most appropriate for them.<sup>5</sup>

This problem is exacerbated in the case of outside EU markets. Surveys of SMEs on their use and evaluation of support measures show<sup>6</sup> that many SMEs find it problematic to get access to these supports. A majority of entrepreneurs (60%) state that it is not sufficiently easy to get an overview of existing support measures for business activities in markets outside the EU; an equally large share finds that these support measures are not easily accessible. Certain groups of SMEs are especially disadvantaged, as the problem of the lack of information and ability to navigate among the support schemes has a negative correlation with size: smaller and micro SMEs especially have to cope with this problem.<sup>7</sup> It is also important to take into account the age of the SME as newly established ones are less experienced in that field.<sup>8</sup>

It is not only the large number of various support schemes which is problematic. Another problem is the uncoordinated nature of these

schemes, which creates parallel programs and a labyrinth of support schemes for SMEs. This increases unnecessarily the amount of public money spent in an environment of increasingly limited public resources. Their uncoordinated nature may also result in gaps in the network of existing support schemes and in overlaps between measures, which causes a loss of public money at the EU level. Thus a Commission’s paper rightly advises the “cleaning up” of this “maze” of support.

## Criticisms in Hungary

One frequently mentioned criticism of the present system in Hungary is that the various programs are not “synchronised”. There are at least 15 different public and private agencies and organisations providing direct or indirect support for SMEs, including for their internationalisation. SMEs and even representatives of these various organisations and private agencies are not aware of the existence of many others in the area. In some cases even the institutional distribution of labour makes things more difficult: for example, the Ministry for National Economy is responsible for the foreign economic strategy and the related institutions, with the exception of three countries: China, Russia and Ukraine, which “belong” to the Ministry of National Development. There are even criticisms concerning the content of various support schemes. For example, certain programmes that provide preferential credits in many cases do not support (or even exclude) exporting activities, and only offer help for producing for the domestic market. Others exclude smaller companies setting a relatively high threshold level of annual turnover or for the amount of the supported transaction as a criterion for support. Moreover, while this only indirectly affects the internationalisation of SMEs, one of the highly export-oriented small-sized companies interviewed as part of the KKVENT project criticised the EU programs for R&D, which require a university or research institute partner. This makes impossible to get support for those companies that because of the specificities and specialties of their products, are not able to form such type of partnerships.

Source: [http://www.piaceszertis.hu/magazin\\_2011\\_8/a\\_piacszertes\\_terepej.html](http://www.piaceszertis.hu/magazin_2011_8/a_piacszertes_terepej.html); [http://www.kormany.hu/download/1/d7/30000/keulgazdasagi\\_strategia.pdf](http://www.kormany.hu/download/1/d7/30000/keulgazdasagi_strategia.pdf); [http://international.different.hu/data/files/a\\_magyarorsz%C3%A1gi\\_felm%C3%A9r%C3%A9sek\\_%C3%A9s\\_sz%C3%BCks%C3%A9gletelemz%C3%A9s\\_eredm%C3%A9nyei\\_aj%C3%A1nl%C3%A1sok.pdf](http://international.different.hu/data/files/a_magyarorsz%C3%A1gi_felm%C3%A9r%C3%A9sek_%C3%A9s_sz%C3%BCks%C3%A9gletelemz%C3%A9s_eredm%C3%A9nyei_aj%C3%A1nl%C3%A1sok.pdf); interviews taken in the framework of the KKVENT project

The large number and uncoordinated forms of help are problematic because the amount of public support may be quite significant. The efficient use of these schemes is, as a result, very important. While data on total money spent are not available, an estimate puts the amount paid out on various programs at around 3 billion euros<sup>9,10</sup> The Commission

3 This is true at the level of the member countries as well, especially in the New Member States, see e.g. for Poland Klonowski (2010), or for Hungary the report of the GlobalSME project, available at [http://international.different.hu/data/files/a\\_magyarorsz%C3%A1gi\\_felm%C3%A9r%C3%A9sek\\_%C3%A9s\\_sz%C3%BCks%C3%A9gletelemz%C3%A9s\\_eredm%C3%A9nyei\\_aj%C3%A1nl%C3%A1sok.pdf](http://international.different.hu/data/files/a_magyarorsz%C3%A1gi_felm%C3%A9r%C3%A9sek_%C3%A9s_sz%C3%BCks%C3%A9gletelemz%C3%A9s_eredm%C3%A9nyei_aj%C3%A1nl%C3%A1sok.pdf) According to Lederman et al. (2006), the number of publicly funded agencies proliferated in the 90s all over the world. In the OECD countries, there was a growth in the number of offices abroad.

4 EIM (2011)

5 In a project analysing Hungarian automotive suppliers, we identified a threshold level of around 100 employees, from where on companies have sufficient human and financial resources in Hungary to deal efficiently with applications for public support or with other similar activities requiring significant administrative resources.

6 EIM (2011)

7 See for example Boter, Lundström (2005)

8 See for example Hurmelinta-Peltomaki, Nummela (2004)

9 EIM (2011)

10 Interestingly enough, the calculations by Lederman et al. (2006) show that “at levels around 60 cents *per capita* (spent on export promotion

paper also indicates that “significant resources are already devoted to business support at national and EU level”. On the other hand, the importance of such support is also obvious: there is another estimate concentrating on export promotion agencies, which suggests that they are effective: for each USD spent, there is on average an USD 160 increase in exports in the OECD.<sup>11</sup> It must also be taken into account that many SMEs wouldn't have been able to internationalise without support.<sup>12</sup> Thus, the available financial sources for support may and should be spent more efficiently and one way to do this would be to give better information to and reach out for potential “supportees”.

The idea of the “International Business Portal Online”, progressively available in all European Union languages and described in the Commission paper, would be a very important (and not costly) first step into the direction of cleaning up this plethora of support schemes and improving the access to information for SMEs. This is especially important, as the first most important channel of learning about the support programs is an internet search for SMEs. (EIM, 2011)<sup>13</sup> A mapping exercise concerning the available support services at local, regional, national and EU level must also be supported together with an assessment of the effectiveness of EU support programs.

### The problem of vested interests

The large number of support measures and the “jungle” that these form, justifies the aim of identifying overlaps, possible gaps and areas of cooperation and collaboration. However, the existing system contains many groups with vested interests, i.e. which derive private benefits from its operation. Thus redesign and collaboration may hurt various interests and may induce (rent-seeking) pressures from interest groups. Associations, successfully lobbying for special measures helping their members, experts having attractive jobs in faraway countries and private sector firms giving pricy advice on these schemes may all lose out from the changes. Thus the question “do we want to help SMEs or to help people who at present work on SMEs” summarises this problem well. While all stakeholders should be involved in the process, cleaning up the labyrinth of internationalisation support schemes therefore involves disregard for the interests of these groups. A thorough evaluation of various measures, based mainly on the opinion of their users, is indispensable in that respect. Moreover, as it has been shown<sup>14</sup> in the case of export promotion agencies, the optimal combination in

agencies), the marginal efficiency starts declining.”

<sup>11</sup> Lederman et al. (2006), p. 5. Moreover, assessing the impact of another type of institution, Rose (cited by Lederman et al., 2006) shows that the presence of an embassy or consulate increases bilateral exports by 6 to 10 per cent.

<sup>12</sup> EC (2007), EIM (2011) surveys of SMEs doing business outside the EU finds that 16% of the users of non-financial support and 25 % of the users of financial support would not have started without the support.

<sup>13</sup> An NMS-aspect: internet search is also the main channel how Polish SMEs gain access to the Polish Passport to Export programme. (EIM, 2011) According to company interviews, this is also a major channel for Hungarian SMEs. At the same time, for EU programmes (Gateway programmes Japan and Korea); it is mainly by direct contact with representatives that allow SMEs learn about these support schemes. (EIM, 2011) This difference may be important when designing dissemination methods.

<sup>14</sup> Lederman et al. (2006)

many cases is to have a mix of private and public management (with a larger private share) together with a larger share of public sector funding with efficient control and screening mechanisms for ensuring the efficient and transparent use of public resources.

### Bottom-up versus top-down approach

The importance of support for SME internationalisation is obvious, however, it is difficult to judge which problems should be addressed and how, especially given the limitedness of public resources for public support and the identification of deadweight losses<sup>15</sup> in existing support schemes. While the overall efficiency of the support programmes is documented, a number of empirical studies show that programmes aiming to promoting internationalisation of SMEs do not meet the actual needs of the companies and that there are considerable differences between the perceived and actual barriers of internationalisation faced by SMEs.<sup>16</sup> The company case study below also illustrates this problem.

#### Company case study no. 1

A small-sized, innovative Hungarian company in the medical precision instruments sector was established in 1999. It is owned by Hungarian private individuals. It employs twelve people, of which eight are carrying out R&D activities. It researches, develops and produces advanced, high technology medical devices. The firm exports to all over the world, including Russia, other CIS countries, Asia and the American continent. In an interview carried out under the framework of a research project on Hungarian SMEs, the owner-director of the company presented very pessimistic views about the existing system of SME support. According to him, the existing schemes have nothing to do with the real needs of the companies. This is why the firm does not apply for any type of support and why it has also resigned from membership of industry associations. They have tried to get help from ITDH (the Hungarian trade and investment promotion agency) for exporting to geographically distant, unknown markets, but it could not assist them in any meaningful way. They usually rely on private distributors in their foreign sales activities and on personal contacts established on conferences for international R&D cooperation.

Source: KKVENT-project

These results strengthen the advantage of the bottom-up approach, which is also rightly emphasised by the Commission paper. An

<sup>15</sup> Relatively significant deadweight losses, i.e. when the international activity would have taken place even without the support, have been identified by EIM (2011). It is important to note that when comparing various support schemes, deadweight losses seem to be the lowest for two EU-programs: Gateway Korea and Gateway Japan (together with two national schemes analysed), while ETP (Executive Training Programme for Korea and Japan) was not highly appreciated by the respondent SMEs. (EIM, 2011)

<sup>16</sup> See e.g. Seringhaus, Botschen (1991), Hutchinson, Fleck, Lloyd-Reason (2009), Klonowski (2010) or the GlobaleSME project (footnote 2).

exhaustive analysis of each target market is necessary, identifying the needs of SMEs in terms of helping their internationalisation, together with the most important “bottlenecks” and barriers to it. As we shall see later, this is especially relevant in the case of the Japanese market. Closer cooperation with the SMEs themselves and with the private sector and associations, for example with the European Chamber of Commerce, can be a way of doing that. This organisation is present in faraway countries, and is operated by businessmen who have practice and experience in helping newcomers, including SMEs, to the analysed markets, thus they understand what the SMEs really need and demand. A similar consideration can be valid for the foreign representatives of national chambers of commerce, though member countries differ in terms of the presence of their chambers of commerce abroad. Moreover, even SMEs prefer information sources from their own business world. (EIM, 2011 and the author’s interviews with Hungarian SMEs also underlined this phenomenon.) In this respect, the Commission’s suggestion to enhance and promote cooperation and networking between various company associations, chambers of commerce and private actors active in outside-EU countries can be supported without doubt.

The bottom-up approach should be based on the identification of the needs of SMEs. This is also indispensable for identifying the gaps in the existing schemes and missing services. However, attempts so far have resulted in a controversial list of barriers to internationalisation for SMEs.<sup>17</sup> The main reason for that may be that SMEs as a group are very heterogeneous, and companies’ demands differ considerably, depending on their size, sector, age, nationality and other factors. This leads us to the next problem of choosing between targeting and general support.

### The dilemma of targeting versus general support

Another dilemma arises of “how” to support - if it is better to have more internationalised companies<sup>18</sup> or to focus on those companies which have the largest potential to internationalise, and especially to access outside-EU markets? There are experts, who are in favour of a more general approach, where all types of internationalisation and all SMEs are supported. Others are more for a targeted

approach, which takes into account the differing needs of SMEs based on their specificities, as for example sector, size, approach to internationalisation, actual level of internationalisation and their different potentials to internationalise, especially outside of the EU (and of course the limitedness of financial resources available for helping the SMEs). The first group emphasises on one hand that internationalisation and entrepreneurship are of the same origin, and on the other hand that because of a lack of entrepreneurship, general support is more needed in improving the business environment and education (especially in languages and entrepreneurship). The approach favouring targeting says that it may result in a more efficient use of scarce public money, as in that case measuring the efficiency of the individual support schemes is easier. Especially that, as it is rightly pointed out by the Commission paper, the effectiveness of these measures differs considerably. The argument presented above about the heterogeneity of the SMEs also supports this approach. Moreover, an analysis of export promotion agencies showed that they are more efficient if they focus on certain broader (non-traditional) exports instead of promoting overall exports.<sup>19</sup> Focusing support on companies with larger potential may bring better results: for example those SMEs which already internationalised inside the EU may have a larger potential to access outside-EU markets. Another argument in favour of targeting is that very specific and identifiable groups of companies exist with special needs. Obviously, the needs of actual and potential or present versus future “internationalisers” differ to a great extent. For those that already export, improving access to existing schemes may be of crucial importance; while for future internationalisers, improvements in the overall business environment may be more essential. On the other hand, companies only planning to export or invest abroad need onshore support, while firms already present in faraway markets require local, “offshore” help.<sup>20</sup> Further distinct groups of companies may be identified in the area of various activities: export, import, foreign investment and other activities.<sup>21</sup>

The impact of those policies which may help SME internationalisation indirectly e.g. supports for clustering, networking and R&D cooperation, must also be taken into account and the viewpoints and demands of SME internationalisation must also be “built in” in these, as the Commission paper rightly points out. However, even in these areas, the principle of sustainability must be applied.<sup>22</sup>

17 Empirical studies based on SME surveys in the international literature have underlined the importance of human factors and lack of absorption capacity in inhibiting internationalisation. (Zuchella, 2009) Language barriers were also found to act as a main barrier for smaller sized companies in the EU. (EC, 2007) However, as far as financial barriers are concerned, the results are not so straightforward. Many studies find financial barriers the determinant for SMEs, especially compared to larger companies (see for example Knight, 2000; Hollenstein, 2005, OECD, 2006, and among the New Member States Klonowski, 2010 for Poland or Korez Vide *et al.*, 2010 for Slovenia), Greenaway *et al.*, 2007 found that even when companies complain about financing difficulties; this does not prove to be a hindering factor which would really deter them in realising their planned internationalisation steps. Chaplin, 2009 also cites similar results. In another study we found that financial barriers are really important for young, early internationalising SMEs but not for those firms which have a longer history and which internationalise gradually.

18 Mayer and Ottaviano (2008)

19 Lederman *et al.* (2006)

20 Other differences may also be relevant. For example it is obvious, that sectoral needs may differ. Moreover, our study on innovative Hungarian SMEs in the medical precision instruments sector concluded that barriers to internationalisation differ for “born global” companies, which internationalise early in the company lifecycle and for those, which internationalise gradually, in stages. (Sass, 2012).

21 EIM (2011) shows that support up till now is used predominantly for exporting.

22 The problem of sustainability arises among others in the NMS-context. For example, in Hungary the overwhelming majority of (quasi) cluster

## Cooperation versus competition

Given the uncoordinated structure of the various support schemes at present, it is obvious that collaboration, coordination and cooperation between member countries may increase the efficiency and effectiveness of the system of supports and of the use of public money. This is especially important when public money available for that type of support is increasingly limited. However, coordination may prove to be problematic when member states' interests and approaches (e.g. concerning sector or country targets or the amount of public money spent on these purposes) differ from each other. This aspect is not emphasised enough by the Commission paper. One important point is mentioned though, the difference in the concepts, organisation and methods of business support in the individual member states.

An obvious example for the source of conflict is the preference of those outside-EU countries by the individual member states with which they have traditional economic and cultural links, colonial or language ties, or with which the present level of economic exchanges is outstanding. If target countries are selected on the basis of their share in EU exports and market size, this may also ignore the country preferences of certain member countries, e.g. those with smaller exports or smaller outside-EU exports. This conflict of interests can also be true on the sector side: while there are certain sectors, which are more "SME-intensive" in all the member states, the overall sectorial distribution of SMEs varies considerably with different outstanding sub-branches or with sub-sectors deemed to have a strategic importance. However, it must be acknowledged that a certain selection mechanism should be developed through compromises given the limited financial resources available. From the point of view for limiting geographical scope, the Commission paper comes up with an acceptable proposal, which also takes into account the difference in the "difficulties" of the outside-EU markets.<sup>23</sup> That is missing for the sectorial issue. Another problematic area partly ignored by the Commission paper may be the different amounts of public money spent on support measures by the member states, especially when it comes to giving access to these for firms from other member states.

Thus member states' interests may differ when identifying overlaps or complementing existing schemes and possible ways of rationalising existing support schemes. Language problems, which are especially serious in the case of SMEs<sup>24</sup>, may also hinder cooperation and collaboration, for example when an SME is trying to use information provided by the agency of another member country. In that respect it must also be taken into account that "SMEs prefer that offices providing support in target markets are run by their national organisations". (EIM, 2011) Furthermore, there may be cases when companies from different

formations have not proved to be sustainable after the expiry of financial support from EU and government sources.

<sup>23</sup> EIM (2011) shows how different the perception but also the intensity of the use of support among the selected outside-EU markets is.

<sup>24</sup> See e.g. EC (2007). Not only lack of but also low or insufficient level of language knowledge.

EU members compete with each other in a given outside-EU market, which also makes this type of cooperation less viable. From that point of view, the Small Business Act rightly emphasises that "The national and local environments in which SMEs operate are very different and so is the nature of SMEs themselves... Policies addressing the needs of SMEs therefore need to fully recognise this diversity and fully respect the principle of subsidiarity." However, the Commission paper's proposal for establishing fora for the exchange of ideas between both agencies and companies and to incentivise cooperation in some cases may prove to be fruitful. Moreover, it is important to note in the light of the potential sources of differing interests described above, that the Commission paper rightly emphasises the principle of complementarity and subsidiarity and limits of the manoeuvring room to fill gaps.

Country needs may differ in the New Member States as well, which have a much shorter SME history, compared to the EU-15. Successful and internationalising SMEs represent only a negligible share of the total group of SMEs – both in Hungary (Szerb, Márkus, 2008) and in other NMSs. At the beginning of the nineties, NMS were characterised by the relative absence of SMEs. (see e.g. Laki (2011) for various sectors in Hungary.) Liberalisation and deregulation have eased entry barriers for SMEs, and various programmes have also addressed the problem of the absence of SMEs, including the PHARE SME support programmes supported by the EU. As a result, there has been a marked growth in the SME sector: the number of SMEs has been increasing at a higher rate than in the EU-15, albeit from a very low level. In NMS, these companies now account for a relatively large share of employment, output, value added and export, and they played a significant role in the introduction of new technologies, managerial techniques and innovations. However, the growth in the number of SMEs is "inflated" by the large volume of microenterprises, of registered but not operating ones and of those which simply serve tax evasion purposes. Many of the SMEs can be characterised by the notion of "too weak – too small - too isolated" (Bateman, 2000) and the enterprise structure is still lacking of medium-sized companies in many NMS. The share of internationalised SMEs is also lower than in the EU-15.<sup>25</sup>

Even today, the average NMS SME is less developed in its human resources (for example in language knowledge or entrepreneurship culture<sup>26</sup>) than an average EU-15 one. They are less inclined to cooperate and network with each other and to form clusters because of a lower level of trust compared to the EU-15 countries. They have to face an additional disadvantage in foreign markets: distrust towards and the demand for irrationally low prices from companies from former socialist countries.<sup>27</sup> On the other hand, the institutional framework and support provided for SMEs in NMS is less advanced compared to the EU-15, partly as a result of the shorter time horizon available for building these up. According to McIntyre

<sup>25</sup> GlobaliSME project (footnote 2)

<sup>26</sup> *ibid.*

<sup>27</sup> *ibid.*

(2001) “Not only does SME ‘success’ not emerge automatically, but when surrounding conditions (aggregate demand, market access, fair competition, etc.) are not actively monitored with SME interests in mind, it is difficult to judge the connection between ‘efficiency’ and who in fact is seen to be succeeding or failing.” One result of that is that the SME sector reacts to economic changes with larger amplitude in NMS compared to the EU-15. However, even inside the NMS group there are large differences, for example in the needs of SMEs for helping their internationalisation. (Lloyd-Reason, et al., 2004) As far as the institutional background is concerned, the NMS have built up a different system with different number of measures: a good illustration for that is provided by the list of measures in EIM (2011). Table 1 below shows country-specific differences in supporting SMEs in outside EU markets. It is also important to note that there was no evaluation of the efficiency of SME internalisation schemes in any NMS.<sup>28</sup>

Table 1 Support schemes for selected outside-EU markets in NMS

Country	No. of general measures	No. of measures for selected outside-EU markets	of which EU-level	Outside-EU countries covered
Bulgaria	4	1	0	Azerbaijan, Belarus, China, Moldova, Russia, South Korea
Czech Republic	9	0	-	-
Estonia	7	0	-	-
Hungary	15	9	3	Brazil, China, India, Japan, Russia, South Korea, Ukraine
Latvia	5	0	-	-
Lithuania	2	2	0	China, Russia
Poland	2	7	2	Belarus, Brazil, China, India, Japan, Russia, South Korea, Ukraine
Romania	11	3	0	Armenia, Azerbaijan, Brazil, China, India, Japan, Russia, South Korea, Ukraine
Slovakia	7	0	-	-
Slovenia	15	8	0	Brazil, China, India, Japan, Kuwait, Russia, Turkey, Ukraine

Source: based on the database in EIM (2011)

Overall, besides fostering cooperation, it is important to take into account the delicate balance between cooperation and competition and the possible sources of problems and the diverging interests of the member states in this area.

Particular problems of outside-EU markets with special reference to Japan

Outside-EU markets, including Japan, are less popular destinations for EU SMEs. However, the relative “negligence” of these countries deprives SMEs from various benefits. These outside-EU markets are growing quickly, both relative to the European Union and in absolute

terms. The majority of world growth is generated outside the EU in these markets. Thus, they potentially offer a rapidly increasing market for any firm venturing there. Enterprises with the motivation to seek new countries to sell their products, seeking efficiency through access to cheap labour, “knowledge seeking” or looking for sources of specific imports (e.g. raw materials or parts and components), can find beneficial opportunities there.

There are additional advantages of being present in Japan. There are many firms which import inputs from Japan in order to improve the competitiveness of their products. As for exporting, this is a very demanding market in terms of product characteristics and quality. Those companies, which are able to sell successfully on the Japanese market are without doubt at the highest level of international competitiveness. Companies accessing the Japanese market can also benefit from rapid and substantial improvements in their competitiveness. According to expert interviews, if Japanese agents and experts deem a product to be potentially successful on the Japanese market, they help the company to make improvements and amendments to it (see for example company case study no. 2), which then may be used when selling it in other markets as well. Experts also stressed that presence and success on the Japanese market is a good reference for any other markets in the world. Moreover, Japan can act as a gateway to other Asian markets.

#### Company case study No. 2

This small-sized, family-owned Hungarian firm was established in 1992. It is based in one of the most backward regions in Hungary and has 90 employees. It processes local fruits: apples, plums and cherries. By buying fruits locally, it helps make a living for 500 more people. The firm’s main product is apple flakes, but it also produces dried and chocolate-coated dried fruit. The products are continuously developed; innovation and R&D are essential parts of the firm’s activities. Another important activity is to build-up and maintain the brand name. The manager-owner’s two daughters are responsible for these areas: one of them is food-engineer, the other one economist. The products are exported to 16 European countries, and, apart from Europe, US and Brazilian consumers are also able to buy them. In 2011, the company moved into the Asian market, and it is now present in Japan, Korea and China. The Japanese market is of special importance, not only because of its dynamism, but also because of the popularity of the chocolate-coated apple flakes, of which the white chocolate version is prepared and produced especially for the Japanese market. In order to access the Japanese market, the company had help from a private agency in Hungary which has extensive local contacts in Japan and is familiar with how business is done there.

Sources: interviews with experts, website of the company; websites of local newspapers

<sup>28</sup> EIM (2011), however, even for EU-15 schemes, there is a very low number of such studies.



The opportunities provided by these markets and the more intense need of companies for information and other support is recognised by the individual Member States, the European Commission and by privately founded associations and agencies. However, the importance attached to these markets varies: for example in Table 1, the list of supported countries differs to a great extent between NMS and only four countries: Hungary, Poland, Romania and Slovenia, give support for SMEs trying to access the Japanese market. (Table 1 does not contain information on various EU-level programs, which support European businesses in getting access to the Japanese market, such as the Gateway Programme, the Executive Training Programme, the EU-Japan Centre for Industrial Cooperation or on support available through JETRO, for example TTPP.)

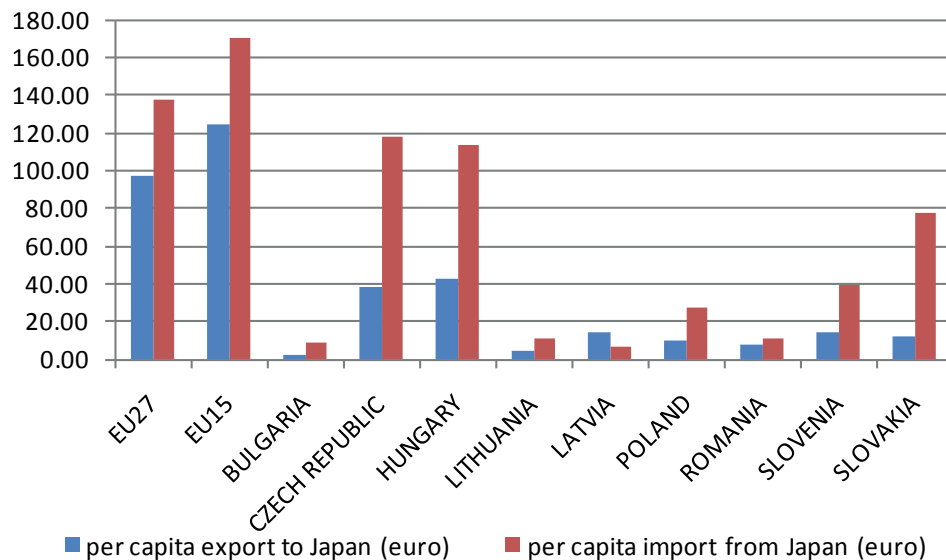
Another illustration is provided in Graphs 1 and 2, which present data about differences in per capita export and import to Japan and the share of Japanese exports and imports compared to the total exports and imports of that respective country in 2011. It is obvious that companies from NMS are less present on the Japanese market than the EU-average and the gap is especially large in exports.

Companies internationalising inside the EU operate in a business environment which resembles to a great extent to their home situation. Outside of Europe, the business and cultural environment is completely different, especially in emerging markets. The costs and risks of entering these unfamiliar markets are much higher than in the case of the market of another EU-member state. “Big” European languages are not widely spoken. Company case study no. 3 is a good illustration for these language problems, including in Japan. Moreover,

as the Commission paper points out, SMEs prefer that offices providing support in target markets are run by their national organisations and preferably in their own language. This problem is of crucial importance for the smallest SMEs, for whom even English and other “large” European languages are not widely spoken.

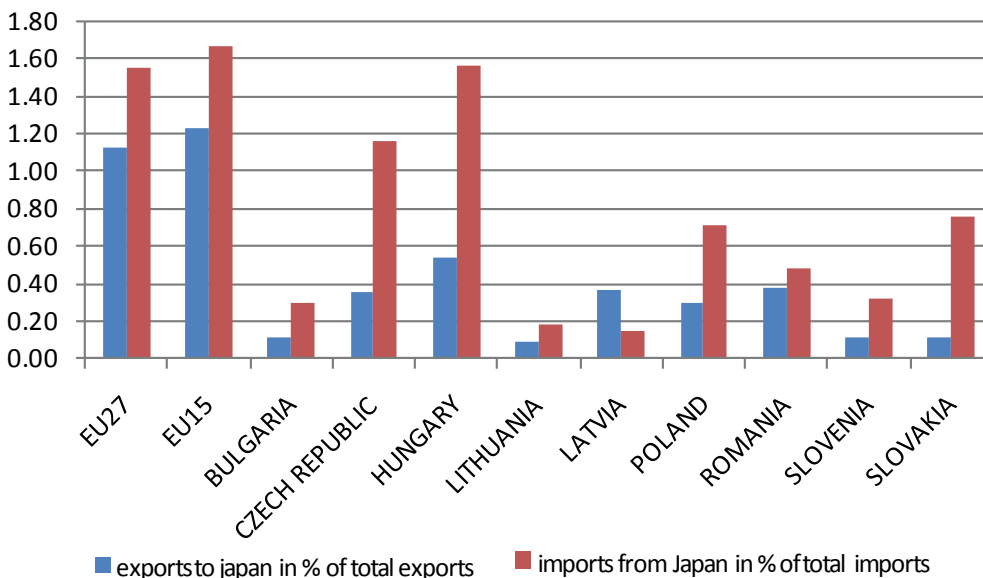
This language problem must be taken into account when organising and offering EU-level local support in outside-EU markets for SMEs and for collaborations. These markets differ much more from the market of the European Union, for example in terms of technical regulations and standards, of the elements of the legal environment, in protecting intellectual property rights and industrial property rights, in the business culture etc. Because of these differences, making information on them available and understandable to SMEs is crucial.

**Graph 1 Per capita export and import to Japan in NMS and EU-averages, 2011 (euro)**



Source: own calculations based on COMEXT data

**Graph 2 Share of Japanese exports and imports in total exports and imports in NMS and in EU-27 and EU-15, 2011 (%)**



Source: own calculations based on COMEXT data

## Company case study no. 3

Another small-sized Hungarian company, owned by Hungarian private individuals and with 30 employees, in the medical precision instruments sector, exports to many non-EU-countries in every part of the world. It produces ambulatory blood pressure monitors, multifunctional monitors and ECG Holter monitors among others. Its products comply with relevant international standards, and bear the CE mark required in the EU. In certain small market niches it is among the top five companies worldwide. It exports almost 60 % of its production. While around half of its exports go to the European Union, it sells its products to many countries on the American and Asian continent as well. According to the management, the most important inhibiting factors of internationalisation are: lack of specific language knowledge (managers speak English, French, German and Spanish, but there are no Japanese or Chinese speakers, which hinders their access to the Japanese and Chinese markets), lack of information on foreign markets, lack of foreign partners and lack of financing. The company uses support from various Hungarian organisations (ITDH – the trade and investment promotion agency, MEHIB – export credit bank, chamber of commerce and sector association). They deem existing personal, business and research links are the most important when choosing a foreign market. They complained that the relatively high level of non-tariff barriers for certain health and medical instruments, for example administrative barriers, import licences or the need for local permissions from the national authorities, are significant in Argentina, Brazil, Canada, the US, China and Japan (they export to all these markets).

Source: *KKVENT project*

In many respects, in these faraway countries, as the literature says, the “psychic” distance<sup>29</sup> is high, and thus costs related to the internationalisation of companies are also high. These higher costs are then translated into the higher costs of public support for helping SMEs to enter these markets.

In the case of the Japanese market, this “physic” distance is extremely high. There has been a gradual and considerable decrease in various non-tariff barriers in recent years<sup>30</sup>, and thus cultural differences act as the main obstacles to internationalisation. Language problems are at the forefront: the Japanese language is preferred, thus using an interpreter is indispensable. According to expert interviews, Japanese

SMEs are even less advanced in terms of speaking foreign languages (even English) than EU SMEs. The cultural distance is also large. According to experts, trust is a very important concept in Japan, thus personal contacts are of special importance. It is not possible to make a deal or make business “from the street”. That is why “mediators” in the form of local or EU-based agents with good contacts with actors of the Japanese economic and business life are essential. Company case study no. 4 presents one of those agents, which successfully helped EU companies, including SMEs, export to Japan. Personal contacts are important; besides “mediators” at least at a later stage of negotiations, the actual presence of the SME managers is required. Company case study no. 2 also shows the importance of using an agency with good local contacts and knowledge. These may result in high costs for the SME, which it may not be able to pay fully and thus support may be needed.

Another interesting aspect of the difference of the Japanese market from other developed markets was outlined by one expert. On the Japanese market, brochures containing product information differ to a great extent to those used on the European or US markets, thus “simple” translations of existing brochures cannot be used successfully in Japan. Japanese consumers need more information, mainly in text form compared to their European or US counterparts, who rely more on visual information in the form of pictures. Related to that, the image of the product is very important for the Japanese customer; he or she must be familiar with the product and trust it. Compared to larger companies, achieving this through advertising and through other means may prove to be too costly for an SME.

## Company case study no. 4

This private small-sized company specialises completely in helping businesses onto the Japanese market. It was established in 1999 and it employs 8 people, all of them speak Japanese and have spent long periods of time in Japan. There are two experts of Japanese origin; one of them speaks fluent Hungarian. They have a network of local contacts in Japan. They are deeply familiar with the Japanese and Hungarian economies, their regulations and actors. They provide marketing and sales services both for Japanese firms in Hungary (and in Europe) and for Hungarian (and European) firms in Japan. Besides Hungarian companies; they have already worked with British firms and companies from the new member states of the European Union and helped them to get access to the Japanese market.

Source: *expert interview and the website of the company*

According to SMEs, the most important barriers in the Japanese market differ substantially from those on other outside-EU markets. Alongside the cultural barriers mentioned above, knowledge of

29 Johansson and Vahlne (1977) emphasize the importance of physic distance in the internationalisation of companies, thus in international transactions cultural, language and other distances act as barriers to the flow of information and thus limit the decision-taking capacity of the company.

30 See e.g. <http://www.jetro.go.jp/en/eu-japan/pdf/EN120913.pdf>

foreign languages, i.e. the Japanese language, transport costs, lack of sufficiently qualified personnel, different business culture, lack of adequate market information, quality of the products and services of the SME, and laws and regulations in the host country (EIM, 2011) are the most important barriers. In terms of support, SMEs mainly need information on market opportunities, assistance with identifying partners, one-to-one meetings with partners, information on rules and regulations, business cooperation and networking, exhibiting in international trade fairs, business or professional advice and auxiliary services in the target market. Compared to other outside-EU markets, there is a slightly larger emphasis on locally-provided services. (EIM, 2011) On the basis of expert interviews and the complex needs of SMEs, cooperation between public and private actors helping SMEs on the Japanese market could be beneficial.

Another specificity of the Japanese market is its high-cost nature (EIM, 2011), which can be partly attributed to the exchange rate developments, and which is unfavourable to foreign exporters. Company case study no. 5 illustrates well how a company successfully exporting to Japan can be “squeezed out” from that market by exchange rate changes.

#### Company case study no. 5

A previously medium-sized, but by 2010, large-sized private firm in the medical precision instruments sector is located in Budapest. It exports its products to 42 countries in the world besides the European Union, among others to the USA, Japan, South-America, China, Malaysia, Indonesia, Egypt, Pakistan, Turkey and India. Inputs for production are imported from Asia and North America. The company has an R&D unit and quality control lab; it has registered six patents and complies with various standards. It innovates and develops its products continuously. It spends around 7-8 % of sales every year on R&D. The company itself adapts its products to the various foreign markets, through design and packaging. It even opened a representative office in Moscow 10 years ago, but had to close it down because the expectations were not fulfilled. For the access to faraway markets, they used the help of ITDH (the Hungarian Trade and Development Agency) to get information about the target markets and of the industry association. However, the company relied mainly on its own resources: it has a separate trade department, where the languages of all the foreign markets are spoken, moreover all the skilled employees (university graduates) at the firm speak English. The most important inhibiting factor in their foreign expansion was the exchange rate, not only its level but also its volatility. That was the main reason why they stopped exporting to the Japanese market, and again that was the main reason why they could have returned there during the crisis years.

*Source: KKVENT project*

## CONCLUSION

The present support system of helping SME internationalisation at the regional, national and EU level involves a plethora of schemes and actors. This results in a (too) complex system of support, which one can assume, contains overlaps, gaps and other problems. There are numerous SMEs that are not able to get access to the relevant information about available support and are not satisfied with the services provided. Information is also scarce about the efficiency of the support schemes and thus about whether scarce public money is spent efficiently. The initiative of the Commission to elaborate a coherent strategy for creating a more effective and efficient support system can be therefore welcomed. However, one has to be careful as many problematic areas may arise when carrying out some of the planned activities.

Among the outside-EU markets, Japan provides various opportunities for EU SMEs, but it is one of the hardest to access in the world. The special characteristics of the Japanese market call the attention to the specific needs of companies trying to export or already exporting to this market. The “physic” distance is one of the highest among outside-EU markets, which increases considerably the costs of accession and being present successfully, especially for SMEs. Moreover, this cultural and language distance increases the importance of offering help “on the spot” and specifically for the company in need. It is probable that because of large cultural and language differences and the role of local contacts, wide, horizontal help is less successful in Japan. More targeted support is needed, and thus, various forms of cooperation, between private and public actors helping SMEs reach out for the Japanese market may be of special importance.

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Between 1997 and 2000 she worked for the Organisation for Economic Cooperation and development (OECD) in Paris.

Her areas of expertise include internationalisation of companies, foreign direct investments, foreign trade and related policies in the East-Central European countries, with special attention to developments in Hungary.



ARTICLE 5

# OPPORTUNITIES FOR EUROPEAN SMEs IN THE JAPANESE AEROSPACE INDUSTRY

By **Philippe Huysveld**

## Executive Summary

GBMC<sup>1</sup> has recently been involved in helping French SMEs promote their know-how, products and services to the Japanese aerospace industry. Therefore, the purpose of this paper is to explain and analyse the opportunities & obstacles for French and European SMEs in the Japanese aerospace industry (aircraft industry + space industry).

Looking at the forecasted development of the Japanese aerospace industry in the future, we conclude that there are business-making opportunities for European SMEs to be considered on both technical and the business sides, but that communication channels have to be improved. A “sine qua non” condition of success is industry participation and therefore, most of the participants invited to organised meetings or official trade missions should be motivated business men and engineers with concrete projects or themes for discussion.

For reasons detailed in this paper, it seems difficult to get many French/European SMEs over to Japan to explore the market. So, why not have them meet their Japanese counterparts in Europe at the occasion of the biannual Air Shows of Farnborough and Paris Le Bourget? Further suggestions are made in this paper.

The Japanese aerospace industry is growing and bound to expand over the coming years. It is, however, still relatively small and underdeveloped compared to the corresponding US and EU markets. So far, key players have been Japanese heavy industry groups but, with the objective of diversifying their business activities, some major Japanese car manufacturers have been looking to enter this market over the past few years. As a result, there seems to be potential for alliances, partnerships and future business developments in this industry.

The purpose of this paper is to explain and analyse the opportunities and obstacles for French and European SMEs in the aerospace industry (aircraft industry and space industry) in Japan.

<sup>1</sup> Based in Paris area, GBMC is a proactive professional service provider and consultancy specialising in the following three domains: 1) EU-Japan Business Consulting (Consultancy, Import-Export, Training & Translation). 2) Technical Markets & Strategy Consulting. 3) Interim-Change-Transition Management. Website: [www.gbmc.biz](http://www.gbmc.biz)

## 1. ABOUT THE TARGETED INDUSTRY

### 1.1. Japanese Aerospace Market Figures

(Source: SJAC : The Society of Japanese Aerospace Companies)

The turnover of the Japanese aerospace industry in 2009 amounted to 1,356 billion JPY, which is relatively small in comparison with that of the US (around 19,000 billion JPY) and of the EU (around 10,000 billion JPY). This is broken down into 1,086 billion for the aircraft industry and 270 billion JPY for the space industry. Export of airframes and engines for commercial aircrafts, as well as space-related production, is expected to grow in the future.

The biggest part of the space industry turnover (270 billion JPY) is made of 226 billion JPY for space vehicles (rockets & satellites), that is about 84% of total space production.

The breakdown of the aircraft industry turnover (1,086 billion JPY) is 649 billion JPY for airframes, 322 billion JPY for engines and 115 billion JPY for related equipment. Previously, Japan's aircraft production relied heavily on demand from the defence sector but this is now changing: nowadays, more than half of the turnover originates from civil aircraft production (domestic & export).

The aircraft business foreign trade balance (negative) with the EU in 2009 amounted to -12.539 billion JPY, as follows: exports to EU (64,325 billion JPY) – imports from EU (76.864 billion JPY). Most of the total foreign trade balance deficit (-452 billion JPY) originates from aerospace product imports from the US.

### 1.2. The Birth of the Japanese Space Industry

(Source: SJAC : The Society of Japanese Aerospace Companies)

The challenge for Japan in developing space vehicles started with the launch of the “Pencil” rocket in 1955 by Prof Itokawa of Tokyo University, leading to the development of larger rockets mainly used in the scientific research field. In 1970, the same university succeeded in launching Japan's first (scientific) satellite “Ohsumi” into orbit.

NASDA (the National Space Development Agency of Japan) was established in 1969 to launch application satellites and the N-I rocket was developed in cooperation with the US. In 1975, NASDA succeeded in launching its first satellite using the N-I rocket. Further developed rockets were N-II, H-I, H-II, H-IIA and H-IIB rockets. In January 2011, JAXA succeeded in launching H-IIB.

Mitsubishi Electric Corporation was the first Japanese company to win a communication satellite contract (“OPTUS C1” launched in 2003) in the world market. Japan's first domestic commercial communication satellite was launched in August 2008.

As a result, Japan is in fourth position amongst satellite-launching countries, coming after Russia, the US and France. As of March 2011, a total of 33 scientific and experimental satellites and 49 application satellites have been developed and launched in Japan.

In addition, the space industry in Japan is actively committed to the ISS (International Space Station) program.

During the recession of 2001, the SOHLA (Space Oriented Higashi-Osaka Leading Association) project brought together a few SMEs in Eastern Osaka bringing forces and local technologies together in order to develop and launch a small-scale satellite named “Maido” with the help of several universities and JAXA. The launch in 2009 was successful and was followed by the next project “Maido-kun”. This can be seen as an example of entrepreneurship and group spirit.

### 1.3. The revival of the Japanese Aircraft Industry

(Source: SJAC : The Society of Japanese Aerospace Companies)

After World War II, under the supervision of the General Headquarters (GHQ) and following the limitations imposed by the New Constitution with its “peace clause”, the rebuilding of the aircraft production industry was made difficult. Competent engineers had been dispersed domestically and production facilities and equipment had been destroyed. It was only in 1952 that Japan's aviation industry was reopened: licensed production for the JASDF (Japan Self-Defence Forces) with US manufacturers played a key role in solidifying an industrial base for manufacturing aircraft in Japan.

Since then, in parallel with technology transfers and licensed production of fighters and patrol aircrafts, the Japanese Aircraft Industry has sought opportunities to domestically develop and produce civil and military aircrafts. For example, MHI (Mitsubishi Heavy Industries) and LM (Lockheed Martin) of the US worked together on the development of the F-2 support fighter, which was deployed in 2001 by the JASDF.

The first international joint project for Japan was the 767 civil transport developed by Boeing. The next big project started in 1991 with the international joint development of the Boeing 777 (total work share of Japanese firms: around 21%). Apart from Boeing, Japanese airframe manufacturers are taking part in the subassembly and/or manufacture of components for Airbus, Fokker and others, as subcontractors.

After World War II, there was a large technology gap between Japan and US-Europe in the field of aero engines, due to the rapid shift of technological innovation to jet engines. The aero engine industry grew under licensed production by GE engines. Since then, Japanese engine manufacturers have taken part in various international joint development programs with GE in the US and Rolls-Royce in Europe.

As a conclusion, international tie-ups and cooperation have played, and will continue to play, a key role in the growth of Japan's aircraft industry. Indeed, today, in the field of civil transportation, international joint programs are inevitable in order to spread financial and technological risks as well as securing market share.



Therefore, the biggest part of Japan's aerospace business consists of providing aircraft components for defence aircrafts produced in Japan and for commercial aircrafts produced overseas.

## 2. LATEST DEVELOPMENTS IN THE JAPANESE AEROSPACE INDUSTRY

(Source: SJAC : The Society of Japanese Aerospace Companies)

With the success of H-IIA and H-IIB launchers, the Japanese launch business is expected to gain competitiveness in the world space industry market and orders from overseas markets are expected. Orders from domestic and overseas markets are also expected in the satellite business.

In the defence aircraft industry, the production of fighter aircraft has been important for a long time but is now decreasing. As the F-2 fighter production is scheduled to be terminated this year, action from the Japanese government is required now.

In the civil aircraft industry, Japanese domestic companies have so far relied on the Boeing 767 and 777 programs, but further growth is expected from the Boeing 787 program (total work share of Japanese firms: around 21%). In addition, an increase in Airbus (A380) production, for which Japanese companies also supply components, is expected.

There might however be big changes and opportunities in the regional aircraft sector. Firstly, Japanese aircraft manufacturers are participating in international collaborative programs individually for the development of business and corporate jet airplanes. For example, MHI (Mitsubishi Heavy Industries) is taking a vital role in developing and manufacturing Bombardier's Global Express. R&D on "environment-friendly small aircraft engines" is carried out in Japan by most heavy industry manufacturers.

Secondly, MHI has established a new company named Mitsubishi Aircraft Corporation, which develops and sells a next-generation of regional jet MRJ with improved fuel efficiency and noise reduction (MHI is responsible for manufacturing the aircraft). The MRJ is a 70-90 seat class, next generation regional jet, offering top-class operational economy and outstanding cabin comfort. The first flight was scheduled for 2012 and the first delivery for 2014. Mitsubishi Aircraft has already received orders for 125 planes and numerous carriers around the world are expressing growing interest for the MRJ.

Thirdly, on its own, Honda is developing the Honda Jet, a compact business jet. Honda announced the production and sales business of Honda Jet in July 2006, and Honda Aircraft Company has successfully completed the first flight in 2010. Toyota seems to be interested in entering the market too.

Finally, basic R&D on a Supersonic Transport (SST) & its propulsion system was started as early as 2005 and a joint research agreement has been concluded between GIFAS (France) and SJAC (Japan). It concerns cooperative research on technologies related to composite material structure and reduction of jet-engine noise to overcome difficulties unique to supersonic flight.

## 3. OPPORTUNITIES FOR EUROPEAN SMES IN THE JAPANESE SPACE INDUSTRY

### 3.1. Case Study: French Suppliers and the Japanese Space Industry.

"Val d'Oise Sat" is a French association made up of companies (mainly SMEs) in the Val d'Oise Prefecture, near Paris, whose business includes applications or services related to the design, manufacture and/or operation of satellites. This network of companies was first created in 2003, with the support of the local economic agency (CEEVO), after a meeting between French local companies working in this industry and a delegation from Japanese industrialists from Eastern Osaka working on the SOHLA project (see also previous explanation in section 1.2). The SOHLA entrepreneurs were working on creating a microsatellite using the resources of SMEs in the Higashi-Osaka district, with the support of local and national authorities.

The association is led by the head of SYRTEM, a small local company which supplied (free of charge) some telecommunication equipment for the SOHLA project in Japan. The original aims of "Val d'Oise Sat" were: 1) to encourage experience and information-sharing between members, 2) skill-sharing in order to gain access to new markets by means of structured offers, 3) to take part in the many European-based programmes related to the satellite industry. Exchanges take place with local higher education institutions as well as with the GIFAS (French Aerospace Industry Association – Space Commission).

Ten years after its creation, the association still exists but has apparently lost its momentum, without many visible results. Was it a failure due to the lack of motivation, group spirit and long-term commitment of its members ?

### 3.2. Obstacles & Opportunities for European SMEs

The "Val d'Oise Sat" experience is an example of how a real opportunity for French and Japanese companies showed up in 2003 and how, with time, momentum has been lost. There are numerous possible obstacles: cross-cultural communication problems, language barriers, remote partners, cost of meetings, lack of motivation, lack of time and resources to dedicate, lack of group spirit, lack of long-term commitment, length of the business cycles, lack of business opportunities, lack of follow up from authorities...

At a European scale, we can think of the same kind of opportunities for European SMEs involved in the aerospace business to develop technical and business ties with Japanese counterparts involved in JAXA projects. We can also see many obstacles to the success of such ventures if not carefully monitored. Because of their lack of resources, long-term involvement of SMEs will only be possible if concrete and tangible results (successful technical collaboration or real business flows) come out of these ventures.

Considering the smaller size and the long-term project cycles of the space industry, we believe that, in the short-term, there are less commercial opportunities in the space industry and that the focus now should be more on the aircraft industry.

#### 4. OPPORTUNITIES FOR EUROPEAN SMEs IN THE JAPANESE AIRCRAFT INDUSTRY

##### 4.1. Case Study: French Suppliers and the Japanese Aircraft Industry.

On the French side, “ASTech Paris Region” is a world –class competitiveness cluster focused on the space and aircraft industries established in the Paris region. The cluster seeks to pool skills and to encourage, in the Val d’Oise Prefecture, a culture of networking between: 1) top-level manufacturers (like EADS, Dassault, Eurocopter, SAGEM & Thalès), 2) equipment manufacturers (like Goodrich, Lisi Aerospace, Tyco ..), 3) many local SMEs and 4) local universities/research centres. It brings together companies supplying manufacturers worldwide (engine manufacturers, flight computing specialists ...) with industrial players involved in markets which are quite distinct from Airbus (rockets, defence, business aviation ...), although their origins are sometimes aviation-related.

Local SMEs account now for about one third of the members of the ASTech cluster. They have developed cutting-edge know-how in electricity, sheet metal work, mechanics and surface treatment technologies, which all have an important role to play in this industry. Many of them are located in business parks spread over the Greater Paris area. About thirty of them are gathered in the business parks of St-Ouen l’Aumône, in Val d’Oise Prefecture, and belong to an association of common business interest named “GIE des Parcs d’Activités de St-Ouen l’Aumône”.

On the Japanese side, “The Greater Nagoya Initiative Center” (GNIC) was established in February 2006 as a joint organisation of national government, local governments, industries and academia. It was created to promote foreign direct investments and alliances between overseas and Japanese companies. Among these 500 organisations, the “C-ASTEC” Group of the Chubu Region (the AeroSpace Technology Center) gathers about 30 companies (aircraft manufacturers like MHI, KHI, FHI and local SMEs) and

5 regional universities involved in the “Aerospace Dream Project”, that is, the development of the local aerospace industry. Customers of these companies include Boeing, Airbus, Eurocopter, Mitsubishi (MRJ), JAXA ...

Since 2009, the CEEVO (Economic Agency of Val d’Oise Prefecture, in Paris area) and the GNIC have been working together to develop ties between French companies of the ASTech Paris Region cluster and Japanese companies of the C-ASTEC cluster. Apparently, members of Toyota and Mitsubishi groups have also been involved. Over the years, there have been opportunities to meet and to exchange between both clusters, either in Europe (at the Farnborough Air Show in UK or at the Paris Le Bourget Air Show in France) or in Japan (at the Messe Nagoya Show or during one of the yearly business visits organized by the CEEVO), but without concrete results or breakthroughs so far.

##### 4.2. Obstacles & Opportunities for European SMEs

Authorities on both sides have more or less initiated the introduction process but what kind of collaboration could we realistically think of and what have been the problems so far?

The most obvious way to collaborate is on the technical and academic side: common R&D projects, visits of researchers on both sides, technical meetings ... For example, shared research on the use of composite materials for aircraft applications would be relevant. Indeed, there is a new Composite Materials Test Center in Chubu area (the “National Composite Center” with state of the art facilities for producing and evaluating manufacturing technology) and two R&D centres on Composite Materials fasteners/rivets in Val d’Oise Prefecture (ALCOA & LISI Aerospace). As the trend is towards the assembly of bigger composite material parts, more testing has to be done on fastened parts made of composite materials.

Another example would be cooperative research on technologies related to jet-engine noise to overcome difficulties unique to supersonic flight.

Apparently, the “GIE des Parcs d’Activités de St-Ouen l’Aumône” would be interested in organising working groups among industrial people on both sides (Val d’Oise Prefecture and Greater Nagoya area) exchanging information on a regular basis and meeting every three months (at least, at group leader level).

It is more difficult to determine how businesses could work together, as it depends on companies’ overall business strategies on both sides. On the Japanese side, we could think of possible requests to team up with European key manufacturers in order to develop and build full-size aircrafts (private/regional/commercial jets, supersonic jets ...), or simply, to increase the share of Japanese

suppliers into AIRBUS projects. On the European side, we could think of technology licensing opportunities or new business flows with Japanese integrators/manufacturers in the regional jet segment, for example.

In order to allow to turn these opportunities into R&D successes or into new business flows, long-term collaborative relationships have to be established between private companies and not only between economic agencies on both sides.

For large multinationals having offices or facilities in both Europe and Japan, relationship building is not much of a problem. Therefore, support of local authorities should be focused on European SMEs lacking resources but committed to a long-term approach of selling their unique technology or products to Japanese counterparts.

From the French Case Study, we have spotted the following problems to take into account (KAIZEN is needed):

Low level of participation of French SMEs to the official business trips/missions to Japan (Nagoya/Osaka), as organised by local economic agencies. Recorded reasons were: 1) no time to fly to Japan, 2) too expensive to go, 3) most of Japanese participants were officials/agencies/chambers of commerce/academic people, all but real business people, 4) no efficient business introductions: in the best case, courtesy visits without much follow up.

When the above trips/exhibitions were too heavily sponsored by public agencies (like half of the costs reimbursed), there were more participants but they were less committed (temptation to go to Japan for private sightseeing at low cost). "What is free is treated as worthless".

Bad communication between parties: 1) cross-cultural communication problems at many levels, including between some officials, 2) small company owners in France usually speak little English and no Japanese, of course, 3) the need to improve communication and collaboration between all related/involved official agencies, especially in France.

Lack of group spirit and lack of a coherent message from French SMEs towards potential Japanese partners: need for group coaching, group marketing, long-term commitment and leadership. A constructive project, at the "GIE des Parcs d'Activités de St-Ouen l'Aumône", with the aim of establishing a Japan business coaching sessions for their SME members active in the aerospace industry has unfortunately recently been dropped, without much reason.

Lack of long-term vision: switching priorities from automotive customers to aircraft customers, small company owners are presently focused on keeping up with increased orders from their key accounts. Time away from their day to day business deadlines can only be justified by efficient ways to increase the business in the long-term.

So what do we suggest to do in order to help matching companies from both sides and to create a stable environment for exploiting real business opportunities, especially at SME level?

## 5. CONCLUSIONS & SUGGESTIONS

Looking at the forecasted development of the Japanese space industry in the future, there are business-making opportunities for European SMEs to be considered in the long-term. However, adopting a more pragmatic short-term approach, we will focus below on actions to be taken in the aircraft industry.

There are definitely opportunities on the technical and the business sides but communication channels have to be improved. A "sine qua non" condition for success is participation and therefore, most of the participants should be motivated business men and engineers with concrete projects or discussion themes.

As it seems difficult to get many French/European SMEs over to Japan to explore the market, why not have them meet their Japanese counterparts in Europe at the occasion of the biannual Air Shows of Farnborough and Paris Le Bourget? According to the JAIF (Japan Aerospace Industry Forum), 40 companies and organisations from Chubu area and other Japanese regions participated to the 2011 Paris Le Bourget show. JAIF statistics for 2011 are: 97 cases of business matching, 139 cases of information exchanges, 66 cases of business meeting, 7 cases of signed confidential agreement, 1 case of business contract.

Meeting on a company to company base at these shows is nothing new but, well organised buyer to buyer meetings with well introduced and carefully selected potential prospects in the context of a sponsored business convention should make a difference.

The next opportunity to meet in Europe is at the 2013 Paris Le Bourget Show. Companies like FUTURALLIA ([www.futurallia.com](http://www.futurallia.com)) or BCI Aerospace ([www.bciaerospace.com](http://www.bciaerospace.com)) provide business matchmaking services including customised and pre-arranged meetings based on a specific methodology. For example, up to sixteen, 30 minute long business dates could be arranged over a day or two. Besides business dates, cocktails/business lunches/business dinners and optional conferences could also be organised during the show (in rented meeting rooms).

The organization of BOURGEALLIA, a Japan-EU Aerospace Business Convention, would need involvement of all agencies and officials on both sides (CEEVO, GIE, UBIFRANCE, CCI, GNIC, JAIF, SJAC, JETRO ...) and some funding from diverse sources, but it may well help in unblocking the present situation. If a consensus is found among related parties, GBMC would be happy to support the project.

## THANKS

I would like to thank for their time, data and support the following organisations::

- CEEVO (Economic Agency of Val d'Oise Prefecture, in Paris area)
- GIE des Parcs d'Activités de St-Ouen l'Aumône (Association of Business Parks of St-Ouen l'Aumône in Val d'Oise Prefecture)

### About the Author

**Philippe Huysveld** is a solutions-driven senior executive and consultant with extensive marketing and business development experience in Japan and in Europe. With expertise across many industries (automotive, mobile phone, pro-AV, semiconductors, air conditioning, medical, display, electronics), he has also sold parts as both systems and finished products. Entrepreneurial, his executive career also includes consulting, business start ups, P/L responsibility, board experience and BU/subsidiary management. He is currently a lecturer on the Japanese economy (Master Program in Languages & International Trade – Japanese market section) at the University of Cergy-Pontoise (Paris area).



ARTICLE 6

# FOOTWEAR MARKET IN JAPAN: POTENTIAL AND LIMITS

## THE POINT OF VIEW OF AN ITALIAN FOOTWEAR MANUFACTURER EXPORTING TO JAPAN

By **Francesco Vespasiani**

This article describes the export of leather footwear, made in Europe, for the Japanese market, from the perspective of a small/medium Italian manufacturer.

This perspective comes from a typical SME, part of one of the most important footwear business clusters in Italy, aiming to expand its position abroad. This experience can easily represent the situation of other manufacturers in Europe, especially in countries with similar important business clusters such as Spain and Portugal.

For any company engaged in product innovation, quality control and focused on creating brands with their own identity on a daily basis, the Japanese market is one of the most important in terms of business value and potential company growth.

The continuous mixing of cultures is boosting rapid changes in Japanese consumer behaviour and developing a new brand perception for consumers. Consequently, the Japanese retail system is adapting to new trends and elaborating new formats for innovative purchasing experiences.

The hardest barrier for EU companies to overcome in order to realise this large potential comes from the Japanese Tariff Quota (TQ) system.

The TQ system provides an obstacle to SMEs because imports that exceed the quota level face much higher - often prohibitively high - tariffs and, as a result, lose much of their competitiveness in the country's market. Other negative aspects related to TQ system are the costs associated with inefficiencies in distribution, bureaucracy and delayed supply.

The TQ system affects European and Japanese players in the same way. From the practical experience of this small manufacturer and his Japanese partners, it is a commonly-held opinion that, in 2012, the TQ no longer serves any useful purpose.

The EU can play an important role in discussing the trade inequality issues resulting from the TQ system among members of the WTO and supporting SMEs in activities promoting internationalisation.

The footwear industry in Italy is considered one of the most important strategic sectors for the Italian economy.

Italy is in fact **the leading shoe manufacturing country in the European Union**. It holds **ninth** place amongst world-wide footwear manufacturing countries and, while it is the **fourth largest exporter** of footwear in the **world**, in terms of value it is placed second. This success comes from a history of handicrafts and enterprising spirit and is linked to the typical operational system consisting of sub-suppliers of raw materials, tanneries, components, accessories, machinery manufacturers, model makers and designers.

This has resulted in a territorial concentration of dynamic SMEs in a well-structured manufacturing cluster.

The footwear industry represents a vital sector for those economies based on networks of SMEs, such as Italy and other EU countries with the same long tradition of manufacturing.

In recent years, European culture has become an increasing global influence. This has allowed all national industries of apparel, design and more generally lifestyle, into a larger concept of "European Style" to propose to non-EU markets.

Fashion SMEs can approach new markets with their own identity and exclusivity, conscious of being part of the most prestigious fashion systems.

## THE POTENTIAL OF JAPANESE FASHION RETAIL MARKET

Japan boasts the world's second largest retail market after the US, thanks to the high level of per capita income that gives Japanese consumers considerable purchasing power.

This economic situation is favorable to any investment strategy for companies basing their business on consumer goods such as apparel.

Furthermore, the enormous influence of Japan's retail industry attracts global attention and is the origin of many Asian trends.

To better understand the potential of the footwear retail market in Japan, it is essential to analyse consumer behaviour and what the impact is on purchasing actions.

The strategies used by an Italian SME manufacturer to access the retail market in Japan can be affected by three main characteristics of Japanese consumer behaviour. These are:

- Sense of style
- Interest in brand identity
- Quality and price consciousness

### Sense of style:

Japanese consumers continually look for innovation and uniqueness in any kind of product, from beverages to furniture and indeed, apparel. In fashion, Japanese consumers exhibit some of the world's keenest interests in styles and trends.

Speciality apparel stores are flourishing in Japan, appealing to customers with finely-crafted images that target each consumer's sense of style.

The Japanese innate sense of style can be easily fulfilled by the creativity and dynamicity of European companies.

Many of the new fashion concepts in Japan have built their identity on European culture, and have taken their inspiration from its long, historical heritage. Some examples are clothing brands with French names or shopping-malls inspired by Italian architecture.

Small companies can take advantage of the high perception of style in the EU developed by luxury brands.

### Brand Identity:

Once a Japanese consumer is attracted by the style and creativity of a product, he becomes interested to discover what is behind the product itself. In the footwear industry, the consumer is curious about the materials used, the manufacturing process, the design inspiration, the people who made it and, more generally, the brand philosophy.

Brands need to build a story to appeal and create an emotional connection between the brand and the consumer.

In this way, the connection is one of personal recognition to the brand and the consumer develops a strong loyalty to it.

In the past, Italian shoe manufacturers didn't put too much emphasis on branding activities, confident that the guarantee of quality 'Made in Italy' was the main factor of their success.

But recently, thanks to the pulse of dynamic foreign markets like Japan, shoe manufacturers have begun to understand the importance of identifying and distinguishing their talent through branding.

Branding activities take their origin from the heritage of the Italian lifestyle, appreciated worldwide, which includes a tradition of manufacturing, style, arts and culture. These all contribute to creating a strong connection with the consumer.

### Quality and Price Consciousness:

Quality awareness is one of the most famous characteristics of consumer purchasing attitudes in Japan. Quality is the first requirement and strongly affects the price level. But after years of recession, Japanese consumers have become increasingly price conscious and have developed a new approach to expenditure, especially in apparel.

Success cases like UNIQLO, ZARA and H&M have demonstrated how attitudes are changing, and how the prejudice about "cheap is bad" is now over.

Japanese consumers have learned, as a result of the recession, to accept and believe that less expensive brands can deliver value in terms of quality and functionality. Whether Japanese consumers are purchasing less expensive brands to gain value, express their individual style, or mix high and low value lifestyles, they now have the confidence to purchase products regardless of whether they carry brand names because they trust that these products can deliver comparable quality and functionality.

## STRATEGIES FOR EUROPEAN SMES

The behaviour of Japanese consumers has identified a new segment of fashion products that could be a significant opportunity for small-medium companies willing to enter into the Japanese retail market.

The advantage for Italian footwear manufacturers resides in their large tradition, a quality requested by this new Japanese trend.

To lever this advantage into a competitive strategy for market penetration, it is essential to focus on five key points:

Be qualitative: this is the first thing to consider before any step forward into the Japanese market

Create an identity, a unique style: don't follow the most common ready-fashion trends. The risk is facing hard competition, but try as much as possible to be unique and consistent with brand inspiration in way to target some specific groups of customers better.

Be innovative and keep innovating: offer innovative products, refresh the offer continually and mix the offer with cutting-edge products together with basic ones.

Create a story behind the product: catch the consumer's interest and build loyalty with branding activities; try to explore the universe of the target customer by offering a complete experience of the brand with communication, events, cross-branding etc.

Be affordable: attract larger group of consumers by offering the best value.

## THE BURDEN OF JAPANES FOOTWEAR RETAIL MARKET

An analysis of consumer behaviour and the current Japanese retail market underlines a big potential for creative Italian companies and more generally, for all EU companies.

Unfortunately, two aspects of the market represent an important handicap to the beneficial development of business in Japan: distribution system and TQ system/high tariffs.

### Distribution System:

The distribution system of consumer goods in Japan is characterised by complexity and inefficiency.

There are twice as many wholesalers and intermediaries per retailer in Japan as in Western countries, a ratio obtained by directly dividing the number of wholesalers by the number of retailers in a given country. As a result, the cost of servicing the number of retail customers becomes significantly higher.

European exporters often overlook this complex network or overestimate the pace of reforms or deregulations intended to change the status quo.

These implications can be measured both in terms of cost burdens on product processing flow and on missed opportunities in financial and information flow.

Major rigidities or unnecessary costs are mainly derived from the intermediate players. Examples include trans-shipments, repacking and temporary storage in buffer layers such as importers, distributors, national wholesalers or regional wholesalers. Other than logistics, the wholesaler is used to providing different services such as owning the inventory on behalf of the retailer (consignment). This practice, as well as being costly, slows down information flow from sales and makes stock management inefficient.

Such "hidden" costs do not add any value to the product and are paid by the end-user, as they pass from the upper level of the supply chain to the next level down. This helps to explain, for a large part, the higher consumer prices in Japan for imported products.

### TQ System and High Tariffs:

The problem of inefficient distribution systems directly affects the footwear industry and is even greater for imported brands

because of the restrictions imposed by the Tariff Quota (TQ) system and high tariffs.

The TQ system is the most important trade barrier for EU leather and footwear exporters.

In Japan, the regulations associated with imported leather shoe products first began to increase in April 1986, with a shift towards a tariff quota system. The TQ system employs two types of tariffs. The primary tariff is lower and the secondary one is higher. Although there are no restrictions on the total value of imports, the maximum quantity of imports that come under the primary tariff is fixed each year. This restrains imports, representing the essence of the TQ system. At present, the primary tariff rate is 21.6%, and the secondary rate is the highest value between 30% rate and 4,300 yen per shoe. The quantity limit under the primary quota is 12,019,000 pairs. The quota has been increased from 1986 until 1998 and the procedure of receiving quotas has been changed in a priority system.

Today, the major part of the quotas is allocated in one single day (in April). The remaining quantities are reallocated periodically between May and December. The reserved quotas are allocated on precise dates between May and January of the following year. The applicants must be business corporations engaged mainly in production, sales, import of leather or a person who can be proved to be able to conduct this business. The importation of goods must be conducted for their own business in their own name. Experienced applicants and newcomers are eligible for quotas. Those who have not applied for general quotas are eligible for reserved quotas.

When the quantities requested for the day of allocation remain below the quantities available, each applicant receives the requested quantities.

The quota allocation system is very complex. It is based upon factors such as the company's previous experience in exports. Thus, companies that have been importing goods to Japan for a long time have preferential treatment over new market entrants.

Moreover, the application must be made within a certain time-period following the announcement in March. 90% of the quota must be utilised by November of that fiscal year. When a company does not utilise this amount, it receives a penalty and a reduced quota for the following year.

Issues such as the requirement to be qualified for allocation, the division of quotas and the complex system of allocation also seem to be a source of big concern for the foreign companies, especially SMEs.

The main difficulties can be summarised in four points.

### **The reduced potential for independent brands:**

Small retailers willing to buy foreign brands are discouraged from doing so because of the TQ system. Some of them require import to wholesaler services which manage the procedure of getting

a quota and importing footwear under the primary tariff. This service usually has a cost which is a burden to the competitiveness of the foreign brand and contributes to increased distribution inefficiency.

In addition, the rigidity of period and allocation of quota impedes retailers in re-ordering the best selling product in a season, reducing the efficacy of market penetration.

#### **Unequal competitive conditions:**

EU operators feel that they are discriminated against compared to developing countries such as Bangladesh which benefit from both tariff preferences and exceptions to the TQ system. Moreover, the sourcing of products from developing countries by Japanese companies in order to benefit from low-priced but uncontrolled labour costs, creates a double advantage which is harder to compete with.

#### **Complexity of order management:**

The management of a leather footwear order for export in Japan is complex and necessitates dealing with different companies, changing on monthly basis, because of the quota allocation system and having no delivery time margin because of quota the consumption period. It is a common opinion, from both Japanese and European companies, that daily practices for managing orders are time consuming, costly and inefficient.

There appears to be no reason to keep the TQ system in order to protect the indigenous Japanese footwear manufacturing industry. Indeed, for the past 20 years, Japanese shoe manufacturers have started to shift production to China to take advantages of cheap labour costs there.

The most common practice for footwear manufacturing was to outsource costly shoe components like soles and uppers to China and then assemble them in Japan. In this way, companies were able to offer 'Made in Japan' products and avoid the TQ system and high customs tariffs. But recently, the increasing cost of manufacturing in Japan has persuaded Japanese companies to move the whole production chain to China. The complete leather footwear is imported into Japan and, as a result, is subject to TQ system.

Thus, there is no longer a large indigenous Japanese footwear manufacturing industry to protect, only a few independent manufacturers, typically small handcrafters, that are positioned in niche markets that are not affected by competition with imported brands.

In fact, Japan has already been invaded by footwear made abroad as result of increasing globalisation. This has made the footwear market of today totally different compared to that of 26 years ago when the TQ system was introduced.

Assuming a hypothetical scenario where the TQ system is cancelled, all players involved in Japanese footwear market would benefit, each from different aspects:

#### **Japanese manufacturers and distributors**

By changing their business model from manufacturer to trading company, they will benefit from a free trade system.

#### **Japanese fashion retailers**

Retailers would have the possibility to make direct deals with foreign companies, increase margins and develop a proper inventory management strategy.

#### **Japanese wholesalers**

While the role of importers would be reduced, wholesalers could, as now, offer to manage orders transactions, financial support and inventory management for customers reluctant to be involved in direct dealing.

#### **Japanese consumers**

Japanese consumers would benefit from a large choice of products and a concomitant decrease of price.

#### **EU footwear manufacturers**

EU footwear manufacturers would have the possibility to sell their products freely on the Japanese market at a competitive price and develop bases for direct investment. The possible competition with China and other countries wouldn't be an issue for EU companies because Japan, as in many other countries, is already exposed to this competition, and they have experience in how to face it.

## SUPPORT FROM THE EU

The European footwear industry urges the EU government to negotiate with the Japanese government in order to abolish the TQ system and to significantly decrease import duties for leather footwear. The different EU footwear associations don't have the power and the authority to do this. They can support discussion by providing cases and statistics, but they are aware that this issue could involve many complex political discussions.

The common sentiment is that the TQ system is a protectionism practice that has no benefit today, especially between WTO members with liberal economies.

The recent economic crisis has resulted in a strong recession in EU countries such as Spain, Portugal and Italy where the footwear manufacturing industry is a crucial pillar of the economy. Japan, as other members of WTO, has demonstrated a valuable social responsibility by supporting efforts to develop local economies in developing countries.



The EU could ask Japan to express a similar empathy to all EU companies dealing with the dramatic economic downturn.

The EU could also facilitate the internationalisation of SMEs. The EU Gateway programme, which was recently opened to shoe manufacturers, could be an important instrument for introducing new brands into the Japanese market. In the same way, the EU could support the organisation of a large exhibition involving all fashion SMEs, instead of having separate exhibitions like “Shoes from Spain”, “Shoes from Italy”, and “Mod-Italy”. In this way, a large space could group a variety of apparel products in such a way to offer and promote the idea of “European Style”. Some examples of successful fashion shows much-appreciated by Japanese visitors are “Who’s Next Paris”, “Pitti Florence” and “Bread and Butter Berlin”.

Using similar concepts, the exhibition could gain an international dimension and attract visitors from all over Asia. The main difficulty would be to overcome the individualism of national category associations which aim to preserve their exclusivity instead of acting as a system.

The national associations should be aware of the advantage of the financial support from the EU along with the increased institutional visibility and reliability.

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## About the Author

Francesco Vespasiani holds a Master Degree in Industrial and Business Engineering from the Università di Bologna, Italy. Since 2006, together with his brother Flavio, he has owned VUEFFE srl that designs, produces and distributes mid to high level ladies footwear under the LILIMILL brand. He has more than 10 years experience in the footwear industry and he has developed skills in footwear manufacturing, product management and internationalisation. Since 2008 he has been the retail manager of LILIMILL outlets, which includes 5 mono-brand stores and 40 concessions at COIN Department Stores in Italy. In 2007 he wrote an article entitled “Footwear Trading” for the “Trends in The World Trade Development of the XXI century”, conference at the Russian State University of Trade and Economics of Perm. From 2007 to 2009, he was a member of Committee for Promotion of Italian Footwear in Asian Markets created by ANCI (Italian footwear manufacturers association).

In 2009 he participated to ETP27, the executive training programme financed by the EU, aiming to provide to EU managers with a high degree of knowledge of business practices in Japan. In 2011, he cooperated with the Japanese company ‘Deux la Maree’ in creating the Yuko Imanishi+ brand and developing a sales network in Europe. In 2012 he was a guest speaker at the conference “CSR a value for companies and territory” in Milan. He is currently a consultant to small-sized footwear manufacturers wishing to expand their presence on Asian markets.



ARTICLE 7

# ON EU-JAPAN TRADE AND INDUSTRIAL RELATIONS-OPPORTUNITIES FOR SMEs

## CROSS-CULTURAL SKILLS: A CORE COMPONENT IN THE SUCCESS OF INTERNATIONALISATION

By Marie-Thérèse Claes and Pascale Sztum

The key role that SMEs play in creating growth and jobs at home has triggered authorities to foster their capacities to work across borders and to internationalise their activities.

In the context of cooperation between the EU-Japan in trade and industrialisation, these capacities can create numerous mutually beneficial opportunities for the SMEs of the countries involved.

A glance at the figures and analysis suggests that seizing these opportunities is a challenging task.

As a matter of fact, a 2010 report of the Entrepreneurship Unit of the Directorate for Enterprise and Industry established that only 13% of EU SMEs are active in markets outside the EU and, on the other side, Japanese SMEs seem to struggle to secure foreign outstanding partners for enterprises.

Since large firms do very well when internationalising their activities, it is interesting to examine the extent to which their experience and expertise could be transferred to SMEs. This paper focuses on the human side of international ventures.

The challenge for large firms to succeed in the internationalisation of their activities.

### HISTORICAL BACKGROUND

Profitability has pushed large firms to search new markets for their products and services. Export, a first step to internationalisation, has taught the marketing and sales departments of large firms that successful products and services at home may need some adjustment to sell abroad: for example, a product name can have a negative connotation in a foreign language, a suitable packaging at home may not

enhance the product abroad and an effective message displayed on a commercial in the home market may give a poor image of the product/service in a foreign one.

The discovery of the different rules that foreign customers use for assessing a value-adding product/service has resulted in the need for large firms to assess the extent to which they could support the cost of adjusting their products and services to meet the needs of foreign customers. Might it not be the case, or might the large firms not be willing to incur the expenses, they may need to steer away from specific foreign markets, focus on satisfying the needs of other ones, or search for global segments across various markets.

In parallel to marketers' findings, other actors of large firms have uncovered the existence of cultural differences. The rising number of countries that have endorsed market-driven economies has caused large firms to intensify and diversify the internationalisation of their activities. Besides export, mergers and acquisitions and other forms of partnerships have multiplied their international synergies.

Through trial and error, large firms have progressively learned how to handle the cultural differences that arise when interacting with foreign clients, foreign suppliers, foreign administrative partners and the like. Failures and poor performance have been investigated through the involvement of cross-cultural experts, who have opened eyes on the existence of numerous invisible cultural differences.

Through a trial and error process, large firms have progressively accepted the idea that their employees should be equipped with new skills: international synergies require the development of cross-cultural skills.

These skills enable people to use a culturally appropriate framework when approaching foreigners. They can then adjust the way they communicate, act and interact in order to enhance the effectiveness of their international synergies.

One of the first cultures to trigger the need for foreigners to develop their cross-cultural skills is that of Japan.

As a matter of fact, experienced employees of large firms assigned to venture into the Japanese market quickly realised that things worked differently in Japan. Western selling techniques, which had been so far effective, were not effective in Japan. On the other side, Japanese protocol, rituals, reactions and synergies were hard to decipher for Western minds. Obviously, employees of large firms needed some help to succeed their ventures with Japanese business partners.

Such a need got stronger and stronger with the intensification of international business synergies: for example, large firms that engaged in a merger with Japanese firms gave the opportunity to non-Japanese executives to experience the Japanese management style as well as the Japanese approach to human resource management and development.

The confrontation of people rooted in such different cultures enabled cross-cultural experts to scrutinise the challenge of these synergies.

Interestingly, for foreigners, the knowledge of Japanese rituals and protocols is an asset, but it is not enough for them to effectively ease work synergies. For example, some authors have reported that Western executives still struggle to get an accurate explanation of what is happening in the Japanese workplace. More precisely, non-Japanese executives find it hard to determine where the true power lies within a Japanese firm, and subsequently they find it difficult to identify whom to talk to when in need of a decision or an action.

The pivotal role that the Japanese culture has played in raising the awareness of large firms on the scope of cultural differences has encouraged scholars to search for cultural differences in other parts of the world.

Large firms, and more specifically multinationals, have been keen to understand better the cultural differences that could hamper the cooperation between their different subsidiaries.

In the late 70s, the Dutch business anthropologist Geert Hofstede accessed the IBM database and produced a seminal work uncovering cultural parameters shaping cultural preferences and norms in the different subsidiaries of the US multinational.

Other scholars and management experts enriched the number of cultural parameters uncovered by Hofstede's pioneering work. Hofstede's findings were initially not well received in academic circles: at the time, scholars and management gurus were convinced of the universality of management in market-driven economies.

Nevertheless, field research continued and more comparative studies took place, often at the request of some large firms who experienced unexplained difficulties with some foreign business partners.

This research was prolific in the 90s, a time where large firms from different members of the EU were preparing for the single market. They needed to strengthen their position on the European market and could only do so by partnering with firms across their borders. While export continued, more cross-border mergers and acquisitions took place. Some were well known for their difficulties, especially in the aviation and automotive industries.

Closer human interactions between Europeans from different countries caused numerous efficiency problems to arise and to be later diagnosed as the outcome of cultural differences among different European partners.

Some problems were so serious that they made partnerships abort while others survived only thanks to the mediation of cross-cultural experts.

For example, the challenges faced during numerous Franco-German mergers helped to uncover some unexpected differences in business cultures: the different structure and devolvement of powers in France and in Germany made cooperation very complicated because French managers usually have a wider lever of authority and autonomy than German ones. When dealing with an issue, French managers look for a German counterpart but often the German manager they identify is not entitled to handle the problem. It is a German technician who is most appropriate, but this person is by no means a manager.

After merging, the lack of compatibility of the French and German power structures and decision-making processes surprised everyone: without any cross-cultural skills it becomes very challenging to move forwards. Cross-cultural mediation came to the help of several Franco-German mergers.

## AWARENESS OF CULTURAL ADJUSTMENTS

The over-reliance on hard skills when approaching international ventures is rooted in an under-estimation of the scope and depth of cultural differences.

Naturally, people make a judgment on the basis of what they see. In Western Europe, many people who are not culturally trained assume that there are very few -if any- cultural differences between the various European countries and subsequently many would not believe that they need to develop new skills to be effective and efficient across borders.

Yet large firms have learned that even neighbouring countries in Western Europe feature numerous cultural differences: for example, they enroll their employees in cross-cultural training sessions even when moving from the Netherlands to Belgium or from France to Germany.

By contrast, when people see visible differences, the level of motivation to enroll in a cross-cultural preparation is higher. Usually Asian cultures appear quite complex to Western minds and nowadays, large firms but also smaller firms and organisations, accept the idea of getting a cultural preparation before venturing in Japan, China, or India as well as other fast-growing Asian economies.

It is interesting to note that notwithstanding the industries and the size of the organisations, some countries show contrasting levels of awareness of the need to develop their nationals' cross-cultural skills.

The most aware would consider these soft skills as important as the hard ones. The universities of these countries consistently offer a range of degrees and courses devoted to the study and understanding of cultural differences. For example, there are degrees in cross-cultural communication, in cross-cultural management, in cross-cultural marketing and in cross-cultural human resources management.

In these countries, beyond the academic field, there is a wide range of cross-cultural experts who provide their services to large segments of the population: diplomats, researchers, journalists, consultants, civil servants and other experts of these countries are systematically trained before heading to foreign working places. In Western Europe, countries such as the Netherlands, Germany, as well as Scandinavian countries are leading actors in the field.

In other countries, the cross-cultural field is not yet widely known and only some of the local academic institutions offer research and academic programmes in this area. In some cases, only chapters of books refer to the existence of intercultural differences.

Even when there is a local availability of cross-cultural courses, this does not mean that all actors involved in internationalisation are taking them or even made aware of their existence.

For example, experts in international trade or engineers leading international projects may have never been given any exposure to these courses during their studies and training. They may subsequently have a limited view of how cultural differences will impact on the various stages of their international activities and work.

Finally the intercultural field is rather recent and those who have a significant experience in internationalisation might have only learned the visible cultural differences that they have come across during their working experience. They may remain unaware of the impact of invisible cultural differences and despite their long experience, remain unaware of their impact.

## THE LEVELS OF CULTURAL ADJUSTMENTS

Cultural differences come in various shapes and sizes, and handling them effectively therefore requires different levels of skills. Here are some illustrations:

Appropriately greeting a Japanese counterpart requires some knowledge of the rituals in Japanese society. Such a type of adjustment is easy to grasp and to practice. It can also be repeated at each occasion without too much preparation.

Respectfully expressing a disagreement in the same culture gets a little more complex but it can be learned and practiced under the monitoring of an expert. The adjustment features the acceptance of the relevance to adjust one's own communication style and the skills to adopt a different style. As disagreements are not predictable, foreigners need to have a sufficient practice of appropriately expressing their disagreement in the target culture. Otherwise they may naturally return to the way appropriate in their home country, which can adversely impact on trust building and success of the deal.

Effectively promoting one's own products to a Japanese potential client combines both the reshaping of 'what' will be said, shown or hidden and the reshaping of 'how' the message will be conveyed. The adjustment will therefore be a longer and more complex process than in the previous case.

Fixing a problem between clients and suppliers from different cultures also requires the development of specific cultural skills. According to the diverse partners' culture worldviews, a problem for one of them might not be seen as a problem for the other. When trying to fix a problem, there might be some cultural misunderstandings if one side does not decipher the other side's intentions and might take the request for information or for clarification as a sign of defiance. In this case, a cultural briefing enables them to anticipate how a foreign partner could react to, and subsequently shape, an appropriate action.

Developing trust according to a foreign partner's culturally appropriate view of the matter can impose a complete challenge of what people take for granted. Developing a cultural awareness of the norms in the new culture is a pre-requisite to accept cultural adjustment. This is not easy as building trust is not a tangible act but a succession of actions, behaviour and reactions, and people tend to rely on psychology to explain and support the right way forward. When psychology does not offer an explanation to a behaviour/attitude, people lose all reference points and act without being sure that they can approach trust adequately. This is why practice with the support of cross-cultural experts is appreciated.

What these cultural adjustments represent in terms of new actions, behaviour, communication style and reactions depends of the culture of the people involved.

For example, the Dutch, Swedes and Germans use a direct communication style which will likely result in them misperceiving the intentions of their Japanese and to lesser extent French counterparts who both adhere to a more indirect communication style. However, the French indirect communication style is not similar to that of the Japanese and the French may face some other challenges when getting into a heated debate with their Japanese counterparts who favour harmony and face saving.

The collision of different perceptions of what is right, respectful, professional and trustworthy can result in ineffective international synergies if these perceptions are not properly managed by partners.

Through the development of cross-cultural skills, people learn to anticipate the cultural challenges that they will face when dealing with people from a different cultures and subsequently they can prepare for international encounters better.

Cross-cultural skills are increasingly perceived by large firms as a cultural economic advantage.

#### *The demand for cross-cultural services*

Large firms request cross-cultural services either to maximise the chance of success of their international activities or to fix a problem, the root of which might be explained by cultural differences.

#### *Preventing intercultural misunderstandings*

The demand for services varies according to the type of activities undertaken.

For example, a short-term mission abroad undertaken by large firm's key decision makers or sales personnel may only focus on the cultural challenges during work-related activities; for example building trust, negotiating, business protocol and etiquette, communication styles and meeting dynamics are some of the areas where cultural differences will arise and where intercultural skills can be developed.

Remote international synergies such as interactions with a foreign supplier or client through various forms of virtual media have recently attracted an interest for developing intercultural skills. This is the result of challenging situations where the absence of face-to-face and contextual information makes it difficult to effectively perceive intentions and statements.

Longer missions abroad such as international assignments with the relocation of the large firm's employees and his/her immediate family are also the subject of a cross-cultural preparation where the employee, but also his/her accompanying family, can benefit from a cross-cultural training session. In this case, the emphasis is on both the work but also the non-work-related part of the assignment. The involvement of the employee's family in the training exercise ensures a smooth cultural transition as many failures in this category are caused by the poor ability of the employee's family to adjust to a new place of living.

A number of large firms have requested that their key executives to be enrolled in global leadership skills training. These sessions are deemed to cover a wide range of cross-cultural skills relating to the management of foreign operations, of multicultural teams of employees and of foreign clients or third parties.

The aforementioned cross-cultural services are usually requested by the human resources department of large firms.

However, during the training sessions, participants have more focused questions related to the various activities to be performed. As an example, they wish to know how they have to adapt their working style when giving instructions or when providing feedback in a specific foreign culture, but also when appraising foreign subordinates or when taking a decision. As a result, some specific cross-cultural training is developed on specific activities related to international human resources management, project management, or cross-cultural negotiation or management.

## FIXING CROSS-CULTURAL MISUNDERSTANDING AND CONFLICTS

The low awareness of the impact of invisible cultural differences on international work synergies has caused large firms to learn from their mistakes. In numerous situations, large firms find themselves stuck in a conflict rooted in different perceptions of a situation. They had not anticipated the difficulties that they went through and as a result, call for help.

When signing a contract, foreign trade partners might be unaware that their respective cultures will 'filter' the information. Subsequently, they will understand the words and the meaning of the contract through the values of societal culture. This shapes what is acceptable or not when it comes to interpret each sides commitments.

For example, for one side of the contract, the conditions are binding whatever happens while for the other side, it is fair to reconsider the conditions when a major change takes place in the international environment. These various perceptions and interpretations may not be made explicit before, during and when signing the contract, and subsequently they may trigger a conflict when each side acts according to their own definition of what is right.

Cross-cultural training may help to anticipate such cultural differences and ensure that the parties clarify all likely situations.

The same specific view of what is adequate and appropriate to do when changes take place in the external environment also impacts whether deadlines should be respected and whether people should be individually accountable for the outcome of their actions.

Cross-cultural experts get involved in these international conflicts and provide consulting services in view of reconciling the parties involved. They are also involved in other services such as when the employees of large firms struggle to adjust to a foreign working environment. The cross-cultural expert can be asked to attend meetings and help employees in deciphering a foreign partner's intention and behaviour.

Sometimes, the employees of large firms are aware of the need to adjust to the culture of a foreign working environment but they struggle to disregard their own culture in order to satisfy a foreign partner. In this case, cross-cultural coaching is an added value.

In other circumstances, employees lack the creativity to adopt new ways of doing things in a foreign environment. When employees witness that their usual way to address situations and people does not trigger the expected outcome, they have to improvise new ways. Without any reference or model, they often seem short of imagination or creativity to develop new ways.. Often this is a first experiment for them and they need some support to gain creativity and confidence beyond their familiar framework.

The learning curves followed by large firms have been very long, and today some are more aware of the scope and depth of cultural differences than others. Some have more experience in some parts of the world than others too.

The learning experience of large firms proves that activities and synergies operated in many of their departments are influenced by cultural differences.

## SMES AND INTERNATIONALISATION

The experience of large firms in the internationalisation of their activities offers an insight into the challenges of international human performance. The discovery of both visible and invisible cultural differences implies that numerous activities performed abroad require some cultural adjustment. Many of these activities will be performed by SMEs during the internationalisation of their activities.

Among them, communication plays a major role. With regards to this, cultural differences between Japan and some European cultures are numerous and continue to be the subject of research.

For example a recent study by Jack, Caldara and Schijns (2012) shows that Western Caucasians and East Asians look at different parts of the face to observe emotions. However, an accurate interpretation of emotions plays a major role during the initial phase of internationalisation: EU SME representatives visiting potential Japanese clients or suppliers might be confused by how the Japanese respond to the presentation of their products/ services, or to their offer. Conversely, the Japanese may be confused

by their foreign counterparts' display of emotion. The resulting mis-perceptions can disorient both partners who may not feel comfortable in furthering discussions.

Another example features the difficulty for European SMEs to perceive and interpret the meaning of silences in Japan. On their side, the Japanese might evaluate with a biased cultural reference their European counterparts' reaction to their silence. Literature offers examples of failed deals as the Japanese interpreted the counter-offer made by their foreign partners as a lack of confidence in the quality of their products. On their side, foreign counterparts thought that Japanese kept quiet because they were not satisfied with their offer. Such cross-cultural misunderstanding deeply affects trust building as well as the outcome of business negotiations.

Communication in Japan requires a good grasp of business and social etiquette. This can feature a complex cultural adjustment for EU SME owners and representatives.

Besides communication, other areas are the subject of deep cultural differences.

For example, in Japan, doing business is only done after the building of a strong relationship between the parties and their firms. While this approach is also followed in some EU business cultures, it is not shared by others. Besides, the time and pace of the whole process of doing business is longer in Japan than in Europe. This can be interpreted by EU SME representatives as a lack of interest from their Japanese potential clients or suppliers.

Deep cultural differences will also take place during initial contacts and meetings but also during negotiations. The style and pace of negotiation, sharing of information as well as bargaining are rooted in different cultural expectations.

Finally, the decision-making process, and the communication of agreements, emphasise a specific Japanese way that EU counterparts should be aware of.

These activities highlight how much culture matters and how often cultural differences, both visible and invisible, will pervade interactions.

This raises the question of which cross-cultural skills should be developed when operating in a Japanese business environment.

Prior to this, it is important to be reminded of the golden rules of international business. According to them, the seller is expected to adapt to the buyer. A second rule states that the visitor is expected to observe local customs.

This second rule implies that when EU SMEs visit Japan in order to find clients, EU SME representative has to observe Japanese customs. However, if they are visiting Japanese SMEs in search of suppliers, the first rule also applies: Japanese sellers will also have to adjust to the different EU visitors' cultural expectations.

This may come as a complete surprise to the Japanese who expect that counterparts understand and follow the Japanese way. Such expectation has also been observed in other countries that are 'island nations' and seem to typify isolated and homogeneous cultures. Nevertheless, the rule of the seller adapting to the buyer is widely accepted and EU visitors may be disappointed by the Japanese not abiding by this rule. They might subsequently not pursue the relationship building.

The cross-cultural skills that should be developed to ensure effective interactions depend very much on how visible the cultural differences are.

Visible differences are split into those who do not require any underlying explanation and those who do. Rituals such as greetings, gift and business card exchanges belong to the first category. They can be easily learned.

Others, such as adhering to the length and pace of the Japanese way of doing business, may require an understanding of the underlying meaning. Otherwise an EU SME representative may draw an inaccurate conclusion about a Japanese person's commitment and interest in doing business with them.

When it comes to develop the skills of handling invisible cultural differences such as when approaching the process and content of building of trust, skills are developed according to the following process:

- Being aware of one's culturally-based assumptions, perceptions and expectations,

- Develop an awareness of the Japanese perspectives,

- Develop an awareness of who should adjust to whom and when,

- Handling the cultural differences and drafting some mitigating measures.

Cross-cultural training usually develops these skills.

These various illustrations of cultural differences show that the location of the intercultural interactions is not the only factor that determines who should adjust to whom. Besides, even when one side is deemed to adjust, effective interactions may require some mutual cultural adjustments. As a matter of fact, when Europeans learn to decipher emotions on their Japanese counterparts' face, a positive evolution implies that Japanese also learn how to decipher these emotions on their European counterparts.

The discovery of the scope and of the depth of cultural differences increases the level of complexity for the internationalisation of SMEs.

This raises the question of whether SMEs that, by nature feature limited financial and human resources, can overcome the cultural challenges that internationalisation features.

An appropriate response to this question probably depends on various factors and some SMEs will find the resources to handle cross-cultural challenges while others may need external support to succeed.

Existing SME service providers might find it useful to include the intercultural dimension into their work and help in crafting more tailored-made solutions to the specific needs of SMEs.



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CHAPTER 2

# SEMINAR REPORTS



# “STRATEGIES FOR PROMOTING THE INTERNATIONALISATION OF SMEs IN THE EU AND JAPAN”

**21st November 2012, Tokyo**

and

# “CHALLENGES AND BUSINESS OPPORTUNITIES FOR EU SMEs IN JAPAN – AND HOW INTERMEDIARY ORGANISATIONS HELP SMEs SEIZE THEM”

**27th November 2012, Brussels**

## INTRODUCTION

SMEs are considered to be an important source of growth and jobs in both European and Japanese economies and “going international” is one factor for enhancing their growth potential. In Europe, for example, the EU’s ca. 21 million SMEs accounted for 99.8% of all enterprises active in the EU27’s non-financial business economy in 2008, and for 2/3 of its jobs. Promoting the internationalisation of SMEs is becoming increasingly important as a policy priority in both the EU and Japan as this will boost competitiveness and growth and will help overcome the current economic crisis.

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

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

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

challenges exist as Japan continues to be perceived as “different” and a difficult market.

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

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

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

- Tokyo seminar: [http://www.eu-japan.eu/global/events/internationalisation\\_sme\\_21112012.html?year=2012](http://www.eu-japan.eu/global/events/internationalisation_sme_21112012.html?year=2012)
- Brussels workshop: [http://www.eu-japan.eu/global/events/sme\\_internationalisation\\_27112012.html?year=2012](http://www.eu-japan.eu/global/events/sme_internationalisation_27112012.html?year=2012)

## “STRATEGIES FOR PROMOTING THE INTERNATIONALISATION OF SMES IN THE EU AND JAPAN”

21 November 2012, Tokyo

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

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

#### I – 1 “EU Strategy for Helping SMEs Seize Global Opportunities” [presented by Ms Dominique Lambert, Policy Officer, International Affairs & Growth Mission Unit, DG Enterprise & Industry, European Commission]

To start, we must recall the importance of SMEs and the rationale behind the EU policy dedicated to SMEs internationalisation. SMEs are the backbone of the EU economy: they contribute to nearly 60% of the EU GDP and, between the period of 2002 and 2012, created 85% of all new jobs in the EU market. At a time when the financial crisis persists, Europe needs its real economy more than ever to underpin the recovery of economic growth and jobs. In order to reverse the declining role of industry, the EU considers it crucial to mobilise all policy levers, including the SME policy.

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

- **Small Business Act for Europe<sup>1</sup>**: This is a broad set of pro-enterprise measures adopted in 2008 with three main goals: (1) to help SMEs alleviate administrative burdens, (2) to facilitate access to finance and (3) to support SMEs access to markets,

- **Small Business Act Review<sup>2</sup>**: In February 2011, the European Commission conducted a stock-taking exercise and adopted a review of the 2008 Small Business Act. Additional measures were also introduced,

- **Communication “Small Business, Big World – A New Partnership to Help SMEs Seize Global Opportunities”<sup>3</sup>**:

In November 2011, the European Commission adopted a Communication (i.e. a strategy paper prepared by the European Commission which includes measures and legislative

proposals) with the objectives of reviewing the existing support structures available to SMEs, identifying the main problem areas, proposing a set of measures where European-level action can add most value and setting out guiding principles for the most coherent and efficient use of scarce financial resources in priority markets.

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

The European Commission considers support for the internationalisation of SMEs as important because “being internationally active” strongly relates to a higher turnover. More than 50% of European SMEs which invest abroad, or SMEs which are involved in international subcontracting, reported an increase in turnover from 2007 to 2008, while the figure was only 35% if we look at all SMEs. Internationally-active SMEs also reported higher employment growth between 2007 and 2008. For exporters, the average employment growth rate was 7%, while it was 3% for non-exporters. The employment growth rate for importers for the same period was 8%, as compared to only 2% for non-importers. SMEs engaged in both exporting and importing achieved 10% employment growth and SMEs with foreign direct investment showed up to 16% employment growth in this period.

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

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

- **to provide SMEs with easily accessible and adequate information** on how to expand their business outside the EU,

- **to improve coherence** in order to avoid the potential dangers of the uncoordinated proliferation and fragmentation of support schemes,

- **to improve cost effectiveness** of support activities by reinforcing the cooperation between all suppliers of business support and by avoiding duplication of the instruments,

<sup>1</sup> Small Business Act for Europe, COM(2008) 394 final: [http://ec.europa.eu/enterprise/policies/sme/small-business-act/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm)

<sup>2</sup> Small Business Act Review (2011): [http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba\\_review\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba_review_en.pdf)

<sup>3</sup> Communication “Small Business, Big World – a new partnership to help SMEs seize global opportunities”, COM(2011) 702 final: [http://ec.europa.eu/enterprise/policies/sme/market-access/files/com\\_2011\\_0702\\_f\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/market-access/files/com_2011_0702_f_en.pdf)

- **to fill existing gaps** in order to establish a level playing field and provide equal access for SMEs from all Member States.

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

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

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

- **Enterprise Europe Network:** the network currently has 600 member organisations in 53 countries and will be enlarged to Canada and Brazil next year;
- **Regulatory and SME dialogues:** Regulatory dialogues with third country authorities aim to discuss trade and investment barriers and to explore remedies. SME dialogues are to exchange information between authorities on respective policies as regards to SMEs. The European Commission also established the “European Business Organisations (EBO) Worldwide Network” to provide a platform for organisations to meet regularly and exchange information on their activities,
- **Cluster support measures:** Organisation of partnering events and matchmaking opportunities for clusters and SMEs within clusters in countries which have established a cooperation framework with the EU in the context of the “European Cluster Collaboration Platform” (e.g. Japan, Brazil, India, Korea). Specific training measures and good practice exchanges to reinforce cluster services for internationalisation is also in place under the “Cluster Excellence and Cross-Sectoral Cooperation” action;
- **IPR helpdesks:** ASEAN and Mercosur IPR helpdesks are being planned in addition to the existing China SME IPR helpdesk,

- **Missions for Growth:** a new series of actions or “economic diplomacy” led by European Commission Vice-President Tajani to help European enterprises, in particular SMEs, to develop further economic cooperation, to promote investment, to understand better the business climate and to foster their presence in promising external markets. The countries already visited have been the USA, Mexico, Brazil, Colombia and Egypt. Future destinations will include Tunisia, Morocco, Chile, Peru, China, India and Russia.

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

**I-2 “Japanese Strategy for Promoting SMEs Internationalisation”** [presented by Mr. Hiromichi Moriyama, Director, International Affairs Office, Small & Medium Enterprise Agency, Ministry of Economy, Trade & Industry]

Awareness and discussions of the importance of SMEs for creating jobs and growth have significantly increased in Japan and in OECD countries following the Lehman shock. Overseas business expansion is becoming important for Japanese SMEs in a world economy where the centre of gravity is shifting towards emerging markets. Today’s economy surrounding SMEs is also characterised by the development of global supply chains as shown by the rising share of intermediate products in world trade flows. Expansion of the global trade in intermediate products has an important implication for SMEs who often play a significant role in manufacturing and processing intermediate products in the economy. The development of global supply chains explains the increasing number of Japanese companies (both large and SMEs) with offices in high growth rate countries, in particular, in the East Asian region.

To look at the current situation of the internationalisation of Japanese SMEs, the White Paper on Small & Medium Enterprises in Japan (2011)<sup>4</sup> shows that nearly 5,600 Japanese SMEs export products on their own and the number has grown steadily in recent years. There are also nearly 5,700 Japanese SMEs with subsidiaries outside Japan. According to the Basic Survey of Japanese Business Structures and Activities in 2010 by the Ministry of Economy, Trade & Industry (METI), nearly 80% of the overseas subsidiaries

<sup>4</sup> White Paper on Small & Medium Enterprises in Japan: [http://www.chusho.meti.go.jp/sme\\_english/whitepaper/whitepaper.html](http://www.chusho.meti.go.jp/sme_english/whitepaper/whitepaper.html)

of Japanese SMEs were located in China (42.8%) and other Asian countries (35.5%)<sup>5</sup>. The top 5 locations for the overseas subsidiaries of Japanese SMEs in 2010 were China (2,381 enterprises), U.S.A. (672 enterprises), Thailand (478 enterprises), Singapore (276 enterprises) and Taiwan (250 enterprises).

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

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

To put in place a better framework for supporting SMEs in overseas business expansion, the Japanese Government established a “Conference on Supporting SMEs in Overseas Business”<sup>6</sup> in October 2010. This conference concluded in June 2011 and identified actions for the following 5 key issues:

**Information collection and provision:** providing necessary information carefully for SMEs and providing consistent support by sharing support records across SME-support organisations,

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

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

**Marketing:** supporting product development, participation in international trade fairs and helping with marketing via the internet,

**Developing and securing human resources:** supporting the development of, and securing of, human resources for international business expansion,

**Financing:** enhancing financial consulting structures and facilitating access to finance,

**Improvement of trade and investment environment:** providing information on establishing business bases overseas and providing support on tax, labour and IPR matters.

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

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

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

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

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

The main target for JETRO’s export support operations is SMEs. In the seminar, two success stories of Japanese SMEs (in paper product manufacturing) were presented where Japanese SMEs with limited experience in international business developed unique



products and found new business opportunities abroad by using JETRO's support. Both success stories show that the international market can offer diverse opportunities for small enterprises with unique expertise or technologies when enterprises make efforts to identify new demands, innovate and introduce new or unique products or services in the sector.

For information on support and services offered by JETRO, refer to its website at: [www.jetro.go.jp](http://www.jetro.go.jp)

**I – 4 “Enterprise Europe Network” in Japan**  
[presented by Mr. Fabrizio Mura, Deputy General Manager, EU-Japan Centre for Industrial Cooperation]

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

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

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

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

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

A significant advantage of the EEN Japan service is that it is offered in both ways, that is, for European SMEs looking for partners in Japan and vice versa for Japanese SMEs looking for partners in the EU. For European SMEs looking for partners in Japan, the EU-Japan Centre provides a summarised version of a European company's request for partnership in Japanese. Summaries of

partnership requests from Japanese companies are also posted in English. A characteristic of the database search process is that the names of the companies are kept anonymous during the initial partnership search process. The database search process is currently split in two separate tools: a database for “business partnerships” and another database for “technology partnerships”. The technology request and offer database hosts 6,000 offers and nearly 1,000 requests, and each item is refreshed every six months.

The general process for partnership searches is as follows:

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

The EEN is a vast network and is characterised by access to a large, easy-to-use network of partnership facilitators within a standardised process where the confidentiality of user profiles is assured. The service is backed by the European Commission and is currently free of charge for Japan. The services provided by EEN members are not new. They include B-to-B searches and meetings and an information enquiry helpdesk to assist with the search for market, company and legal information. What is new is that the services have been expanded to form a large network with 600 multipliers, each with their own local networks. What is also new is that the tools and processes used to develop these services have been standardised and made available to all 600 network partners. The standardisation effort and the deployment of the tools were made possible with the use of the internet and an investment, at EU-27 level, into a large and secure database of enquiries.

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

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

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

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

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

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

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

1. Support for initiatives to attract foreign demand:
  - Developing sectors in which Japanese companies have international competitiveness,
  - Supporting the internationalisation of SMEs by promoting inbound trade and investment,
  - Overhauling the consulting and support frameworks for the internationalisation of SMEs,

- Increasing the volume and effectiveness of SME support by using the services offered by the private sector (e.g. the International Expansion Advisory System for SMEs by the Tokyo Chamber of Commerce),

- Strengthening the coordination between Japanese chambers of commerce overseas and the local chambers of commerce in Asia.

2. Support for strengthening their competitiveness from a global perspective (e.g. differentiation, prioritisation):

- Improving and enhancing the support for international expansion feasibility studies for SMEs,

- Supporting the development of international marketing and distribution channels for SMEs,

- Promoting and supporting international M&A (to take advantage of the strong yen),

- Increasing the scope of financial support for participating in trade fairs,

- Promoting greater use of industrial sites overseas by SME.

3. Improvement of international and domestic business environment (e.g. reform of government functions)

- In the field of Overseas Development Aid (ODA), developing businesses where SMEs can play a significant role,

- Developing human resources necessary for internationalisation,

- Diversifying fund-raising tools for SMEs and improving financial support,

- Strengthening the protection of IPR,

- Improving the trade and investment environment by promoting Free Trade Agreements, Economic Partnership Agreements and the Trans-Pacific Partnership (TPP),

- Promoting investment, tax and social security treaties with third countries.

Among these recommendations, the Tokyo Chamber of Commerce & Industry considers that increasing the support for feasibility studies of international expansion is an important issue. This is because, in reality, the number of SMEs who try to “go international” is relatively large but the rate of withdrawal or failure is also substantial. Proper feasibility studies to analyse the markets, potentials, risks and difficulties should help prevent some of the failures<sup>7</sup>. Recently, progress has been seen in this area, and the Japanese Government introduced, under the supplementary

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

budget for the 2011/2 FY, a scheme for providing financial support for feasibility studies for SMEs with a maximum threshold of JPY ¥ 3,500,000 (EUR €32,500) per company. 400 SMEs have applied for this scheme (four times as many applications as places were available) and the continuation of such a scheme is strongly advocated.

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

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

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

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

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

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

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

**II-3 “European SMEs, Rethinking their Needs and Potentials in Japan”**

[presented by Mr. Jean-Michel Mollier, Managing Director, ERAI Japan K.K.]

As illustrated in the previous presentations, supporting the internationalisation of SMEs is an important part of the EU strategy for competitiveness given the role of SMEs in creating jobs in the EU market (e.g. SMEs contribute to 67% of the total employment and created 85% of the new jobs in the EU market) and the still untapped potential for their internationalisation (only 13% of EU SMEs export outside the EU market).

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

**II-4 “Innovative Investment Structures and Industrial Equity Financing for European SMEs”**

[presented by Mr. Markus Janssen, Principal, Baker & McKenzie - Japan]

Mr. Janssen presented an idea for industrial equity financing for SMEs by first looking at the “chances” and the “challenges” of the globalisation for SMEs. A SWOT analysis shows that the “chances” may be found in: (1) internal “strengths”: innovative products and long-standing values, strong market standing, independent ownership and (2) external “opportunities”: hidden champions, attractive for equity finance and independence at value. The “challenges” could arise from: (1) internal “weaknesses”: globalisation limited to family view, hesitation to use finance as a hedge, reluctance to enter into alliances and (2) external “threats”: global competition excelling the SMEs’ business model, lack of finance (because of Basel III) and lack of management capacity.

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

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

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

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

**II-5 “Experience of a European Establishing Business in Japan”**

[presented by Mr. Michael Van Dorpe, President, Village Island Co., Ltd.]

Village Island K.K. is a Japanese SME in the digital TV industry (e.g. broadcast hardware and software development and distribution) established by a young, European entrepreneur in 2005. Its founder, Mr. Van Dorpe, talked about his experiences working with Japan and establishing a business in Japan.

Finding a good, European product which he believed would be successful in Japan was his initial motivation for establishing a

company in Japan. The key issues he learned from the experience of establishing a company and developing business in Japan is that:

“Good products” for “good customers” are necessary,  
As a new player in the market, it is necessary to gain the customers’ recognition in the market step by step.

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

Do not try to control the end-user price,

Make the business profitable for everyone in the distribution channel (e.g. intermediaries, end-users) and try to make profit from volume,

A stable and reliable interface is a key for customer and market recognition,

Entrust your partner and gradually build a long-term relationship with them,

Maximise the quality of your product. When quality issues arise, it is often too late and business may suddenly drop.

The success story of Village Island is also a good example of public support for developing human resources who could facilitate the link between the EU and Japanese industry. Mr. Van Dorpe was a participant of the EU-Japan Centre’s “Vulcanus in Japan programme”, which provides a 4-month Japanese language training and an 8-month company internship in Japan for European science & engineering students. Between 1997 and 2012, the programme produced more than 400 alumni, many of whom are serving as ‘bridges’ between Europe and Japan.

**Session III: Discussion – Perspectives for SMEs Growth and Internationalisation in the Framework of EU-Japan Business Cooperation**

The final session was a free discussion to share views on the internationalisation of SMEs in the framework of the EU-Japan business cooperation and included the following observations, ideas and recommendations.

On the issue of better informing SMEs is about the support available, one participant asked what would be the expected impact of the new EU measures on the SMEs’ awareness and access to information and how would the local organisations be concerned in this exercise?  
Response: Actions taken by the European Commission in

this respect will be done in close communication with, and through the participation of, the Member States and the EU Delegations in external countries (e.g. through the “SME Envoy”).

Equity financing for SMEs is often considered as the “kiss of death” (i.e. they pull out at the worse moment and SMEs are left out in the cold). Response: This is a classic problem associated with “private equity” but the idea presented today was that of “industrial equity” as opposed to private equity. It is a new concept which limits the maximum investment to 5-10% with terms which would respect the governance of SMEs but would help them overcome the challenges of globalisation.

In order to set the scene for discussions on better support mechanisms, it is necessary to identify a target group of SMEs and to have a good understanding of what types of SMEs we are talking about. For example, mechanisms such as the EEN may be effective for relatively large SMEs who are ready to engage in B-to-C business but, for a majority of the typical micro-enterprises we have in Japan, such mechanisms would mean time-consuming and challenging procedures in foreign languages.

In order to find opportunities for cooperation between European and Japanese SMEs, an investigation of the potential, projects, etc. in third countries is also important.

It is important to create or improve the mechanisms for match-making, facilitate the “integration” of high-tech components produced by Japanese and European SMEs and assist European and Japanese SMEs in joining forces to create added value with an international dimension. Effective meeting points in this respect either do not exist sufficiently or are not well utilised.

## “A WORKSHOP ON THE CHALLENGES AND BUSINESS OPPORTUNITIES FOR EU SMES IN JAPAN – AND HOW INTERMEDIARY ORGANISATIONS CAN HELP SMES SEIZE THEM”

27th November 2012, Brussels

### INTRODUCTION

A more detailed summary of the points raised in this event, together with copies of the presentations given, can be found at [http://www.eu-japan.eu/global/events/sme\\_internationalisation\\_27112012.html?year=2012](http://www.eu-japan.eu/global/events/sme_internationalisation_27112012.html?year=2012).

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

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

**Session I: Opportunities in Japan for European SMEs**

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

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

The Japanese Government is keen to support its SMEs in their overseas activities – they can benefit from information services, marketing advice, HR support and financing. JETRO is the main

Japanese body that can help non-Japanese firms with their Japan activities. JETRO’s European offices<sup>8</sup> can provide information. Help on offer includes rent-free office space and advisory services in an Invest Japan Business Support Centre (IBSC). Since 2003, SMEs have constituted the vast majority of the 320 European firms that have used IBSC facilities. Japan is an attractive market for European companies – its consumers have high purchasing power, appreciate innovation and rate European products as being the ‘smartest / most fashionable’ and ‘unique and the clearest’ when compared with Japanese, US, Korean and Chinese products. Products with these characteristics should succeed. An SME that began to internationalise in Japan is the Belgian biscuit-maker Maison Dandoy – it opened its first non-Belgian store there. Attractive and growing sectors that offer opportunities for SMEs include future energy systems, healthcare, automotive components, retail, ICT and biotechnology.

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

Based on his 30 years working with Japan, he believes current SME-support activities have not been properly targeted and, as a result, some SMEs failed to get the help they needed. Instead support schemes should be recalibrated:

Rather than treating SMEs as a homogenous group, they should be viewed as sub-groups based on the amount of ‘experience’ they have had with Japan and on their ‘needs’: (“Beginners” have very little experience and require general information, financial help and marketing assistance – Raidlight, for example, needed market information and help to find a distributor for its ecological and innovative niche product. “Intermediates” have some knowledge, experience and sales but are potentially unstable and could withdraw from Japan if dissatisfied, so need partners to support them – European Stretch Fabrics needed help to develop a step-by-step approach to find new customers to grow its business. “Advanced” SMEs have established relationships and have specific needs and should not need much persuasion to get them to invest further in Japan – Petzl needed help to find a distributor to develop a market in a new niche for its existing and successful product),

Avoid simplistic ‘mono-conceptual’ focuses to missions to Japan: Rather than having a single broad theme (e.g. ‘the automotive sector’) target sub-sectors (component suppliers, production equipment) as a greater number of SMEs will feel themselves covered by the mission. Similarly, rather than focusing on sectors / sub-sectors, by addressing themes which can apply across several sectors (e.g. ‘security’ can apply equally

to data, people or production processes, etc.) more SMEs can be helped,

Organisations providing support services should coordinate their activities better: thereby ensuring that SMEs that use them benefit from a genuine 'value chain' with coordinated assistance.

**I – 3 “Challenges and business opportunities for EU SMEs in Japan”**

[presented by Ms Honami Yatagai, Representative, Kanagawa Prefectural Government]

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

**I – 4 “Experiences of Cosylab in Japan**

[presented by Mr. Mark Pleško, CEO, Cosylab d.d.]

Cosylab d.d. is the leading supplier of control system integration to nuclear accelerators and other large physics projects. Its CEO's first visit to Japan pre-dated the creation of his company. A decade later his company was established and he had worked with Hitachi Zosen on the RIKEN project. He understood that Japanese laboratories respected Cosylab but were unsure whether its services would suit them and realised that he needed to establish a Japanese office. Having a well-respected (local) person to head the office was essential. A young Cosylab-trained engineer (who had previously had a work placement in the Slovenian HQ) was also required, while the company had expected to need a Cosylab manager although in the end the office head performed this role. A similar approach was envisaged for establishing footholds in Korea and China where small projects would gain reputation and local branches could be started. Management must be fully committed to any foreign venture, but should not interfere. The subsidiary had to be self-sufficient, with clear financial targets and able to identify its own business opportunities. With its specialised sales

focus, having an external representative was not really an option. Initial approaches made to the Slovenian Authorities did not prove particularly useful. However, JETRO Wien and specialist legal and accounting firms provided useful assistance.

Establishing a branch office in Japan can be challenging (legal and tax issues need to be addressed). Cultural differences exist (for example, Japanese people tend to prefer a fixed salary to receiving company shares). However, if large European world-class companies can open large branches in Japan, there is no reason why a world-class European SME cannot open a small Japanese branch. In its experience, it can be hard to sell a service in Japan, and it may be worth hiring Japanese students. Distance and time should not really be seen as being major problems. Matching cultures (through building or acquiring a 'social network', people exchanges and investing time) and motivating staff are essential.

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

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

**II- 1 “SME Internationalisation to Japan – Survey 2012”**

[presented by Ms Diane Van Bockstal, Director, EU-Japan Centre for Industrial Cooperation]

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

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

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

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

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

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

For information on the EU Gateway to Japan programme, refer to its website at: [www.eu-gateway.eu](http://www.eu-gateway.eu)

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

Another Commission-run scheme is the Executive Training Programme (ETP). Whilst Japan may be a difficult market, it is not an impossible one to succeed in. The programme’s business, language and cultural training can become the foundation of a business strategy for Japan. The compulsory in-company internship will give its participants practical experience of their sector and product in Japan. Participation in ETP provides benefits for the individual participant and for their company alike.

For information on the ETP programme, refer to its website at: [www.etp.org](http://www.etp.org)

**II-5 “SME support activities managed by the EU-Japan Centre for Industrial Cooperation”**  
[presented by Ms Jessica Michelson, Manager, EU-Japan Centre for Industrial Cooperation]

The EU-Japan Centre’s activities include running training courses for managers to give them first-hand understanding of Japanese business practices (both to help companies, largely SMEs, which are active with or in Japan and European companies that wish to apply best practice principles) and a new activity to promote international cooperation between clusters with a view to benefiting their SME members because clusters have an important role to play in helping SMEs develop and sustain their international activities.

For information on the EU-Japan Centre and its activities, refer to its website at: [www.eu-japan.eu](http://www.eu-japan.eu)

### Session III: Panel discussion and closing remarks

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

Daniel Cloquet supported the principle of brokerage events and company missions in Japan, but thought their effectiveness would be boosted by better informing Japanese companies about them. Cultural factors must also be considered and more could be done to promote the EEN ‘databank’ in Japan. He hoped that the EU-Japan Centre’s cluster mission would be the start of long-term cooperation, not a one-off activity, and suggested that considerable attention should be given to the follow-up of the mission. As regards the internationalisation of SMEs, more action should be given to ensure good visibility – particularly for those provided under EEN. He supported the idea of a new division of labour between service providers of European origin in Japan and elsewhere.

For Luc Hendrickx, a broader interpretation of the “internationalisation” of SMEs should be used: Instead of just focusing on SMEs that export or investing abroad, SMEs that import should also be considered. If so, the proportion of SMEs that are “international” would be 45%, not 25%. Bearing in mind that half of SMEs are 1-person firms, 45% is a significant proportion. Furthermore, the strong yen should be taken into account, as should the fact that Japanese tourists in Europe will use services offered by SMEs in Europe. SMEs need personalised support and differentiation should be made between “experienced” and “beginner” SMEs and between larger SMEs and micro-companies. Differences between Japan and the rest of Asia



mean that Japan should not be seen as a gateway to Asia. If an SME is to succeed in Japan, it must be willing to adapt its products to take into account Japanese culture and needs (e.g. labelling or packaging it especially for the Japanese market). Larger SMEs can often be less willing to tailor their product. Ideally, products should be 可愛い (kawai or 'cute') and attract women's interest. Japan is a difficult market, but once you have established a relationship you will have it for the long-term. Language can also be a problem in Europe – but language issues can be solved with interpreters. There are no quick solutions. Better recognition should be given to European and international standards and SMEs should have greater access to public procurement contracts in Japan.

Hiroshi Tsukamoto thought European SMEs could look to recruit Japanese students who have moved to Europe or to European students who have studied or had internships in Japan. Having a good advisor and tailoring your product are, indeed, both important issues.

Mark Pleško felt *the* most important message was that any SME looking to Japan must be fully committed to it. Only with such a commitment will the SME succeed because Japan can offer high rewards, but it is not a cheap market.





CHAPTER 3

SURVEY OF EU SMEs ON THEIR  
INTERNATIONALISATION  
TOWARDS JAPAN  
OBSTACLES, OPPORTUNITIES, SUPPORT



# SURVEY ON EU SMEs INTERNATIONALISATION TO JAPAN

By Diane van Bockstal

## BACKGROUND

Expanding beyond EU borders still presents small and medium-sized enterprises (SMEs) with obstacles, but the potential rewards of internationalisation for their growth are significant. The European Commission has therefore put forward a strategy to help European SMEs seize global opportunities by streamlining and strengthening the support available to them.

Businesses that internationalise their operations through exports, foreign partnerships, investments and cross-border clustering are more likely to create new jobs and enjoy growth, enhanced competitiveness and long-term sustainability. This has made the internationalisation of SMEs, which created around 80% of all new jobs over the past five years and which employ more than 90 million people in Europe, a priority for the EU.

### Seizing Global Opportunities

Encouraging SMEs to internationalise is closely tied to the objectives of the Small Business Act and its Review, according to which supporting these businesses is crucial to creating more jobs. Indeed, a 2009 study financed by the European Commission found that internationally active SMEs reported a growth in employment of 7% versus only 1% for SMEs without any international activities. Similarly, 26% of internationally active SMEs introduced products or services that were new for their sector in their country, while for other SMEs, this was only 8%.

While the evidence to support internationalisation is abundant, many SMEs encour-

ter significant obstacles to expanding their operations outside the EU. One factor is that SMEs must deal with complex issues, such as compliance with foreign laws, customs rules and protecting intellectual or industrial property rights, which can be daunting for entrepreneurs who may not be equipped with in-house expertise. As a result, while 25% of SMEs have developed their activities in other countries within the Internal Market at some point during the last three years according to the Report of the Study on the Opportunities for the Internationalisation of European SMEs, only about 13% of SMEs are active in markets outside the EU.

On the basis of these findings, the European Commission recently published a Communication entitled, ‘Small Business, Big World – A New Partnership to Help SMEs Seize Global Opportunities’. The objectives of this strategy are primarily to identify gaps in the current SME support network, address these in a cost-efficient way and thereby help these businesses to expand outside the EU.

“Major non-EU markets with strong growth rates represent significant opportunities for EU small enterprises,” said Antonio Tajani, European Commission Vice-President in charge of Industry and Entrepreneurship. “SMEs are Europe’s main economic strength. To help them to better exploit their potential in the global arena is a clear priority to boost competitiveness and create employment.”

(source: <http://ec.europa.eu/enterprise>)

Methodology of the survey conducted by the EU-Japan Centre among European SMEs working with or in Japan, or planning to do so

Without an exhaustive database of EU SMEs working (or planning to do so) with Japan, the EU-Japan Centre relied on the support of ca. 300 EU organisations, identified in a previous EU-Japan Centre mapping exercise as providing support for SME internationalisation towards Japan. These organisations, located in both the EU and in Japan (local representatives), included chambers of commerce, development or export agencies, EU member states embassies in Japan, clusters, research centres etc...

Our request for support was mainly aimed at 235 of these organisations that acknowledged having SMEs working (or planning to do so) with Japan within their network. The EU-Japan Centre asked these intermediaries to circulate a questionnaire among their respective SME networks between May and October 2012.

Besides this most welcome support, the EU-Japan Centre distributed the questionnaire by:

- 1) Working with its own network of alumni working in EU SMEs,
- 2) Contacting the directors in charge of SME development departments within Governmental offices of member states,
- 3) Using EU-Japan Centre information tools: newsletter, LinkedIn and Twitter.

The questionnaire took into consideration both the results of a previous study

commissioned by the European Commission: “*Opportunities for the Internationalisation of EU SMEs*” completed in June 2011, and the expertise and experience of the EU-Japan Centre on the needs of SMEs in their internationalisation towards Japan.

The questions of the survey focused on:

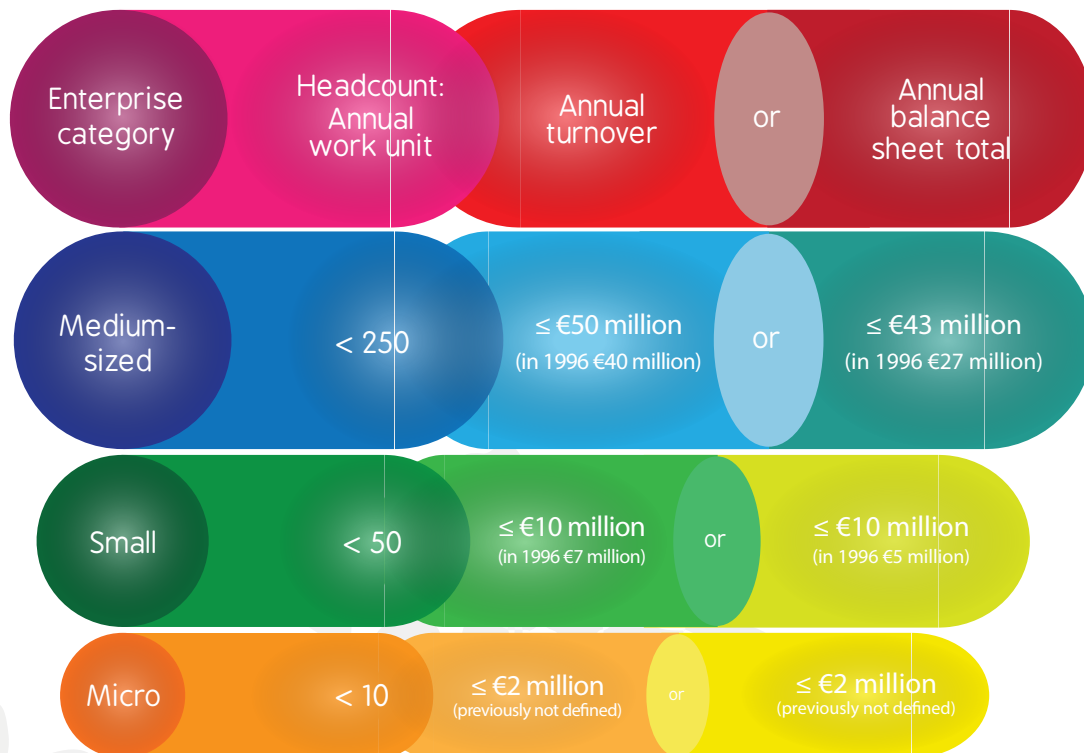
- The type of support SMEs have received (or still need) in their internationalisation towards Japan,
- The efficiency of the support received,
- The difficulties faced by SMEs in their internationalisation towards Japan,
- The identification of SMEs (industrial sector, type of activity, localisation).

A total of 126 valid replies were returned to the EU-Japan Centre.

*We would like to express our thanks to the intermediary bodies that agreed to circulate our survey, and to the 126 SMEs who took the time to fill in the questionnaire, for their precious help.*

## GRAPHIC: SME CRITERIA

(source: <http://ec.europa.eu/enterprise>)



In EU terms, an enterprise is considered to be an SME if it:

- Employs fewer than 250 people and,
- Has an annual turnover not exceeding EUR 50 million and/or an annual total balance sheet not exceeding EUR 43 million

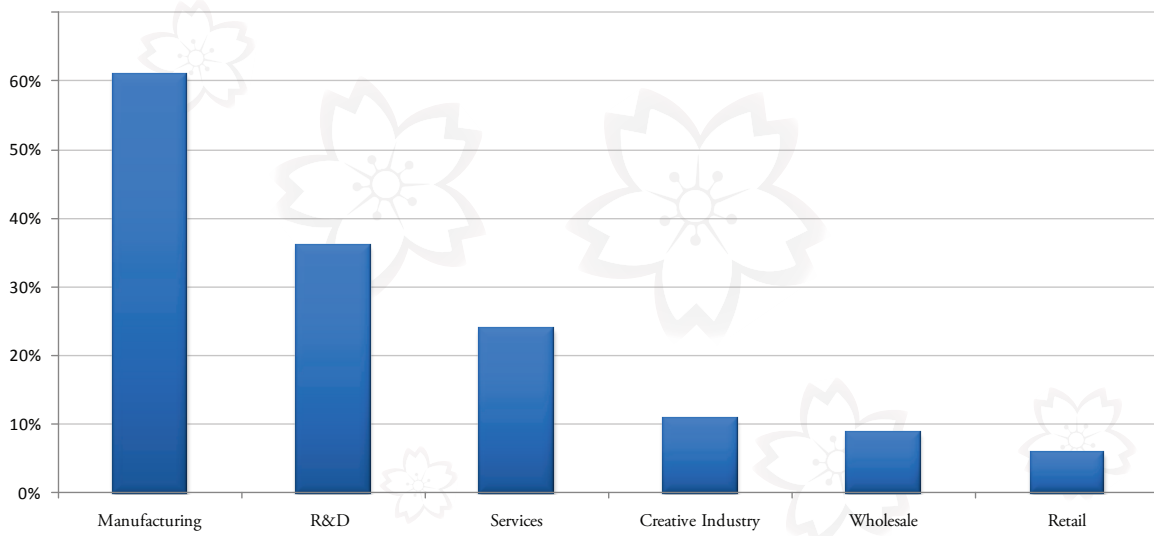
A SME must also be autonomous. It is considered autonomous provided that no more than 25% of its capital or voting rights belong to one or several other enterprises which themselves do not meet the definition of a SME.

## PROFILES OF RESPONDENTS

The 126 respondent SMEs can be profiled as follows:

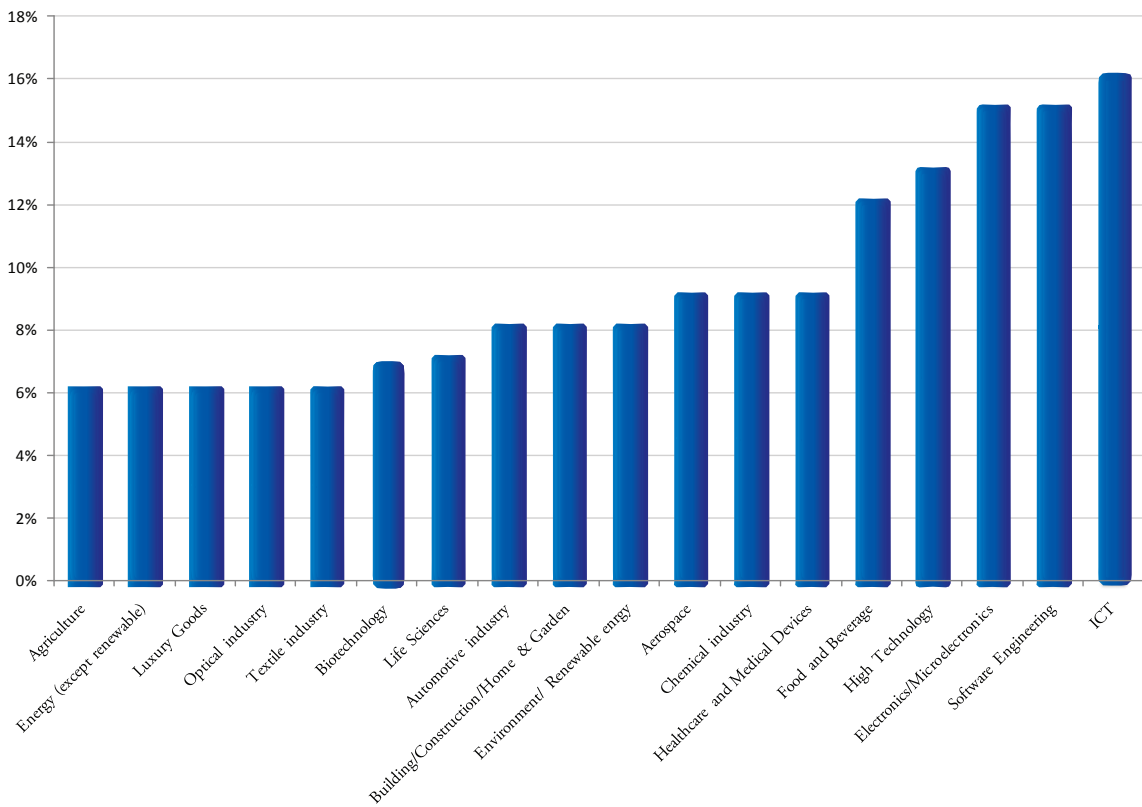
- 17 out of 27 Member States were represented among the respondents (BE – BG – CZ – DE – IE – ES – FR – IT – LV – HU – NL – AT – PT – SI – SK – FI – UK),
- 75% of respondents were SMEs already active with or in/with Japan, whilst 25% were not at the time of questionnaire completion (but plan to do so if and when certain conditions are met),
- More than 60% of the respondents were manufacturers, 25% were service providers and 35% were involved in technology transfer.

GRAPHIC: TYPE OF SURVEYED SMEs' ACTIVITY



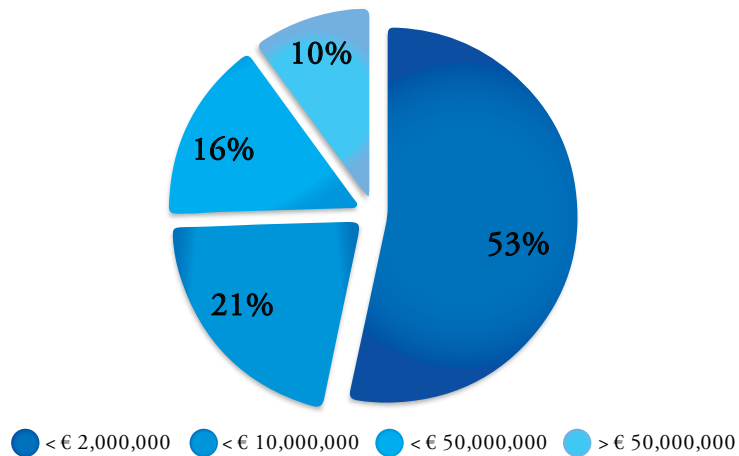
GRAPHIC: SECTORS

- The sectors most represented among the respondents included:
  - ICT (16%),
  - Software engineering (15%),
  - Electronics (15%),
  - High Tech (13%),
  - Food and beverage (12%).



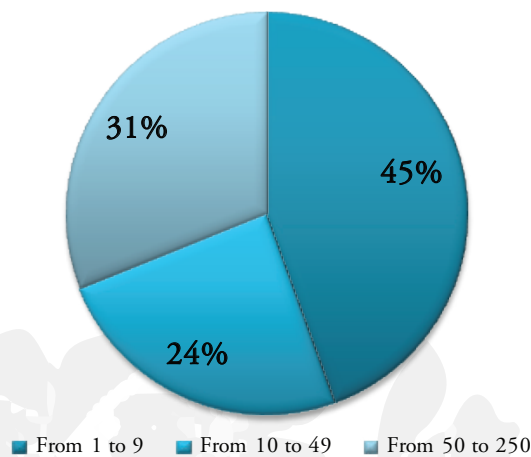
GRAPHIC: ANNUAL TURNOVER

- Approximately half of the respondents had a turnover under 2 million EUR.



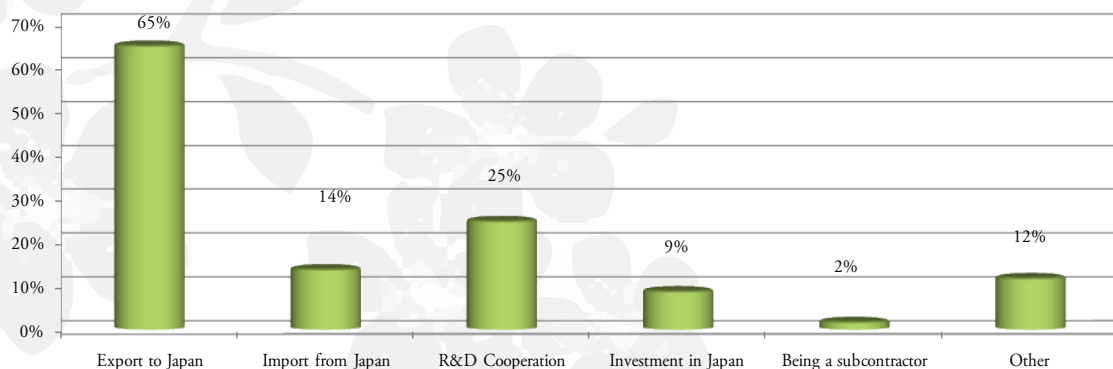
GRAPHIC: STAFF HEADCOUNT

- In terms of number of employees, nearly half of the respondents had fewer than 10 staff.



GRAPHIC: NATURE OF BUSINESS WITH JAPAN

- And finally in terms of the nature of business with Japan (for those SME who are already working with or in Japan), 65% of respondents export to Japan or are involved in technology transfer (25%).





## MAIN RESULTS

### GRAPHIC: MAIN OBSTACLES

The obstacles most often mentioned by respondents include:

- Language barriers (55%),
- Difficult to grasp business practices,
- Costs,
- Difficulty in understanding the local laws or regulations,
- Conforming to Japanese standards.



Results obtained for SMEs which are already active in Japan showed that:

#### for SMEs which are ACTIVE IN TRADE ACTIVITIES

The obstacles that were mentioned most often included:

- Language barriers,
- Costs,
- Difficult to grasp business practices,
- Difficulty in understanding local laws or regulations.

#### for SMEs which are ACTIVE IN NON-TRADE ACTIVITIES (FDI / R&D)

The obstacles that were mentioned most often included:

- Language barriers,
- Difficult to grasp business practices,
- Difficulty in understanding local laws or regulations,
- Bureaucracy (administrative procedures).

The obstacles that were mentioned most often by SMEs who haven't yet succeeded in working in or with Japan (so still in a preparatory phase), include:

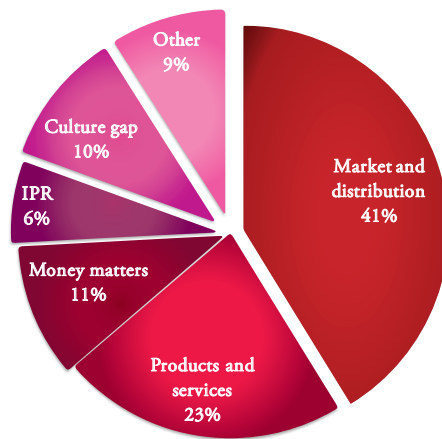
- Language barriers,
- Costs,
- Difficult to grasp business practices,
- Conforming to local standards.

Globally, SMEs claim to need:

- Basic information (for 45%): such as existing information, surveys or statistics, lists of contacts or directories etc.,
- Advanced information (for 30%): such as custom-made information, expert advice, coaching or training),
- Operational support (for 25%): practical guidance.

When it comes to information needs (basic + advanced), requests mainly relate to a need for information on markets and distribution (+/- 40%), and products or services (+/- 25%).

GRAPHIC: NEED FOR INFORMATION  
NATURE OF REQUESTS



GRAPHIC: NEED FOR INFORMATION -  
MOST PREVAILING REQUESTS

The top 5 specific needs related to:



GRAPHIC: NEED FOR SUPPORT - MOST  
PREVAILING REQUESTS

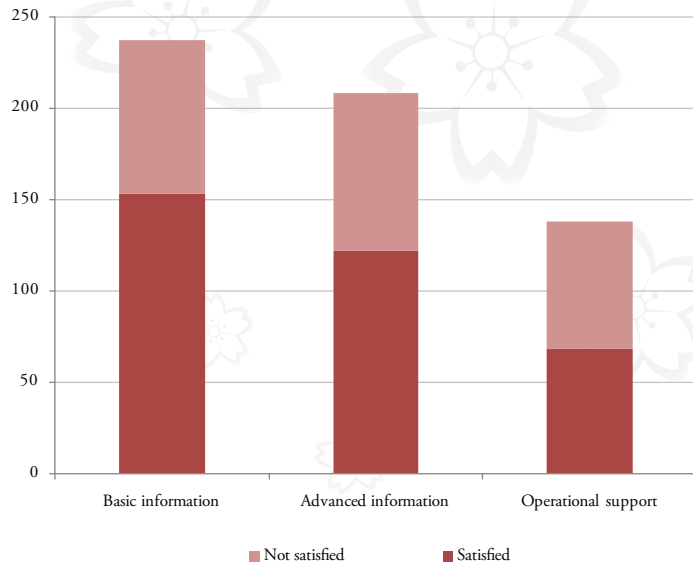
Whereas when it comes to PRACTICAL SUPPORT (vs INFORMATION), the specific needs most frequently expressed were:



How do users evaluate the services on offer?

The numbers of respondents expressing a level of non-satisfaction (not useful or stating that the support or information was not relevant to them) is approximately the same for all services, but the proportion of non-satisfaction is much higher for 'support' than for 'information'.

GRAPHIC: EVALUATION BY USERS

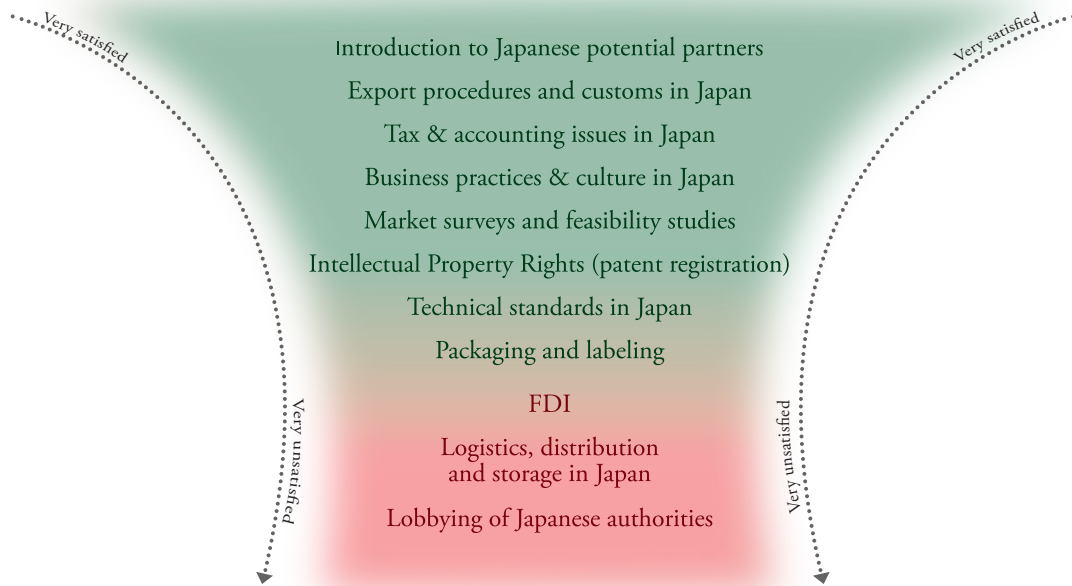


In the following three evaluations, users ranked requests (for either information or support) according to the degree of satisfaction vis-à-vis the response (information or support) that they received (from very useful at the top to very irrelevant at the bottom, or from very satisfied at the top to very unsatisfied at the bottom).

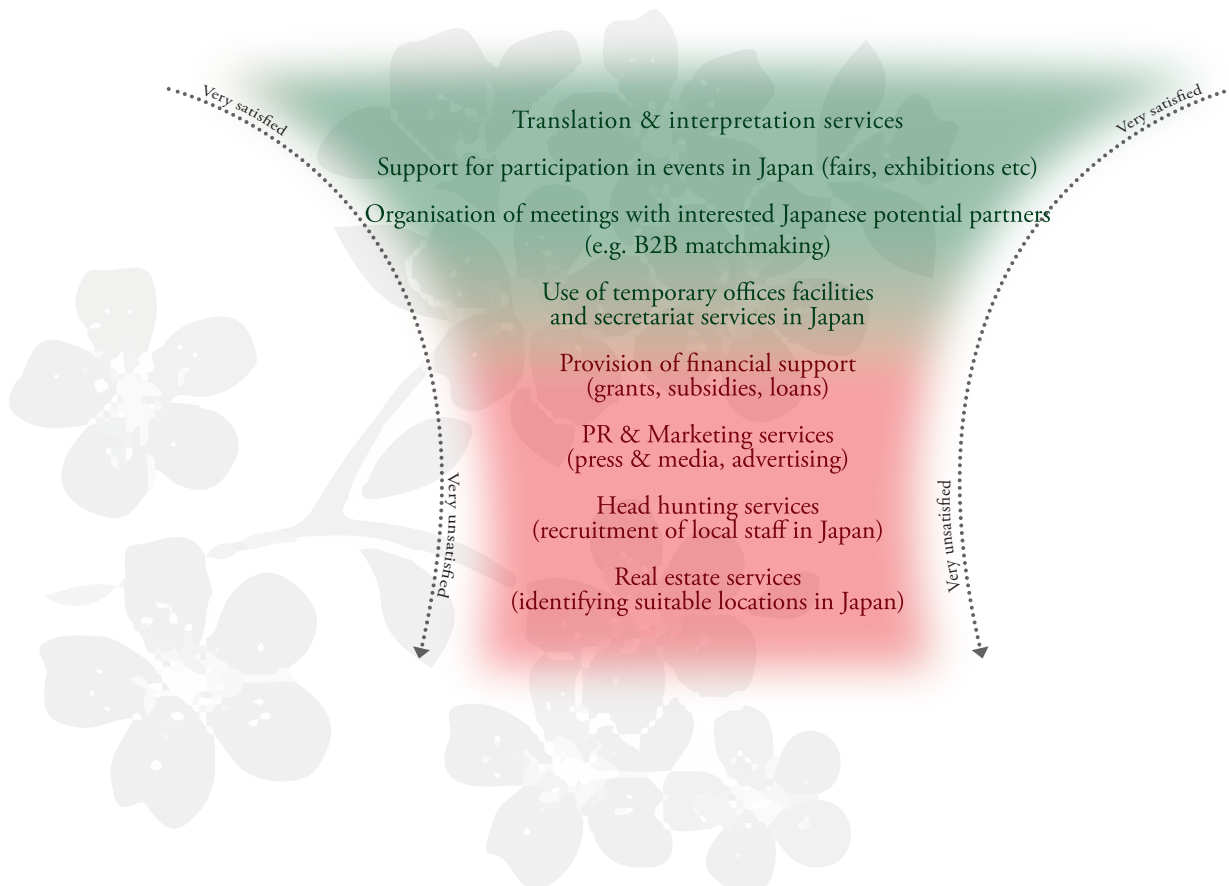
GRAPHIC: EVALUATION - BASIC INFORMATION



GRAPHIC: EVALUATION - ADVANCED INFORMATION



GRAPHIC: EVALUATION - PRACTICAL SUPPORT



## CONCLUSIONS

Clearly for all European SMEs, the **language barrier** remains the number one obstacle when establishing technology or business partnerships with Japan. The gap in **business practices** ranks next.

The search for **potential business partners**, then the actual opportunity to meet up with them, either through public events, such as fairs or exhibitions, or through individual **B2B meetings**, remains the principal practical difficulty indicated by respondents in this survey.

The **financial** support made available for SMEs is another major source of concern. Cross-border cooperation costs a lot, and SMEs cannot afford to spend on potentially risky business.

Whereas some obstacles might find a breakthrough in the context of the expected forthcoming negotiations process with Japan for an FTA/EPA, the EU measures aimed at promoting international cooperation for SMEs will have to be calibrated according to the needs expressed recently by their “customers”, the SMEs, and in this context this survey might play a useful role.

The following pages provide a succinct presentation of the EC supported programmes and projects that currently exist, and which at least partially meet the needs expressed by the SMEs, particularly in the areas of information, language and business/marketing support.



## SERVICES THAT PLAY A ROLE IN SUPPORTING SME MARKET ACCESS TO JAPAN

### The EU-Japan Centre for Industrial Cooperation

Through the range of training programmes and missions it offers, the EU-Japan Centre positions itself as a provider of information and support specialised in ‘business practices’ - one of the major obstacles claimed by SMEs, whether they are active in trade or non-trade activities with/in Japan or not active yet in that market but planning to do so. Difficulties in dealing with local business practices rank just after Japanese language barriers.

“**World Class Manufacturing**” is an intensive one-week mission to Japan, which assists EU companies acquire a better understanding of concepts like ‘KAIZEN’, ‘JIT’, ‘TQC’, ‘TQM’ etc. Traditionally, this scheme mainly attracted large manufacturing companies. More recently however, the EU-Japan Centre has decided to increase its support to SMEs, providing them with financial aid (free registration and a small travel grant), which has led to a tremendous increase in the percentage of SMEs participating in this training mission. Therefore, if SMEs previously represented only 40-45% of participants, in the last three years, after the implementation of the financial aid, the percentage of SMEs has increased considerably making up 94% of the participating companies in the HTRP programmes and 75% of the participants in the DBP missions.

“**HTRP-Japan Industry Insight**” is a 4/5-week training programme in Japan helping EU companies take full advantage of Japanese business opportunities. It provides an in-depth approach, examining Japanese industrial structure, business practices and management through lectures, field trips and individual company visits. It is the opportunity of a lifetime to experience and understand Japan’s cultural and economic elements that account for its business and technological achievements.

“**DBP (Distribution & Business Practices)**” is a one-week mission in Japan helping EU companies to gain a practical understanding of the Japanese distribution system, to learn about the Japanese way of achieving customer satisfaction and to acquire practical tools useful for building an effective marketing strategy for the Japanese market. The mission helps participants understand how existing distribution chains (from manufacturers to retailers) successfully adjust their strategy to develop segmentation and product differentiation in the Japanese market.

#### “Cluster Support Missions” – a new support instrument

As part of a new policy aimed at promoting SME internationalisation through clusters, the European Commission, DG Enterprise and Industry launched an initiative in 2012 that contributes towards organising specific match-making events to support cluster organisations and their SME members in their efforts to develop partnerships and business cooperation in global markets.

In this context, the EU –Japan Centre decided in 2012 to replace the annual ‘DBP mission’ with a Pilot Cluster Mission in collaboration with Foundation Sophia Antipolis and supported by DG Enterprise and Industry. It is quite significant that the European Commission has chosen Japan to inaugurate its new policy support action on international cluster match-making support. This underlines the importance and business potential of this market as well as its par-

ticularities/difficulties. Not least, this was the first time that such an international cluster support mission was organised at EU level.

Thus, from the 12th to the 16th of November 2012, a delegation composed of 18 participants representing the most innovative European cluster organisations and accompanying SMEs in the field of Green Materials and Clean Technology went to Japan, during the “Green Innovation Expo 2012” (<http://www.jma.or.jp/green/en/index.html>). The aim of this trip was to establish a first contact with Japanese clusters and SMEs in view of further collaboration.

The mission was a success in the sense that it helped the European SMEs establish a first contact with clusters and SMEs in Japan and it created synergies between the different European clusters and SMEs representatives who together spent a few exciting days in Japan.

In quantitative terms, besides a large number of preliminary business contacts established, 16 B2B meetings and 5 C2C (cluster-to-cluster) meetings have been organised. Several cooperation agreements are being developed between European and Japanese clusters, and some B2B partnerships are being considered in the near future. These partnerships will be further discussed and decided upon after further information exchanges, video conferences and visits planned for the coming months.

Furthermore, this pilot mission has provided the opportunity to reflect on the challenges of organising such a large scale event combining different cluster organisations and business entities/SMEs and to draw some lessons and recommendations for future events within the same EC policy initiative.

In the future, the EU-Japan Centre will increase the effectiveness of its resources dedicated to international cluster cooperation in order to facilitate continuous and timely information on Japanese clusters (including an update and further refining of the comprehensive mapping exercise initiated in 2011), Japanese cluster policy, events and case studies, and supporting the organisation of regular/ yearly cluster matchmaking missions to Japan (and Europe).

### Executive Training Programme in Japan

The Executive Training Programme (ETP) is an intensive professional development training course which provides participants with pertinent knowledge of one of the strongest world economies and an in-depth understanding of the way in which business is carried out in East Asia. This programme broadens the horizons of EU corporations and enhances their business prospects in Japanese markets. This European Union funded programme has demonstrated continued success over the last 30 years in supporting European companies in developing their business plans and resources.

The Programme provides support for all the main barriers mentioned by SMEs, from the language barriers (claimed to be an issue by 55% of participants), to costs and business practices. SMEs make up about 54% of the Executive Training Programme participants, while the other 46% is made up of large companies.

To date, more than 1,000 European executives from over 800 companies and 20 different sectors have completed the programme and now hold prominent leadership positions in EU companies in Japan.

ETP also helps towards improving the companies’ networks in order to succeed in the Asian market, and all this is accomplished with the company bearing minimum costs. To do so, the EU funds the entire training course and provides a scholarship for each par-

ticipant of €26,400 a year. Sponsor companies are also encouraged to contribute to the living expenses of their ETP participants.

The ETP is divided into 3 stages: 3-weeks of introductory training focussing on the Japanese economy, culture and modern society in London, 30-weeks of intensive business, management and language training in Tokyo and a 12-week internship in a Japanese company.

Different teaching methods, site visits, guest speakers, networking events and internships enable participants to apply knowledge that they can immediately transfer to their companies. By the end of the ETP, participants will have developed a credible business plan for their companies to establish or expand their business in East Asian markets.

For more information: <http://www.euetp.eu>

### Gateway to Japan

EU Gateway Programme organises and funds Business Missions for European companies to develop their activities in Japan. It focuses on those industrial sectors considered to have a high potential in Japan such as: healthcare and medical technologies, construction and building technologies, information and communication technologies, environmental and energy-related technologies, interior design and fashion design.

Participating companies benefit from an attractive package of coaching, strategic and logistical services as well as financial support. Launched in 1994 and funded by the European Union, EU Gateway has since successfully aided more than 3,000 European companies.

Almost 100% of participants in the EU Gateway Programme are SMEs.

EU Gateway to Japan business missions contribute to a smoother entrance into the Japanese market. They assist EU companies in strengthening their networks, identifying possible business partners and sounding-out business opportunities in Japan's promising markets.

EU Gateway also assists in minimising the costs that typically burden the entrance into a new market. The provision of interpreters to assist EU companies in discussions with visitors and during individual meetings, thereby effectively dealing with the language barrier, is also possible upon request.

Unlike traditional business missions, the EU Gateway Programmes' dedicated team in Europe and Japan supports EU companies at every step with strategic, organisational and financial services and support.

For more information: <http://www.eu-gateway.eu/go.php?nID=22&page=Home>

### Enterprise Europe Network - Japan

Since 2008, the European Commission has launched an international network of SME supporting organisations called "Enterprise Europe Network (EEN)" With over 600 partner organisations located in +51 countries, the Enterprise Europe Network is the largest network of contact points providing information and support for SMEs in the fields of international business cooperation, innovation, knowledge and technology transfer and cooperation in EU programmes.

The partner organisations -members of Enterprise Europe Network- offer support to SMEs in the fields of international business cooperation, innovation, knowledge and technology transfer, financial sources and participation in EU-funded programmes.

Since January 2011, the EU-Japan Centre for Industrial Cooperation has been a member of Enterprise Europe Network and coordinates the Japan-related activities with the support of the Japanese Ministry of Economy, Trade and Industry (METI).

SMEs can take advantage of the network in a number of ways. These include: to find business or technological partners in Japan, to receive e-Alerts on business opportunities in Japan, to be supported during trade mission in Japan, to access to key information on the Japanese market and technologies, to benefit from support for pre-arranged meetings in Japan, to identify potential sources of finance or funding, to collaborate in R&D projects, or to have their company profiles promoted in Europe's largest business and technology database managed by the Enterprise Europe Network.

Given that many Japanese firms rely on personal contacts before they sign business deals, EEN offers a cost-effective platform to establish personal contacts and assess mutual business opportunities for EU SMEs in Japan.

Since its establishment, the total requests dealt by EEN Japan, covering the period from January 2011 until November 2012, amounted to 353 queries. Among them, 151 originated from EU Network partners, 94 from Japanese companies and 86 from EU companies. Most of the requests coming from EU SMEs were about searching for Japanese partners and Japanese market information, whilst the major issues for Japanese companies were about accessing information on EU regulations and standards.

Developing business in Japan can be relatively time consuming for foreign firms, which is reflected by the average amount of time it takes to sign Partnership Agreements (PAs). In order to speed up the partnering search process, the Centre is currently expanding its dissemination network in Japan through local partners such as Japanese Prefectures and Trade & Investment Promotion Offices.

For more information: <http://portal.enterprise-europe-network.ec.europa.eu> and <http://www.een-japan.eu>

### A "Mission for Growth" to Japan?

"The Missions for Growth" represent a more recent European Commission specific action aiming to stimulate the recovery of European industry and the economic growth through supporting the internationalisation of EU enterprises in promising markets. "The Missions" are lead by the European Commissioner for Industry himself, accompanied by large delegations of European companies interested in a particular market.

The objectives of these missions are to make a joint contribution to growth in the economies of the European Union and to those of the countries visited, to help SMEs to develop their international presence in the respective markets and to maintain the competitiveness of European industries.

Such visits make it possible to give a strong political signal about the importance that Europe attaches to economic and industrial relations with the countries concerned. The EU Commissioner for Industry has already conducted missions in Brazil, United States, Mexico and Colombia and, as of the end of 2012, similar missions are already confirmed for Egypt, Morocco and Tunisia.

Would such a “Mission” be feasible and effective in the case of Japan?

We can appreciate that although Japan and the Japanese market is certainly different than other previously targeted countries, and there are already regular and multilayered channels of dialogue and communication, such a mission could provide the necessary political impetus for a business boost, especially if it is to be focused on some particularly promising but yet insufficiently explored sectoral niches. In this context, we can estimate that the operation of the Galileo satellite navigation system by 2014-2015 could be a very good opportunity for an EC “Mission for Growth” aiming towards boosting the EU-Japan business and technological cooperation on space-related industries, including on the Galileo-enabled GNSS downstream industries and services which involve many innovative SMEs. In this context, the EU-Japan cooperation on the GNSS and the potential of GNSS market in Japan is already being investigated by the EU-Japan Centre for Industrial Cooperation through its participation in a related FP7 project (GNSS.asia) on promoting the Galileo System and the GNSS industries and services in Asia and Japan. Other relevant topics for such a “Mission for Growth” designed specifically for Japan could be the Green Tech Industries, as well as the collaboration on the raw materials, including rare earth which is a major topic of mutual interest.







CHAPTER IV

# “BIG IN JAPAN”: TESTIMONIALS FROM EU SMEs



SUCCESS STORIES 1

# JAPAN: A PIECE OF CAKE FOR DEBAILLEUL?

Mr Hans Pauwels, Managing Director  
Participant in “Distribution & Business Practices in Japan” 2007

DEBAILLEUL (BE)  
[www.debailleul.com](http://www.debailleul.com)



Established in 1983 by Marc Debailleul, ‘Meilleur Ouvrier de France’, Debailleul Products s.a. has its headquarters in Brussels, Belgium. It produces luxury cakes, ice-creams, chocolates and pastries.

In 2005, the company was acquired by Hans Pauwels, managing director, and his wife Reinhilde, creative director. The founder, Marc Debailleul, is still involved in the development of the product and acts as an ambassador for the brand.

With only around 40 workers, Debailleul remains a rather small company. Despite this, thanks to Hans Pauwels’s *strategy for growth*, Debailleul is now active in 20 countries with 70% of its turnover coming from exports (23% from exports to Japan).

The company has been active in Japan for almost a decade, and distributes its products through 5 permanent outlets and up to 70 ‘pop-up’ (temporary) stores that are open for two to three weeks (e.g. around Valentine’s Day).

For Hans Pauwels, the key words to consider when working with Japan include: *segmentation* (the Japanese market is the world’s most segmented), *hype creation*, *competitive markets*, *high business costs*, *complex decision-making*, *abstraction*, *efficiency* and *perseverance*. The decision to begin exporting to Japan, or working with the Japanese should not be rushed. “Only make it if you are committed to the long-term”.

Debailleul attributes its success in Japan (as well as in other markets) to the handcrafting of all of its products by trained chefs with the highest honours across every branch. Ingredients, in this case, play a key role. While Tokyo or Osaka are no strangers to quality cakes, gateaux, bonbons and luxury chocolates, it is Debailleul’s innovation with flavours and their French expertise that define them.

Debailleul’s products are not only mouth-wateringly appetising, but are a feast for the eyes as well. Led by Reinhilde Gielen, one of Belgium’s most reputed fashion designers; the brand has linked food to fashion, offering their chocolate products in ‘Couture’ and ‘Défilé’ Collections that are re-designed every year.

Teams led by either Marc Debailleul (MoF) or Philippe Rhéau (MoF), Debailleul’s current Executive Chef and Operations Manager, obtained Gold, Silver and Bronze Medals at World pastry championships in 1994, 2002 and 2004.



**DEBAILLEUL**  
LE TOUT EN SAVEUR

Quality is a leitmotif for Debailleul. It applies to the product itself (from the ingredients to their presentation), as well as their services and relationships with customers. This commitment to quality will only reassure customers to return every time.

To safeguard their craftsmanship, quality and authenticity, all the products are fully prepared in Belgium and shipped under the best and safest conditions to various markets world-wide.

In Japan, where pralines are wrapped individu-



ally in silk paper and sold by the piece, another unavoidable ingredient for their success is the image of refinement conveyed by this brand.

SUCCESS STORIES 2

# PLAYING WITH SCHLEICH IN THE MAGICAL LAND OF JAPAN

Mr Walter Haack  
Participant in “Distribution & Business Practices in Japan” 2007

SCHLEICH (DE)  
[www.schleich-s.com](http://www.schleich-s.com)



The first steps into the Japanese market date from 2007, when Mr. Haack, Vice President of Global Sales for the company, took part in the DBP managerial course held by the EU-Japan Centre for Industrial Cooperation. The course focused on understanding the Japanese distribution system and provided its participants with both the practical and theoretical support needed for the development of an effective marketing strategy. Thanks to DBP, Mr. Haack had the chance to meet many important executives and identify potential Japanese business partners, including a Japanese distributor which had been of crucial importance for the business.

Founded in 1935, by Friedrich Schleich, Schleich GmbH is a German company that produces toys, figurines and accessories. Its products are highly recognisable and are distributed worldwide, including Japan.

The company started as a supplier to the plastic industry. The now famous Schleich figurines first came to life in the 1950s. They are still popular and well known; for example, The Smurfs have been among the best known Schleich characters from the very early years until now.



In the early 1980s, Schleich GmbH added animal figurines to its range of products and has since extended this area. The animal play worlds created over the years are a true reflection of nature on a smaller scale.

Since 2003, Knights, The Wild West and Elves have also been added to the popular Schleich play worlds.

The design of the Schleich products and the creation of the required tools are done in-house. The production itself takes place at the company's German headquarters, as well as in a number of production facilities in foreign countries. Schleich products are marketed worldwide.

Schleich GmbH focusses on the quality and safety of their toys, adopting strict requirements that go beyond those prescribed by law.

The German origin and care for safety, combined with precision and perseverance, are probably the basis of Schleich's success in Japan.

After a number of years exporting to the Japanese market with the help of a Japanese distributor, Schleich decided, at the start of 2011, to start marketing its products through a wholly-owned Japanese Schleich subsidiary. Located in Tokyo, the subsidiary has been operational since July 2011. A team of seven Japanese employees are actively involved in successfully creating new business opportunities and managing existing accounts. The operation is being headed by Mr. Haack as its Representative Director.

In Mr. Haack's own words, "The seminar has led to an in-depth understanding of Japanese Business Practices and consequently an increasingly strong presence of our products in the Japanese market and I can truly say that your support has had a great impact on this success".

SUCCESS STORIES 3

# ON THE ROAD TO JAPAN WITH SPESSO GASKETS

Mr Giorgio Possio, CEO  
Participant in “Human Resources Training Programme” 2004,  
“World Class Manufacturing” 2005 & 2010

SPESSO GASKETS (IT)  
[www.spesso.com](http://www.spesso.com)



Founded in 1926, in Torino, Italy, to serve the growing automotive industry, Spesso Gaskets is a family-owned manufacturing company employing around 70 people. Spesso serves an increasing number of world-class customers in both of their main businesses: power train gaskets for Original Equipment and gasket sets for aftermarket vehicle maintenance.

Spesso's relationship with Japan dates back to the mid-1990s, when current chairman Giorgio Possio accepted an invitation to visit the Japanese company that later became Spesso's major industrial partner. It was love at first sight! Mr. Possio found that the technological and manufacturing excellence there, as well as Japan's managerial culture, was extremely valuable and decided that it should become the model for the company's future. That was the start of Spesso's journey in the Toyota Production System (TPS), which, as confirmed along the way, is not just a set of tools and

techniques for manufacturing, but a very effective way of thinking and managing that is applicable to all businesses and situations.

Throughout almost 15 years of intense co-operation with their Japanese partner, achievements have been made not only in technology and market share, but above all, in the behaviour that generates continuous company improvement.

In this journey of continuous improvement, which by definition is full of obstacles to overcome, Spesso Gaskets was accompanied on several occasions by the EU-JAPAN Centre for Industrial Cooperation.

“ *A simple indicator of the growth coupled with improved use of resources, was the four-fold increase in Spesso's sales per square metre* ”

The EU-JAPAN Centre for Industrial Cooperation has provided extremely useful and friendly support to Spesso's top executives and managers on a number of occasions. The Human Resource Training Programme and the Challenge Towards World



Class Manufacturing Programme have supplied them with valuable human resource training and development. In addition, an employee who had previously attended the Vulcanus in Japan program has been a valuable asset in managing a harmonious business relationship with Japan.

Spesso's efforts to transform the company's culture have also been supported by Torino's Industrial Association (Unione Industriale) and the Chamber of Commerce and Trade Unions. This support made it possible to train the entire company workforce, with the aim of improving all the company's business processes.

The association with Japan has yielded important results for Spesso, and the company has managed to grow steadily even during the recent difficult years for the automotive sector in Europe. A simple indicator of the growth coupled with improved use of resources, was the four-fold increase in Spesso's sales per square metre in the past 10 years, i.e. sales have doubled as plant surface has been halved. This could not have happened without the contribution of Japanese management culture and the support of the EU-JAPAN Centre for Industrial Cooperation!

SUCCESS STORIES 5

# MAGNIFYING JAPAN: ZOOMING IN WITH THE PREZI STORY

Mr Peter Arvai, CEO  
Participant in “Vulcanus in Japan” 2002

PREZI (HU)  
[www.prezi.com](http://www.prezi.com)



Peter Arvai is the CEO and founder of Prezi, the inspirational presentation tool that has grown to have 13 million users in 3 years. Peter has lived in six countries, founded two companies and currently lives in San Francisco and Budapest where Prezi has business operations.

Prezi is cloud-based presentation software that allows users to make zoomable presentations that are completely different from slides; the old technology that Prezi is working to replace. It was founded in Budapest in 2008.

As a presentation and public speaking medium, Prezi is frequently used as an alternative to slide shows and PowerPoint. The product has been used by numerous leading voices in business and politics to share and explore their ideas. Notably, The World Economic Forum is currently using Prezi as part of its presentation and media strategy. Many TED Conference speakers have used Prezi, including TED curator Chris Anderson,

who used a Prezi for his acclaimed TEDGlobal 2010 presentation: How Web Video Powers Global Innovation.

Teachers and school systems worldwide—from nursery to university—are increasingly employing Prezi to augment and enhance their pedagogy. In primary education, Prezi is often used as an interactive medium to bridge non-linear exploratory learning and more-linear instructional learning. In higher education, Prezi is sometimes used to present complex thoughts, narratives or other visual information.

Prezi is also a tool for visualising information online. Architects and visual design professionals use Prezi to showcase their work, and as a useful tool for design thinking. Media organizations use Prezi to help their readers navigate visual information.

In 2002, Peter took part in the Vulcanus in Japan program and this experience changed Peter’s approach to building a business. Peter says: “The Vulcanus pro-

gram helped me to develop a global perspective. In all my business endeavors I have been keenly aware that Sweden, my home country, is successful as a result of being an export-led economy. My international outlook was developed considerably by having time to dive deeply into Japanese culture.”



“Thanks to Vulcanus, I gained the confidence and experience to make a home for Prezi anywhere we need to be.”

Since the beginning, Peter was concerned with making Prezi a globally-successful company. Although the firm started in Budapest, it quickly entered the US market and today Prezi is already being used worldwide, with Korea and Japan among the first to have shown it. The two countries have published their first books on how to make beautiful Prezi presentations. Peter hopes that the firm can also establish an active presence in East Asia very soon.



gram helped me to develop a global perspective. In all my business endeavors I have been keenly aware that Sweden, my

SUCCESS STORIES 4

# WEAVING INTO THE JAPANESE MARKET WITH LINCASA TEXTILES

Mr Vidas Vaitkus, Manager  
Participant in “Distribution & Business Practices in Japan” 2008

LINCASA UAB (LT)  
[www.lincasa.com](http://www.lincasa.com)



Lincasa UAB is a modern business specialized in the manufacturing of linen and wool fabrics, blankets and home textiles. The company, based in Kaunas, Lithuania, produces garments for both men and women.

Although coming from a country still struggling to get a more noticeable place on the international market and employing less than a hundred people, Lincasa UAB is not a company to be underestimated. Its textile products are sold in many countries throughout the world such as Japan, the United States, France, China and Italy. Furthermore, if you are fond of industrial product fairs, Lincasa's textile products can be seen at international fairs held in major European fashion countries like Italy, France, Denmark and Germany. They can also be seen overseas, such as at the Interior Lifestyle show in Tokyo, Japan.

Lincasa UAB uses new generation German DORNIER weaving looms and French STAUBLY jacquards to manufacture high quality linen and wool textiles. The company uses Italian Tonello dyeing and washing equipment for fabric and garment dyeing. The use of new technologies allows Lincasa to achieve high quality, efficient production costs and competitive prices.

When Mr. Vidas Vaitkus saw that Japanese customers showed great interest in Lincasa's products during the 2004 and 2005 international fairs, he realised that the Japanese market was a huge potential business opportunity. At that time, the company started to cooperate with big Japanese companies like Franc Franc, BALS CORPORATION and others.

Wanting to know more about the Japanese market's habits and behaviour, Mr. Vaitkus applied to several Japanese management-oriented training programmes financed by the European Commission. Such programs consisted of the EU-Japan Centre for Industrial Cooperation's HRTIP, WCM and DBP programmes and the EU Gateway programme, of which he attended the latter two.

Both of these experiences gave Mr. Vaitkus a thorough understanding of the Japanese economy and society, while allowing him to develop a winning strategy for his company. He identified that it would be more beneficial for him to have his company, representatives and a permanent warehouse located in Japan, where he could immediately supply his goods; rather





than being required to export any ordered products from Europe to Japan.



Companies have to present unique/original products and could potentially hold good positions on the market.

Choose carefully the market segments you want to pursue and do a thorough market analysis (special sizes, terms, conditions etc.)

Consumers in Japan are looking for new experiences, so it would be wise to create a brand of products that convey some kind of emotional story.

Supply as detailed information relating to your product as you can.

Information is currently very important. Consumers tend to be information “hungry”- therefore it is wise to use innovative technologies to deliver new information and experiences to the customers through advertisements.

To be successful, you need to have a good background with distribution networks.

Trends effect the consumer’s decisions, so the market and customer behaviour are constantly changing. Be aware of these trends.

lincoso

In general, Japanese customers are not interested in quantity, but are looking for a certain targeted value. Value can mean different things for different people, so it is important to create various value concepts.

The Japanese market is very specific and orientated around the customer’s needs; they mandate high quality and friendly service.

High quality is imperative. It is crucial that all aspects of your product are perfect, including everything from the communication and product to the packaging and delivery.

Creating added value with innovative solutions is the challenge for every company entering Japanese market.

Keep your word and promises made to the customers.

It might be beneficial to take into account that the number of single Japanese households are increasing. The specific needs of this market segment may be an interesting opportunity for many companies.

Do not try to imitate Japanese companies. Find your own innovative way to present your products.



As a result, Lincasa UAB registered the Lincasa Japan Kabushiki Kaisha in 2011.

Based on his business experience in Japan, Mr. Vaitkus shared some success advice for European companies planning to enter the Japanese market (left).

The experience in Japan proved to be crucial for Lincasa, which is now making strategic moves using the Japanese know-how in China. In fact, thanks to the course, he was also able to apply his new skills when he visited Shanghai, where he met new business partners to whom Lincasa is now supplying its fabrics and ready-made items from Lithuania. The main aim of his company now is “to make their business more present, more competitive and to facilitate the work with their existing and new customers”.

Mr. Vaitkus was extremely pleased with the lectures given by Japanese teachers on how to register a new company in Japan. Mr. Vaitkus recommends all of the European Commission’s training missions. He believes they are well organized and enjoy a good reputation among the Japanese businessmen who are looking for serious and talented people.



SUCCESS STORIES 6

# HOUSE OF ANLI'S BAGS: CARRYING BELGIAN FANTASY TO JAPAN

Mr Panagiotis Lynas, Director  
Participant in "Distribution & Business Practices in Japan" 2008

HOUSE OF ANLI (BE)  
[www.houseofanli.com](http://www.houseofanli.com)    [www.houseofanli.jp](http://www.houseofanli.jp)



Established in 2001, the House of AnLi label is the brainchild of Belgian-born designer Anne-Jean Liétaer.

Anne-Jean grew up in a family of textile manufacturers. As a child, she was fascinated by the world of fabrics, colours and crafts, but she did not pursue her true calling until her career took her to Singapore. Whilst travelling throughout South-East Asia, Anne-Jean was captivated by the beautiful handicrafts in the region, and her creative instincts were once again invoked. She started as a freelance designer for private Belgian fashion labels and ultimately founded her own brand.

The label focuses on women who value originality and quality, and who love gorgeous pieces of stand-out accessories. The House of AnLi's creations are statement bags that are a joy to carry and collect. At the same time, they are also works of art that one can easily fall in love with.

The House of AnLi's creations and accessories are available in fine retailers.

#### JAPANESE MARKET

From the very beginning, the House of AnLi's collection was picked up by several leading Japanese department stores. The first one – being a trendsetter – was Isetan in Shinjuku. Centrally located and

with a reputation of selecting the world's finest merchandise to bring into Japan and present in its elegant and exclusive department store in Shinjuku, Isetan soon encouraged other department stores like Daimaru, Mitsukoshi and Takashimaya to carry the brand every season.

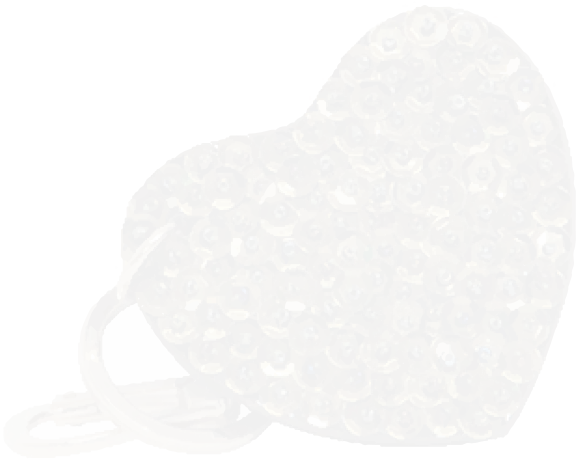
Due to the fact that so many department stores, wholesalers, select shops and independent boutiques wanted to buy the House of AnLi collection, very soon, we had to step in, in order to prevent the brand getting burnt-out, too fast, too soon.

Visits to Japan allowed us to understand the location and the importance of each retailer and to suggest a recommended retail price to avoid price conflicts. At the same time, we began to allow our customers to make-to-order, thereby avoiding conflicts, giving them the feeling of exclusivity and getting that special personalised touch from the 100% hand-made House of AnLi collection.

With an increase in the number of House of AnLi bags being sold in Japan,



**HOUSE OF ANLI**  
**BELGIUM**  
Bags • Hand Made with Love



we began to encounter our first quality issues. Although in Europe these slight defects may have passed quality standards, in Japan they needed our full attention. We quickly improved our quality standards, checking every bag thoroughly, and ensuring that they would comply with our customers' standards. This increased our quality standards overall, which has benefited our customers worldwide. Today, we are proud to say that we are

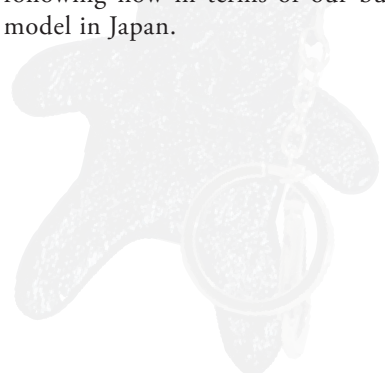
meeting the Japanese quality standards and the number of items with quality issues has been reduced to less than 0.5% of the total shipped quantities.

By listening to our Japanese customers, frequent personal visits and demonstrating our long-term commitment to Japan, we have boosted their confidence in our brand and this has significantly increased our sales.

ing to customers in pop-up stores inside department stores and starting our own Japanese website, have given us the opportunity to have more control over our brand image and allow us to build a longer-lasting business in Japan. Our next plan is to open a fully-fledged office in Japan in order to serve our Japanese customers better and increase our presence in the retail market.

As Japan is a trendsetting country in terms of fashion, we have also benefited from sales in surrounding countries thanks to our presence in Japan.

We have not used any subsidies and we have done all this using our own funds, which has not always been easy. However, the DBP programme organized by the EU-Japan Centre for Industrial Cooperation that I attended for one week in Japan, was of very high quality, extremely relevant for our business, and allowed us to choose the path that we are following now in terms of our business model in Japan.



After ten years of wholesale business in Japan, we decided one year ago to stop working with our distributor, and to begin direct business with major department stores by operating temporary pop-up stores in the most central locations.

In order to do this, we have hired two full-time Japanese staff in our Singapore office. They run the operations in these stores and manage our loyal business to business customers, who increase their purchases every year.

Changing our business model, going more into the retail direction ourselves by sell-

## SUCCESS STORIES 7

# L.M. POSTCARDS: A VIEW ON JAPAN

**Mr Michael Hartfelder, CEO**  
Participant in “Distribution & Business Practices in Japan” 2008

**L.M. KARTENVERTRIEB (DE)**  
[www.postcard-online.com](http://www.postcard-online.com)



L.M. Kartenvertrieb & Verlags GmbH is an internationally-established German producer of postcards and stationery products, focusing on the creation of trendy and fun items, specifically targeted at young people and at those “who never get old”.

L.M.’s clients are stationery shops, industrial partners, trend stores, museum shops and advertising agencies worldwide. Such customers are always “hip” and know what the market needs.

L.M.’s extraordinary, modern and eye-catching products are bestsellers all over the world.

Some examples? 3D-postcards and animated postcards, greeting cards, all kinds of lenticular products such as cards, folders, extra, extra large cards, stickers, magnets, pens, rulers, journals, bookmarks and luggage tags.

L.M. Kartenvertrieb’s brand name stands for professionalism and quality.

The proof? Awards like “BEST IMPORTED PRODUCT” at the 66th Tokyo International Gift Show, in 2008, and “BUYER’S CHOICE AWARD” for outstanding paper products at the 2010 and 2011 MSA Conference.

L.M. Kartenvertrieb has been exporting its products to Japan since 2000. At the beginning, it was very hard for them to face the different and very demanding purchasing habits of the Japanese and it was difficult to decode and adapt to the Japanese rules of behaviour and their way of doing business.

At that time, L.M.’s strategy for entering the Japanese market was to export only one line of modern products and hold until it worked well. That line was unique for the Japanese market.

The next step was to enlarge the range of products for export. It eventually became clear that Japanese customers had a preference for the most peculiar/eccentric of their products.

The Japanese prize for “Best Imported Product” had a universal effect on the business of the company, influencing both its establishment on the Japanese market and its market-positioning in all other markets.

Japan is currently the 2<sup>nd</sup> most important market for the company (around 30 %, against 10 % in 2005). The company has

five distributors overseas. Business is going extremely well, principally as a consequence of winning the award for the Best Imported Product to Japan in 2008, which vertically increased the level of brand-awareness and the volume of sales.

In 2008, Mr Hartfelder, CEO of L.M. Kartenvertrieb & Verlags, took part in the Distribution Business Practice Programme run by the EU Japan Centre for Industrial Cooperation.

During the DBP training course, Mr Hartfelder learnt about the different industrial sectors in Japan and gained an overview of the Japanese market. The knowledge gained during the course was useful to help further increase the company’s turnover in Japan.



After the DBP training programme, the company developed a product specifically designed for the Japanese market; namely, luggage tags. This product targeted businesses rather than private consumers, and was developed to acquire new segments of the Japanese markets.

SUCCESS STORIES 8

# VILLAGE ISLAND IN THE NIPPON ARCHIPELAGO

Mr Michael Van Dorpe, CEO  
Participant in “Vulcanus in Japan” 1998

VILLAGE ISLAND (JP)  
[www.village-island.com](http://www.village-island.com)



Michael Van Dorpe started his Japanese adventure in 1998 under the auspices of the EU student exchange programme “Vulcanus in Japan”, where he gained the opportunity to be a long-term participant within ASAHI KASEI. That experience gave him his first taste of a passion to discover a country little by little, and fortified his powerful fascination with Japan. Belgian-born, Michael ultimately took up residence in Japan and gained further work experience in different companies. In 2005, he founded his own company, Village Island Co., Ltd.

The key to his success? A mix of Japanese virtues: courage, humility, precision, perseverance... but also a good understanding of the Japanese way of thinking and of the Japanese market.

As of today, Village Island is a challenging, young and dynamic company that is well known in Japan and Asia for providing a wide range of audiovisual solutions;

for instance supplying the NHK (National Broadcasting Corporation) a system to offer “on-demand” footage of the 2012 London Olympic Games to Japanese mobile receivers. They also supply digital television broadcasting systems as well as many other products to all major players in the region.

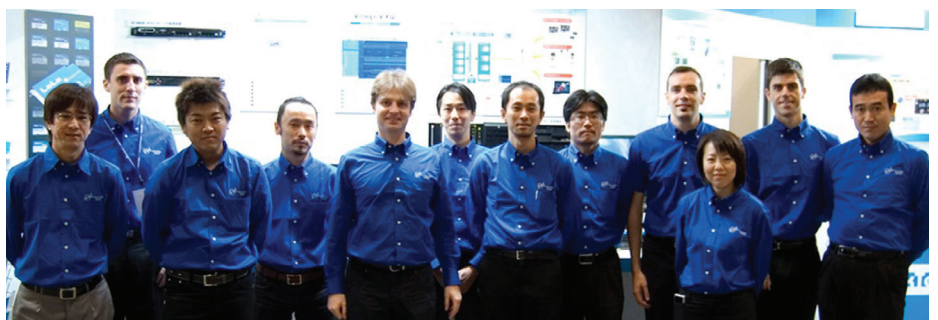
The name of the company is inspired by the virtual “Village” of the broadcast industry but also refers to the specific cultures in each region. The word “Island” evokes the archipelagos of Japan, Singapore, and other islands in South-East Asia and the Pacific, where the “Village Island” is based.

Since switching from analogue to digital, the broadcast world has taken advantage of the ever-growing capacity of CPUs by relying more and more on software. This opened the door for Michael to return to his childhood passion: software programming. Today, together with its team of talented engineers, Village Island supplies the industry with a large number of software packages.

The principal aims of *Village Island Co. Ltd* in Tokyo and their daughter company, *Village Island Asia Pte. Ltd* in Singapore, is to

resell digital broadcasting hardware and software (such as the famous brand DekTec from the Netherlands and many other brands from France, Belgium, the Netherlands and the United States); the development of digital broadcasting platforms; system integration and the promotion of digital broadcasting technology through events and seminars.

What started with a student exchange turned into a promising company that performs international business transactions linking Japan, South-East Asia, the Americas and Europe. The company grants the Asian region access to key Western technologies, while simultaneously trying to expand Japanese technologies on the world market. They have come to possess a customer base of hundreds of key players, with more than 500 systems and other equipment sold to system integrators, broadcast operators, TV/radio stations and equipment/STB manufactures.



SUCCESS STORIES 9

# A VIBRANT FLAVOR FOR JAPAN WITH CITROMIL'S LEMON PRODUCTS

**Ms Karin Bredenberg, Sales and Marketing Manager**  
Participant in “Distribution & Business Practices in Japan” 2008  
Participant in “Human Resources Training Programme” 2012

**CITROMIL (ES)**  
[www.citromil.net](http://www.citromil.net)



Located in the Murcia region, the largest lemon growing area in Europe, Citromil S.L. is one of Spain's leading lemon processors.

Although they specialise in the supply of all types of lemon-based ingredients for the food and beverage industry, they also supply other citrus products, such as orange juice and mandarin juice concentrate. They also supply a range of organic products using quality organic lemons and oranges.

Citromil's principal aim is to supply European standard products at competitive prices. The company's intermediate size enables them to be flexible and to easily adapt to each customer's specific requirements, for example by making both standard and tailor-made products. They strongly encourage all interested customers to contact them with any citrus-related enquiries they might have.

As the Sales and Marketing manager at Citromil S.L., Ms Bredenberg had already been

in contact with Japanese companies prior to 2008; though she had never travelled to Japan and was not really aware of how different things can be over there.

In 2008, Ms Bredenberg attended the Distribution Business Practice (DBP) course, and benefited from the great opportunity to gather information on Japan, on its business culture, and to strengthen relationships with her Japanese associates.

Although Citromil S.L. has a significant degree of export experience (indeed 90% of its products are sold outside of Spain), the Japanese market varies dramatically from the European one. The new knowledge acquired during the DBP course enabled Citromil to overcome many of the difficulties linked to the Japanese business culture, helping them identify the differences and face them in a positive way.

The Japanese market is largely closed-off, so it often takes long to find the right contacts. Thanks to the DBP course, Ms Bredenberg learned what resources could be most beneficial. Above all, she understood the importance of being patient and persistent. Business relationships in Japan are based on confidence and loyalty, although it can be very hard to gain a counterpart's confidence, especially if you are a foreign company. Answering many detailed questions can be a tedious and lengthy process. At the same time however, it is an abso-

lute requirement from Japanese customers in order to be accepted as partners. It is permitted to ask the partners questions, though you might not receive a “straight” answer. Learning about lifestyle, business attitude and some basic language helped Citromil increase their communication with partners, agents and clients.

Not long after the DBP programme, Citromil S.L. succeeded in concluding its first shipment to a Japanese customer. It took them three years to get that contract! Ms Bredenberg now uses on a daily basis what she learned during the course. DBP was so useful that she also decided to take part in the 4-week Human Resources Training Programme (H RTP) in 2012.



The EU-Japan Centre programmes have been a great help for Citromil S.L. in entering the Japanese market and approaching valuable partners. They have provided the basis for a long-lasting business relationship with Japan.

SUCCESS STORIES 10

# COSYLAB: A HIGH-TECH BRIDGE BETWEEN THE EU AND JAPAN

Mr Mark Plesko, CEO  
Participant in “Vulcanus in Europe” in 2009, 2010 and 2011

COSYLAB (SI)  
[www.cosylab.si](http://www.cosylab.si)

In the late nineties, Dr Mark Plesko brought together a group of physics students, based at the Jozef Stefan Institute, with the aim of developing a control system for a nuclear particle accelerator.

After they successfully completed this project in 2000, the group faced a dilemma: should they pursue further academic research, or should they pursue more applied work? They finally decided to found their own company and this is how Cosylab (Control System Laboratory) came into existence.

*Today, Cosylab is the world leader in controls for large-scale experimental physics facilities.*

Cosylab provides **system integration** and customer-adapted solutions, covering the complete area of control systems and instrumentation. They specialise in accelerators, tokamaks and radio telescopes. Cosylab employs over 60 engineers and physicists, expert developers and state-of-the-art electronics and software integrators. Their services range from writing specifications, through design and implementation, to installation. This whole-process approach provides a cost-effective, low-risk delivery of a control system for components at a fixed price. Cosylab offers deep inside knowledge and combines this with industry-standard development processes, including systems engineering, project management and quality assurance.

Cosylab’s customers are located in all five continents.

Thanks to its deep understanding of the community, the market, physics, the development



cycle and the specifications of large-scale physics facilities, Cosylab has developed partnerships with the world’s most advanced science and research institutions.

Cosylab is a flagship of the Slovenian high-tech industry and is recognised and supported by the Slovenian government and top officials. Cosylab is a recognised industry leader and Mr Plesko (CEO) is an elected member of the National Academy of Engineering: the highest honour awarded in the engineering profession.



Cosylab has worked on European Commission’s Framework Programme projects and between 2004 and 2008, Cosylab participated in the EU’s 6th Framework Dependable Distributed Systems (DeDiSys) Project.

Between 2009 and 2011, Cosylab hosted several Japanese trainees - university students in engineering and IT - for several months,

through the “Vulcanus in Europe” scheme run by the EU-Japan Centre for Industrial Cooperation on behalf of the EU Commission and the Japanese Government. Involvement in this scheme provided the springboard for the opening of a local branch in Japan in 2011. This branch, headed by Prof. Emeritus Dr. Shin-ichi Kurokawa, aims to deliver the company’s services in Japan effectively.

Today, Cosylab Japan not only represents the company, but is also able to provide some engineering services directly, ranging from writing specifications to implementing software. The staff based in the Japan branch understand physics, control systems, software, EPICS and all the associated jargon in this field. This means that customers in Japan can access services more quickly than previously, and in their native tongue. For those in Japan who were reluctant to ask a company abroad to do something, this branch eases their anxiety and solves their problems. This branch is intended to provide services not only in Japan, but also in China, Korea, Taiwan and other countries in Asia.

SUCCESS STORIES 11

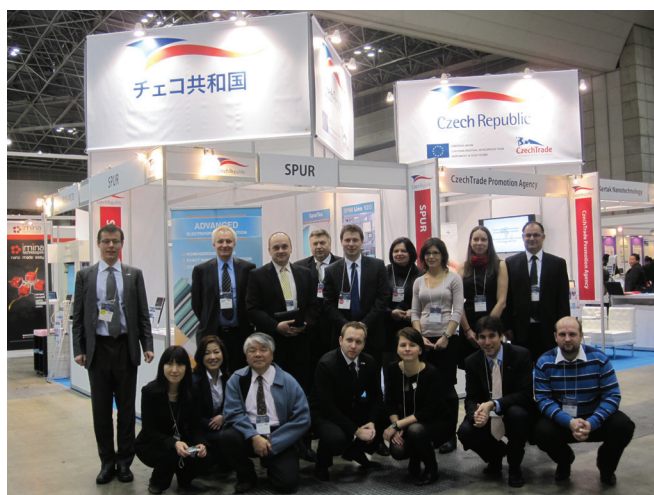
# CZECH TECHNOLOGY OUT IN JAPAN

Ms Eva Kudrnová, Technology Transfer Manager

TECHNOLOGY CENTRE OF THE ACADEMY OF SCIENCES OF THE  
CZECH REPUBLIC (CZ)

*Coordinating the Enterprise Europe Network in the Czech Republic*

[www.tc.cz/en](http://www.tc.cz/en)



The *Technology Centre of the Academy of Sciences of the Czech Republic* has a long tradition and know-how in technology transfer and SME business development. Since 1997, the Technology Centre ASCR has been a coordinator of European and national projects aimed at supporting the technology transfer of innovative ideas and products from SMEs, mainly within the framework of the international Innovation Relay Centre network. This network operated for more than ten years and developed a number of instruments. Since 2008, technology transfer has been one of the key elements of the newly-established Enterprise Europe Network. By including business services from previous Euro Info Centres and FP7 project information, this new network has created an integrated complex support mechanism for SMEs known as the 'no wrong door concept'. The Czech consortium is coordinated by the Technology Centre ASCR, has 11 partners and covers the whole of the Czech Republic.

in their Japan-related internationalisation process and to encourage them to promote business and research opportunities in Japan by giving them the opportunity to present their products and expertise, using EU-funded help, on the stand of the Technology Centre ASCR.



During the last two Czech company missions to the Nanotech exhibition in Tokyo, four partnership agreements were concluded. As the Czech Republic has a

large number of universities and innovative companies dealing with nanotechnology in various applications, two of them were signed by the Czech Institute of Nanomaterials, Advanced Technologies and Innovation, well known for its nanotechnology research results. This Research Institute started a co-operation with the Shinshu University in Ueda and one international company in Japan. The aim of this common research is to develop a technological preparation of nanofibres and to modify their surfaces, a very important influence on the properties of various materials. The benefit will be a long-term cooperation on a research work which will result in new innovative products in various applications with different nanotechnology surfaces.

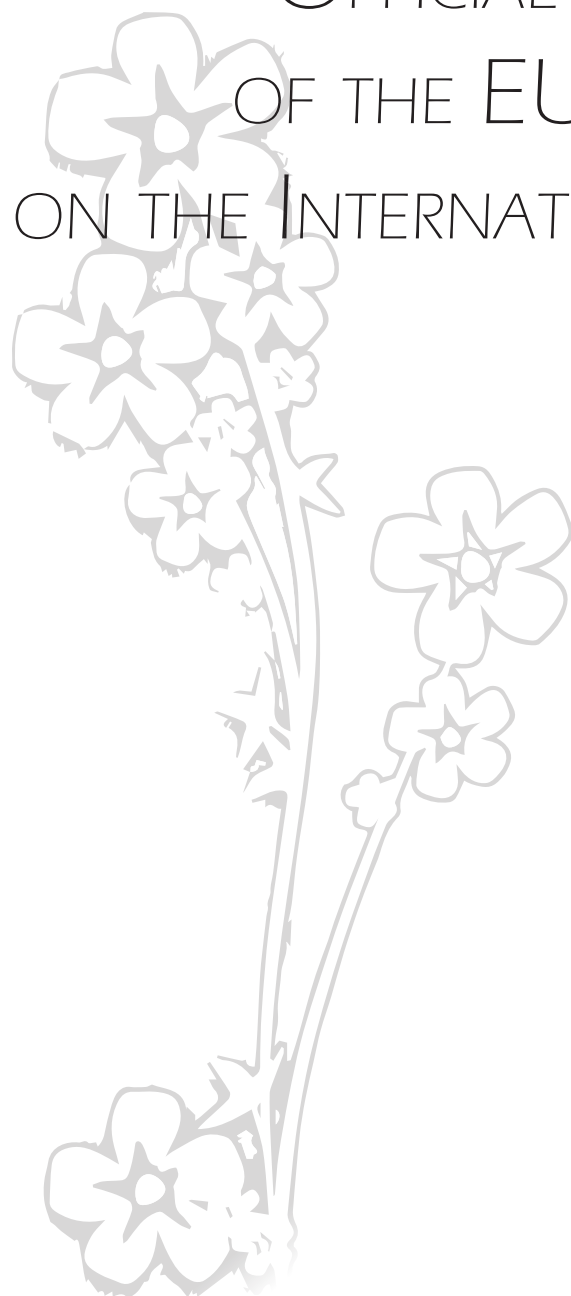
Further co-operation has been developed between the Czech private company Kertak Nanotechnology Ltd. and the Japanese companies Asahi Kasei and Toshiba. These companies were interested in the nanotechnology products and nanofibres produced by Kertak Nanotechnology Ltd and exhibited at the nanotechnology exhibition. Both companies have agreed to technical co-operation in order to test and adapt Kertak Nanotechnology's technology to produce a new application for inorganic nanofibers.







ANNEXES  
OFFICIAL DOCUMENTS  
OF THE EU AND JAPAN  
ON THE INTERNATIONALISATION  
OF SMEs





## ANNEX 1

## EUROPEAN COMMISSION

Brussels, 9.11.2011

COM(2011) 702 final

## COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

## 'SMALL BUSINESS, BIG WORLD — A NEW PARTNERSHIP TO HELP SMES SEIZE GLOBAL OPPORTUNITIES'

## 1. INTRODUCTION

The European Union needs to find new sources of growth to create jobs and wellbeing for its citizens. Major non-EU markets such as China, India, Russia and Brazil, with strong growth rates or potential represent significant opportunities for EU companies<sup>1</sup>. Given the current economic context, exports to expanding markets outside the EU can be a solid source of economic growth. Internationalisation beyond the external border of the EU is the step SMEs need to take to go and seize these opportunities.

Promoting and supporting **SMEs' economic activities outside the EU** is therefore an important part of the Union's overall competitiveness strategy as outlined in the Europe 2020 flagship Communication on an Integrated Industrial Policy<sup>2</sup>, the reviewed Small Business Act for Europe<sup>3</sup> and the recent EU trade policy communication<sup>4</sup>. This builds on and complements the Commission's commitment to boost the benefits of the Internal Market for SMEs<sup>5</sup>.

Europe's 23 million SMEs<sup>6</sup>, account for two thirds of jobs in the private sector and 59 % of total value added in the non-financial business economy in 2010. Around 80 % of new jobs over the past five years have been created by SMEs. Sectors such as machinery and equipment or chemicals in Brazil or energy in India have already enabled our companies to achieve significant results, and many more examples could be given. To pave this way for businesses, Europe needs to boost their internationalisation process and provide the necessary support to SMEs when going international.

While 25% of EU-based SMEs were involved in exports to the Internal Market and beyond in the last three years, **only 13 % of EU SMEs are internationally active outside the EU** through trade, investment or other forms of cooperation with foreign partners<sup>7</sup>.

1 According to the OECD, developing and emerging markets are expected to account for 60 % of world GDP by 2030.

2 COM(2010) 614.

3 COM(2008) 394, reviewed in COM(2011) 78.

4 COM (2010) 612.

5 Outlined in the Single Market Act, COM (2010) 608.

6 As defined in Recommendation 2003/361/EC, which the Commission adopted on 6 May 2003 and has applied since 1 January 2005; [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/smedefinition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/smedefinition/index_en.htm).

7 Report *Internationalisation of European SMEs*, December 2009; <http://>

Efforts are currently deployed to further deepen the Single market and make it more accessible to SMEs as their natural 'domestic' market.

The goal of the strategy which is proposed by this document is, on the other hand, creating the conditions to make SMEs equally engaged in markets outside the EU.

Clearly, the activities of many micro-enterprises and of SMEs in non-tradable sectors are inherently local in their nature. However, there remains significant untapped potential in tradable sectors, such as innovative manufacturing and creative industries, to expand outside the EU in search of new and growing markets, export revenues, technology, capital, and productivity improvements<sup>8</sup>. There are indications pointing to a correlation between internationalisation and firms' competitiveness and innovation capacity when compared to only locally active SMEs<sup>9</sup>. It is this hitherto untapped growth potential of SMEs that the EU needs to unleash in order to boost growth and create employment throughout the European economy<sup>10</sup>.

The recent study 'Opportunities for the Internationalisation of SMEs' by EIM Business and Policy Research, published by the Commission in August 2011, finds that out of a total EUR 261.6 bn of EU exports to twelve target markets, including China, Japan, Russia, India and Brazil, SME-dominated sectors accounted for EUR 134.6 bn. Depending on the country, SME-dominated sector exports make up between 39 % and 62 % of the total<sup>11</sup>.

Although international markets, both private and public, offer substantial opportunities for European companies, SMEs face particular obstacles to tapping the global market, not least when it comes to access to market information, locating possible customers and finding the right partners. They also face more complex issues such as compliance with foreign laws, for example mandatory rules of contract law, customs rules, technical regulations and standards, managing technology transfer and protecting intellectual or industrial property rights. In dealing with such challenges SMEs are usually less well equipped with in-house expertise and financial or human resources<sup>12</sup> than larger enterprises.

Helping European SMEs overcome obstacles to internationalisation and promoting their integration into the global economy forms part of the strategy for smart and sustainable growth outlined in the Europe 2020 agenda. However, public consultations among stakeholders conducted

[ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm).

8 A recent report points out that Europe's SMEs are nowadays primarily seeking to tap into the rapidly expanding middle classes in emerging countries. Previously, many businesses invested in or sourced from emerging markets in order to lower their production costs (EIU: 'New horizons: Europe's small and medium-sized companies look to emerging markets for growth').

9 Report *Internationalisation of European SMEs*, December 2009; [http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm). The information provided by this study refers to SMEs activities in the Internal Market and beyond the EU borders.

10 Over recent decades, liberalisation of the international movement of goods, services, capital, people and information has led to a more integrated world economy in which cross-border value chains are becoming increasingly important. The share of international trade in global GDP has tripled since the 1950s. Emerging economies in Asia, Latin America and Africa are expected to provide a significant share of future global economic growth (cf. footnote 1); thus many new opportunities for European enterprises will occur outside the EU. It is time for European businesses to harness globalisation to their benefit. European SMEs need to be in a position to benefit from this growth, at the same time contributing to EU growth.

11 Table 2.1, page 20, 'Opportunities for the Internationalisation of SMEs' August 2011, [http://ec.europa.eu/enterprise/policies/sme/market-access/enterprise-europenetwork/intern\\_event\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/market-access/enterprise-europenetwork/intern_event_en.htm). Henceforth referred to as the '*Opportunities Report*'.

12 'Poor access to sufficient human resources' was a major bottleneck in doing business in seven key countries outside the EU. See Chapter 2 of the '*Opportunities Report*'.

by the Commission in 2009 and 2011<sup>13</sup> revealed widespread concern about the potential dangers of the uncoordinated proliferation of support schemes in this area and the resulting suboptimal use of fiscal resources.

With a view to both our Europe 2020 objectives and these public concerns, **this Communication proposes to review the existing support structures available to SMEs, identifies the main problem areas, proposes a set of measures where European-level action can add most value, and sets out guiding principles for the most coherent and efficient use of scarce financial resources in priority markets such as China, Brazil, India, Russia, the US or Japan.** It aims to establish a more coherent and effective EU strategy for supporting SMEs in international markets, to propose better ways of offering them relevant information and assistance in their attempts to penetrate new markets and search for the right partners, and thus to make better use of existing resources. In this context, it will be of the utmost importance to take into consideration the specificities of SMEs, in particular by size and sector of activity, tackling also the particular difficulties experienced by micro enterprises. The overall guiding principle in this Communication is to create synergies and encourage joining efforts to increase efficiency and bridge gaps between existing private, Member States and EU funded activities that already support SMEs in third countries.

The Commission will play a crucial role in the coordination and governance of this process also through setting up a periodic 'SME Internationalisation Forum' and with a specific focus on this topic at the regular meetings of Member States' SME Envoys. In all these activities the representatives of the private sector will be involved.

## 2. THE POLICY CONTEXT: EXISTING FRAMEWORK FOR SME SUPPORT

Significant resources are already devoted to business support at national and EU level. This involves the public as well as the private sector. A recent survey for the Commission provides an inventory of **more than 300 support programmes<sup>14</sup> for the purpose of assisting business internationalisation in the EU and its Member States<sup>15</sup>.** A European strategy for SME internationalisation therefore has to take into account an existing landscape of diverse policies and implementation activities. Any activity or initiative already launched or still to be launched, at any level, should have SMEs as target and its real effectiveness should be measured on its capacity to achieve its objective.

### 1.1 Measures taken at EU level within and outside Europe<sup>16</sup>

The EU's strategy for SMEs, laid out in the Small Business Act for Europe (SBA), launched by the Commission in June 2008, endorsed by the European Council in December 2008 and reviewed in 2011, called on the EU and the Member States to support SMEs and encourage them to benefit from the growth of markets outside the EU, in particular through market-specific support and business

training activities. The SBA Review further emphasized the need for the Commission's support in areas such as market access assistance, elimination of non-tariff barriers, guidance on regulatory issues, standardisation and conformity assessment<sup>17</sup>.

In terms of supporting infrastructure, the Enterprise Europe Network not only helps companies and in particular SMEs to reap the benefits of the Internal Market but also provides support for SME internationalisation. The Network partners in Member States are often hosted by business support organisations at national and local level, thereby helping to integrate support structures from all countries. The Network helps SMEs through more than 600 local partners worldwide: typically an SME will look for business support and guidance on its doorstep when it plans to go international, whether it wants to exploit the business opportunities of the single market or reach into non-EU markets.

The Commission's renewed Market Access Strategy<sup>18</sup> with its partnership approach between the European Commission, Member States and the EU business community makes an essential contribution to supporting the internationalisation of European SMEs. SMEs are increasingly active in export markets and often face the greatest challenges in addressing trade barriers. SMEs benefit from the partnership approach both within the EU and in non-EU markets. This is achieved among other things through Market Access Teams in key export markets led by the EU Delegation. The Market Access Database is another important tool under the Market Access Strategy. It provides freely available information on tariffs and important non-tariff barriers in third countries and an exporter guide<sup>19</sup>. The new EU Trade Strategy<sup>20</sup> confirmed the usefulness of the Market Access Strategy and its services to improve access to global markets for EU enterprises.

The European Customs Information Portal (ECIP) provides further practical information for prospective traders alongside e-learning tools and on-line databases<sup>21</sup>.

The EU provides financial assistance to the EU-Japan Centre for Industrial Cooperation and assistance to the EU Gateway Programmes and Executive Training Programmes for Japan and Korea and the China IPR SME Helpdesk. The EU also supports a network of (private) European Business Organisations (EBOs) in more than twenty markets abroad and business bodies in Hong Kong, Malaysia and Singapore. These existing organisations and programmes differ in their purpose and the range of services they provide but share a focus on helping mainly SMEs.

The European Parliament has provided funds to adopt 'Preparatory Actions' for 'promoting business, academic and scientific exchanges'. Some of these funds have been used to set up the European Business and Technology Centre in India and most recently EU SME Centres in China and in Thailand. Their objective is to provide comprehensive services for EU SMEs in non-EU markets. These first Centres in non-EU markets will provide valuable experience for future business support activities.

There is clear evidence that international cooperation activities in research and innovation foster competitiveness and market performance of firms in general and of SMEs in particular. The EU Framework Programme for Research offers financial support for such type of activities, including supporting actions, which can contribute to the internationalisation of SMEs.

13 After the first publication of an Issues Paper in 2009, the final consultation launched in May 2011 based on a series of guiding questions resulted in over 60 responses from a broad range of stakeholders. All the details of the consultation and a summary of the responses can be found at [http://ec.europa.eu/enterprise/policies/international/listeningstakeholders/public-consultation-smesupport/index\\_en.htm](http://ec.europa.eu/enterprise/policies/international/listeningstakeholders/public-consultation-smesupport/index_en.htm).

14 Programmes with a budget in excess of 2 million euros for the larger Member States.

15 *Opportunities Report*.

16 A more detailed inventory of EU support initiatives can be found in a background document at [http://ec.europa.eu/enterprise/policies/international/files/annexes-to-consultation\\_en.pdf](http://ec.europa.eu/enterprise/policies/international/files/annexes-to-consultation_en.pdf).

17 COM(2011) 78

18 COM(2007) 183.

19 See <http://madb.europa.eu/>.

20 COM(2010) 612.

21 [http://ec.europa.eu/ecip/index\\_en.htm](http://ec.europa.eu/ecip/index_en.htm)

## 1.2 Measures taken by Member States<sup>22</sup>

Beyond these efforts at EU level, there is a **broader and even more significant range of business support activity in markets outside the EU offered by Member States, national chambers of commerce and the private sector (business associations and commercial consultants)**. At national and local level, business organisations, SME agencies and trade promotion organisations have developed a wealth of expertise to assist the internationalization of SMEs. They mostly deal with ‘core’ trade promotion activities such as business matchmaking, trade fairs, business missions and specific market studies. On business-related activities of Member State embassies, there is often some exchange of information through regular meetings at EU level organised by EU Delegations, especially where common interests are obvious, such as in coordinating activities against trade barriers. In other areas, however (e.g. economic diplomacy on large procurement contracts) competitive considerations among EU Member States tend to prevail.

## 1.3 Lessons: the need for better cost effectiveness

The broad rationale for the existing range of internationalisation support appears to be wellfounded,<sup>23</sup> but not all international support programmes are equally effective. The large number of measures and bodies contribute to a situation where it is difficult for SMEs to actually identify and make use of the available support.<sup>24</sup> At a time when public finances are scarce, there is a strong case for considering how collaboration and networking within the EU could increase both efficiency and impact of existing measures<sup>25</sup>. Therefore, future action should aim first and foremost at more transparency, more coherence and more collaboration to deliver a more cost-effective “division of labour” between existing EU programmes, between the European Union and its Member States, among Member States, and between public and private sector bodies. EU actions should certainly not replace existing policies at national or regional level, but rather complement them, create synergies wherever possible and introduce specific measures only where clear gaps are identified.

There is also scope to assess the effectiveness of existing support measures at European level. A thorough evaluation of the pilot actions concerning EU SME Centres should determine whether similar initiatives would be useful elsewhere. Similarly, with an increasing number of Enterprise Europe Network partners outside the EU, the Network will need to strengthen its governance in order to enhance its services to European enterprises.

This Communication therefore proposes a more coherent and integrated approach to SME support, based on a detailed mapping of existing support services in priority markets. It also establishes a set of guiding principles for EU action in this field.

22 See the inventory in the *Opportunities Report*..

23 A recent survey of EU SMEs with international experience found that over half (63%) of such companies recorded an improvement in performance following participation in an international support programme; results taken from a survey of EU SMEs with international experience in the *Opportunities report*.

24 The *Opportunities Report* shows that “even among SMEs that are already active on the global scene, only 27% are aware of public support programmes. What is more, only about 7% of internationalized SMEs use public support for their international business activities”

25 The example of the cooperation in Russia is a case in point. Action “to improve the overall investment climate and an enabling environment for EU SMEs is already being carried out effectively through cooperation at a high level between the European Commission, the EU Delegation to Russia, embassies, EU business associations, national chambers of commerce, and the Russian government”, see *Opportunities Report*.

## 2. MAIN CHALLENGES FOR SMES LOOKING TO INTERNATIONALISE

**EU SMEs are often unaware of the business support services provided by the EU, Member States or the private sector<sup>26</sup>**. Here special attention should be paid to the fact that SMEs look for a first point of contact for business support close to them. The different concepts and methods of business support within the EU and the wide variety of programmes and organisations at national, EU or global level put SMEs in a difficult position, as they lack the human and financial resources to identify or access suitable programmes<sup>27</sup>. Easier access to information already ‘at home’ for all EU SMEs would provide them with a better chance of finding appropriate services tailored to their needs. This Communication therefore looks at the option of implementing an ‘International Business Portal’ online, providing a gateway to first-entry, business-relevant information on foreign markets and an overview of available support activities for markets outside the EU.

In particular, **many SMEs, especially from smaller and new Member States, are at a disadvantage** because their government or chamber of commerce is not present in many of the priority markets<sup>28</sup>. They therefore lack information and support and should be encouraged to cooperate and also exchange experience between ‘export veterans’ and ‘newcomers’. Options to incentivise and motivate cooperation and networking among the diverse chambers of commerce and similar organisations in non-EU countries could be enhanced, particularly where the varied cultural and linguistic assets of these organisations can offer substantial value.

**Other challenges are inherent to the nature of SMEs. Services provided by public and private organisations as well as by the EU or Member States may not address all the needs or may not be sufficient to meet the demand from SMEs<sup>29</sup>**. Here a more comprehensive analysis of the local situation within each market is required in order to be able to assess what action might be needed and to explore the scope for increased efficiency and effectiveness from synergies, Europe-wide networking and cooperation. Given that local situations vary widely, a bottom-up approach ‘in the field’ is indispensable in order to identify gaps in the services provided and establish where EU-level action would create additional value.

The Commission’s analysis also shows that the **role of direct communication** with SMEs is of crucial importance. EU SMEs willing to go international first need preparation at home, the right skills and the necessary information physically close at hand and provided mainly by local business organisations<sup>30</sup>, private consultants, or over various online

26 According to the *Opportunities Report*, 24 % of internationalised SMEs are aware of public support programmes for internationalisation that could be used by their enterprise. This awareness increases with the size of the enterprises: micro: 23 %, small: 36 % and medium-sized enterprises: 37 %, but it still represents a minority of SMEs.

27 ‘Out of the 24 % of international SMEs that are aware of public support programmes, less than one third of these companies use the programmes for their activities.’ *Opportunities Report*.

28 The number of significant support measures provided by Member States in seven key target countries was found to vary between 4 and 25 in the *Opportunities Report*.

29 Ibid. ‘In 2009 40 % of SMEs reported a lack of adequate public support as an important barrier to internationalisation.’

30 Local assistance for internationalisation within the EU provided by the Commission so far is limited to the Enterprise Europe Network, short-term programmes such as ‘Understanding China’ (<http://www.understandingchina.eu>), a few SME Roundtables and seminars in several European cities, among other things to ‘train the trainers’ in chambers of commerce etc., and certain outreach activities of the Brussels branch of the EU-Japan Centre for Industrial Cooperation (<http://www.eu-japan.eu>) to give more visibility to the Centre’s programmes also for EU

sources. Once operating abroad, their need for assistance in the target market itself is often more difficult to meet. The visibility of the services already in place is not always sufficient and SMEs still face considerable difficulties when it comes to accessing markets outside the EU and entering into business cooperation with international partners. Surveys show that SMEs in general face difficulties in gaining useful information<sup>31</sup>.

### 3. AN EU BUSINESS SUPPORT STRATEGY FOR SME INTERNATIONALISATION

#### 3.1. The EU's objectives for a business support strategy

Building on the recently reviewed Small Business Act for Europe and the EU 2020 agenda, the objective of this Communication is to set out a coherent EU strategy to make business services in support of European enterprises' integration in the world economy more effective and efficient.

The objectives of the new EU strategy are

- **To provide SMEs with easily accessible and adequate information on how to expand their business outside the EU.**
- **To improve the coherence of support activities.**
- **To improve the cost-effectiveness of support activities.**
- **To fill existing gaps in support services.**
- **To establish a level playing field and provide equal access for SMEs from all EU Member States<sup>32</sup>.**

The instruments that will be used to achieve these objectives are described in the following sections.

#### 3.2. Achieving our objectives

In order to follow the SME from the moment it decides to go international until the moment when it starts operating in non-EU markets, the Commission will work along the following lines.

##### 3.2.1. Mapping the support services environment at home and abroad

The Commission will launch an in-depth 'mapping' and analysis of existing support services within the EU and in non-member countries. This exercise will involve Member States and Market Access Teams in EU Delegations and is needed in order to identify possible gaps and overlaps in the current services offering<sup>33</sup>; it will provide the basis for assessing the need for any further action<sup>34</sup>. This will initially be done only for priority markets (see 4.2.5.2. below) by applying standard criteria for assessing the scope and availability of the support services in question. This stock-taking will need to cover private and public initiatives at local, regional, national and EU level.

SMEs. The majority of China IPR SME Helpdesk activities took place within the EU. Providing these services close to SMEs proved to be a key element of success.

31 '44 % of EU SMEs reported a lack of adequate information as an important barrier.' Report *Internationalisation of European SMEs*, December 2009; [http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm).

32 As foreseen in the new programme for business competitiveness and SMEs proposed in the Communication of 29 June on the next Multiannual Financial Framework.

33 Where Market Access Teams do not exist, the role of EU Delegations will consist in providing, if appropriate, basic information to complement the findings needed by the service provider doing the mapping.

These Delegations may organize, where appropriate, coordination meetings between businesses and business organizations working on the ground.

34 According to the *Opportunities Report*, mapping is considered a key task to be taken up for any coordination at EU level

The mapping exercise will provide an overview of existing local services by private and public providers in third countries, including Member States and EU-level bodies. In addition, Market Access Teams should bring together and coordinate local organisations, for example chambers of commerce, European Business Organisations and Enterprise Europe Network partners, in order to identify synergies and gaps in existing local SME support activities. This would improve the networking and facilitate dialogue between the current suppliers of business support, leading to greater coherence and accessibility of services to SMEs from all Member States. In order to achieve a comprehensive overview, the commitment and cooperation of Member States and existing support organisations will be vital.

The mapping of services offered within as well as outside the EU will be updated on a regular basis in cooperation with the Member States and EU Delegations.

During this exercise the Commission will assess the effectiveness of EU support services already operational.

**Within the current Competitiveness and Innovation Programme, the Commission will immediately:**

- **launch an in-depth mapping and analysis of existing support services, both public and private, within the EU and in non-member countries with the aim to complete, by the end of 2012, the work on priority markets;**
- **identify duplication and fragmentation as well as gaps and potential synergies in existing SME support activities;**
- **promote collaboration through Market Access Teams in EU Delegations and Member States' national authorities among existing publicly-funded service providers.**

##### 3.2.2. Delivering information to the SME's doorstep

SMEs need easier access to services and expertise and to be able to identify suitable programmes already 'at home' in the first phase of their internationalisation. That is to say, they need a local point of contact in the EU, both physically and virtually.

The Enterprise Europe Network, with its 600 local partners will give SMEs the opportunity to establish direct contact on the ground and to receive professional support services right at their doorstep.

In order to do so, the Commission will work to improve collaboration between the Enterprise Europe Network and all stakeholders in the Member States, thereby fostering its effectiveness. Operationally, a new governance structure involving hosting organisations and relevant stakeholders to a larger degree will be set up to ensure that services are increasingly effectively available to SMEs.

The Commission will launch in early 2012 a content-rich online portal that will integrate and streamline existing content, provide third country- and sector-specific information about target markets and give a detailed overview of the different support services available. This portal will link to online content of the 'one-stop shops' in each Member State and will not duplicate existing information<sup>35</sup>.

Until 2014, the costs for the EEN will be met from existing budget resources. In parallel, a pilot portal project will be implemented that will include the gradual translation of information into all EU languages. The portal will link existing portals at EU and national level, including

35 'Efficiency gains could be obtained by organising, at EU level, the collection of information on market developments and the legal and institutional environment in foreign markets', see Commission report *Internationalisation of European SMEs*, December 2009, p. 9.

the EU Market Access Database and Export Helpdesk, and provide additional information and an overview of different services available.

**The Commission will:**

- give a new governance structure to the Enterprise Europe Network, improving its functioning and collaboration with hosting organisations and stakeholders in order to improve the information for SMEs on the ground;
- launch in 2012 a multilingual online portal that will provide third country- and sector-specific information about priority markets and a detailed overview of the different support services available. The portal will be covered by the existing Competitiveness and Innovation Programme and, building on existing databases such as the Market Access Database, the Export Helpdesk and the European Customs Information Portal, provide Business Opportunity and Risk Profiles comprising indicators such as economic situation, trade barriers, bureaucratic burden, customs procedures, public procurement regimes and other information for exporting SMEs<sup>36</sup> for example providing information about Union legislation which can be used for concluding contracts with parties in third countries<sup>37</sup>. It will be updated regularly;
- launch in 2012 an awareness-raising campaign with Member States and stakeholders to familiarise SMEs with available support services.

3.2.3. Bringing a European dimension to the supply of services for SMEs in priority Markets

SMEs may require specific support once they have begun operations in a third country. For this purpose, the Commission will develop by 2012 at the latest concrete recommendations for improving the efficiency and effectiveness of the entire support system available to European SMEs in non-EU markets.

This initiative will be built on the results of the mapping exercise and the experience gained with pilot projects in business support.

Opportunities for European companies change from one market to the other and it is on this basis that the Commission established Market Access Teams in priority markets<sup>38</sup>.

As the situation in each priority market may vary significantly, a 'bottom-up' approach is required. Under the coordination of the Market Access Teams in the relevant EU Delegations, a platform will be arranged to allow business support programme representatives, including, for example, bilateral chambers of commerce, Member States' export support agencies, business organisations and partners of the Enterprise Europe Network, to meet on a regular basis. This would enable them to raise awareness about their own planned operations, to streamline by specialising and dividing their labour and to devise possible joint operations. By means of improved networking between local organisations, expertise and competences could be pooled and a more effective division of labour could be achieved. As resources are scarce, the efforts by local organisations could be leveraged through this streamlining of efforts and practices in order to create a win-win situation for all participants.

<sup>36</sup> Supplementing e.g. the services offered by the WTO member countries' TBT Enquiry Points, whose role includes providing information on technical regulations, standards, and conformity assessment procedures.

<sup>37</sup> See Commission proposal on a Common European Sales Law, adopted on 11 October 2011.

<sup>38</sup> A list of the Market Access Teams which are operational or are intended to be set up is in annexe to this Communication

The main advantage of this approach would be to increase the size and visibility of business support operations in non-EU countries and to provide the best available skills and competences at affordable costs. Moreover, the networking of expertise would facilitate reaching out to all economic sectors and also help European clusters as well as export consortia and their SMEs to identify potential partners in non-EU countries.

Based on the results of the mapping, the Commission will, together with Member States, promote, assess and optimise the EU portfolio of business support for SMEs in non-EU countries on the basis of best practice. This should include not only the EU SME Centres and Enterprise Europe Network but also other well-established EU business support programmes for brokerage events (such as Invest in Med, East Invest, AL-INVEST), cluster collaboration initiatives (such as the European Cluster Collaboration Platform and the European Club of Cluster Managers), the National Contact Points (NCPs) of the EU Framework Programme for Research, and networking and individual training programmes in the EU (such as Gateway to Japan/South Korea or the Executive Training Programme).

These tools, with often different legal bases and budget provisions and targeting different markets, will have to be used jointly as part of an integrated concept of support for European SMEs, by establishing working arrangements such as common benchmarks, by achieving synergies and by exchanging their practices, not least on the measurement of their performance (evaluation).

Member States are encouraged to consider opening up their services in non-member countries to all EU SMEs on a voluntary basis<sup>39</sup>. Not only would this better use of existing structures and expertise benefit overall efficiency, it would also provide established Member State organisations with the opportunity to reach out to a larger customer base. Moreover, such availability would be highly beneficial for SMEs based in those Member States which do not have national business support organizations in all third countries' markets.

Where necessary, top-up schemes of financing at EU level should be considered, subject to the future multiannual financial framework, as a means of facilitating cross-border cooperation and access to complementary expertise among service providers, thereby optimising the use of scarce public funds.

In order to steer this entire process, take stock of developments, monitor progress and evaluate the effectiveness of the approach, a periodic evaluation event involving all major stakeholders should take place. This could take the form of an annual forum where the Commission invites stakeholders to share their experience and exchange views. Here all participants could identify possible divisions of labour, the need for new activities and other experiences to learn from each other.

**The Commission will:**

- facilitate cross-border cooperation and access to complementary expertise among service providers, notably through financial incentives that could be covered by the new programme for business competitiveness and SMEs within the proposed multiannual financial framework 2014-2020;
- subject existing measures to periodic evaluation, involving all major stakeholders;
- together with Member States, evaluate, optimise and promote the EU portfolio of business support for SMEs in non-member countries on the basis of best practices<sup>40</sup>.

<sup>39</sup> Inspiration could be drawn from Article 20(2)(c) TFEU, which reads: 'Citizens of the Union shall have inter alia: ... (c) the right to enjoy, in the territory of a third country in which the Member State of which they are nationals is not represented, the protection of the diplomatic and consular authorities of any Member State on the same conditions as the nationals of that State'.

<sup>40</sup> This will include not only the EU SME Centres and Enterprise Europe



### 3.2.4. Promoting SME internationalisation through clusters and networks

SMEs often need to find the right partners to develop and produce globally competitive products and services. They increasingly tend to grow and innovate not alone but through collaboration by entering into strategic business cooperation and networks with international partners. In this context, the importance of subcontracting is to be recognized.

Clusters, business networks and export consortia can play an important role in helping SMEs to develop such activities and become more internationally oriented. In particular, export consortia play a specific role in relation to internationalisation, representing groups of businesses working together on an export development project. For instance, recent studies have found that newly created SMEs that develop new products and services within a specific niche are often active from the start in international markets and their capacity to export is reinforced through their membership of a cluster<sup>41</sup>.

SMEs hosted in clusters and business networks can benefit from contacts, business connections and formal and informal knowledge flowing within a cluster and a business network, as well as from customised services provided by cluster and network organisations. Such benefits facilitate, among other things, the development of partnerships abroad so that SMEs have easier access to global value chains, develop strategic alliances with research organisations in counterpart clusters or networks, expand their commercial activities abroad, including public procurement, and obtain appropriate skills and tailored professional advice<sup>42</sup>.

In this respect, cluster and network organisations should be recognised in the Member States as important facilitators and therefore be integrated into business support schemes aimed at fostering SME internationalisation<sup>43</sup>. At the same time, transnational cooperation between cluster and network organisations is an important challenge today and should be addressed at all levels<sup>44</sup>, supporting them also through cross-border lending as proposed by the Commission in the Communication 'A budget for Europe 2020'<sup>45</sup>. Cooperation between cluster

organisations and the Enterprise Europe Network and other interested EU business organisations should also be strengthened to provide better innovation services and access to international markets for SMEs.

In the longer term, the Commission will develop a broad EU initiative aimed at making more strategic use of transnational cluster cooperation on markets outside Europe in order to build common long-term strategies with international partners across EU Member States.

This cluster internationalisation initiative would contribute to promoting globally competitive clusters in Europe, especially in emerging industries where cluster cooperation has the potential to create new competitive advantages for Europe. This programme may include action to identify strategic interests for further cluster cooperation across the EU.

#### The Commission will:

- encourage and finance the establishment of training programmes for entrepreneurs, SME managers, and managers of clusters, business networks and export consortia in order to enable them to steer internationalisation operations;
- promote the creation of export consortia between SMEs established in different Member States through a range of measures including information campaigns and financial incentives, encouraging synergies.
- support cross-border cooperation between cluster/networks through lending backed by EU guarantees.

### 3.2.5. Rationalising new activities in priority markets

#### 3.2.5.1. Guiding principles

In order to ensure full use of available resources and avoid overlaps, the Commission strongly reaffirms the following guiding principles.

*Complementarity and additionality.* Action taken at EU level should be complementary to and not duplicate business support activities that are already carried out by Member States and/or private organisations. In line with the principle of subsidiarity and an appropriate division of labour, EU action should serve to fill gaps or reinforce existing support services where needs are not met — or are not sufficiently met — by other public or private organisations. This could be the case, for example, where not all priority markets (for instance newly emerging markets) and not all issues of access are covered by existing service providers, e.g. standards and regulations and other non-tariff-barriers to doing business abroad.

*Sustainability.* EU-level support for business support services should be based on demonstrated demand in the market. It may be financed in the short term by public funds subject to the Financial Regulation, but the aim should be for services to be self-financed to as large an extent as feasible in the longer term in order to mitigate the risk of unwarranted squeezing out of the market of private service providers.

*Efficiency in the use of public funds.* In accordance with the principle of sound financial management, public funds should be used in the best relationship between resources employed and results achieved. For that purpose, specific, measurable, achievable, relevant and timed (SMART) objectives should be set for each activity and an appropriate evaluation planned. The efficient use of public funds may mean that instead of setting up a new physical structure it may be smarter to encourage existing service providers in non-EU markets, such as national or European chambers of commerce or local EU Delegations and Market Access Teams, to broaden the scope of their activities or pool their resources for a better service.

national dimension but also on crossborder lending or multi-country lending.

Network but also other well established EU business support programmes for brokerage events, cluster collaboration initiatives, the Framework Programme's national contact points (NCPs), and networking and individual training programmes in the EU.

41 See, for example, OSEO/UBIFRANCE study (2010) on the 'Link Innovation-Exports' [http://www.oseo.fr/storage/newsletters/vendredi\\_28\\_mai\\_20102/gauche/actualites/etude\\_oseo\\_ubifrance](http://www.oseo.fr/storage/newsletters/vendredi_28_mai_20102/gauche/actualites/etude_oseo_ubifrance).

42 *European Clusters Go International: Networks and clusters as instruments for the initiation of international business cooperation*, VDI/VDE/IT, 2011, <http://www.vdivde-it.de/newsen/publications/best-practice/european-clusters-go-international-2013-networks-and-clusters-as-instruments-for-the-initiation-of-international-business-cooperation>.

43 To this end, at EU level, a specific call for proposals was launched under the Competitiveness and Innovation Programme in March 2011 to stimulate international cooperation through regional and national cluster programmes. See [http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item\\_id=4968](http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=4968).

44 In this respect, the European Cluster Cooperation Platform established under the European Cluster Excellence Initiative will be instrumental in promoting better cluster cooperation internationally for the benefit of SMEs. As first steps, Memoranda of Understanding have been signed with partners in Japan, India and Brazil and more are planned. For more information see <http://www.clustere Excellence.eu/collaboration>. Furthermore, transnational cooperation between clusters is addressed by the 'Regions of Knowledge' action in the Seventh EU Framework Programme for Research. The action aims to strengthen the research potential of European regions, in particular by encouraging and supporting the development, across Europe, of regional 'research-driven clusters', associating universities, research centers, enterprises and regional authorities. Support is available in particular for internationalisation activities and the development of strategies with third countries. [http://cordis.europa.eu/fp7/capacities/regions-knowledge\\_en.html](http://cordis.europa.eu/fp7/capacities/regions-knowledge_en.html)

45 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, *A budget for Europe 2020 — Part II Policy fiches*, COM(2011) 500, 29 June 2011. The Commission has proposed that for the period 2014-2020 EU loan guarantee facilities should focus not only on the

**The guiding principles will be key elements of this strategy and will govern any EU-level initiative in this field both before and after 2014:**

**The Commission commits itself to following these guiding principles for the selection, planning and implementation of support initiatives at EU level.**

**Member States are encouraged to follow, wherever applicable, similar principles and priorities in their external business support.**

### 3.2.5.2. Geographical priorities

For new action taken outside the EU, the Commission will apply the following criteria to establish geographical priorities, identify priority countries and launch a comprehensive set of specific measures.

This will boost the effectiveness of initiatives, by focusing on the actual needs of SMEs. Over time, the list of priority countries will naturally have to be adjusted. Priorities should be identified based on the following factors in particular:

*Economic potential and size of the market.* Priority markets should include the EU's major trade and investment partners as well as markets with prospects for strong economic growth. Markets that have the potential to produce valuable business partners due to increasing purchasing power and investment opportunities must be monitored to gauge the need for future action.

*Extent of difficulty faced by SMEs in accessing the market.* Some markets are more difficult than others to access for SMEs, partly due to tariff protection, but more often due to differences in the regulatory environment that can have the effect of non-tariff barriers to trade and investment. Difficulty in access to finance can also constitute an obstacle for SMEs that varies from country to country. Efforts should be directed at removing these barriers as far as possible and at assisting SMEs to overcome them.

*Gaps in existing business support.* The mapping of local services currently provided by public or private organisations will help to identify possible gaps in the local support infrastructure and how best to fill them. Thematic areas not sufficiently covered could include the need for expertise on specific issues such as standards, conformity assessment, technology commercialisation, protection of intellectual property rights, public procurement and tendering, and customs regulations. Priorities may need to be established.

**The EU will identify priority markets for SMEs on the basis of the above criteria. These may include the EU's major current trading and investment partners (US, China, Russia, Japan), the enlargement countries and the European Neighbourhood Policy partners in the East and the South as well as markets generating strong economic growth (emerging markets in Asia, Africa and Latin America).**

### 3.2.6. Mainstreaming SME internationalisation into other EU policies and creating a favourable environment for SME international activities

There remains untapped potential to better employ a vast range of existing and emerging EU policies at the service of SMEs that are striving to grow internationally and to enter foreign markets.

All enlargement countries are encouraged to embrace the objectives of the Europe 2020 strategy, including SME related activities. Strengthening the rule of law is a key priority of the enlargement policy, which will

help to reinforce the confidence of EU SMEs to invest in these markets. Creating a business friendly operating environment is also an important pillar of our relations with the Eastern Partnership countries.

The historic changes under way in the Southern Mediterranean/ North African region make a strong case for EU support for the socio-economic transformation in that region and link up with the EU Neighbourhood Policy. This could include developing and strengthening schemes for business-to-business cooperation between the EU and these countries<sup>46</sup>. Given their vast potential for economic development and in line with the Joint Africa-EU Strategy, African countries in general should be invited to benefit from building on a strong partnership with EU SMEs.

In the context of trade defence investigations, the special situation of SMEs - as importers, users, complainants or exporters - will be addressed and information on the functioning of trade defence instruments will be made more accessible for SMEs.

Autonomous tariff suspensions and quotas are relevant for firms producing in the Union. Special attention is paid to the interest of SMEs. The impact of this tool will be assessed as part of an evaluation of the economic impact to be launched in 2012.

#### **The EU will:**

- support the creation of a business-friendly operating environment in enlargement, neighbouring and developing countries and in particular for SMEs; such improved environment will be beneficial for all SMEs, including those wishing to work in a certain specific market;
- step up its efforts to remove remaining tariff and non-tariff barriers in non-EU countries;
- create in the trade and economic sections of all relevant EU Delegations contact points for SMEs as part of the work of Market Access Teams.
- pursue in its regulatory dialogues with partner governments the objective of making markets more open and friendly to small businesses;
- make the interests of small businesses in access to international procurement markets a priority in the WTO plurilateral government procurement agreement (GPA) negotiations;
- improve the communication to SMEs of the economic benefits to be gained from trading internationally and created by trade policy measures, particularly bilateral free trade agreements;
- establish the SME Finance Forum on Africa, an important first step in our new approach to building bridges between European and African businesses by means of a strengthened and permanent dialogue;
- raise SME awareness of possible autonomous tariff suspensions and quotas and assess their impact on SMEs as part of an evaluation to be launched in 2012.

<sup>46</sup> For example, through cluster cooperation: cluster partnerships offer concrete possibilities for enhanced business cooperation that could be developed and customised to the particular needs of enterprises in sectors such as tourism and creative industries, which have significant economic potential in Southern Mediterranean countries. Beyond this specific case, the Commission is also considering supporting exchanges between entrepreneurs based in different countries, within and outside the European Union.

## 5. CONCLUSION

In the current economic context it becomes urgent to look for new sources of growth. Third country markets, which are in expansion, can provide an invaluable opportunity for EU SMEs. The Commission deems that the approach outlined above can provide SMEs with the necessary tools to successfully engage in business outside the EU. This is based on the premise that cooperation between the EU and Member States, among Member States, and between the public and the private sector will bring clear benefits to EU SMEs.

This new EU strategy sets out six fields of action:

- Mapping the existing supply of support services to allow a more rational and coherent approach in the future;
- Creating a single virtual gateway to information for SMEs wishing to do business beyond the EU borders.;
- Making support schemes at EU level more consistent to raise their impact;
- Promoting clusters and networks for SME internationalisation;
- Orchestrating pan-European collaboration in priority markets to make the most of the public funds spent;
- Leveraging existing EU external policies to accelerate the international growth of European SMEs.

Future efforts should focus on how existing service providers can collaborate more effectively, often across national boundaries, and how incentives can be provided to bring this about. Comprehensive 'mapping' of the European supply of support services will lay the foundation for this process. All EU institutions and relevant SME stakeholders, in partnership, will be involved in the implementation of this strategy and should adhere to the priorities and guiding principles set out in this Communication when considering new activities in support of SME internationalisation, in both the short and the longer term.

Member States are encouraged to adopt a similar approach and work in close cooperation with the Commission in strengthening the support environment for European SMEs' international growth.

## ANNEX

Based on the current experience with the process of identifying key market access barriers in third countries (as requested by the Council of the European Union in its conclusions of December 2008), Market Access Teams are operational or are intended to be set up in the following countries:

- |             |               |                    |
|-------------|---------------|--------------------|
| - Algeria   | - Japan       | - South Africa     |
| - Argentina | - Kazakhstan  | - South Korea      |
| - Brazil    | - Malaysia    | - Switzerland      |
| - Canada    | - Mexico      | - Taiwan           |
| - Chile     | - Morocco     | - Thailand         |
| - China     | - New Zealand | - Tunisia          |
| - Colombia  | - Nigeria     | - Turkey           |
| - Egypt     | - Norway      | - Ukraine          |
| - Hong Kong | - Peru        | - United States of |
| - India     | - Philippines | America            |
| - Indonesia | - Russia      | - Vietnam          |
| - Israel    | - Singapore   |                    |

## ANNEX 2

**MOTION FOR A EUROPEAN PARLIAMENT  
RESOLUTION**

**on financing EU SMEs' trade and investment:  
facilitated access to credit in support of internationalisation  
(2012/2114(INI))**

**REPORT ON FINANCING EU SMES'  
TRADE AND INVESTMENT:  
FACILITATED ACCESS TO CREDIT IN  
SUPPORT OF INTERNATIONALISA-  
TION**

**Rapporteur: Jan Zahradil**

**Committee on International Trade, 7.11.2012**

*The European Parliament,*

– having regard to the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions entitled ‘Global Europe: Competing in the World – A contribution to the EU’s Growth and Jobs Strategy’(COM(2006)0567),

– having regard to the Commission Communication entitled ‘Towards a comprehensive European international investment policy’ (COM (2010)0343),

– having regard to the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions entitled ‘Trade, Growth and World Affairs – Trade Policy as a core component of the EU’s 2020 Strategy’ (COM(2010)0612),

– having regard to the Agreement on Technical Barriers to Trade (TBT Agreement) adopted in 1994 as part of the Uruguay Round of Multilateral Trade Negotiations under the GATT<sup>1</sup>,

– having regard to Council Regulation (EC) No 3286/94 of 22 December 1994 laying down Community procedures in the field of the common commercial policy in order to ensure the exercise of the Community’s rights under international trade rules, in particular those established under the auspices of the World Trade Organisation<sup>2</sup> (Trade Barriers Regulation, TBR),

1 [http://www.wto.org/english/docs\\_e/legal\\_e/17-tbt.pdf](http://www.wto.org/english/docs_e/legal_e/17-tbt.pdf)

2 OJ L 349, 31.12.1994, p. 71.

- having regard to the UNCTAD 2011 Report on World Investments,
- having regard to the OECD/WTO/UNCTAD reports on G20 trade and investment measures (mid-October 2010 to April 2011),
- having regard to the OECD Policy Framework for Investment (PFI),
- having regard to its legislative resolution of 13 September 2011 on the proposal for a regulation of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits<sup>3</sup>,
- having regard to its earlier resolutions, in particular the resolution of 13 October 2005 on prospects for trade relations between the EU and China<sup>4</sup>, the resolution of 1 June 2006 on EU-US transatlantic economic relations<sup>5</sup>, the resolution of 28 September 2006 on the EU’s economic and trade relations with India<sup>6</sup>, the resolution of 12 October 2006 on economic and trade relations between the EU and Mercosur with a view to the conclusion of an Interregional Association Agreement<sup>7</sup>, the resolution of 22 May 2007 on ‘Global Europe - external aspects of competitiveness’<sup>8</sup>, the resolution of 19 June 2007 on EU economic and trade relations with Russia<sup>9</sup>, the resolution of 19 February 2008 on the EU’s Strategy to deliver market access for European companies<sup>10</sup>, the resolution of 24 April 2008 on ‘Towards a reform of the World Trade Organisation’<sup>11</sup>, the resolution of 5 February 2009 on trade and economic relations with China<sup>12</sup>, the resolution of 26 March 2009 on an EU-India free trade agreement<sup>13</sup>, the resolution of 21 October 2010 on the European Union’s trade relations with Latin America<sup>14</sup>, the resolution of 17 February 2011 on the free trade agreement between the EU and the Republic of Korea<sup>15</sup>, the resolution of 6 April 2011 on European international investment policy<sup>16</sup>, the legislative resolution of 10 May 2011 on the proposal for a regulation of the European Parliament and of the Council establishing transitional arrangements for bilateral investment agreements between Member States and third countries<sup>17</sup>, the resolution of 11 May 2011 on the state of play in the EU-India free trade agreement negotiations<sup>18</sup>, the resolution of 11 May

3 Texts adopted, P7\_TA(2011)0363.

4 OJ C 233 E, 28.9.2006, p. 103.

5 OJ C 298 E, 8.12.2006, p. 235.

6 OJ C 306 E, 15.12.2006, p. 400.

7 OJ C 308 E, 16.12.2006, p. 182.

8 OJ C 102 E, 24.4.2008, p. 128.

9 OJ C 146 E, 12.6.2008, p. 95.

10 OJ C 184 E, 6.8.2009, p. 16.

11 OJ C 259 E, 29.10.2009, p. 77.

12 OJ C 67 E, 18.3.2010, p. 132.

13 OJ C 117 E, 6.5.2010, p. 116.

14 OJ C 12 E, 15.1.2011, p. 256.

15 Texts adopted, P7\_TA(2011)0063.

16 Texts adopted, P7\_TA(2011)0141.

17 Texts adopted, P7\_TA(2011)0206.

18 Texts adopted, P7\_TA(2011)0224.

2011 on EU-Japan trade relations<sup>19</sup>, the resolution of 8 June 2011 on EU-Canada trade relations<sup>20</sup>, and the resolution of 29 June 2011 on the New Trade Policy for Europe under the Europe 2020 Strategy<sup>21</sup>,

– having regard to the report from the Commission to the European Council entitled ‘Trade and Investment Barriers Report 2011 – Engaging our strategic economic partners on improved market access: Priorities for action on breaking down barriers to trade’ (COM(2011)0114),

– having regard to its resolution of 13 December 2011 on trade and investment barriers<sup>22</sup>,

– having regard to the Commission Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions entitled ‘Small Business, Big World - a new partnership to help SMEs seize global opportunities’ (COM(2011)0702),

– having regard to the Commission Communication on an action plan to improve access to finance for SMEs (COM(2011)0870),

– having regard to the report from the Commission to the European Council entitled ‘Trade and Investment Barriers Report 2012’ (COM(2012)0070),

– having regard to the IFC/World Bank Report ‘Doing Business 2012: Doing Business in a More Transparent World’ (hereinafter ‘Doing Business 2012 index’),

– having regard to its resolution of 3 July 2012 on the attractiveness of investing in Europe<sup>23</sup>,

– having regard to Rule 48 of its Rules of Procedure,

– having regard to the report of the Committee on International Trade (A7-0000/2012),

**A.** whereas since the entry into force of the Treaty of Lisbon, the common commercial policy (CCP) has, pursuant to Article 207 TFEU, included foreign direct investment (FDI), and falls under the exclusive competence of the EU; whereas Member States may negotiate and conclude bilateral investment agreements only when empowered to do so by the Union; whereas Parliament’s assent is required for all trade and investment agreements negotiated by the Commission on behalf of the Union;

**B.** whereas according to the UNCTAD report for 2011, the EU remains a key destination that attracts FDI; whereas, in contrast, Eurostat figures show that total EU-27 FDI outflows fell by 30% in 2008, by a further 28% in 2009 and by an additional 62% in 2010;

<sup>19</sup> Texts adopted, P7\_TA(2011)0225.

<sup>20</sup> Texts adopted, P7\_TA(2011)0257.

<sup>21</sup> Texts adopted, P7\_TA(2011)0255.

<sup>22</sup> Texts adopted, P7\_TA(2011)0565.

<sup>23</sup> Texts adopted, P7\_TA(2012)0275.

**C.** whereas, according to the Doing Business 2012 index, Member States represent only 40% (and eurozone members just 26%) of the top 35 countries in terms of entrepreneurship at global level;

**D.** whereas the Commission estimates that 99% of all enterprises in the EU are small and medium-sized enterprises (SMEs) and whereas 92% of these SMEs are micro-firms employing one to nine employees, 6.7% are small firms employing 10 to 49 employees and 1.1% are medium-sized firms employing 50 to 249 employees; whereas SMEs number 23 million and form the backbone of the Union’s economy, providing two-thirds of private-sector jobs;

**E.** whereas micro, small and medium-sized enterprises (MSMEs), are diverse in nature and have different needs stemming from the specific nature of the industrial or services sector they operate in, the Member State or even region they operate from, their size, their business model, the entrepreneurial culture and business environment, whether it be internationally or within the single market; whereas they face disparate challenges across their respective business cycles;

**F.** whereas lack of finance, alongside a weaker entrepreneurial spirit than in other industrialised economies, remains one of the main challenges to EU enterprises’ competitiveness and entrepreneurship, and whereas persistent regulatory fragmentation and red tape continue to limit SMEs’ capacity, especially that of small and microenterprises, to adapt to an energy- and resource-efficient economy and expand into markets beyond their home country, both within the single market and worldwide;

**G.** whereas 44% of SMEs have reported a lack of adequate information as an important barrier to internationalisation;

**H.** whereas the reluctance of European SMEs to develop their international activities is mainly due to the lack of analysis or pre-analysis of their export opportunities;

**I.** whereas a considerable number of European SMEs are engaged in international export activities (25% of the total), and whereas only 13% of European SMEs conduct activities in markets outside the EU and only 4% of internationally inactive SMEs have specific plans to start up international activities in the foreseeable future; whereas certain SMEs are incapable of internationalisation due to their business profiles and size;

**J.** whereas only 10% of micro firms make use of the 300+ public support programmes that are already available, and whereas the large number of support programmes makes it difficult for SMEs to identify and make use of the assistance that is actually available;

**K.** whereas European SMEs have been particularly affected by the worldwide economic and financial crisis and whereas their internationalisation beyond the single market should also be promoted;

**L.** whereas consistently over the last two years almost a third of SMEs which applied for a bank loan did not obtain any credit, or obtained less than they applied for; and whereas the highest rejection rate was among microenterprises;

**M.** whereas the Competitiveness and Innovation Framework Programme (CIP) enabled financial institutions to provide EUR 30 billion in new finance to more than 315 000 SMEs in the period of 2007-2013; and whereas the European Investment Bank (EIB) provided around EUR 40 billion in lending to SMEs, which benefitted more than 210 000 SMEs in the period 2008-2011;

**N.** whereas the Commission's proposed new Programme for the Competitiveness of Enterprises and SMEs (COSME) will provide enterprises and SMEs with a Loan Guarantee Facility, offering guarantees for debt financing via ordinary loans, subordinated and participating loans or leasing to reduce the particular difficulties SMEs face in accessing finance for their growth, will offer securitisation of SME debt finance portfolios, aimed at mobilising additional debt financing for SMEs, and will run from 2014 to 2020, with a planned budget of EUR 2.5 billion;

**O.** whereas the experience gained by Member States from policies supporting the internationalisation of SMEs and microenterprises, plus that of civil society institutions (chambers of commerce, employers' associations, etc.), constitutes a formidable pool of lessons learned with a view to designing efficient and successful new policies in this field;

**P.** whereas any SME support policy undertaken at European level should be subsidiary, supplementary and complementary to the existing policy, provide European added value, avoid duplication and overlap with existing national, regional and local programmes and optimise planning and operational coordination;

**R.** whereas the Commission's Trade and Investment Barriers reports list examples of how the EU's market access to different countries around the world, including industrialised economies and major emerging economies in the WTO, is being constrained more by various non-tariff barriers (NTBs) than by trade tariffs, the latter tending to be waived substantially as globalisation progresses; whereas WTO rules prohibit unjustified NTBs;

**S.** whereas the EU, whenever necessary, needs to support and actively defend its industries and companies, including SMEs, against violations of agreed rules, WTO standards and principles by its trading partners, using all appropriate and proportionate means; whereas using multilateral and bilateral dispute settlement mechanisms, and in particular WTO-compatible trade defence instruments (TDIs), should be a measure of last resort;

**T.** whereas legal insecurity of investment is a key disincentive for SMEs to internationalise and whereas a legal framework with

our trade partners which guarantees legal security is absolutely essential; whereas the EU must defend the interests of European companies, especially SMEs, against violations of the legal security of investments in non-EU countries;

1. Urges the Commission, and where appropriate the Member States, to foster the participation of SMEs, and where relevant microenterprises, in global markets by implementing appropriate measures for their internationalisation and in particular their further integration into the EU single market, including easier access to capital and regularly updated information on business opportunities abroad, as well as efficient TDIs aimed at ensuring their rightful protection against unfair dumping and subsidies in order to safeguard fair competition with third countries, while ensuring that human, labour and social rights and the environment in third countries are protected;

2. Notes that SMEs are also facing difficulties as a result of the decline in domestic demand due to the economic crisis;

#### 1. Access to information

3. Stresses the need to improve enterprise-level data collection in order to raise awareness of the needs of MSMEs, share best practice and provide them with better targeted support at both national and EU level; calls also for regular cost-benefit analyses to assess the effectiveness of such support, with a focus on increasing MSMEs' innovativeness and competitiveness, both in the single market and globally;

4. Stresses the need, first of all, for a mapping exercise to identify existing and missing support programmes at national and EU level in order to avoid overlaps or gaps, incorporating existing service providers and support strategies in cooperation with national agencies; encourages Member States' authorities to create similar single online databases of national and regional sources of finance;

5. Stresses the need to evaluate the available market for growing internationalisation and further promote SME development within the internal market, and consider the development of SMEs within the internal market to be equally important as the development of SMEs abroad;

6. Considers it essential for the EU's competitiveness and growth to create a network, as part of a digital platform, bringing together national SME helpdesks, chambers of commerce, Export Credit Agencies (ECAs), business associations and the Commission, in order to provide enterprises in the EU, especially exporters and importers, with precise, timely and reader-friendly information on a one-stop-shop basis, so that they can fully benefit from the Union's new common commercial policy;

## II. Access to capital

7. Stresses that recurrent difficulties in accessing capital are one of the key reasons preventing SMEs' internationalisation; calls on the national governments to support SMEs by means of officially supported export credits, without distorting intra-EU competition, and also to earmark sufficient funding for SMEs (e.g. special loans, cofinancing and venture capital), so as to help overcome disinvestment and deleveraging by banks; stresses that such funding should be provided to SMEs that are already exporting and which can present a viable business plan for improving or consolidating their existing market share and creating jobs, especially for young people;

8. Considers that, in order to bolster the EU economy, support for start-ups offering innovative goods and services and for SMEs in need of initial or further investment should not be overlooked, either when they are operating within the single market or when they want to grow through internationalisation;

9. *Calls, therefore, on the national governments to help SMEs by exploring the possibility of creating, among other things, investment funds for SMEs in which any European citizen could invest savings;*

10. Calls for officially supported export credits to comply with OECD guidelines and foster projects that comply with international labour and environmental standards;

11. Calls for the support made available to SMEs for accessing capital to be modulated in accordance with respective and specific SME demands, in order to avoid a one-size-fits-all approach; notes, in this regard, that industry in the EU displays a wide range of business profiles and necessities reflecting SMEs' size, structure, sector of activity and geographic location;

12. Considers that a holistic strategy for trade finance, aimed at fostering internationalisation of SMEs, is urgently needed; believes that the EU should promote and support incentives to develop SMEs in strategic sectors in a proactive fashion, especially in the case of high-value-added manufacturing activities that offer a competitive edge over emerging economies as well as high-quality jobs for European citizens; stresses the need, therefore, to identify promising niche markets and foster their development;

13. Calls on the Commission to study the European business angel market and similar markets worldwide in order to learn from and build up the capacity of business angel network managers in the EU; encourages banks and other financial institutions to provide their SME clients with regularly updated information on available financial instruments, including SME support networks and business angels; calls also on the Commission to provide relevant information in this respect;

14. Recognises the existence of well-established and experienced systems of SME support at the national level offering access

to export credits through ECAs, and considers it reasonable to continue this support; takes the position, however, that in the medium term the establishment of systematic support for export credits at EU level, with the establishment of an SME export/import facility to disburse additional support to SMEs via ECAs on the basis of national best practice, requires further discussion; notes that this additional support could possibly involve soft and fixed-interest-rate loans, short-term working capital and refinancing, equity funding and business insurance solutions;

15. Draws attention to the regulatory and legal steps that need to be taken in order to improve SMEs' access to collateral, i.e.:

- reducing barriers to property registration (e.g. by establishing credit bureaux);
- lowering enforcement costs for lenders and raising the overall quality of financial information concerning SMEs, in order to enhance their creditworthiness in the eyes of lenders;

16. Highlights the need to provide SMEs with financial and technical assistance focused on market research, project and export finance advice, legal counselling (e.g. on escape clauses or penalties for late payment or default), customs and tax obligations, the fight against counterfeiting, and company presentations at trade fairs and business networking events (e.g. to find distributors in a third country);

17. Insists that it is also necessary to focus on closing the credit gap for microenterprises; stresses the beneficial role of small loans in enabling such enterprises to establish themselves; reiterates that even where a niche market is concerned, small amounts of FDI can also spur grassroots business initiatives in terms of generating growth and sustainable development at local level (e.g. developing craftsmanship);

18. Calls for increased public-private partnerships in the provision of seed money and venture capital to MSMEs in the EU, while sharing the entrepreneurial risk; points, in this regard, to the positive role that both micro-finance institutions and social entrepreneurship funds can play in developing business opportunities that also have strong social, ethical and environmental goals;

## III. Recommendations for concrete actions

19. Calls for endeavours at national and EU level to simplify the business environment for SMEs, in close consultation with EU SME associations and chambers of commerce and industry, as well as other relevant stakeholders, in support of both cutting red tape and internationalising SMEs;

20. Urges the Member States to adopt single enterprise helpdesks at the local level, run in cooperation with EU businesses, so that SMEs can receive information, in their own language and for immediate use, regarding export/import opportunities, existing barriers to

trade (both tariffs and NTBs), investment protection, dispute settlement provisions and competitors, and gain a knowledge and understanding of cultural and human practices in third markets;

21. Calls for a network to be set up between SMEs and large European companies to enable SMEs to reap the benefits of these companies' expertise and export and innovation capacities;

22. Calls on the Commission to promote exchanges between the heads of EU and third-country SMEs along the lines of the 'Erasmus for Young Entrepreneurs' programme that currently exists at European Union level;

23. Stresses the need to foster cooperation between European SMEs and third-country enterprises in order to facilitate market entry as well as integration into third-country markets;

24. Calls on the Commission and the Member States to make European SMEs more aware of trade agreements that are being negotiated and international investment opportunities open to SMEs;

25. Encourages EU businesses and exporters to actively use TDIs, such as TBR complaints or the complaints register in the Market Access Database, in order to report to the Commission material injuries resulting from trade barriers and enable, where appropriate, ex officio initiation of anti-dumping (AD) and countervailing duties (CVD) investigations by the Commission, in close collaboration with industry, so as to minimise the risk of retaliation;

26. Considers that the effective protection of SMEs against unfair trading practices by EU partner states is just as important as helping SMEs wishing to internationalise; considers internationalisation and protection to be two sides of the same coin in the globalisation process;

27. Calls on the Commission to pay due consideration to improved SME access to anti-dumping and anti-subsidy procedures when reforming the EU's Trade Defence Instruments;

28. Calls on the Commission to involve SMEs in the establishment of international standards (e.g. ISO), since changes in regulatory regimes directly impact their profitability; insists that tackling unjustified NTBs must be regarded as one of the Commission's top priorities, in particular through the harmonisation of technical rules based on relevant global standards;

29. Calls on the Commission to address these widespread and persistent issues in all multilateral and bilateral trade agreements, and especially in free trade agreements with both industrialised and emerging economies, and to ensure that in the WTO, NTBs receive, at the very least, as much attention as is currently paid to tariff elimination;

30. Regrets the lack of specific means available to European businesses, and particularly SMEs, to counter intellectual property rights (IPR) infringements effectively; welcomes the Commission's decision to propose a review of the directive on the enforcement of IPR; calls on the Commission and the Member States to improve the defence of

IPR in all relevant multilateral organisations (WTO, World Health Organisation, World Intellectual Property Organisation);

31. Points out that SMEs are vulnerable to price fluctuations; calls, therefore, on the Commission to work actively at EU level and in international forums such as the G20 to tackle harmful financial speculation on food and raw materials;

32. Calls on the Union to fully exploit the investment opportunities for EU SMEs stemming from the European Neighbourhood Policy, with particular focus on cross-border investment in the countries of the Eastern and Southern Mediterranean partnerships; points out that investment opportunities in those areas should contribute substantially towards meeting the socioeconomic needs of the populations of the countries concerned and promoting sustainable economic development, deeper regional cooperation and regional stability;

33. Considers that the Commission and the European External Action Service should develop synergies in order to further enhance the Union's commercial diplomacy worldwide;

34. Calls on the EU to develop an ambitious common industrial policy based on fostering research and innovation that benefits from innovative financing arrangements, such as project bonds, and supports the development of SMEs, via access to public procurement, in order to maintain its competitiveness vis-à-vis major players in industry and research;

35. Instructs its President to forward this resolution to the Council and the Commission.

## EXPLANATORY STATEMENT

### I. Introduction

This own-initiative report focuses on small and medium-size enterprises (SMEs) that are interested in exporting, importing and investing beyond the EU Single market. According to the European Commission's communication 'Small Business, Big World - a partnership to help SMEs seize global opportunities' of the 9th November 2011, SMEs will be referred hereafter as enterprises of the Union that are independent from larger businesses and multinationals and are characterised by fewer than 250 employees, an annual turnover not exceeding EUR 50 million and a balance sheet lower or equal to EUR 43 million. The European Commission estimates that there are some 23 million SMEs operating on the EU Single market.

EU SMEs account for 75% of jobs in the private sector and, over the past five years, have contributed to the creation of around 80% of all new jobs. Surprisingly enough, only 25% of SMEs operate beyond the national borders of their Member State of their establishment and as few as 13% are active in markets outside the



EU through exports. The number of SMEs involved in foreign direct investment is also limited.

Several factors can be invoked to explain the reasons for the lack of SME internationalisation. Two key aspects underpin this problem. Firstly, EU SMEs face difficulties obtaining information about foreign markets and trade and investment opportunities abroad. Secondly, many SMEs lack capital to 'going global', which includes the financing of cross-border business activities. As Rapporteur, I have undertaken to elaborate further on these two issues and to suggest concrete remedies to overcome them with the view of enabling EU SMEs to improve their competitiveness worldwide, all of which is part of the new EU trade and investment policy.

## II. Access to Information

According to the 'OECD Scoreboard on SME and entrepreneurship finance' of the 19th April 2012<sup>24</sup>, access to finance was, along with market access information, one of the most acute problems faced by SMEs in the first half of 2009. Access to detailed market information is undoubtedly one of the preconditions for successful internationalisation. This information ranges from an overview of the political situation in the foreign country of operation, to market research on the socioeconomic indicators of the market opportunities, including specific features of potential clientele.

Regularly updated data on currency rates, legal security, labour laws and, last but not least, trade financing opportunities, are crucial for SMEs. These factors are even more important for micro enterprises, especially when entering foreign markets for the first time and looking to identify relevant business opportunities. As the smallest of SMEs, micro enterprises have the least resources at their disposal and are generally considered to yield fewer profits than SMEs, big companies or multinationals. They are even more dependent on the availability of tailor-made information to support their business development and internationalisation.

In order to improve general awareness about the needs of micro, small and medium-size enterprises (MSMEs), it is therefore also very important to improve the collection of information and statistical data about MSMEs' challenges. This includes the access of financing for internationalisation but also a mechanism to share existing know-how about possible solutions that may assist MSMEs to overcome existing issues at the national and EU level or abroad, especially among OECD countries.

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<sup>24</sup> OECD Scoreboard, 19 April 2012, [http://www.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurship\\_9789264166769-en](http://www.oecd-ilibrary.org/industry-and-services/financing-smes-and-entrepreneurship_9789264166769-en)

## III. Access to Capital

Having access to capital and to adequate trade-related financial support is essential for MSMEs wishing to actively engage in exports and imports. This is also essential for investment in third country markets and in boosting their capacity of sustaining themselves in the face of international competition.

As your Rapporteur, I therefore welcome all existing European financial instruments such as the Competitiveness and Innovation Framework Programme (CIP) and its microcredit scheme, the financial initiatives of the European Investment Bank (EIB) and European Investment Fund (EIF), the networking opportunities of the SME Finance Forum, EU-level support for research and development and, last but not least, pro-SMEs measures under the EU Cohesion Fund and Structural Funds. All these measures contribute to the development, and sound growth of, the Union's enterprises. However, I deplore the fact that very little has been done to provide funding directly to SMEs, which have to use financial intermediaries such as banks to access funding in EU Member States. Furthermore, I regret that very little or none of the abovementioned SME support programmes specifically target international trade or investment in third countries.

Having said this, I appreciate that the European Commission has recently decided to help small businesses operating outside their Member States of establishment by improving their access to markets with the creation of the CIP-successor, the Programme for Competitiveness of Enterprises and SMEs (COSME) 2014-2020. The latter has a planned budget of EUR 2.5 billion and could provide support, including their internationalisation, to some 40 000 enterprises. Nevertheless, in my view much more needs to be done to fully reap the benefits of the post-Lisbon trade and investment policy of the EU. As both trade and foreign direct investment are now an exclusive competency of the Union, greater emphasis should be put on comprehensive actions as part of the EU common commercial policy.

This is the reason why the establishment of an EU export-import facility (EU EXIM) should be considered by the Commission. This should draw on the existing trade-finance support available in some EU member States and share existing national best practices and Government policy responses in improving SME and MSME access to finance. Such an initiative can contribute to implementing a successful 'exit strategy' from the lingering global financial, economic and social crisis as well as the ongoing sovereign debt crisis of the Euro area, whilst at the same time fostering sustainable growth and job creation.

The EU EXIM facility should, in my view, provide SMEs, and where appropriate micro enterprises, with additional support that would be made available to them via Member State's Export Credit Agencies (ECAs). Drawing on officially supported export credit schemes

with special provisions for SME exporters in various EU Member States, this additional support could include, where appropriate, the following range of services:

- Seed capital;
- Special loans for start-ups (e.g. preferential interest rate loans (soft loans) or fixed interest rate loans for the life span of the credit);
- Short-term work capital and refinancing;
- Loan guarantees;
- Export guarantees;
- Co-financing (with enterprises' own capital or private funding (e.g. bank loan));
- Credit mediation;
- Venture capital and equity funding,
- Tax exemptions and tax deferment (at least for micro enterprises and start-ups)
- Business consultancy, including legal and tax counselling;
- Officially supported export credit schemes drawing on the best practices of current Export Credit Agencies (ECAs) in EU Member States such as export credit insurance (for example against exchange rate risks) and export credit guarantees (for example to eliminate commercial and political risks of non-payment);

The abovementioned may also trigger greater involvement of the private sector in SME-related funding and support for internationalisation through, for example, export credit cover provided by private insurers.

Concerning European micro enterprises, one can only underline how important it is for them to access seed money in the initial phase of their existence, as well as micro-credit (micro-loans) throughout their whole business cycle with a view to sharing entrepreneurial risk. In this regard, your Rapporteur considers that both Micro-finance institutions and Social Entrepreneurship Funds can play a positive role in developing business opportunities with strong social, ethical and environmental goals and generate growth from the local level.

Finally, it should be stressed that all MSMEs should benefit from facilitated application procedures for the abovementioned services and speedy processing of their requests not only to save time, but also to alleviate some of the financial burdens on MSMEs that such applications take.

#### IV. CONCLUSION

The recommendations made in this report are aimed at improving the quality of information available to SMEs and micro enterprises about funding opportunities and trade-finance instruments that exist at both the national and EU level. It is hoped that by receiving assistance of this nature, SMEs and micro enterprises will overcome barriers to trade that hamper EU businesses access in third country markets. Furthermore,

it is expected that an additional tailor-made import/export facility will enable them fully tap in to the growth and job creation potential resulting from their internationalisation.

#### RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	6.11.2012	
<b>Result of final vote</b>	+: 23	
	-: 1	
	0: 2	
<b>Members present for the final vote</b>	William (The Earl of) Dartmouth, Maria Badia i Cutchet, Marielle de Sarnez, Yannick Jadot, Metin Kazak, Franziska Keller, Bernd Lange, David Martin, Paul Murphy, Franck Proust, Godelieve Quisthoudt-Rowohl, Helmut Scholz, Peter Šťastný, Robert Sturdy, Gianluca Susta, Henri Weber, Jan Zahradil	
<b>Substitute(s) present for the final vote</b>	Josefa Andrés Barea, Catherine Bearder, George Sabin Cutaş, Béla Glattfelder, Syed Kamall, Pablo Zalba Bidegain	
<b>Substitute(s) under Rule 187(2) present for the final vote</b>	Edite Estrela, Jean-Paul Gauzès, Oldřich Vlasák	

#### About the Rapporteur

**Jan Zahradil:** Czech politician and Member of the European Parliament with the Civic Democratic Party (ODS).

Curriculum vitae: [http://www.europarl.europa.eu/meps/en/23712/JAN\\_ZAHRADIL.html](http://www.europarl.europa.eu/meps/en/23712/JAN_ZAHRADIL.html)

## ANNEX 3

June 23, 2011

Ministry of Economy, Trade and Industry

### METI'S ACTION PLAN FOR SUPPORTING SMES IN OVERSEAS BUSINESS

#### 1. INFORMATION

(1) Providing necessary information in detail for SMEs

1) "Global Service Forum" of Service Productivity & Innovation for Growth (SPRING) and Service Industry Trend Study Group in tie-up with Japan External Trade Organization (JET-RO) will play central roles to continue collecting/analyzing information on best practices in the service industry where SMEs have been expanding their business operations, non-tariff barriers in each nation, the trends/transitions in domestic firms and to provide such information through sessions and lectures. (Commerce and Information Policy Bureau)

2) The Small and Medium Enterprise Agency (SMEA) will collect successful cases of SMEs which have expanded overseas and ask representatives of such SMEs to participate seminars held by support organizations, to provide advice for SMEs hoping for overseas expansion in the future. (SMEA)

(2) Sharing support records and taking consistent measures throughout organizations

While encouraging regional financial institutions closely related with SMEs to provide business management support and financial support in an integrated manner, the SMEA will provide regional financial institutions with information on overseas expansion support programs. (SMEA)

#### 2. MARKETING

(1) Supporting product development and branding

1) To encourage cultivation of new overseas sales channels for SMEs, the SMEA will help groups of SMEs jointly draft up their strategies based on their strengths including their competitive materials and technologies and will provide support to SMEs' efforts on product development or overseas market cultivation in line with these strategies (Japan Brand Program). Support for 82 projects in FY2011 will be provided. (SMEA)

2) To commercialize Cool Japan's appeal points and real strengths

that enjoy high popularity in overseas markets, such as animation, fashion, food, local products, traditional culture and craftsmanship as well as to encourage overseas market cultivation and increase foreign visitors to Japan. The Manufacturing Industries Bureau will designate target nations/fields and provide support to corporation's and younger workers' efforts on "forming teams across industries, cultivating market demand, checking outcomes, applying such outcomes to other business projects and engaging in actual business operations." (Manufacturing Industries Bureau)

3) By making use of the partnership between SMEs and agriculture/forestry/fisheries business owners, utilizing local resources and effectively employing the cooperative framework consisting of multi-sectional SMEs, the SMEA will help SMEs push ahead with their new business or cultivate sales channels at home and abroad through effectively utilizing their mutual business resources (technologies, sales channels, etc.). (SMEA)

4) As a part of Global "One Village, One Product" model of APEC Gifu Initiative, the SMEA will help SMEs develop new high-value-added products made from local resources and sell these products bound for the global market. (SMEA)

5) By making use of "Good Design" brand capabilities that have successful past records for more than 50 years in Japan, the Manufacturing Industries Bureau will aim to raise awareness of G Mark through cooperating in establishing design awards in India to facilitate Japanese SMEs' overseas expansion. In addition, to differentiate SME's high-quality products from their competitors' products, the bureau will make efforts to disseminate kid's designs that pay careful attention to secure feeling, child safety and appropriate child-rearing conditions. The bureau will also utilize designs in the central government's overseas projects in order to create brands for craftwork manufacturing. (Manufacturing Industries Bureau)

(2) Securing reliability (safety and security)

1) METI will reach out to competent authorities in nations/regions that impose restrictions. In addition, the government will send information through the Internet and work on strengthening information services, such as holding presentation meetings for diplomatic missions stationing in Tokyo and industrial sectors at home and abroad. (METI)

2) Trade and Economic Cooperation Bureau will provide business owners with information on foreign nations' radioactive materials inspection schemes on their website. In addition, the bureau will also set up counseling desks to address questions from individual business owners. (Trade and Economic Cooperation Bureau)

3) Trade and Economic Cooperation Bureau and Regional Economic and Industrial Policy Group will provide information on subsidizing inspection fees for radioactive measurement on exported goods as well as certification services of chambers of commerce and industry and will provide support in Fukushima Prefecture, such as lending radiation counters and dispatching experts. (Trade and Economic Cooperation Bureau and Regional Economic and Industrial Policy Group)

4) The Manufacturing Industries Bureau will provide press releases to state that there is no significant gap between textile goods produced in Fukushima Prefecture and those manufactured in Tokyo, Osaka, Kyoto, or even in Asia or Europe. The bureau will also prepare press releases in English so that the industry will be able to use them for explanations to overseas buyers. (Manufacturing Industries Bureau)

(3) *Inviting foreign buyers and helping SMEs to exhibit in domestic trade fairs*

1) Trade Policy Bureau and the SMEA will grant subsidies to JETRO and Organization for Small & Medium Enterprises and Regional Innovation (SMRJ) to support their invitations of overseas buyers and SME participation in trade fairs at home. (Trade Policy Bureau and the SMEA)

2) The Economic and Industrial Policy Bureau will work on networking with venture capitals in Asian nations and engage in matching with domestic venture businesses, etc. (Economic and Industrial Policy Bureau)

(4) *Exhibiting at overseas trade fairs and dispatching missions abroad*

1) As a part of the APEC “Rakuichi Rakuza (Free Market, Open Guild)” project of APEC Gifu Initiative, the SMEA will establish a “Trade Fair Information Sharing Framework,” which will facilitate information sharing about international trade fairs in APEC member nations. The agency will also work on the “APEC SME Support-type Trade Fair” where SMEs are able to easily participate and yield outcomes. (SMEA)

2) By utilizing the framework of the “Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc.,” the Regional Economic and Industrial Policy Group will support SME activities, such as local SMEs’ joint participation in trade fairs or mission detachment aimed at cultivating overseas sales channels. (Regional Economic and Industrial Policy Group)

3) By utilizing Japanese or local private firms that already have an extensive network with buyers in the target overseas market, the Manufacturing Industries Bureau will provide business talk-style sales channel

cultivation opportunities to SMEs by selecting SMEs that have limited overseas business experiences but are willing to expand their business operations overseas and provide a product lineup that would gain high popularity in the target market. (Manufacturing Industries Bureau)

4) From the viewpoint of accelerating recovery from earthquake damage, the SMEA will make efforts to enhance overseas-expansion-related support for SMEs in affected areas. (SMEA)

(5) *Assisting market cultivation through the Internet*

1) To encourage SMEs’ business operations targeted at so-called the Next Volume Zone BOP (Base of the Economic Pyramid), Trade and Economic Cooperation Bureau will work with related organizations to provide integrated information through portal sites as well as matching support services. (Trade and Economic Cooperation Bureau)

2) Commerce and Information Policy Bureau will conduct surveys on possible gaps in foreign nations’ programs on online-based trans-border businesses and possible subsequent problems, publicly announce the survey results and conduct surveys on actual conditions of trans-border businesses. (Commerce and Information Policy Bureau)

3) Working with Organization for Small & Medium Enterprises and Regional Innovation, the SMEA will work on a demonstration program in which SMEs will sell their products to overseas consumers via overseas online sales websites. (SMEA)

### 3. HUMAN RESOURCES DEVELOPMENT AND SECURING TALENT

(1) *Developing competent human resources for overseas expansion*

As a part of the APEC SME CEO Network Expansion Program of APEC Gifu Initiative, the central government will provide support for local government’s international human interactive programs for SME business owners by using SME University or some other facilities. (SMEA)

(2) *Securing human resources needed for overseas expansion*

1) Working with SMRJ from the viewpoint of retaining human resources for SME overseas expansion, the SMEA will provide matching services between SMEs and corporate senior retirees who have extensive overseas business experiences and are registered with JFTC (Japan Foreign Trade Council). The agency will also examine the feasibility of matching services between SMEs and international students. (SMEA)

2) The Trade and Economic Cooperation Bureau will provide support for transfer of experts to give instruction on production technologies needed at overseas plants. (Trade and Economic Cooperation Bureau)

#### 4. FINANCING

Facilitating access to financing:

To further push ahead with SME's smoother overseas expansion, the SMEA will examine the feasibility of enhancing Japan Finance Corporation's Overseas Expansion Fund Program. (SMEA)

#### 5. IMPROVEMENT OF THE TRADE AND INVESTMENT ENVIRONMENT

(1) Providing information essential to establishment of overseas operations

To encourage Japanese SMEs to tap into the Indian market (Chennai), the Trade Policy Bureau will cooperate with the Indian government and the local state government. In addition, the bureau will work with related organizations to provide information services on local investment environment as well as information on industrial parks for Japanese firms. (Trade Policy Bureau)

(2) Assisting in overseas expansion with regard to legal, tax, labor and intellectual property protection matters, as well as prevention of technology outflows

1) Working with support organizations, such as intellectual property comprehensive support desks, the Japan Patent Office (JPO) will provide management support services, including the optimal utilization of intellectual property in overseas economies, from "overseas intellectual property producers." In addition, JPO will appoint highly professional counseling staff, patent lawyers and lawyers as imitation damage advisers in order to quickly deal with SME's questions about countermeasures on industrial property right infringements as well as industrial property right schemes in foreign nations. JPO will also examine the feasibility of enhancing subsidy support programs for overseas patent applications. (JPO)

2) The Small and Medium Enterprise Agency will work with Japanese chambers of commerce and industry overseas to set up appropriate frameworks so that SMEs pursuing overseas expansion will be able to share tax and labor affairs know-how of companies that have already tapped into overseas economies. (SMEA)

3) The Manufacturing Industries Bureau will prepare and revise the "Technology/Knowhow Protection Guidebook for Formed/Fabricated Materials Firms" to provide support for appropriate techno-

logical/knowhow management. (Manufacturing Industries Bureau)

(3) Facilitating trade and investment

1) The Trade Policy Bureau will push ahead with EPA policies to simplify and standardize trade/investment procedures as stated in EPAs, including TPP. (Trade Policy Bureau)

2) To push ahead with support for overseas expansion of the distribution industry as well as improvement in logistics services necessary for Japanese firms, the Regional Economic and Industrial Policy Group will actively work on launching policy dialogues with competent ministries/agencies of partner nations. To be more specific, in line with the following frameworks, the group will work on discussions for solving problems related with overseas expansion and will cooperate in fostering human resources. (Regional Economic and Industrial Policy Group)

**(a) In August 2010, METI and China's Ministry of Commerce concluded the MOU on cooperation in distribution policies. METI is preparing to hold "Japan-China Distribution Business Policy Dialogue" as an arena for future continuous discussions.**

**(b) Through the first meeting of "Japan-China Distribution Business Policy Dialogue" in June 2010 among Chinese NDRC (National Development and Reform Commission), METI, MOFA (Ministry of Foreign Affairs) and MLIT (Ministry of Land, Infrastructure, Transport and Tourism), METI will push ahead with improving the distribution business environment for Japanese firms' overseas expansion to China.**

**(c) Through the policy dialogue on distribution/logistics sector as agreed by METI and the Vietnamese Ministry of Commerce and Industry in October 2010, METI will provide support to Japanese firm's overseas expansion to Vietnam.**

3) Through JETRO, JETRO offices in 10 cities mainly in emerging economies will first work with Japanese chambers of commerce and industry in local areas in order to enhance an overseas support framework, aiming to actively provide support for SME's overseas expansion in local markets. (Trade Policy Bureau)

## ANNEX 4

June 23, 2011

### FRAMEWORK FOR SUPPORTING SMES IN OVERSEAS BUSINESS

### CONFERENCE ON SUPPORTING SMES IN OVERSEAS BUSINESS

#### I. Purposes of drafting the Framework

Small and medium-sized enterprises (SMEs) in Japan have served as a driving force for socioeconomic growth and development and as the foundation that underpins Japan's economy and society. They have been actively rising to challenges by constantly serving as pioneers and have contributed to overcoming repeated difficulties.

However, the Japanese economy is currently facing structural problems resulting from environmental/energy restraints as well as a dwindling birthrate and an aging population, and is unlikely to significantly expand in scale in the long run. In addition, the Great East Japan Earthquake on March 11, 2011, has done significant damage to daily life and industries in affected areas. The earthquake and tsunami, coupled with the nuclear power plant accident, has brought about a sense of a stagnant economy nationwide. On the other hand, overseas economies have been enjoying high economic growth rates, mainly in emerging economies in Asia, and are also estimated to maintain significant economic growth in the future.

Although the total number of SMEs has been decreasing in recent years, the number of SMEs directly exporting their products is increasing as a long-term trend. However, these SMEs still comprise a small percentage of the total number of SMEs. On the other hand, due to stiffer competition resulting from globalization, SMEs' overseas expansion is no longer an exception to the rule. As a considerable number of SMEs are wishing to expand their business operations through investment, the government needs to provide support for overseas expansion for these corporations as well.

To break away from damage of the Great East Japan Earthquake as soon as possible, it is obvious that recovery of the domestic economy is urgently necessary. At the same time, as Japan's exports are showing signs of decreasing due to reputational damage through unfounded rumors, Japan should make further efforts to draw on expansion into overseas markets as a driving force for domestic economic growth.

From these perspectives, the conference has hereby set this framework as a comprehensive approach for SME's overseas expansion, taking into consideration regional action plans and support organizations' action plans.

To appropriately respond to requests from SMEs and changing situations at home and abroad, this framework, including regional action plans and action plans of support organizations, will be reviewed and amended, if it is deemed appropriate.

#### II. Establishing the framework for supporting SMEs in overseas business

##### 1. Extensive collaboration between the government and related organizations

With the inauguration of the Conference on supporting SMEs in Overseas Business, the government, support organizations, SME groups, financial institutions and other related organizations that would contribute to overseas expansion of SMEs and agriculture/forestry/fishery business owners have an opportunity to meet to discuss the policy actions needed to facilitate cooperation and collaboration. The conference will make efforts to improve the framework, and take advantage of this opportunity to maintain continuous discussions and suggest supportive measures for SMEs' overseas expansion.

##### 2. Coordinated collaboration among related organizations in local areas

In reaction to this conference's meeting, regional bureaus of Ministry of Economy, Trade and Industry (METI) have played a central role in setting up regional councils consisting of local support organizations. To be more specific, these councils consist of local support organizations, such as local financial institutions, regional administrative organizations and SME groups that have direct contact with SMEs and agriculture/forestry/fishery business owners on a daily basis and have concrete knowledge of SME's actual efforts to realize overseas expansion and their support needs. At these councils, participants will have deeper collaboration with each other, and will make efforts to expand supportive measures through their mutual cooperation in accordance with their local action plans.

##### 3. Improving supportive framework extending overseas

For SMEs with limited overseas experience, establishment of an appropriate counsel and supportive framework at home and abroad, as well as supportive measures available from such framework in an integrated manner will work very effectively. In this context, overseas offices of council participant support organizations, such as diplomatic establishments abroad and Japan External Trade Organization (JETRO) will make efforts to set up an appropriate framework to actively provide support for SMEs' overseas expansion, with the cooperation of Japanese commerce and industry chambers overseas consisting of Japanese firms that have already expanded their business operations overseas.

### III. Key issues to be addressed

After examining possible solutions in line with SME needs identified by visiting SME-related municipal institutions (4,300 times in total) and interviewing approximately 5,000 SMEs since its inauguration last autumn, the conference will provide support for SME overseas expansion, with focus put on the following five areas.

#### 1. Information

##### (1) Providing necessary information in detail for SMEs

The framework stakeholders will collect/analyze information on market conditions, business practices and local programs that SMEs need for overseas expansion and provide such information in a finely-tuned and understandable manner.

##### EXAMPLES

1) All regional councils will work on counseling services or dialogues on new overseas expansion projects with the national total of 4,800 SMEs in FY2011 and expanding to 15,000 SMEs by the end of FY2013.

2) JETRO will provide overseas expansion-related trade investment counseling services for at least 48,000 SMEs in FY2011.

3) In FY2011, 700 seminars will be held on SME overseas expansion and 2500 seminars total, by the end of 2013. In addition, the councils will set an annual target of attracting 20,000 SMEs to such seminars in FY2011 and 60,000 SMEs by the end of FY2013. (All regional councils)

4) Hokkaido Regional Support Council, JETRO, Organization for Small & Medium Enterprises and Regional Innovation (SMRJ), etc. will prepare guidebooks and handbooks so that SMEs would be able to easily obtain necessary information and take advantage of supportive measures.

5) Ministry of Agriculture, Forestry and Fisheries (MAFF) will support various efforts, such as collecting and providing information on legal frameworks and business practices in foreign nations and solving technical problems for business expansion, in order to encourage the Japanese food industry's investments and business expansion in East Asia.

6) METI will collect successful cases of SME's overseas expansion and invite representatives of such SMEs to seminars held by support organizations, to provide advice for SMEs hoping for overseas expansion in the future.

##### (2) Sharing support records and providing consistent support throughout organizations

Support organizations will provide consistent support by mutually sharing their support programs for SMEs with a goal of overseas expansion.

#### EXAMPLES

1) METI regional bureaus, JETRO and SMRJ will share their SME-related support program records to efficiently provide support services.

2) All support organizations will design their website so that users would be easily able to have access to the support organization's related programs on their websites.

3) Greater Kanto Area SME Overseas Expansion Support Headquarters will work on the "Overseas Expansion Support Program (tentative name)" in cooperation with local financial institutions to provide support to local SMEs expand overseas. (Greater Kanto Area SME Overseas Expansion Support Headquarters)

#### 2. Marketing

##### (1) Supporting product development and branding

The framework stakeholders will provide support for SME product development and branding efforts aimed at overseas markets and provide support for product development acceptable to local firms by making use of expert knowledgeable on industrial circumstances, such as trends, needs, business practices and standards in overseas markets.

##### EXAMPLES

1) In FY2011, METI will provide support for 82 projects in the "Japan Brand Program" in which several SMEs will work with each other to cultivate overseas markets by making use of their competitive materials or technologies.

2) JETRO will provide counseling services for SMEs and support services on matching with local firms by entering into contracts with 50 overseas coordinators (up 40% from the preceding year's level) in five areas in overseas markets (Agriculture/forestry/fisheries and food; Fashion and textile; Design and local traditional goods; Contents; and Machineries/parts).

3) All regional councils will aim to boost the number of successful export and direct investment projects with overseas firms (including the number of estimated projects) to 600 in FY2011 and 2,000 by the end of FY2013.

4) MAFF will provide support for various efforts, such as production technology improvements for the food industry's overseas expansion.

##### (2) Securing reliability (safety and security)

To undertake countermeasures regarding reputational damage through unfounded rumors and provide support for export of industrial and food products after the Fukushima nuclear plant accident, the framework stakeholders will provide appropriate information to foreign governments, encourage them to take appropriate actions based on scientific evidence and provide concrete support for countermeasures on harmful rumors as well as on export of industrial products, such as support for inspection services and improvement in their domestic inspection schemes.

In particular, to regain the traditional highly reputed “safe and high quality” food products, in the framework, stakeholders will send correct information to encourage foreign nations to mitigate their restrictions on imports of made-in-Japan food products and will shift the focus to making an appeal of food safety.

EXAMPLES

1) Ministry of Foreign Affairs (MOFA), MAFF, METI, JETRO, etc. will reach out to competent authorities in nations/regions that impose restrictions on Japanese products, contribute articles to major foreign newspapers or send information through the Internet, including websites of Japanese diplomatic establishments abroad, and work on strengthening information services, such as holding seminars for diplomatic missions stationed in Tokyo or industrial circles at home and abroad.

2) MAFF, METI, JETRO and Nippon Export and Investment Insurance (NEXI) will provide business owners with information on foreign nations’ radioactive materials inspection schemes on their websites. In addition, they will also set up counseling desks to address questions from individual business owners.

3) METI and MAFF will actively provide information on subsidizing inspection fees for radioactive measurement on exported goods, support for introduction of radioactive material inspection equipment at inspection agencies and certification services of chambers of commerce and industry, and will provide support in Fukushima Prefecture, such as lending of radiation counters and dispatching experts.

4) MAFF will work on PR activities on Japan’s agriculture/forestry/fisheries industry and food products based on in-depth marketing on a country-by-country basis. MAFF will also provide support for international trade fairs and business talk sessions by inviting buyers and conducting PR activities on the safety of Japan’s agriculture/forestry/fisheries industry and food products through these opportunities.

(3) Inviting foreign buyers and helping SMEs to exhibit in domestic trade fairs:

The framework stakeholders will provide business talk opportunities at home by inviting major foreign buyers and will help SMEs exhibit their products at domestic trade fairs for these buyers.

EXAMPLES

1) JETRO and SMRJ will invite in buyers from overseas economies and provide support for domestic trade fairs. In FY2011, JETRO and SMRJ will invite 100 buyers.

2) METI will work on networking with venture capitalists in Asian nations and engage in matching with domestic venture businesses, etc.

(4) Exhibiting at overseas trade fairs and dispatching missions abroad

The framework stakeholders will help SMEs to exhibit in major overseas trade fairs and send missions to promising overseas markets. Framework stakeholders will set aside a sufficient preparatory period and take necessary actions in line with needs of SMEs.

EXAMPLES

1) All regional councils will aim at boosting the number of SMEs having specific business talks with overseas firms at international trade fairs, or mission-dispatched business talk sessions, to 2,200; as well as the number of counseling service sessions for such SMEs to 7,600 in FY2011. They will also increase the number of such SMEs to 7,500 and the number of counseling service sessions to 25,000 by the end of FY2013.

2) In FY2011, JETRO will participate in at least 50 overseas trade fairs, send at least 15 missions to cultivate overseas markets, and provide SMEs with support for their preliminary preparation or on-site business talk sessions. In addition, JETRO will examine the feasibility of trade fairs or missions in line with SMEs’ needs.

3) Ministry of Foreign Affairs (MOFA) and JETRO will make use of diplomatic mission facilities, including the ambassador’s or consulate general’s residences or JETRO facilities, as a location for SME’s PR activities to hold receptions, merchandise exhibitions or seminars in cooperation with Japanese firms.

4) As for support for SME overseas expansion, JETRO will provide support for at least 50,000 business talks worldwide and aim at 9,000 or more successful contracts in FY2011.

5) From the viewpoint of accelerating recovery from earthquake damage, METI will make efforts to enhance overseas-expansion-related support for SMEs in affected areas.

(5) Assisting market cultivation through the Internet

From the viewpoints of mitigating business risks for SMEs, the framework stakeholders will strengthen their support for Internet-based business talks with overseas firms and provide Internet-based international trade know-how and risk management strategies.

EXAMPLES

1) JETRO and SMRJ will make use of overseas online sales websites to directly sell Japanese firms’ products available at antenna shops in Japan to consumers and by doing so conduct sustentative research on consumers’ reactions or appropriate product selection for online sale.

2) To encourage SMEs’ business operations targeted at so-called the Next Volume Zone BOP (Base of the Economic Pyramid), METI will work with related organizations to provide integrated information through portal sites as well as matching support services.

3. Human resources development and securing talent

(1) Developing competent human resources for overseas expansion

To foster SME human resources capable of appropriately handling overseas expansion, such as overseas investment and business talks with overseas buyers, the framework stakeholders will put more emphasis on holding seminars and providing training sessions.



EXAMPLE

SMRJ will strengthen its training sessions for overseas business administrators or overseas business practitioners and will also work on overseas on-site training sessions.

(2) Securing human resources needed for overseas expansion

The framework stakeholders will help SMEs make use of overseas business experts (senior retiree human resources) or international students as immediate usable resources with insights, valuable human network and technologies necessary for export or investment.

EXAMPLES

1) SMRJ will provide matching services between SMEs and overseas business experts (senior retiree human resources) registered with Japan Foreign Trade Council (JFTC) and will also help SMEs retain human resources with immediate usable resources.

2) The Japan Chamber of Commerce and Industry (JCCI) will provide information services on a web-based international students recruitment program (“Shushoku Japan,” the Tokyo Chamber of Commerce and Industry’s job information website).

3) METI will provide support for transfer of experts to give instruction on production technologies needed at overseas plants.

4. Financing

(1) Enhancing financial consulting structure

To mitigate financial burdens that will pose significant obstacles on overseas expansion, the framework stakeholders will set up financial service-related counseling desks at home and abroad and provide highly-professional counseling services through collaboration among related organizations.

EXAMPLES

1) Shoko Chukin Bank will provide counseling services for 3,000 projects a year through overseas expansion support desks established at 103 branch offices and operation branches at home and abroad.

2) Staff from Japanese financial institutions will engage in JETRO tasks at domestic and overseas offices. JETRO will accept 26 workers from 25 banks in FY2011 and will continue to accept bankers thereafter as needed.

3) Financial institutions, JETRO and Japan Bank for International Cooperation (JBIC) will work with one another to provide overseas information and counseling services and provide information on financing approaches in foreign nations.

(2) Facilitating access to financing:

To help SMEs successfully finance their overseas expansion programs, in the framework, stakeholders will mitigate loan terms, provide easier financing approaches in local currencies and enhance insurance programs for possible risks.

EXAMPLES

1) To further push ahead with SME’s smoother overseas expansion, METI will examine the feasibility of enhancing Japan Finance Corporation’s Overseas Expansion Fund Program.

2) JBIC and Shoko Chukin Bank will form a business alliance with major overseas banks to set up Japan Desks and facilitate financing in local currencies.

3) MOFA will provide necessary loans or investments through the Japan International Cooperation Agency (JICA) so that SMEs will engage in private-sector projects with high development potential in developing nations, such as infrastructures projects or BOP businesses.

5. Improvement of the trade and investment environment

(1) Providing information essential to establishment of overseas operations

The framework stakeholders will provide information on investment conditions in a nation/region that many SMEs wish to tap into and will secure necessary facilities.

1) JETRO will provide information on its website by conducting annual surveys on investment costs (wage, land prices, office rent, communications costs, taxes, utility charges, etc.) in approximately 100 cities in highly popular nations/regions among SMEs as their overseas expansion target.

2) Regional financial institutions will examine the feasibility of jointly establishing incubation facilities in Southeast Asia. (Greater Kanto Area SME Overseas Expansion Support Headquarters)

(2) Assisting in overseas expansion with regard to legal, tax, labor and intellectual property protection matters, as well as prevention of technology outflows

The framework stakeholders will set up an appropriate counseling service framework, such as retaining experts on taxation or labor matters related with overseas expansion. In addition, the framework stakeholders will also prepare a technology outflow prevention manual.

EXAMPLES

1) To provide Japanese firms with counseling services on tax, labor and intellectual property matters overseas, 30 overseas offices of JETRO have entered into contracts with law firms and accounting offices. JETRO will handle counseling services for at least 10,000 projects on average annually and intellectual property-related counseling services for at least 1,300 SMEs on average annually.

2) Working with support organizations, such as intellectual property comprehensive support desks, METI will provide management support services, including advice on effective utilization of intellectual property, from overseas intellectual property producers as well

as counseling services from counterfeit damage advisers in terms of countermeasures on intellectual property infringement in overseas markets. In addition, METI will also examine the feasibility of enhancing subsidy support programs for overseas patent applications.

3) METI will work with Japanese chambers of commerce and industry overseas to set up appropriate frameworks so that SMEs pursuing overseas expansion will be able to share tax and labor affairs know-how of companies that have already tapped into overseas economies.

(3) Facilitating trade and investment

The government will simplify administrative proceedings necessary for smoother trade and investment, improve user-friendliness of various programs and help SMEs establish relationships with local governments necessary for their business operations.

EXAMPLES

1) To simplify and standardize trade/investment procedures as stated in regional EPAs, MOFA, MAFF and METI will examine the feasibility of pushing ahead with economic partnerships, while paying due attention to the progress of international negotiations, possible hollowing out of industry, as well as the mindset of farmers and fishermen significantly suffering earthquake or nuclear damage.

2) In response to requests from individual firms, MOFA and JETRO will offer suggestions to foreign governments or help SMEs in human networking with local VIPs by using diplomatic establishments abroad or JETRO's overseas offices.

3) In line with the needs of SMEs, MOFA will make efforts to improve the trade/investment environment and policy programs in developing nations, through dispatching experts or providing training sessions.

4) To encourage SMEs to effectively utilize EPAs, JETRO and JCCI will provide counseling services from advisors and hold seminars.

5) NEXI will examine the feasibility of improving its trade insurance products for SMEs and make efforts to actively disseminate information and conduct PR activities on trade insurance products for SMEs.

6) To enhance an overseas support framework, JETRO's overseas offices in 10 cities, mainly in emerging economies, will first work with Japanese business associations in local areas to actively provide support for SME overseas expansion into local markets.

ANNEX 4

## Activities of Conference on Supporting SMEs in Overseas Business to date

- In response to the further increased demand for supports to overseas business expansion by SMEs, the “Conference on Supporting SMEs in Overseas Business<sup>\*\*</sup>” was established in October 2010 chaired by the Minister of Economy, Trade and Industry. The conference concluded the “Framework for Supporting SMEs in Overseas Business” in June, 2011.

\*Members: METI, FSA, MOFA, MAF, other governmental organizations (JETRO, SMRJ, NEXI), SME organizations (The Japan Chamber of Commerce and Industry, CFSCU, National Federation of Small Business Associations), private financial institutions, public financial institutions (JFC, Shoko Chukin Bank, SBC), etc.

### Framework for Supporting SMEs in Overseas Business (June 2011)

#### Development of Support framework

1. Comprehensive cooperation between the government and other SMEs related institutions (independent governmental agencies, SME organizations, and financial institutions)
2. Functional cooperation among regional SMEs related institutions (establishment of a regional SME support council)
3. Enhancement of the support framework in overseas (diplomatic missions abroad, JETRO, Japanese business associations in overseas, etc.)

#### Five key issues

1. Information collection and provision
2. Marketing
3. Development and securing of human resources
4. Financing
5. Improvement of the trade and investment environment

#### Initiative Details

- Provide necessary information carefully for SMEs, and provide consistent support by sharing support records across SMEs support organizations.
  - 700 seminars, covering various topics, were held in FY2011. 2,500 seminars in total will be held by the end of FY 2013.
- Support product development and participation in overseas trade fairs, and assist marketing through the Internet.
  - Increase the number of support coordinators overseas, and invite greater numbers of foreign buyers.
- Support developing and securing human resources competent for overseas business expansion.
  - Enhance the training of overseas operations managers and international traders.
- Enhance financial consulting structure and facilitate access to financing.
  - Establish both domestic and international Shoko Chukin Bank support desks, and Japan Desks in foreign banks, etc.
- Provide information on the establishment of overseas business bases, and supports relating to tax, labor and IP matters.
  - Conduct a survey to compare the investment costs in about 100 cities and secure experts on labor and legal issues, etc.

### 1. Action Plans of Major Supporting Institutions

Action plans have been developed by major supporting institutions, including JETRO, SMRJ and NEXI.

### 2. Regional Action Plans

Regional action plans have been formulated by the support councils established by the participating local support institutions, following the lead of METI Regional Bureaus.

### 3. Ministry and Agency Initiatives

**METI Action Plan**  
Cooperating with the relevant government ministries and agencies, METI will assist overseas business expansion by SMEs.

The Framework and the action plans will be reviewed and revised as appropriate in order to ensure appropriate responses to SME requests and changes both in Japan and abroad.

## REVISION - "Framework for Supporting SMEs in Overseas Business"

- In response to the further increased demand for support to overseas business expansion by SMEs, the existing support framework formulated in June 2011, was revised on March 9th, 2012.

### ■ Strengthen the support framework at the all Japan level

- **New participants to the framework: Japan Federation of Bar Associations, Japan International Cooperation Agency (JICA), Japan Overseas Development Corporation (JODC) and the Association for Overseas Technical Scholarship (AOTS)**
  - Issuance of a periodic email newsletter on comprehensive information for overseas business expansion, and strengthening one-stop consultation support through the newly established Navi-Dial (Call Center), (METI)
  - Participation of JICA in each regional meeting.
  - Functional integration of regional offices of JETRO and SMRJ.
  - Regularization of working level meetings of supporting institutions' (approximately one meeting every two months)

### Main elements of New Initiatives

■ **Enhance support to marketing utilizing knowledge, skills and sensibilities that are unique to Japan by business sector or by business area; e.g. support for marketing of services, cuisine and the environment, utilizing the concept of Cool Japan**

■ **Diversify financing and solidify capital necessary for overseas business expansion**

■ **Strengthen human resource development for overseas business expansion, including development of young personnel.**

■ **Improve overseas business environments in both soft and hard infrastructure, utilizing Official Development Assistance (ODA).**

### Details of the initiatives

- Discover and promote internationally regional resources through the development of Creative Cities that exemplify the concept of Cool Japan. (METI)
- Provide consistent supports in overseas to enable overseas business expansion by the service industry including wholesalers, retailers and daily life related service providers; e.g. finding out local business partners. (METI and JETRO).
- Utilize the high quality products and technologies of Japanese SMEs in ODA such as ODA in the environmental sector. (FY 2012 budget: ¥ 11.6 billion [part]) (MOFA).
- Strengthen the promotion of Japanese culinary culture through cooperation with Japanese restaurants located overseas, and develop a system that facilitates the export of agricultural and marine products (MOFA, MAFF, METI and JETRO).
- Support feasibility studies in various fields to enable overseas business expansion- support for a total of 110 SMEs will be provided by the end of FY 2012 (METI, SMRJ, MOFA and JICA).
- Support prototype development and new overseas market development, considering preventing technology drain (FY 2011 third supplementary budget: ¥4.4 billion [part], FY2012 budget: ¥600 million) (METI).
- Diversify local financing options for overseas SME subsidiaries (the Small and Medium-Sized Enterprise Management Capacity-Building Assistance Bill will be submitted to the current Diet session) (METI).
- Support capital reinforcement of SMEs that are expanding business overseas (FY 2011 third supplementary budget: ¥2.5 billion, FY 2012 budget: ¥ 2.4 billion) (METI and SMRJ, Japan)
- Promote fundamental improvement of international trade insurance products for SMEs including premium reductions and an increase of the insurable limit (METI and NEXI).
- Utilize personnel who served as the Japan Overseas Cooperation Volunteers and encourage SME employees' involvement in the program (MOFA and JICA).
- Support strengthening of the negotiation capabilities of young personnel in Japan by sending them to Japanese SMEs that have already expanded their businesses into developing countries (FY 2012 budget: ¥700 million [part]) (METI).
- Provide advice on overseas business expansion for SMEs and assistance with utilization of the network of Japanese business associations in respective countries (The Japan Chamber of Commerce and Industry).
- Provide legal assistance for SMEs' operations for overseas business expansion (JFBA) and assist recovery of businesses from damage by floods in Thailand (relevant institutions).
- Enhance business support function in newly emerging countries (a new business support center was established in Chennai, India in FY 2011 and another center is to be established in Yangon, Myanmar in FY 2012) (JETRO).
- Develop business environments, utilizing bilateral policy dialogues and infrastructure development by ODA (relevant institutions).

- By developing a one-stop support framework that caters to the needs of the SMEs that will use the support measures, careful support will be provided.
- Comprehensively reflect the opinions of SMEs gained through the discussion framework for micro business facilitation policy





AT THE 25<sup>TH</sup> ANNIVERSARY  
OF THE EU-JAPAN CENTRE  
FOR INDUSTRIAL COOPERATION