

Evolution of Japan's SME Policy and Laws

1 Creation of the SME Basic Act (1963)

The SME Agency was established in 1948 and the Small and Medium-sized Enterprise Basic Act was enacted fifteen years later, in 1963. The act's assumption was that SMEs were "too small and too many" and generally in a "pitiful situation so they must be guarded and supported." Workers at SMEs were also considered socially weak and disadvantaged, and the policy stance was to offer social support to such firms and workers. The objective of the act was to reduce "various gaps" in productivity, wage level, etc. between SMEs and large corporations. Concrete measures were prepared for this purpose.

2 Revision of the Basic Act (1999)

The revised SME Basic Act shifted from the view that SMEs were generally weak and must be protected to a more positive view. It defined the roles of SMEs as (i) creator of new industries, (ii) creator of more jobs, (iii) promoter of market competition, and (iv) activator of local economic communities. The previous notion of "dual economy" [powerful large firms vs. weak SMEs] was replaced by a new policy objective of facilitating "diverse and dynamic development of SMEs." The three policy pillars were (i) promotion of management innovation and startups, (ii) strengthening of the management system, and (iii) smooth adaptation to socio-economic changes, provided that SMEs themselves made self-effort for improvement.

3 Revision of the Shindan System (2000)

The Shindan System, where the SME Agency diagnosed and advised SMEs, was based on the Act on Guidance of SMEs (1963). METI created central and prefectural guidance centers and offered subsidies and loans to SMEs. Later, in the 1990s, in the general move toward smaller government, public guidance services were gradually reduced. The Act on Guidance of SMEs was revised in 2000, and the weight of central government support shifted from direct support of SMEs to national and regional coordination and networking.

4 From direct state support to state-certified private support (2012)

The Lehman Shock (global financial crisis) of 2008 highlighted the importance of SME promotion. For this, government first established SME assistance centers but they were later replaced by state certification of non-state support providers and consultant services. The system of state certification of non-state support providers was established in 2012 where financial institutions and private consultants with high competence were identified and certified. 35,264 service providers were certified as of February 2020. To avoid confusion of too many support providers, government set up one stop service (Yorozu [everything] Support Center) for SMEs in every prefecture.

5 Further revision of the Basic Act (2013)

The second revision of the SME Basic Act defined the SME policy toward small[est] firms, whose concrete measures were stipulated in the Basic Act for Promotion of Small Firms in 2014. The first revision of the Basic Act of SMEs in 1999 emphasized the growth potential of SMEs with policy support in management, startup and management systems. The second revision underscored the importance of sustainable operation of small establishments, in addition to growth of active SMEs.

6 The Basic Act for Promotion of Small Scale Business Establishments (2014)

This act aimed at creating a community-based mechanism where local chambers of commerce and industry and local business associations support small establishments. The state encouraged the drafting of business plans by SMEs with the support of local chambers or business associations, then certified the final plan. This is to urge local chambers and business associations to expand their mandate from accounting and tax support to the proactive analysis and assistance in management strategy, market potential and sales promotion.

Source: SME Agency website accessed July 29, 2021 (unofficial translation and summary by Ohno)