

Maintaining and Developing an Infrastructure for "Manufacturing"
— Policy proposals based on an interview survey of 16
"leading small and medium-sized manufacturing companies" —

Section I: Outline of Survey and Analysis of Results

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Overview

With a view to finding effective means of halting the hollowing out of Japanese industry, the Japan Research Institute, Limited undertook an interview survey of 16 "leading small and medium-sized manufacturing companies" whose unique products and manufacturing technology have allowed them to maintain a strong business base in Japan, while sustaining and increasing their market competitiveness.

The interview survey revealed that, needless to say, every one of the "leading small and medium-sized manufacturing companies" has developed specialty areas on the basis of its unique technology and know-how, and that all have established their strengths by observing the three "iron rules" of business:

- Clear "Positioning": developing advanced manufacturing technology in "areas that are difficult for major corporations and foreign companies to address" and "areas in which goods cannot be produced on a conveyor belt".
- Positive "Prior Investment": implementing prior investment to ensure that the company continues to ride the wave of technological innovation.
- "Matching" Technology to the Market: using a variety of means to ensure that the direction of the company's accumulation of technology, and of its product development, match the market trend.

From the standpoint of performance of various policy measures, and the opinions and requests expressed with regard to those policy measures, the following policy issues emerged:

- The effectiveness of "venture support measures", "subsidy systems", "measures to promote collaboration between industry and academia", and other measures designed to strengthen the industrial infrastructure, is limited, due to the operational problems.
- The "patent system" is of limited use as a means of stimulating the creation of intellectual property. It is also of limited effectiveness in preventing the making of copy products overseas.
- "High business costs by international standards" and an "unfair corporate tax system" are accelerating the hollowing out of Japanese industry.

Given the above data, it would appear that, from the standpoint of sustaining and developing its infrastructure for "manufacturing", not only is Japan suffering from an "industrial policy mismatch", but there is also considerable leeway for improvement in terms of policy operation. Japan has a great number of small and

medium-sized companies in possession of unique technology and know-how, accumulated over many years of practical study. The problem is that they have been unable to "commercialize" (turn into products) most of this technology and know-how or have encountered "financial" obstacles, with the result that the proportion of technology and know-how that bears fruit in the form of business is declining. The government needs to recognize this fact and change its basic policy stance, both in name and reality, from one that sees small and medium-sized companies as needing "protection" to one that seeks to give them "support" in commercializing their unique technology and know-how, as well as in finance. The concrete plan should include the following measures:

- A radical transformation of the corporate tax system with a view to encouraging reinvestment in growth companies and eliciting further growth in growth sectors: the full-scale introduction of "pro forma standard taxation", a significant reduction in the depreciation period allowed for capital equipment
- The creation of systems to provide a link between companies with unused but promising technology, and providers of risk money: encouraging private sector finance of technologically intensive companies, strengthening Japan's "angel" functions, conducting on-site inspection as part of administrative investigations, and supporting the establishment of "business cooperatives"
- A national strategy like that adopted by the United States, designed to harness intellectual property to build national wealth: a strengthening of the linkage between measures to foster technological development, trade, and measures to protect intellectual property, stricter patent examinations