

## What Do We Know About the Internationalization of Japanese SMEs?

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In recent years, Japanese small and medium-sized enterprises (SMEs) have experienced increasingly tough business conditions both at home and abroad. A number of factors have hindered the operating stability of these companies. These include low birth rates and the ageing of the population, declining domestic demand as a result of belt-tightening by consumers, increasing competition from non-Japanese corporations in Asian countries, changes in the domestic market as a consequence of large corporations' overseas expansion, and the lingering deflationary economy that has persisted since the 1990s. This turmoil in domestic and overseas business conditions has induced large corporations and SMEs alike to further pursue market expansion abroad through export business and overseas investment.

As noted in the White Paper on Small and Medium Enterprises in Japan, SMEs have been globalizing, with many entering overseas markets through exports, local subsidiaries and joint ventures. Of 685 companies that participated in a Japan External Trade Organization (JETRO) questionnaire in 2011, about 70% said that SMEs wanted to strengthen their overseas business. Compared with SMEs that are actively pursuing market development through overseas expansion, SMEs that continue to limit themselves to the domestic market are more inclined to be experiencing a shrinking equilibrium of chronic investment constraints and declining productivity. According to the white paper (2010 & 2012), labour productivity among SMEs that have globalized is very high compared with those that remain domestically orientated. We therefore expect Japanese SMEs to secure positions in emerging markets, whose economies are growing and will continue to grow faster than those of developed nations. Still, SMEs are at a disadvantage compared to large corporations when it comes to fund-raising, information-gathering, global talent, personal contacts, and other management skills and risks involved in overseas business.

Despite these limitations, most Japanese SMEs are not expanding overseas through the traditional progression of imports to exports to direct investments, but are compelled to take the route of direct investment from the start. Although overseas expansion is important, moving these companies' factories overseas and international outsourcing pose the danger of accelerating the hollowing out of domestic industry. Workforce reductions and increased unemployment resulting from changes in the structure of demand not only cause changes in the employment structure; they could also alter the existing enterprise system in Japan's economy.