

## Definition of Leading Medium-sized Enterprises in Japan Being Clarified

The bill to revise the Act on Strengthening Industrial Competitiveness that has been submitted to the present ordinary Diet session includes a provision that clarifies the definition of leading medium-sized enterprises. The specific definition is a company which regularly employs 2,000 or fewer employees (the number of regular employees; excluding small and medium-sized enterprises [SMEs]). The definition of SMEs varies by industry. In the manufacturing industry, these are companies with capital of ¥300 million or less or with 300 or fewer regular employees (Small and Medium-sized Enterprise Basic Act, see Table). Consequently, in the manufacturing industry, a company with 301–2,000 regular employees is a leading medium-sized enterprise, and a company with 2,001 or more regular employees is a large enterprise.

The government has positioned this year as the dawn of leading medium-sized enterprises and compiled a leading medium-sized enterprises growth promotion package in March putting forth a policy to strengthen support measures across agencies and ministries. Specifically, the package includes easier requirements than those for large enterprises under the tax system to promote wage increases and the introduction of large-scale growth investment subsidies for leading medium-sized enterprises when constructing new factories or other bases or making large-scale capital investments. It also creates a tax incentives system when leading medium-sized enterprises absorb multiple SMEs with business succession issues into their groups and work to aggregate management resources.

Behind putting forth such incentives for leading medium-sized enterprises is the recognition that more than large enterprises which are strengthening their orientation toward overseas development, it is leading medium-sized enterprises that are expanding their op-

erations and investments inside Japan and can contribute to wage increases in local regions. This is an effort to focus on leading medium-sized enterprises, promote further growth, and achieve the revitalization of the Japanese economy.

Here is a summary of the actual conditions of leading medium-sized enterprises. According to the *2021 Economic Census for Business Activity*, there were 13,173 companies with 300–1,999 regular employees, accounting for 0.74% of all companies (approx. 1.78 million companies; incidentally, the Ministry of Economy, Trade and Industry (METI) states that there are approximately 9,000 leading medium-sized enterprises in Japan). Also, looking at the distribution by prefecture, leading medium-sized enterprises are concentrated in major metropolitan areas with 4,391 leading medium-sized enterprises in Tokyo, accounting for one-third of the total. Leading medium-sized enterprises in the 42 prefectures other than Tokyo, Osaka, Aichi, Kanagawa, and Fukuoka prefectures comprise around 40% of the total. Compared with large enterprises (with just around 25% located in these 42 prefectures), more leading medium-sized enterprises are located in regional areas.

As for the performance of leading medium-sized enterprises, because there is no data available based on the number of regular employees, we used the *Financial Statements Statistics of Corporations by Industry* (which is based on capital) and considering companies with capital of ¥100 million to less than ¥1 billion as leading medium-sized enterprises. According to this estimate, over the past 30 years the ratio of ordinary profit to shareholders' equity at leading medium-sized enterprises has generally been higher than at large enterprises and SMEs (see Figure). Also, the slumps from the effects of the global financial crisis of 2008 and from the Covid-19

pandemic were relatively small, and the stability of earnings also appears to be superior to large enterprises and SMEs. Furthermore, the amount of capital investment per company at leading medium-sized enterprises was 1.86 times the fiscal 2009 level in fiscal 2021, far higher than the 1.38 times for large enterprises, which are reinforcing their shift of capital investment to overseas, showing that the contribution of leading medium-sized enterprises to domestic investment is correspondingly high.

If one focuses on the above points, the measures for leading medium-sized enterprises laid out this time can be given some recognition. According to METI, in Japan the number of cases where leading medium-sized enterprises grow into large enterprises is small compared with major Western countries, but through a series of measures leading medium-sized enterprises with growth potential can be expected to further strengthen their management foundations, grow into a presence that can engage in friendly rivalry with large enterprises, and consequently promote the growth of

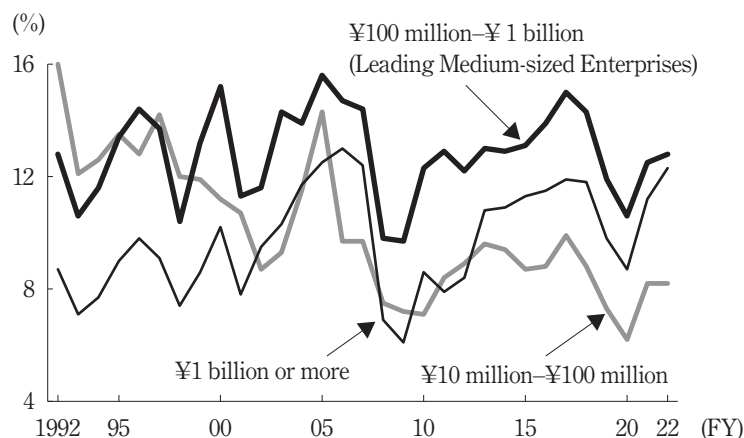
large enterprises. Moreover, strengthening the foundations of leading medium-sized enterprises is likely to contribute to regional revitalization, as quite a few of them are core companies of regional areas.

What is important in developing such measures is to devise intensive measures focusing on growth-oriented leading medium-sized enterprises. While the leading medium-sized enterprises growth promotion package undeniably gives the impression of providing something for everyone, from the perspective of fiscal discipline also, measures to promote growth should be carefully selected. It is also imperative to devise support measures that draw a solid path for the growth of growth-oriented SMEs, similar to those for leading medium-sized enterprises. In that this timing is just as the first steps are being taken toward the normalization of monetary policy, the government needs to set forth finely tuned measures in accordance with the actual conditions facing leading medium-sized enterprises and SMEs.

**Table: Definition of SMEs**

	SMEs (Fulfilling either of the following)	
	Capital	No. of regular employees
Manufacturing industry Construction industry Transportation industry, etc.	¥300 million or less	300 persons or fewer
Wholesale industry	¥100 million or less	100 persons or fewer
Retail industry	¥50 million or less	50 persons or fewer
Service industry	¥50 million or less	100 persons or fewer

**Figure: Transition of the Ratio of Ordinary Profit to Shareholders' Equity by Equity Capital Scale**



Source: *Financial Statements Statistics of Corporations by Industry* by Ministry of Finance