

TRENDS IN REGIONAL TRADING COMPANIES LEADING REGIONAL REVITALIZATION – THREE AREAS OF POTENTIAL TO WATCH –

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SUMMARY

- In Japan's provincial regions, there are entities called "regional trading companies" that are based in a specific region and whose main business is the external sale of products and services that take advantage of local specialty products and tourism resources.
- Regional trading companies are expected to lead the way in increasing local earning power within the context of regional revitalization, and the number of such companies is on the rise due to support from the government as well. In particular, FSA's deregulation has led to a wave of establishment of such companies by regional financial institutions.
- In the future, an increasing number of regional trading companies are expected to become (1) leaders in regional industrial revitalization, (2) leaders in public utility works, and (3) business partners to major corporations. This report focuses on these three areas of potential possessed by regional trading companies.

1. WHAT ARE REGIONAL TRADING COMPANIES?

Revitalizing local economies in provincial areas of Japan that are experiencing population decline requires bringing in revenue from outside of the region through sales to external consumers of products and services that take advantage of local specialty products, including both primary and processed products, as well as tourism resources such as natural environments, history, culture, and more. However, since most local producers and businesses are small in scale, it is difficult for them to develop their own sales channels to major cities outside of the region and overseas. To perform this function in their stead, there exist across the country entities called "regional trading companies" that handle a broad range of local products and services and specialize in developing sales channels outside of the region.

1-1. Definition

Regional trading companies are not clearly defined in legislation. Referring to the 2015 White Paper on Small and Medium Enterprises¹ in Japan as well as the Financial Services Agency's Comprehensive Guidelines for

¹ The 2015 White Paper on Small and Medium Enterprises in Japan describes regional trading companies as possessing functions for working in close association with the region rather than on a nationwide basis, and providing comprehensive support for the activities of regional producers, including discovering local resources, developing ways of utilizing those resources, conducting market research, developing products, growing markets (consultations and business matching), running sales campaigns, sales and providing sales information to manufacturers, as well as functions for actively selling regional products (specialty products, etc.) into national (or international) markets. The White Paper also states that regional trading companies positioned close to the market will likely take up the role of connecting producers to markets and also act in a comprehensive supporting role in local resource utilization, extending right through to branding for local resources.

Supervision of Regional Financial Institutions², this report defines regional trading companies as follows: Entities that (1) are based in a specific region, (2) merchandize local resources (specialty products and tourism resources; hereinafter “local commodities”), (3) are primarily engaged in the sale of local commodities outside of the region, and (4) possess marketing and branding functions.

1-2. Types

Many regional trading companies are joint-stock corporations with a diverse range of founders and investors, including individuals, local residents, local governments, regional economic organizations, and regional financial institutions.

The main local commodities handled by regional trading companies are specialty products (including primary products, such as agricultural and marine products, processed foods made from these primary products, crafts) and tourism resources (such as natural environments, history, and culture).

Their main businesses are wholesale of specialty products and retail sale through stores and e-commerce sites, as well as planning and sale of community-based tourism³ that makes use of local tourism resources. Since the specialty product sales business and the community-based tourism business share a common regional background and are likely to have synergistic effects in local branding, many regional trading companies are involved in both types of business. In conjunction with these businesses, some regional trading companies also operate facilities that attract tourists and customers⁴, such as Michi-no-Eki (roadside station), as well as lodging facilities,⁵ such as public hotels.

The functions of regional trading companies include developing sales channels as well as marketing, such as product development and sales promotion based on consumer needs, and branding based on regional characteristics. The establishment of regional brands enhances the reputations of local areas, which will likely have a ripple effect on specialty products other than the local commodities handled by regional trading companies, thereby broadly contributing to the region.

1-3. Current status

It is difficult to determine the total number of regional trading companies, partially due to the lack of a clear definition. According to a 2021 survey⁶ conducted by the Japan Chamber of Commerce and Industry (JCCI) on the 515 local chambers of commerce and industry throughout the country, of the 330 that responded, 88 indicated that they possess regional trading company functions within their region. It can be inferred that, if all of the chambers of commerce and industry had responded, it would have been possible to identify more than 100 regional trading companies throughout the country. Of the 84 regional trading companies for which the year of establishment is known, 23 were established before 2010, while 61 were established between 2010 and 2021. Of these, 41 were established in 2017 or later, indicating that the number of regional trading companies is on the rise in recent years (Figure 1).

² The Financial Services Agency’s Comprehensive Guidelines for Supervision of Regional Financial Institutions, revised in October 2019, defines regional trading companies as companies that engage in the business of developing new sales channels for outstanding local products and services to generate increased levels of revenue and to use the knowledge and profits gained in the process to benefit producers with the goal of regional revitalization and boosting local economies.

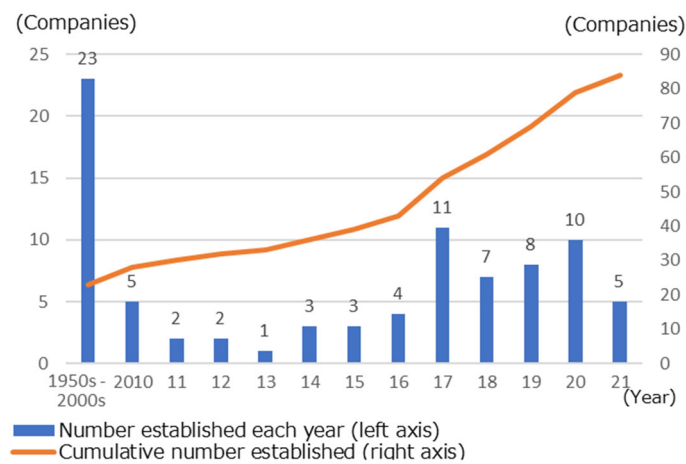
³ Tourism products and experience programs planned and operated by businesses at the tourist destinations (communities) that will receive tourists (as opposed to supply-side tourism).

⁴ Regional trading companies that operate Michi-no-Eki include Farmers Forest Group (Utsunomiya City, Tochigi Prefecture), Tango Kingdom Brewery Inc. (Kyotango City, Kyoto Prefecture), and karch (Kamishihoro Town, Hokkaido Prefecture).

⁵ Regional trading companies that operate public hotels include Yoshida Furusatomura (Utsunomiya City, Shimane Prefecture) and Regional Trading Company Ogano (Ogano Town, Saitama Prefecture).

⁶ Japan Chamber of Commerce and Industry (JCCI), “Efforts by Local Chambers of Commerce and Industry to Support the Development of Sales Channels through the Use of Regional Trading Companies [in Japanese],” March 2022.

Figure 1: Number of regional trading companies established according to a survey by the Japan Chamber of Commerce and Industry (JCCI)



Source: Compiled by MGSSI based on “Efforts by Local Chambers of Commerce and Industry to Support the Development of Sales Channels through the Use of Regional Trading Companies” issued by the Japan Chamber of Commerce and Industry (JCCI)

According to the survey, among the 82 that responded to a question about organizations that play a central role in regional trading companies, the most common reply (20.7%) was “the local government,” followed by “DMOs,⁷ community development companies⁸, and quasi-public enterprises” (18.3%). Together public organizations account for approximately 40% of all organizations involved. On the other hand, 18.3% replied that “private business operators” were the core participants. Other organizations included regional financial institutions (15.9%), as well as chambers of commerce and industry, and the companies they invest in (15.9%)

In addition, the status of income and expenditures over the last several years of the 36 regional trading companies for which such data was obtained through the survey is as follows: 11 (30.6%) tended to operate at a surplus, 15 (41.7%) were breaking even, and 10 (27.8%) tended to operate at a deficit. Although some of these companies are newly established or are not necessarily pursuing profits due to receiving support from local municipalities or other organizations, securing sales and profits seems a common issue for regional trading companies, many of which handle a broad range of commodities in small quantities.

2. GOVERNMENT SUPPORT TO PROMOTE THE ESTABLISHMENT OF REGIONAL TRADING COMPANIES

2-1. Expectations as leaders in regional revitalization

In terms of regional revitalization, a key issue for Japan, the activities of regional trading companies show promise as a measure to increase local earning power and boost regional economies.

The Comprehensive Strategy for Town / People / Job Creation (2015 Revised Ed.) approved by the Cabinet in December 2015 listed the establishment and promotion of regional trading companies that engage in the branding of regional products as specific measures to realize highly productive and vibrant regional economies. In line with this, the government has thus far supported the establishment and functional enhancement of regional trading companies in more than 100 regions through grants to promote regional revitalization. In

⁷ An abbreviation of “Destination Management/Marketing Organization,” responsible for marketing and consensus-building among stakeholders in a tourism destination. The Japan Tourism Agency operates a registration system for corporations that lead efforts to develop tourism destinations in collaboration with local governments.

⁸ Corporations whose main business is community development, including revitalization of central urban areas. Some of these corporations are funded by quasi-public enterprises and the private sector, including merchants and local residents.

addition to grants, the government continues to provide support by organizing a network of regional trading companies⁹ to serve as a platform for identifying talent and supporting the formation of networks to further expand the activities of regional trading companies.

2-2. Increased participation by regional financial institutions through deregulation

The Financial Services Agency (FSA) has been easing regulations on the involvement of financial institutions in regional trading companies. Amendments to the Banking Act in 2016 now permit financial institutions to establish regional trading companies in the form of wholly owned subsidiaries¹⁰. Following the enactment of these amendments, regional financial institutions have become actively engaged in establishing regional trading companies. The FSA continues to provide support, such as through revisions to the Comprehensive Guidelines for the Supervision in 2019¹¹ and to the Banking Act in 2021¹². According to the Regional Banks Association of Japan, although regional banks were only involved in six regional trading companies leading up to 2016, that number has increased to 29 as of September 2022 (Figure 2).

Revitalizing regional economies with the involvement of local business operators through the businesses of regional trading companies is consistent with the mission of regional financial institutions. At the same time, regional financial institutions also possess information collecting capabilities, reliable reputations, human resources, and networks that greatly contribute to the operation of regional trading companies. The establishment of regional trading companies backed by regional financial institutions is expected to continue in the future.

⁹ You can search for regional trading companies that have joined the network on its official website (<https://chiikisyousya-network.go.jp/>).

¹⁰ In order to eliminate risks from other businesses, the banks themselves are subject to restrictions on the percentage of voting rights they are able to hold (investment restrictions) in business companies (up to 5% in principle). Since April 2017, banks have been able to invest up to 100% of the capital for companies (advanced banking service companies) that engage in businesses that contribute to improving user convenience on the condition that they obtain approval from the FSA, enabling the advanced banking service companies to turn regional trading companies into subsidiaries.

¹¹ Clarified that regional trading companies are categorized as advanced banking service companies.

¹² Prior to the 2021 amendments, regional trading companies funded by regional banks were, in principle, not permitted to retain inventory, be involved in logistics, or engage in manufacturing or processing. However, they are now able to engage in these and other businesses on the condition of FSA approval.

Figure 2: Regional trading companies established by regional banks

	Year of Establishment	Name of Regional Trading Company	Location	Capital (Million yen)	Number of Employees	Name of Investing Bank
1	2002	Tabimachi-Gate Hiroshima Co., Ltd.	Hiroshima City, Hiroshima Prefecture	150	48	The Hiroshima Bank, Ltd.
2	2010	COREZO Co., Ltd.	Kanazawa City, Ishikawa Prefecture	100	11	The Hokkoku Bank, Ltd.
3	2015	Hokkaido Corporation Co., Ltd.	Sapporo City, Hokkaido Prefecture	150	18	The Hokkaido Bank, Ltd.
4	2016	iBank Marketing Co., Ltd.	Fukuoka City, Fukuoka Prefecture	2,416*	106	The Bank of Fukuoka, Ltd., The Juhachi-Shinwa Bank, Ltd.
5		Kumamoto DMC Co., Ltd.	Kumamoto City, Kumamoto Prefecture	50	13	The Higo Bank, Ltd.
6		Haruichiban Co., Ltd.	Hioki City, Kagoshima Prefecture	50	4	The Kagoshima Bank, Ltd.
7	2017	Fujinokuni Trading Japan Corp.	Shizuoka City, Shizuoka Prefecture	10	3	The Shizuoka Bank, Ltd.
8		Regional Trading Company Tottori	Tottori City, Tottori Prefecture	98	9	The San-in Godo Bank, Ltd., The Tottori Bank, Ltd.
9		Regional Trading Company Yamaguchi	Shimonoseki City, Yamaguchi Prefecture	50	15	The Yamaguchi Bank, Ltd.
10		Saikai Creative Company	Saikai City, Nagasaki Prefecture	1.1	7	The Juhachi-Shinwa Bank, Ltd.
11		Oita Made Co., Ltd.	Oita City, Oita Prefecture	20	17	The Oita Bank, Ltd.
12	2018	Minasapo Inc.	Minamishimabara City, Nagasaki Prefecture	5	3	The Juhachi-Shinwa Bank, Ltd.
13	2019	Omega Farmers Co., Ltd.	Shibetsu City, Hokkaido Prefecture	31	16	The Hokkaido Bank, Ltd.
14		OPTiM Agri Michinoku Corp.	Aomori City, Aomori Prefecture	80	4	The Michinoku Bank, Ltd.
15		TRY Partners Co., Ltd.	Yamagata City, Yamagata Prefecture	100	11	The Yamagata Bank, Ltd.
16		Bridge Niigata, Ltd.	Niigata City, Niigata Prefecture	70	31	The Daishi Hokuetsu Bank, Ltd.
17		Makikomi Co., Ltd.	Kurume City, Fukuoka Prefecture	27	4	The Chikuho Bank, Ltd.
18	2020	Hal Green Co., Ltd.	Eniwa City, Hokkaido Prefecture	83	28	The Hokkaido Bank, Ltd.
19		manorda Iwate Co., Ltd.	Morioka City, Iwate Prefecture	70	5	The Bank of Iwate, Ltd.
20		Setonowa Co., Ltd.	Okayama City, Okayama Prefecture	50	7	The Chugoku Bank, Ltd.
21		Shikoku Brand inc.	Takamatsu City, Kagawa Prefecture	100	6	The Awa Bank, Ltd., The Hyakujushi Bank, Ltd., The Iyo Bank, Ltd., The Shikoku Bank, Ltd.
22	2021	Shinokuni-akita, Ltd.	Akita City, Akita Prefecture	90	5	The Akita Bank, Ltd.
23		Chibagin Market Co., Ltd.	Chiba City, Chiba Prefecture	100	7	The Chiba Bank, Ltd.
24		Localist Co., Ltd.	Wakayama City, Wakayama Prefecture	50	6	The Kiyu Bank, Ltd.
25		Awagin-connect Co., Ltd.	Tokushima City, Tokushima Prefecture	100	4	The Awa Bank, Ltd.
26		Sagin-connect Co., Ltd.	Saga City, Saga Prefecture	100	4	The Bank of Saga, Ltd.
27		With Miyazaki Co., Ltd.	Miyazaki City, Miyazaki Prefecture	50	1	The Miyazaki Bank, Ltd.
28		Mirai Okinawa Co., Ltd.	Naha City, Okinawa Prefecture	100	7	The Bank of Okinawa, Ltd.
29	2022	Mirai Reenal Partners Co., Ltd.	Osaka City, Osaka Prefecture	100	11	The Kansai Mirai Bank, Ltd.

Note: *Includes capital reserves

Source: Compiled by MGSSI based on the Regional Banks Association of Japan website (accessed on September 30, 2022)

3. OUTLOOK FOR THE FUTURE

3-1. As leaders in regional industrial revitalization

In August 2021, Hidakara, a regional trading company established in 2019 in Hida City, Gifu Prefecture, inherited the business operations of a tofu shop manufacturing “stone tofu,” a traditional dish in the neighboring Shirakawa Village. The former owner had decided to close the shop due to his advanced age, and he unreservedly consulted with Hidakara, which was a former client and an occasional source of suggestions for new products, about a business transfer.

Few regional companies are very large and most are classified as small or medium-sized enterprises. Among small and medium-sized enterprises, productivity is sluggish due to aging facilities and other factors, and the lead possessed by major companies continues to widen. In addition, the number of business closures and dissolutions remains high due to factors such as the aging of the owners and the difficulty of finding successors¹³.

As mentioned in section 1-3, public organizations or regional financial institutions play a central role in many regional trading companies. In addition, many regional trading companies have built trusting relationships with local producers and business operators by providing day-to-day marketing functions. Such regional trading companies also likely acquire insight into how producers and business operators manage their businesses. In recent years, there has been an increase in the number of regional trading companies established through the involvement of regional financial institutions, as mentioned in section 2-2. These companies are expected to play a central role in regional industrial revitalization through their involvement in the management of local companies facing challenges in the course of investing in them as well as through M&As.

3-2. As leaders in public utility works

Yoshida Furusatomura, a regional trading company established in 1985 in Unnan City (former Yoshida Village), Shimane Prefecture, possesses a bus division and a water service division, and under contract with the city, operates public buses (fixed-route buses and on-demand buses) and manages waterworks facilities. In recent years, some of the regional trading companies that have emerged even possess the functions of a regional power producer and supplier¹⁴. As an example, Karch, established in 2018 in Kamishihoro Town, Hokkaido Prefecture, is registered as an electricity retailer and sells the town’s residents electricity generated via biomass power generation using livestock manure produced within the town.

Since many regional trading companies are operated with the involvement of public organizations, they are trusted by the local community and have a thorough understanding of the local circumstances, which makes them likely to serve as leaders of public projects aimed at maintaining and improving living environments. At the same time, from the perspective of the regional trading companies, being entrusted with public projects will aid them in securing a stable source of revenue and strengthen their relationship with the community by directly contributing to local residents. Furthermore, improving local living environments will likely increase the level of happiness among local residents, enhance the external reputation of the region, and have indirect effects on strengthening the local brand. In the future, the use of public-private partnerships (PPP)¹⁵ in public works and

¹³ Small and Medium Enterprise Agency, “Recent Policies on Small and Medium Enterprises and Small-Scale Business Operators [in Japanese],” April 2018.

¹⁴ A retail electricity business that operates with the participation and involvement of the local government, and works to solve local issues using the profits obtained.

¹⁵ The Action Plan for PPP/PFI Promotion (2022 Revised Ed.) approved by the government on June 3, 2022 emphasizes increasing the number of regions where PPPs and PFIs are used as well as in their continued use in each region, and the government will continue to further facilitate the engagement of small-scale local governments. To achieve this, the government supports the formulation and enactment of guidelines for preferentially considering the use of PPP/PFI, which stipulate that local governments should consider introducing PPPs or PFIs over the conventional approach of developing public facilities on their own. The government also encourages the local governments of cities with populations of 200,000 or more to promptly formulate such guidelines, and encourages those with populations of 100,000 to 200,000 to do so by FY2023. In addition, the government continues to support local governments of cities and

community development is expected to increase due to the tightening of local finances, while at the same time there will likely be an increase in the number of regional trading companies that play leading roles in these projects.

3-3. As business partners to major companies

The advantages of regional trading companies include the overwhelming volume of information they possess on the region, including local commodities, and their networks and relationships with local producers, business operators, municipalities, and communities. Regional trading companies are increasing in number throughout Japan, and major companies that seek to expand nationwide or globally see them as important business partners.

Major companies operating in the distribution and tourism sectors are constantly seeking out new commodities in order to meet the diversifying needs of domestic and international consumers and to differentiate themselves from their competitors. For these companies, regional trading companies will likely become valuable partners in efficiently purchasing quality products and tourism resources that are not very well known outside of the region¹⁶.

As mentioned in section 3-2, some regional trading companies are playing leading roles in local public utility works, and the number of such companies is expected to increase in the future as the use of PPPs grows. When selecting business operators for local public projects, in some cases this requires council approval (e.g., designated manager systems), while in other cases it is necessary to provide suggestions for regional revitalization (e.g., concessions). From the perspective of large companies seeking to participate in water supply and sewerage projects, park projects, public facilities restructuring, and other types of PPP projects, regional trading companies that possess a wealth of information about the region in question and are trusted by the local community could become influential partners in the composition of consortia and other areas.

towns with populations of less than 100,000 by introducing case studies of local governments of a similar size that are making advanced efforts.

¹⁶ It is useful for regional trading companies to make use of the technology, sales channels, and information on consumer needs possessed by major companies. Oita Made, a regional trading company in Oita City, Oita Prefecture, developed the JAPAN BLUE fountain pen in collaboration with The Sailor Pen Co., Ltd., a long-established stationery manufacturer, based on proprietary technology owned by a precision sheet metal processor operating in the prefecture that gives aluminum a natural indigo color. This became a hit product both domestically and internationally.

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