

Chapter 5

Opportunities and Challenges of Developing Complementary Relationships between Traditional Craft Industries in Japan and Lao PDR: Lessons from Japanese Policies and Business Experiences

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1. Introduction

Craft products consist of commodities for daily use and include a broad range of articles such as textiles, papers, ceramics, dishes, furniture, toys, and accessories. They are made from a variety of natural materials such as clay, fibers, glass, metals, and woods. Traditional craft products are those that have been developed, produced, and used continuously in an area by local people over a long history.

Traditional craft products have always been common to the local people in their area of origin. However, they are nationally and internationally unique; therefore, they can have special market values when compared with products from different areas. Encounters between products from different areas can cause not only changes in the local lifestyle of the people who have always only consumed the locally produced craft products but also competition with the new products.

Economic development opens an opportunity for traditional craft industries to grow and a challenge to survive in competitive markets. In the past few centuries, economic development in developing countries, which are high-income countries today, represented the adoption of a Western-style industrial economy based on mass production and consumption. New technologies from the West enable a craft industry to mechanize production, bringing wealth to the industry and country and increasing demand for the product that is produced in traditional ways. This development process also involves the Westernization of people’s lifestyle and the influx of convenient and cheap Western products that compete with traditional craft products in the domestic market.

Do these radical changes in production and market environments benefit traditional craft industries? How can traditional craft industries take advantage of economic development, preserving and passing on their traditions? These challenges are common

to developing countries and local craft businesses.

Japan has developed diversified craft products in different local areas. Japanese craft businesses have responded to changes in business environments caused by the internationalization and globalization of the national economy since the 18th century. Especially in the last few decades, they have suffered from a continued decline in domestic demand and, as a result, have difficulty surviving. Some Japanese businesses in traditional craft industries have attempted to revitalize their businesses by adjusting themselves to current market demands using traditional design, skills, and wisdom. Their strategies include the promotion of internationalization, but internationalization does not necessarily mean exportation of their products. These leading businesses seek international collaborations with people and businesses not only to preserve their traditional production and products but also to develop new products and markets.

The hardships that Japanese traditional craft industries undergo are worth sharing with Lao PDR and other developing countries. A better understanding of the experiences and current situation of the Japanese traditional craft industries will be useful for handicraft businesses in Lao PDR and other Asian countries to prepare for opportunities and challenges and to reach a common ground in developing collaborations with Japanese firms.

Following the introduction, this chapter presents recent developments in traditional Japanese craft industries and related policies. This study will show the importance of internationalization strategies in preserving traditional craft production and products and the difficulties in establishing collaborative relationships between Japan and Southeast Asia from the perspective of Japanese traditional craft businesses. This paper will also explore the challenges that Lao handicraft firms face in developing their industries further in a business environment in which the country is undergoing regional economic integration, globalization, and transition from agricultural to industrialized economies. Based on these observations, this chapter will discuss opportunities and challenges for Japanese and Lao craft businesses as well as policy directions to develop mutually beneficial relationships.

2. Policies for Promoting Traditional Craft Industries in Japan

A variety of traditional crafts with different cultural backgrounds and using different natural materials are produced throughout Japan. To preserve and promote these traditional crafts, the central and local governments are involved in planning and

implementing related policies in cooperation with local entities. Among such bodies, of importance are the Agency for Cultural Affairs and the Ministry of Economy, Trade and Industry (METI). The Agency for Cultural Affairs is in charge of protecting important intangible cultural properties that include craft techniques. As intangible cultural properties are embodied in people, the agency recognizes individuals (so-called living national treasures) and groups who hold craft techniques by providing grants and subsidies to conserve and transmit the knowledge and skills (Agency for Cultural Affairs, 2017). The METI plays a role in industrial promotion. As this study investigates possibilities for establishing complementary business relationships between Japanese and Lao handicraft firms, this section presents an outline of the METI’s industrial promotion policies and the situation of Japanese craft industries.

2.1 Legal foundation for promoting traditional craft industries

Japan embarked on policies related to important intangible cultural properties in the 1950s when the country enacted the Law for the Protection of Cultural Properties in 1950 and amended it in 1954. Japan in the 1950s was in an early stage of high economic growth, which ended in the mid-1970s when the oil crisis occurred. During this high-growth period, Japanese society suffered various problems such as erosion in rural communities, diminishment of traditional culture, and environmental degradation in return for rapid economic development. A reflection of these costs led to a re-evaluation of traditional craft products made from natural raw materials with traditional techniques and an increase in the momentum to revitalize traditional craft industries (Maekawa, Miyabayashi & Sekioka, 2013). However, these problems also caused difficulty in finding successors of traditional technique holders and a shortage of natural raw materials. These situations surrounding the traditional craft industries brought about the enactment of the Act on the Promotion of Traditional Craft Industries in 1974 with the aim to enrich people’s lives and provide a foundation for the sound development of the regional and national economy. This act is the basis of the METI’s current promotion policies for traditional craft industries. The act defines traditional craft products as those that satisfy the following five criteria.

- Articles used mainly in daily life
- Articles manufactured mainly by hand
- Articles manufactured using traditional craftsmanship or techniques
- Articles made of traditionally used raw materials

- Articles produced on a certain scale in a particular locality

In other words, a traditional craft industry subject to the act is an industry that has continuously manufactured and used a craft product for more than 100 years in a production area with more than 10 firms or more than 30 employees. The METI designates traditional craft products from those that meet these criteria, specifying traditional craftsmanship or techniques, traditionally used raw materials, and a production area.

Officially designated traditional craft products can be eligible for financial assistances implemented under the act. To receive financial assistance from the METI and other public entities to promote a designated traditional craft product, the local cooperative business association in the production area, which consists of traditional craft producers, needs to develop three- to five-year plans for industrial promotion and/or vitalization and submit them to the METI through the local prefectural government. Such plans should be associated to:

- Securing and fostering successors and training employees
- Generational transfer or improvement of craftsmanship, techniques, and quality
- Securing or research of raw materials
- Demand development
- Improvement of work environment
- Joint purchase/selling and development of other joint projects
- Quality labeling and provision of adequate information to consumers
- Development and creation of new craft products
- Employee welfare benefits

To provide policy supports to address the challenges for the traditional craft industries specified in the act, the Association for the Promotion of Traditional Craft Industries (also called the DENSAN Association) was established in June 1975 with the support of the Ministry of International Trade and Industry, or MITI (METI at the time), as specified by the Act on the Promotion of Traditional Craft Industries. In the same year, 11 products were officially designated as traditional craft products by the MITI. Since its establishment, the DENSAN Association has played a central role in promoting the designated traditional craft industries, especially by providing services for securing and fostering human resources, demand development, trade exhibitions, research and

information provision, and the operation of Aoyama Square, which is a gallery and shop in Tokyo for officially designated traditional craft products from various areas throughout Japan.

In tandem with the national policy, local governments have established ordinances and taken unique approaches to promote local traditional craft products designated by local governments in addition to those recognized by the METI. In the case of Kyoto’s ordinance, criteria for traditional crafts are almost same as the METI’s criteria, except the condition regarding a locally concentrated production area.

2.2 Growth and decay of traditional craft industries in Japan

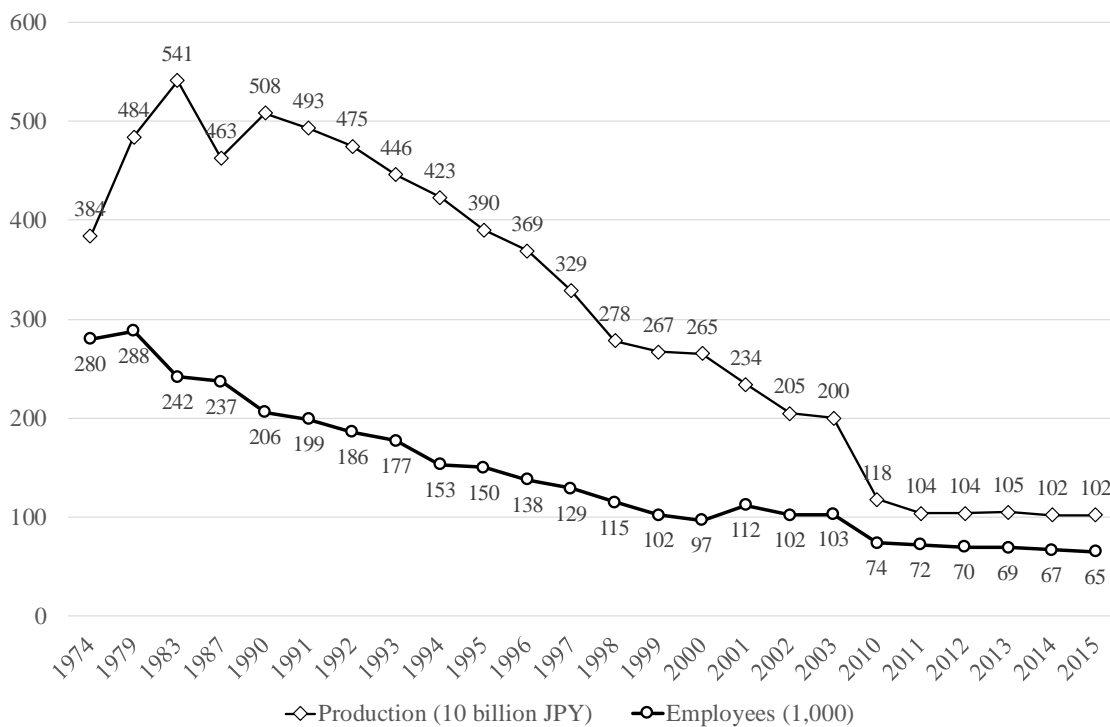
2.2.1 Traditional craft industries in Japan

Since the designation of the 11 craft products on February 17, 1975, more craft industries have become eligible for policy supports developed under the act. The number of officially designated traditional crafts reached 100 on July 14, 1978 and increased to 222 on June 18, 2015. As of November 7, 2018, 232 crafts were officially recognized as traditional crafts. By prefecture, production areas in which traditional craft industries are concentrated in Tokyo and Kyoto, which have 17 traditional craft products each (DENSAN Association website and METI website).

Contrary to the increase in the number of traditional craft products eligible for the supporting measures developed under the act, traditional craft industries had grown into maturity only within 10 years after the creation of the policy framework for supporting them in 1979 and have not been able to get out of the declining trend. In 1974 when the policy for promoting traditional craft industries was developed, 33,909 firms hired about 280,000 employees to generate a production value of 384.4 billion Japanese yen in the traditional handicraft industries (Figure 1). The traditional craft industry reached its peak at 34,043 firms and 288,000 employees in 1979 and a production value of 540.6 billion Japanese yen in 1983 and then turned downward to 18,187 firms, 115,000 employees, and 278.4 billion Japanese yen in 1998 (METI, 2000).

The available updated data show that 13,567 firms operated in 2012 (DENSAN Association website), whereas 65,000 employees were engaged in making 102 billion Japanese yen worth of craft products in 2015 (DBJ, 2018). These figures show that the size of the traditional craft industry had decreased in 2015 by 60% in terms of the number of firms, 77% with respect to employment size, and 81% regarding production size compared to the respective peak size. These reductions also imply the downsizing of

Figure 1. Production and number of employees in traditional craft industries in Japan



Source: DBJ (2018).

average firm size.

2.2.2 Traditional craft industries in Kyoto

The shrinking activity of the national craft industry in Japan reflects the difficulties faced by local related industries operating in prefectures. It is necessary to observe local craft industries individually to get a deeper and more comprehensive understanding of the current situation. However, the limited data availability for individual craft production sites does not allow a thorough observation. Even with such a constraint in understanding local business conditions, a case study of craft industries in Kyoto will be informative and suggestive.

Kyoto Prefecture has been promoting traditional craft industries in Kyoto according to its own ordinance and designation system in addition to the national policies. The prefecture developed an outline on the designation of traditional craft products in 1994. Kyoto Prefecture enacted the Ordinance on the Promotion of Traditional Manufacturing and Cultural Industries in Kyoto in 2005. The ordinance expects that traditional

manufacturing and cultural industries in Kyoto will be able to preserve and pass on traditional techniques while drawing on their tradition and culture to develop industries that create contemporary lifestyles. Kyoto Prefecture develops projects under the prefectural ordinance to develop successors in traditional techniques, promote new applications of traditional materials, techniques, and designs to manufacturing and product developments, and provide citizens and tourists with a deeper understanding of tradition and culture in Kyoto. To define target industries for the policy, Kyoto Prefecture designates traditional crafts in Kyoto as *Kyomono* Traditional Crafts in accordance with the criteria specified in the prefectural ordinance (Kyoto Prefecture website).

The city of Kyoto also has played important roles in promoting craft industries. Kyoto City developed an outline to officially recognize handicrafts in 2002. As of March 2017, 74 items, including foods, were designated as craft products by Kyoto City. Kyoto City established its own ordinance on the promotion of industrial vitalization for traditional industries in Kyoto City in 2005. Since the ordinance was established in 2005, the city has developed three projects to revitalize the traditional industries: the first project was for fiscal years 2006–2011 (Kyoto City, 2006); the second project for fiscal years 2012–2016 (Kyoto City, 2012); and the third project plan for fiscal years 2017–2026 (Kyoto City, 2017). Details will be introduced in later sections.

Even with national and local policy efforts, traditional craft productions in Kyoto are in the same sluggish situation as the Japanese traditional craft industry. In the case of *Nishijin-ori*, which is a representative figured cloth for kimonos produced in Kyoto, the *Nishijin* Textile Industry Association had 1,530 membership companies at the end of 1975, a few months before *Nishijin* textiles were designated as a traditional craft by the MITI on February 26, 1976. Since then, the number of membership firms has decreased, to 1,159 in 1990, 606 in 2005, and 391 in 2014 (*Nishijin* Textile Industry Association, 2014). Although Kyoto Prefecture enacted the Ordinance for Promotion of Traditional Craft Industries in 2005 and designated *Nishijin* textiles as target products to be supported, the national and prefectural Kyoto policies could not alleviate the continual shrinkage.

In terms of annual shipment value, the membership firms of the association had around a 20-year growth period after *Nishijin* was designated as a traditional craft in 1975 (Table 1). The shipment value of *Nishijin* textiles was 205.1 billion Japanese yen in 1975, which increased to 279.5 billion Japanese yen in 1990. Then the value took a downward turn to reach 70.8 billion Japanese yen in 2005. The downward trend was not reversed even after Kyoto Prefecture began to promote *Kyomono* traditional crafts. The shipment value of *Nishijin* textiles in 2014 was 37.3 billion Japanese yen, which was equal to 18.2%

Table 1 Shipment of *Nishijin-ori* textiles by application (million JPY)

	<i>Obi</i>	<i>Kimono</i>	Gold brocade	Necktie	Scarf/shawl /stole	Interior decorating, clothing, others	Total
1975	134,114	28,948	7,506	10,783	904	22,846	205,101
1978	157,649	27,455	7,051	7,865	1,146	33,879	235,046
1981	170,672	20,393	6,725	7,131	751	51,773	257,444
1990	159,720	7,710	13,567	12,590	1,159	84,716	279,462
1993	109,697	5,334	9,846	7,329	990	68,205	201,401
1996	86,073	5,510	8,972	6,455	881	45,003	152,895
1999	50,627	3,592	6,604	6,159	2,810	20,047	89,839
2002	31,996	2,673	3,830	2,802	83	19,233	60,618
2005	34,023	2,892	4,822	2,385	41	26,643	70,806
2008	22,165	1,996	4,924	917	39	27,963	58,005
2011	14,805	1,615	3,612	453	32	14,952	35,469
2013	16,264	1,348	2,779	454	23	13,383	34,251
2014	15,922	1,289	2,626	607	19	16,863	37,326
2014/1975	11.90%	4.50%	35.00%	5.60%	2.20%	73.80%	18.20%

Source: *Nishijin* Textile Industry Association, 2014.

of the shipment value in 1975.

The growth period of the *Nishijin* textile market seemed to be extended by the bubble economy in the 1980s. However, *Nishijin* textile producers had been undergoing structural changes since the 1970s. The shipment value of *Nishijin* textiles for kimonos had already seen a downward trend in the 1970s, showing a rapid decrease from 28.9 billion Japanese yen in 1970 to 7.7 billion Japanese yen in 1990. Shipments of *obi* (i.e., kimono sash) materials reached their peak at 170.7 billion Japanese yen in 1981 prior to the economic boom. In other words, the two-decade growth in shipments of *Nishijin* textiles had been achieved by the growth in shipments of *Nishijin* textiles as materials for gold brocade, neckties, scarves/shawls/stoles, and other non-traditional products (e.g., interior decorating, clothing), all of which reached their peaks around 1990. Among these end-usages of *Nishijin* textiles, the shipment value for the use as interior decorating, clothing, and other products in 2014 became the largest (i.e., 16.9 billion Japanese yen) and sustained 73.8% of the shipment value recorded in 1975. Shipments of gold brocade had substantially decreased, but their value in 2014 was still equal to 35.0% of the shipment value in 1975. On the other hand, the use of *Nishijin* textiles for scarves, shawls,

and stoles in 2014 had declined considerably to reach a value equal to 2.2% of the value in 1975 (*Nishijin* Textile Industry Association, 2014).

Although findings in the case study of *Nishijin* do not necessarily reflect all craft industries in Kyoto, *Nishijin* is a representative location for kimono production in Kyoto and Japan. *Nishijin* textiles have been an important traditional craft for centuries and, therefore, were officially designated by both the METI and Kyoto Prefecture. These data for the *Nishijin* textile industry may mirror some of the difficulties faced by traditional craft industries in Kyoto.

Kyoto has been one of the national centers for fostering arts and crafts in Japan over the past 1200 years. The region tends to be recognized as a place where cultural and traditional inheritances have been well-preserved and passed down from one generation to the next. However, traditional craft industries in Kyoto are in the same worsening situations as those observed in other craft industries across Japan. To preserve and pass on traditional craftsmanship for future generations, policy supports are indispensable even for craft industries in Kyoto, which seem to be competitive in Japan.

2.2.3 *Struggling factors for traditional craft industries in Japan*

Although governments had introduced policy supports in the 1970s, the size of traditional craft industries has declined. Why it is so difficult for traditional craft industries to turn the downturn into an upturn?

The METI (2000) reported that the reasons behind this difficult situation indicated sluggish craft markets; difficulties in securing successors, raw materials, and tools; and legal problems in promoting necessary policies. Among these, the stagnation in the craft market was caused by structural changes in the following external and internal factors that affect the development of craft industries.

(1) *External factors*

- Changes in lifestyles and living spaces of the people (e.g., Westernization of food, clothing, and housing)
 - Changes in public awareness of daily necessities (e.g., change in consumer preference for cheap disposable commodities over traditional crafts)
 - Supply of mass-produced cheap and high-quality daily necessities
 - Floods of cheaper imports of similar goods and alternatives to traditional crafts
- Internal factors
- Delays in development of new products to meet market needs (i.e., producer’s

insufficient understanding of user needs)

- Delays in development of new distribution channels (i.e., declining role of wholesalers in the existing distribution channels consisting of produce, cooperative associations, wholesalers, department stores, and specialty shops)
- Insufficient publicity and information provision

The continued market decline promoted by these factors led to difficulties in securing successors. Raw materials and tools also became difficult to secure due to environmental devastation and urbanization in addition to the worsening business environment.

The legal problems in promoting necessary policies suggested outdated conditions for firms to receive public supports, which were specified by the Act on the Promotion of Traditional Craft Industries. The act allowed governments to provide public assistance through local cooperative business associations in the production areas to firms producing craft products that satisfy all criteria for designated traditional crafts. However, the structural changes in the traditional craft industries allowed leading firms, some of which did not participate in cooperative business associations, to take more roles in business promotion activities. The Act on the Promotion of Traditional Craft Industries was amended in line with the findings from the Traditional Craft Industries Council organized by the METI (METI, 2000). Presently, the METI provides policy supports based on the act to designated traditional industries, to the DENSAN Association, and to cooperative associations designated by the METI.

Kyoto City also assessed the challenges for local businesses in traditional industries by organizing an exploratory committee when the city government developed an ordinance to promote industrial vitalization for traditional industries in 2005. As such, the challenges identified are weak sales, difficulties in finding successors, difficulties in securing materials and tools, and the increase in overseas production. Among these problems, the one that was not mentioned by the METI (2000) was foreign production. In 2004, 16 of 509 firms in the *Nishijin* textile industry were conducting overseas production (Kyoto City, 2005a).

Kyoto City took local realities into consideration in 2005 when it defined its own criteria for traditional crafts to establish its ordinance (Kyoto City, 2005b). The ordinance defined traditional craft industries as industries that produce crafts closely associated with Japanese traditional culture and lifestyle, use traditional skills and techniques, conduct product planning in the city, and conduct principal production in the city. In comparison

with the Japanese government’s criteria, the city does not require traditional crafts to be made by hand in a particular area where artisans and related firms are gathered, which reflects the industrial organization and division of labor in Kyoto craft industries.

These criteria were created considering the report prepared for developing the ordinance by the city’s exploratory committee on vitalization of traditional industries (Kyoto City, 2005a). This report (Kyoto City, 2005a) notes that traditional crafts for Kyoto should be products (1) for daily use, (2) closely connected with traditional lifestyles, culture, and arts in Kyoto and Japan, (3) made by a certain number of firms operating in a particular production area in Kyoto, and (4) planned, designed, and mainly produced in Kyoto. The craft industries that cannot satisfy the third requirement may be composed of a small number of firms producing crafts on a small scale. However, the committee considered that Kyoto City could preserve, pass on, and promote such industries as traditional industries, whereas lower policy priority would be given to craft products that did not satisfy the fourth criteria; products eligible to receive policy supports from Kyoto City must be planned and designed in Kyoto, and foreign production is an exemption for promotion policy.

2.3 Policy directions for vitalizing traditional craft industries in Japan

2.3.1 Directions for national policies

The policy issues described in the previous section still remain to be solved. Therefore, it is meaningful to understand the policy directions that governments considered when these problems were discussed even though concrete policy measures taken could vary according to circumstances of the moment.

The METI (2000) considers that traditional craft industries must become self-sustaining. To make the industries vigorous and self-reliant, firms are expected to proactively introduce anything new to the industries and propose new lifestyles with traditional crafts in order to satisfy evolving customer preferences while preserving traditions. To make these innovative attempts effective, it is important for firms and cooperative associations in traditional craft industries to strengthen cooperation and collaboration with other industries and make effective use of information and communication technologies (ICTs). These efforts in developing innovative projects necessitate active involvement of customer-oriented private firms who take leading roles on a sound commercial basis. In other words, the public sector will be limited in providing indirect assistance for encouraging such business-oriented private efforts.

These perspectives in developing sustainable traditional craft industries cannot be realized without expanding demand and making traditional crafts indispensable in daily life and Japanese society. The METI (2000) places demand expansion at the top of the sector’s priority list that additionally contains: securing and nurturing human resources, reinforcing management foundations, cooperating and co-existing with local communities, enhancing public awareness about traditional crafts through education, securing raw materials and tools, and fostering local experts who can manage and integrate all activities spanning the entire value chain (e.g., planning, design, production, sales, promotion) of a craft industry in production districts where most of the firms and people in the industry specialize in a particular production process.

Concrete strategies and actions necessary for market expansion will include: understanding consumer needs and product development; new product development based on traditional skills and techniques; introduction of inventive approaches and methods of consumer relationship and marketing; development of non-traditional sales channels and markets (e.g., applying traditional skills and methods to new product categories such as fashion merchandise and interior goods, overseas markets); cooperation and collaborations with firms in other traditional and non-traditional craft industries; and effective use of ICTs for such applications as market research, product development, and promotion of traditional craft products and industries.

2.3.2 Directions for Kyoto City’s policy

Following the establishment of its ordinance on the promotion of industrial vitalization for traditional industries in 2005, Kyoto City began developing traditional industry vitalization promotion projects in 2006. The ordinance laid out four guiding principles (Article 3) and six policy actions (Articles 9 to 14) to be considered during planning and implementation.

(1) Guiding principles

- Market development
- Reinforcement of industrial foundations, promotion of smooth distribution, and generational transfer of traditional skills and techniques
- Dissemination of information on values and attractiveness of traditional crafts in Kyoto
- Generational transfer of distinctive Japanese culture and creation of new culture

(2) *Fundamental policy actions*

- Assistance in innovative activities for traditional industries
- Actions to promote education and learning about traditional industries
- Actions to deepen interest and understanding of traditional industries
- Inheritance of technologies in traditional industries
- Enhancement of functions of institutions taking central roles in traditional industry vitalization
- Awards and other encouragements for people in traditional industries

These guiding principles indicate no significant gaps in policy orientation between the METI and Kyoto City, although Kyoto City seems to place a little greater emphasis on preservation and inheritance of cultural value. Under the ordinance, Kyoto City developed the first project plan for traditional industry vitalization for fiscal years 2006 to 2011 (Kyoto City, 2006). The policy framework composed of the four policy principles and six fundamental actions were taken over by the second project plan for fiscal years 2012 to 2016 (Kyoto City, 2012) and the third project plan for fiscal years 2017 to 2026 (Kyoto City, 2017). Each project includes more concrete policy measures developed under the same principles according to circumstances surrounding the traditional industries in Kyoto City.

3. Internationalization of Traditional Craft Industries in Japan

The policy challenges identified by both the central and local governments in Japan have shown little change since the Act on the Promotion of Traditional Craft Industries was enacted in 1974. On the other hand, the continued decline of domestic demand in the crafts market has damaged craft industries and jeopardized the viability of not only craft businesses but also domestic raw material supplies. Demand expansion can be recognized as a policy priority. However, the population in Japan has been dwindling. One approach to coping with the problems in the present socio-economic environment is to promote the internationalization of traditional craft firms. This policy includes export promotion, which is extraordinary in Japan’s contemporary industry and trade promotion policies.

3.1 Cool Japan strategy

The METI’s current policies for traditional craft industries, which are based on the Act on the Promotion of Traditional Craft Industries, are positioned as a part of the Cool Japan

strategy. Cool Japan refers to contemporary Japanese culture and products that cover a broad range of products and services including media and content (e.g., animations, *manga*, characters, and games), food and services (e.g., traditional cuisines), fashion and lifestyle, and anything else in which people discover new values. Traditional craft products are also included in Cool Japan.

The Cool Japan strategy is a kind of national branding strategy for cultural and creative businesses. The strategy pursues the expansion of cultural and creative business overseas to develop Cool Japan-related businesses as new leading industries for Japan’s continuous economic growth and local community revitalization. The strategy supports activities for the dissemination of information about Cool Japan products and services to develop overseas demand and promotion of travel consumption by inbound tourists.

The strategy was launched in 2010 when the METI established the Cool Japan unit. In 2011, the METI expanded the unit to set up the Creative Industries Division, which was reorganized into the Cool Japan Policy Division in 2017. In 2012, the first minister in charge of the Cool Japan strategy was appointed. Since then, the Cool Japan strategy has become a cross-ministerial national strategy under the coordination of the Cabinet Office and has strengthened the implementation structure of related policies. In 2013, the Cool Japan Fund was established as a public-private fund to develop overseas demand for products and services targeted by the Cool Japan strategy. In 2015, the Cool Japan Public-Private Partnership Platform was formed with the participation of 12 ministries, 5 public institutions, and 45 private entities to strengthen and facilitate public-private partnerships and cross-industrial cooperation.

The Cool Japan strategy is one of the prioritized policies for the Japanese government that receives budgetary supports in severe fiscal conditions. The government secured a budget for Cool Japan worth 44.4 billion Japanese yen for fiscal year 2018, which was an increase from the 35.3 billion Japanese yen for fiscal year 2015, according to the Cabinet Office. This budget for Cool Japan includes the METI’s budgets for both new policies established under the Cool Japan strategy and the conventional policies planned and implemented based on the Act on the Promotion of Traditional Craft Industries and has been stable in the amount of around 10 to 11 billion Japanese yen in last five years. According to the METI, the ministry budgeted 20.9 and 18.0 billion Japanese yen for Cool Japan strategies in fiscal years 2017 and 2018, respectively.

The amount and use of the budget based on the Act on the Promotion of Traditional Craft Industries can be roughly understood by looking at the budget for fiscal year 2017

worth 1.06 billion Japanese yen, which was composed of (1) 700 million Japanese yen allocated through the DENSAN Association to subsidize initiatives for dissemination and promotion, securing human resources and passing on skills and techniques, on-site technical assistance, and demand development, and (2) 360 million Japanese yen allocated to subsidize 91 activities conducted by private cooperative associations and others for the purposes of nurturing successors, collecting and preserving records regarding traditional skills and techniques, securing raw materials, developing demand, designing and developing products, vitalizing production areas, and so forth.

The Cool Japan strategy gives traditional craft industries opportunities to secure more of the budget to realize initiatives that had been out of the policy scope of the Act on the Promotion of Traditional Craft Industries due to resource constraints in the past, although the budget for the Cool Japan strategy can be allocated to various industries. Among such activities and those that may characterize the Cool Japan strategy would include efforts to market Japanese brands overseas and to promote collaboration between local traditional craft industries and Japanese and foreign experts from different industries with diverse expertise.

To develop overseas markets, these budgets were used to provide financial supports for traditional craft firms to participate in trade fairs such as Ambiente, a consumer goods trade fair in Germany (METI, 27 January 2014), build brand image, and facilitate business transactions. One noteworthy achievement in international promotion is the launch of a showroom in Paris. The Association for the Promotion of Traditional Craft Industries opened a permanent showroom, named ESPACE DENSAN, in Paris in 2016 with the support of the METI. The purposes for opening the showroom were to gain publicity to attract the attention of buyers, influencers, and important people in the fashion, art, and design markets in Paris. The permanent showroom can also make it easier to hold business meetings for promoting traditional Japanese crafts and getting feedback from customers’ opinions to craft manufactures and related businesses in Japan. For these reasons, Paris was considered as an appropriate city to connect Japanese domestic-oriented businesses with people who are influential to global leaders in related industries. The opening of the showroom also reflects Japan’s interest in taking advantage of the forthcoming 2020 Tokyo Olympic Paralympic Games as an opportunity to gain awareness for Japanese culture and develop international markets for traditional Japanese crafts (METI, September 26, 2016). The showroom is also used to promote traditional craft products as raw materials or intermediary goods for interior accessories, wall paper, and other building materials.

Building the local brand for traditional craft products is also a recent policy challenge under the Cool Japan strategy. The project aims to increase overseas demand for officially designated traditional craft products. To achieve this objective, the project cooperates with experts to select production areas all over Japan to be supported by the project. The project organizes an expert group to provide the selected production area with assistances to develop business planning, create a book that explains the local stories behind the traditional craft product, disseminate information, and develop connectivity with foreign experts. The project also provides the production areas with know-how necessary to develop new markets. Through the project, the selected production areas are expected to be able to take the initiative to open foreign markets and vitalize the production areas on a continual basis.

3.2 Local policies for traditional industries in Kyoto City

In line with the national policy for traditional craft industries, Kyoto City turned its policy direction toward placing more emphasis on developing overseas markets when the city developed the second project for fiscal years 2012 to 2016 (Kyoto City, 2012). One of the reasons for this policy change was the unsatisfactory result of the city’s first project plan for traditional industry vitalization for the fiscal 2006 to 2011 (Kyoto City, 2006). Kyoto City had planned to implement 40 projects when it developed the first plan and had done almost all projects. However, the first project plan could not stop the decline in shipment of traditional craft and overcome the shortage of successors. The first plan aimed at achieving the target shipment of 273 billion Japanese yen, while the shipment value for the fiscal 2010 was 247.7 billion Japanese yen, which was 18% lower than the shipment value in the fiscal 2006. Therefore, Kyoto City recognized the necessity of developing overseas market and enhancing coordination with cultural and tourism promotions in addition to continued efforts for meeting consumer needs, cross-industrial collaborations and dissemination of information to cultivate new markets. Based on the assessment of the first plan and the situation surrounding the industry when the first plan period ended, Kyoto City developed the second project plan to include new strategies for overseas market creation such as: the development of new products targeting foreign consumers interested in Japanese culture and traditional crafts; the development of new sales channels and methods to boost consumption of traditional craft products by citizens and tourists; and coordination with tourism promotion activities to conduct public relations (PR) activities in foreign countries with the aim of attracting interest in Japanese traditional craft products from foreign people interested in Japanese culture (Kyoto City,

2012).

Although the entire traditional craft industry still struggles with decreasing shipment values, difficulties in securing successors and raw materials, and making capital investments in production facilities, the projects and policy measures in the second plan brought beneficial results to a portion of traditional craft firms in Kyoto. These firms had succeeded in developing new products and markets or had received public financial supports to revamp equipment. Based on the outcomes during the second plan, the third project plan for fiscal years 2017 to 2026 introduced new approaches to market development that included promotions of: use of raw materials and skills of traditional crafts for new product development; application of traditional craft materials, products, and skills to interior materials and accessories adapted to use in living space today; and development of new products suitable for Western lifestyle and preference (Kyoto City, 2017).

3.3 International cooperation and collaboration

3.3.1 International collaboration with developed countries

Japan’s recent policies for traditional craft industry promotion prioritize the cultivation of overseas markets, which accompanies the development of new products suitable for lifestyles in target markets. Collaborations with Japanese and foreign designers are recognized as an effective approach to achieve these business and policy goals.

Partners of Japanese traditional craft firms tend to be from Western developed countries. As indicated above, overseas markets for governments in Japan refer to markets in developed countries, especially Europe. Governments in Japan provide firms with financial supports for participating in leading international trade fairs (e.g., Maison et Objet, which is an international trade fair in Paris dedicated to lifestyle fashions) where international buyers and leading experts in related industries visit to look for novel products and raw materials.

From the viewpoint of Japanese firms, corporate customers and leading experts in Europe are influential in world market trends. For Japanese craft firms who try to enter international markets, creating business relationships and collaborating with such influencers not only helps in understanding the target markets but also leads to enhancing the firms’ market recognition globally and provides the potential to attract new customers abroad and in Japan. Promotion of Japanese authentic traditional craft products in Europe and the United States also may give Japanese firms the possibility to encounter a few high-end consumers in the world who find much higher values in their products and to

create super-luxury and high-priced markets that do not exist in Japan.

Several international collaborations have been introduced in Japan, and successful cases have resulted in new product and market development.

One case of collaboration is product innovations in *Nambu Tekki* houseware. *Nambu Tekki* is ironware produced in the southern part of Iwate Prefecture, Tohoku district. The production began by craftspeople invited from Kyoto to produce iron teakettles for tea ceremonies in the 17th century. Although the iron teakettle is still a typical product of *Nambu Tekki*, present craftspeople produce other articles for daily use (MCCI website). The domestic-oriented business became internationalized by Iwachu, a local leading firm in the *Nambu Tekki* ironware industry founded in 1902. Iwachu brought color to the *Nambu Tekki* products, which used to be black. This innovation was brought about when a tea store in Paris requested that the firm produce a colorful teapot in 1996 (Okamura, 2015). Products born from collaborations with designers helped the firm to increase exports, which now account for half of its sales (SME Agency, 2016). The successful experiences of Iwachu were shared among other firms producing *Nambu Tekki*. The Morioka Chamber of Commerce and Industry in Iwate Prefecture, the production area of *Nambu Tekki*, developed *Nambu Tekki* for the Euro Branding project with support from the Japanese government in fiscal years 2006 to 2009. The project collaborated with a Finnish designer to create new products suitable for European markets, build a local brand, and develop the European market.

The other case of international collaboration was achieved by Hosoo, a firm in *Nishijin*, Kyoto, founded in 1688 as a weaving firm. The firm makes novel use of *Nishijin-ori* fabric for non-conventional purposes such as interior and furniture fabrics. In 2006, the firm exhibited their products at *Maison et Objet* in Paris. A turning point for the firm’s international business was the collaboration with US-based architect Peter Marino in 2009. To meet the foreign market demand, Hosoo developed a new weaving loom with a weaving width of 150 cm, although the traditional width of *Nishijin* textiles was 32 cm. The new textiles were used as interior materials for Christian Dior shops around the world. This successful collaboration became a springboard for the firm to develop further collaborations with experts from different fields including fashion designers, interior designers, furniture manufactures, and artists (Hosoo website; Tajima, 2017; Recruit, May 23, 2016).

3.3.2 *International collaboration with Southeast Asian countries*

As indicated above, Japanese traditional craft industries enter the international market to

overcome domestic business challenges, specifically, the declining domestic market. Some firms have succeeded in developing international collaborations with partners from Western countries and making these experiences sustainable on a commercial basis.

Contrary to such efforts for export promotion, handicraft products from abroad capture a certain size of the domestic market in Japan. Some Japanese businesses, mainly small- and medium-sized retailers, have found business opportunities to sell handicrafts from Asia, so called “Asian *Zakka*” in the Japanese market. Japanese consumers recognize Asian handicrafts as natural and ecological, and they have become familiar with such products as more retailers open real and online shops that specialize in Asian *Zakka*. In other words, handicraft firms in Southeast Asia find business opportunities to export their products to the Japanese market including direct sales to buyers who visit production countries to purchase on site and hand-carry their purchases to Japan.

These business relationships may have been partially supported through non-commercial activities by international aid agencies and non-profit-making organizations (NPOs). These organizations dispatch experts and volunteers to villages in rural areas to alleviate poverty by helping them to develop local handicraft-making into income sources for villagers without a steady cash income. In less-developed areas in Southeast Asia, some private firms provide assistances to local firms and people, not for short-term gains but for considering corporate social responsibilities and entrepreneurs’ personal concerns about development issues, although their assistance may lead to a commercial relationship in the long run.

However, the development of industries and economies in Asia may lead to making different types of commercial-based relationships feasible. Some Japanese firms in traditional craft industries recognize opportunities in developing countries to overcome challenges faced by Japanese traditional industries such as the declining domestic markets, the lack of craftspeople, and the limited availability of raw materials.

In reality, the rapid growth of Asian economies creates super-rich people and increases upper middle-income earners who can be potential consumers of Japanese products. In response to the emergence of new growth markets, more Japanese firms pay attention to developing countries as markets for their products, although this new business perspective is not limited to craft products and Asia. The Cool Japan strategy helps in organizing events for Cool Japan promotion in Southeast Asia.

Asia is also considered as a production site for traditional craft products such as apparel and machinery, and other modern industries have shifted their productions to China and Southeast Asia. For Japanese firms producing traditional craft products,

Southeast Asian countries are expected to provide skilled craftworkers who are not available in China and Japan. In fact, some Japanese traditional craft producers have established factories in or outsourced their manufacturing to China. Although this division of labor between Japan and developing countries brings profits to the individual firms involved, it should be noted that other firms in the same craft industries may have concerns about intensified competition for the declining Japanese markets between products imported and made in Japan and the negative impacts on weakened production systems of traditional craft products in Japan.

Southeast Asia has the potential to become a supplier of raw materials for Japanese traditional craft industries that have difficulties in securing raw materials or concerns about a stable supply in the future. Southeast Asia can be not only an alternative source of raw materials for Japan but can also provide new materials to Japanese traditional craft industries. By combining new materials from Southeast Asia with Japan’s traditional skills and techniques, Japanese firms can propose novel products to domestic and international markets.

One example of raw material development is the on-going project initiated by the Yogyakarta royal family in Indonesia in 1994. The project’s objectives are income increases for farmers, environmental conservation, re-forestation, and handicraft industry development through the development of wild silk as an industrial raw material. Two species of silk moths were considered as possibilities for their cocoons as usable silk materials: *Cricula trifenestrata* and *Attacus atlas*. These moths are pests for agriculture and forestry. However, the project proposed a cooperation with local farmers to collect cocoons and plant trees that bear not only leaves for feeding moths but also fruits; farmers could gain income from selling cocoons and fruits. To make the project successful, which was an attempt to transform pests into beneficial moths, it was necessary to develop spinning techniques suitable for the features of these wild silks. The project also needed to develop products, skilled craftspeople, and markets. The Yogyakarta royal family cooperated with academic societies, research institutes, and firms in Japan in the selection of moth species, spinning technique development, and commercialization of the new silk. The friendly tie between Yogyakarta Special Region and Kyoto Prefecture helped in connecting the project with traditional craft firms in Kyoto (Kuroda, June 2014).

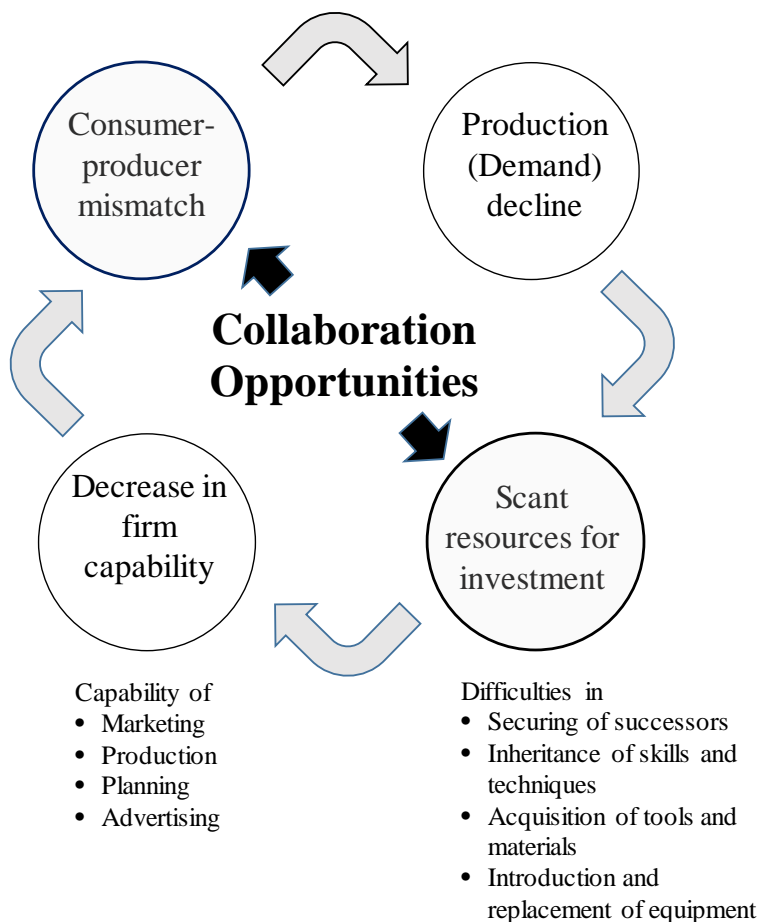
4. Opportunities and Challenges for Lao Handicraft Industries in the Japanese Market

4.1 Challenges for Japanese traditional craft industries as business opportunities for Lao handicraft industries

Policies for traditional crafts have two objectives: cultural conservation and industrial promotion. Following the policies for conservation of cultural industries developed in the 1950s, the METI undertook actions to promote traditional craft industries in the 1970s. In spite of the long-term policy efforts, the traditional craft industries have not reversed the downward trend in production.

The continued decline in demand and production has generated harmful effects on business performance at the firm level and jeopardized individual firms’ viability in traditional craft industries in Japan (Figure 2). The persistent decline in firm performance

Figure 2 Vicious cycle in the traditional craft industries in Japan



Source: Author’s based on Kyoto City (2017).

has spread over all supply chains for traditional craft industries and weakened related industries that are indispensable to traditional craft production. Such stagnating business conditions have made it more difficult to secure successors, pass on skills and techniques and acquire tools and raw materials. This long slump has also caused a shortage of resources for introducing new equipment and machines or advertising. The limited availability of resources has decreased firm-level capabilities for production and sales promotion, which have resulted in further declines in demand and production. Such a weak industrial performance endangers the conservation of culture and arts associated with traditional craftworks (Kyoto City, 2017).

4.1.1 Demand expansion

It has been widely recognized that demand expansion is a necessary condition to break the vicious downward spiral and achieve policy goals. It has also been acknowledged that traditional craft industries need to fill the gap between their conventional products, which were developed in the lifestyle customs of the past, and what customers want, which has changed in accordance with the lifestyle of the moment. Although a certain size of the traditional craft product market can be maintained, firms need to continually understand customer needs and achieve innovations to develop products that customers will purchase. Kyoto City (2017) reports that traditional craft firms in Kyoto consider the development of new products and enhancement of brand competitiveness as necessary tasks to expand production currently and in the future.

4.1.2 International collaboration and open innovation

Although the traditional craft industry needs to better understand market demands and achieve product innovations continuously, traditional craft firms in Japan, especially in Kyoto, do not necessarily have the capability of market research, product design and development because the division of labor is highly fragmented and consists of firms specialized in a particular process. If the current demographic conditions are taken into consideration, firms may not be able to depend only on domestic demands to recover the production size sufficient for preserving the production of traditional craft products. Therefore, Japanese firms in traditional craft industries may need to make continuous efforts for developing overseas markets. For these reasons, firms need to seek opportunities to collaborate with domestic and international experts with expertise in different industries.

4.1.3 *Production capacity development*

As mentioned above, deteriorating demand for craft products has led to a decline of supporting industries and bankruptcies of supplier firms. Once production of a particular good ceases, it is quite difficult to pass on skills, techniques, tools, machines, and any other know-how and facilities necessary for the production. If such a situation were to happen, it would be very challenging to revive the production. The depopulation in Japan may also cause difficulty in securing successors and business continuation, which will endanger the sustainability of the craft production ecosystem in Japan. Therefore, even if abovementioned business challenges could be solved to recover demands, the population decline in Japanese society, especially in rural areas where craft productions are concentrated, would be a constraint to maintaining or expanding production capacity of craft products, raw materials, tools, and equipment. In practice, traditional craft industries in Kyoto recognize that tools and raw materials are becoming more expensive, difficult to secure, or unprocurable, while their quality is decreasing (Kyoto City, 2017). Some Japanese firms in traditional craft industries need to develop new sources of input and capital goods to ensure a steady supply at stable prices. Developing alternative sources in foreign countries could be one strategic choices, or they can try to find alternative tools and materials to develop novel products using their conventional techniques. In fact, a Kyoto firm that author visited uses ramie as a raw material; it is currently looking for alternative sources and alternative materials in anticipation of future problems in procuring it.

These business and policy challenges for Japanese traditional craft industries indicate that they cannot survive without adapting to ever-changing social conditions and market needs, although people nowadays want to conserve traditional styles. However, “Tradition” is “the perpetuation of innovation” and not the repetition of things done in the past (Urushihara 2005). Traditional craft firms in Japan may need to promote innovations that enable a resurgence of traditional craft industries to protect the traditional business model and market.

Japanese traditional craft industries are looking for business partners who can propose solutions to overcome challenges and collaborate to realize innovations. In other words, the challenges for Japanese traditional craft industries can provide Lao handicraft firms with opportunities to develop partnerships with Japanese firms.

4.2 Challenges for Lao handicraft industries in making the opportunities into a reality

Although Lao handicraft firms can find business opportunities in the Japanese market, they cannot necessarily close a business deal with a Japanese customer. All Lao handicraft firms may not have products that are suitable for Japanese customers, sufficient abilities to satisfy customer requirements, or competitive advantages.

What do Lao handicraft firms need to overcome to acquire Japanese customers? To recognize the challenges Lao handicraft firms face in entering the Japanese market, this study conducted interviews in January 2019 with a wholesale firm in Osaka that sells *Ata* rattan bags made in Bali, Indonesia, and six craft firms in Kyoto in February 2019 that have business relationships with Southeast Asia, including Lao PDR. The interviews asked the firms about business problems with firms in Southeast Asia. Although the interviews did not focus only on business potential and expected business problems with Lao firms, the described problems are true for Lao PDR.

4.2.1 Understanding market needs and customer requirements to define target market segments and avoid business mismatching

To enter a new market, firms need to understand market needs and identify business opportunities in the market. To seize business opportunities, firms need to develop a strategy that helps to identify target market segment, potential customers, and necessary actions to satisfy the customers’ requirements.

The importance of defining a target market segment is understandable by considering possible approaches to satisfying the strict quality control requirements of Japanese customers. Quality control is one of the challenges for firms in developing countries when entering business relationships with Japanese customers. A typical capacity-building approach to quality control improvement is to provide the firms with lectures by quality control experts. This approach is effective for modern industries like machineries that have numerically defined product specifications applicable to different customers and suppliers in the same industry.

In the case of handicrafts, products are handmade, so individual items may have subtle differences although they are the same product design. Such variation in product quality is not acceptable for quality control standards defined for machine-made high-volume industrial products. On the other hand, the quality level and acceptable range of quality variance for handicrafts can be dependent on a customer-specific quality control

policy. A certain range of quality variation might be acceptable for one customer but not for others. This point may be obvious when we compare handicrafts sold in small Asian *Zakka* shops and *Nishijin* textiles sold in large department stores. If one quality standard does not fit for all, capacity-building programs may not be closely associated with business needs for all firms. In some cases, attendance at such programs may be only a learning opportunity but will not result in business, while continuous efforts to upgrade quality management are indispensable for all firms in creating added value.

Therefore, knowledge transfer through interactions between customers in Japan and suppliers in Southeast Asia can be practical and efficient for achieving mutual benefit. However, traditional handicraft firms in Japan have significant limitations in available resources to enhance the capabilities of Lao firms through technical assistance. Many Japanese firms in traditional craft industries are small- and medium-sized enterprises (SMEs), so only a limited number can construct factories abroad or dispatch trainers to developing countries to provide training and assistance.

Lao handicraft firms and craftspeople do not always lack skills, techniques, and other capabilities necessary to meet foreign customer requirements. Some of them may be able to find a Japanese customer who sets a requirement they can accommodate. However, their capabilities have evolved in response to local customer needs. They may need to adjust application of their capabilities to satisfy Japanese customer requirements. As such requirements are customer-specific, cooperation between a Japanese customer and a Lao producer can be one of the quickest ways to build capacity and develop a closer commercial-based relationship.

The above discussions highlight the importance of business matching for both Lao and Japanese firms to realize potential benefits from customer-producer partnership and collaboration.

4.2.2 *Identifying or developing unique comparative advantage*

Handicrafts have various *raison d'être*. As industries making products for daily living, handicraft industries can exist anywhere in the world. This characteristic of handicrafts as a daily commodity indicates that handicraft producers have global competition. Handicrafts are handmade goods. This feature suggests that production of a handicraft is labor intensive, and there may be competitive pressure to move production to developing countries. For firms in industries that have these features, product differentiation is a basic strategy for survival in the competitive market. The nature of traditional crafts as cultural assets or art objects can provide elements for differentiation. However, experiences of

Japanese traditional craft industries suggest that efforts for preserving craft products as traditional artworks and cultural inheritance may not be effective for revitalizing the industries.

Kuroda (January 2014) emphasizes the necessity of free thinking and the trial and error process to invent “only one” of something according to his experience in the development of new products with unutilized resources and waste materials in cooperation with local communities in developing countries. He also points out the necessity of understanding local and citizen needs and identifying locality from a global perspective, in addition to above-mentioned free thinking and trial and error, to make international cooperation more effective and sustainable.

This challenge of inventing something unique can be shared with Lao handicraft industries seeking business opportunities in international markets. In other words, Lao handicraft firms need to have something special that is attractive enough to encourage potential customers to choose their products and services as well as attract attention to Lao PDR as a country worth visiting to find fascinating products, raw materials, skills and techniques, and collaborators for business.

4.2.3 Understanding international business practice and methods

Handicraft firms in Asia have attempted to enter the Japanese market, and Japanese traditional craft firms have considered developing overseas partners in that region. However, efforts of both sides have not led to successful business matching. What are the hindrances?

One of the views heard from Japanese firms is that Asian firms do not have sufficient commitment to contract fulfillment, which may be partially caused by their lack of international business experience. The Japanese firm in Osaka that has been procuring bags from Asia reported that Japanese firms do not ask anything special of their suppliers but only want to complete business deals as contracted. It seems too basic to mention. However, Japanese businessmen in Osaka and Kyoto mentioned uncomfortable feelings in their business experiences with firms in Asia. Such experiences include unexpected changes in product specifications without prior notice and sudden requests for trade term changes (e.g., request for price change). To avoid unpredicted conflicts, Japanese firms seem to try to identify local trustworthy partners who will be able to cooperate with them over a long period. Even after the interviews, the reasons that some businesses in Asia make those sudden changes or requests are still unknown. One possible reason may be a lack of knowledge regarding international business practices. Irrespective of the real

reasons, Lao businesses may need to take the necessity of contract fulfillment more seriously as a prerequisite for fostering trust in international business. Otherwise, such behavior can result in a poor reputation for Lao PDR in the international market, which can be a disadvantage for Lao business in the future.

In a similar way, Lao handcraft firms may have missed business opportunities in the global market because they lack knowledge or experience in international marketing. Lao firms can improve their marketing skills by participating in more sales promotions and PR campaigns. However, the private sector in Lao PDR has not been proactive in such activities. General information on Lao handicrafts is not readily available in English, and most employees do not speak English, so they are unable to communicate with foreign customers. In addition, even when participating in international trade fairs, the Lao people tend to wait for customers to come to the booth, rather than approaching them. Lao handcraft firms should make better use of international trade fairs as an important opportunity to promote their products internationally. In fact, the Lao handcraft industry makes such opportunities by holding their annual Lao Handicraft Festival. However, the number of foreign audiences seems limited. One reason for this may be insufficient PR activities in English to attract foreign buyers. Participation in trade fairs will enable Lao firms to have direct contact with potential customers and firsthand knowledge of customer needs. By receiving business inquiries from audiences, Lao firms can understand what information and materials they need to prepare in advance to retain audiences’ interest. If they can understand the importance of trade fairs, more Lao handcraft firms will invest in participating in international trade fairs abroad where they can learn about their competitors and international market trends.

According to the firms interviewed in Kyoto, Lao products have gained some support from conscious consumers who pay premiums for high-quality, handmade, eco-friendly and natural products. However, they are not motivated to purchase Lao products, feeling attracted to Lao PDR as the country of origin. In reality, Japanese consumers are not aware of Lao PDR; it is not recognized enough as a “brand image.” Lao handcraft industries have not built Japanese customers’ loyalty to their products.

5. Policy Directions for the Government of Lao PDR

The experiences of Japanese traditional craft industries and observations regarding the advantages of Lao handcraft products in the Japanese market suggest that Lao handcraft industries should seek to combine the following five elements to develop and sell products

that are as attractive as possible to international markets: (A) area sources; (B) branding; (C) craftpersonship and collaboration; (D) design suitable for target market; and (E) eco- and environment-friendliness.

Area resources include any resources available in Lao PDR including natural raw materials that ensure a favorable eco-friendly image of Lao handicraft products. Craftpersonship means hand skills and techniques that are passed on from generation to generation in the Lao society. Collaboration helps both Lao firms and their partners in creating innovative and marketable products. Particularly, international collaboration will bring new product designs or novel usage of local materials and techniques that Lao people may not be able to come up with. A better branding strategy will facilitate commercialization of Lao products in international markets.

The above-mentioned policy challenges can hinder the mobilization of available resources for Lao handicraft industries and the realization of a better combination of the five elements. Private firms should make efforts to eliminate the hinderances. However, their resources to solve them are limited. These business challenges for Lao handicraft firms can be addressed not only by individual firms but also through cooperation between firms, the Lao Handicraft Association (LHA), the Lao National Chamber of Commerce and Industry (LNCCI) and the government of Lao PDR. The government will be expected to take the following roles to facilitate joint efforts by various stakeholders.

(1) Complementary role of public supports for commercial-based private efforts in the market economy

The principal role of the government should be in providing necessary supports for making private efforts sustainable on a commercial basis. In less-developed countries, international cooperation agencies, NPOs, and volunteers have been providing villagers with humanitarian assistance to generate and diversify income sources. Such projects sometimes become difficult to sustain once the assistances are suspended. Similar problems can happen in the dispatchment of volunteers although they have been working hard in rural areas. For example, senior volunteers retired from manufacturing firms have been providing local firms with technical assistance to improve quality control. Non-profit activities are often over-dependent on capable volunteers for effectiveness. Therefore, some local firms who received technical assistance from volunteers could not maintain the quality control level after the volunteers withdrew from the firms. Senior volunteers may not be best teachers for local firms to learn marketing knowledge for fashion products because consumer preferences change, and fashion market knowledge

can quickly become obsolete.

It is recommended to develop a policy scheme for supporting private projects in which private firms bear a certain portion of project costs. At least, the government can use this way of thinking as a guiding principle for planning and implementing business promotion policies. By incurring the costs, firms will have a strong commitment to the projects and be motivated to benefit more by participating. They can also obtain more updated information and know-how from practicing experts.

(2) Capacity-building of international business practices

Capacity-building programs for manufacturing industries, especially those provided by the Japanese government, tend to focus on skills and techniques associated with manufacturing and quality control. However, such sector-specific knowledge is not enough to develop business relationships with overseas customers. Firms need to obtain practical knowledge of management methods. Different from manufacturing-related skills, such knowledge is common and applicable to different industries. Thus, the Lao PDR government should provide this kind of capacity-building program in cooperation with cross-sectoral associations like LNCCI and educational institutions, rather than with the LHA. Capacity-building programs should be provided not only in Vientiane but also in other provinces. Online learning is a useful system to realize universal access to capacity-building programs.

Country promotion, image building and branding, and intellectual property protection

To increase exports of Lao products and Lao exporting firms, it will be useful to strengthen PR and branding activities to make Lao PDR and its products known to the target market. To make such activities effective, it will be necessary to provide information and materials in English and, ideally, in other languages of target markets. Information communication technologies (ICTs) are useful tools for these purposes.

Beneficiaries of such activities are not only handicraft firms but also other manufacturing and services sectors, in particular, the tourism sector. Thus, coordination and cooperation across ministries, associations, and other stakeholders will be needed to make communications and public affairs more effective and efficient. Handicraft promotion in particular can be considered as a cross-sectoral policy issue to be addressed in cooperation with the tourism industry. It should be noted that branding strategies can be effective only when the government takes necessary measures to protect intellectual

property rights.

(3) Strengthening of trade and investment promotion organization

Export promotion is a fundamental policy for Lao PDR to realize economic development. To increase export, Lao industries need to learn from foreign firms through doing exports and attracting inward direct investments. Therefore, the government of Lao PDR should strengthen export and investment promotion. These challenges are common across industries. As a mid-term policy issue, the government may be able to discuss whether or not the current organizational structure for policy planning and implementation is appropriate and whether or not the government needs to embark on organizational reform to create an organization that specializes in trade and FDI promotion.

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