

## New Year's Greeting



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I am very pleased to welcome you all to the New Year, 2002.

Looking back over the past year, the opening year of the 21st Century can only be described as a turbulent one. Despite of all the somber news, such as the simultaneous terrorist attacks on America and the outbreak of Mad Cow Disease in Japan, there was also much encouraging and cheerful news, including the birth of Princess Aiko, the success of baseball player Ichiro in America, and the awarding of the Nobel Prize in Chemistry to Dr. Ryoji Noyori, who became the second successive Japanese winner after Dr. Hideki Shirakawa.

With the effects of the IT recession in America and the terrorist attacks added to the problem of Japan's slumping economy, Japan is now facing fears of deflation, a deteriorating employment situation, and the problem of disposing massive amounts of bad loans. In light of this situation, the administration has come together to incorporate a series of structural reforms however, manufacturing industries are primarily concerned about the rapid shifting of production bases overseas, or what could be called the "second hollowing of industry." Manufacturing industries account for one-fourth of Japan's GDP, while foreign acquisition from their exports forms the heart of a processing trade country. Moreover, manufacturing industries comprise more than 90% of private R&D resources and industrial technologies cannot be developed when isolated from the manufacturer's worksite. Therefore, manufacturing industries literally make up the foundation of a country that creates science and technology. One after another, these industries have been shifting production bases to China, which has held a great attraction recently due to its low business costs and rapid market growth. Moreover, recent events have taken on a new aspect in the hollowing of industrial roots, wherein factories shifted overseas include not only those producing the finished product, but also those involved in parts and raw materials.

Last November Minister Hiranuma organized a conference to discuss strategies of industrial competitiveness. The principle themes evolving from this conference that we are considering for future studies are to review the exchange rate with the Chinese yuan, improve productivity through further selection and concentration of management resources, improve business efficiency through applications of IT, promote the development of industrial technology and improve strategies for intelligent properties, correct high-cost structures, and further diversify foreign trade strategies that include the WTO and FTA.

The Manufacturing Industries Bureau intends to participate actively in a series of discussions, while coming into direct contact with people in the industrial world to get their unreserved opinions. To mark the beginning of the new year, I would like to emphasize the following two points from this standpoint.

The first point is to further intensify efforts at selecting and

concentrating management resources, not just in individual firms, but also as far as industrial restructuring. While it was encouraging to see great progress made in the steel and chemical industries last year, we hope to search for more potential in a wider range of fields. It goes without saying that firms interested in integrating and merging businesses should be entrusted to make their own management decisions. However, I believe that it is becoming increasingly urgent to decrease costs while investing bundled resources into strategic business areas, including R&D. As a branch of the government, we intend to push a series of reforms on corporate legislation and taxation and the constitution the industrial revitalization law to create a better environment for enabling related firms to reconstruct their businesses. We also intend to support the efforts of everyone in performing the correct operations.

Secondly, is it not time to shift toward "grow" in the "shrink to grow" philosophy? Everyone in the industrial world has strived these past few years to incorporate restructuring during our lingering recession even with the stiff international competition. Under the philosophy "shrink to grow," we were to endure many hardships of restructuring in order to establish a foundation from which we could build on for tomorrow. Creating demand through innovation is even more necessary now that demand is low throughout Japan's entire economy. In order to combat the hollowing of industry, I believe that we must develop products and processes a step or two ahead of China and other countries and put these results in operation domestically as a standard approach. I am confident that our manufacturing industries possess the potential to become a central leader in innovation. Is this not the time to move toward growth by accelerating R&D investments in order to boldly implement existing seeds and search for future seeds?

To achieve this, I think we must seriously investigate the expansion of government support for R&D investments, restoring financial intermediation functions of banks and the like, and maintaining the capital market. Do we need to reevaluate this viewpoint of marketing workers given only to shrink, i.e. reducing the number of employees to such and such a number and the balance of interest-bearing debt to such and such dollars? What about the views of managers reluctant to shift to a strategy of growth in accordance with this viewpoint? While realizing that it is not easy to shift toward growth when considering the current business situation of progressing deflation and the problem of bad debts, could we ever expect to emerge from this deflationary depression, during this type of period, if all economic players moved in a direction toward diminishing equilibrium? It is my fervent hope that this year we will find bright spots in these dark times and have as many chances as possible to discuss the way to act on them positively and aggressively.

In conclusion, I would like to wish you happiness in all of your endeavors in 2002. Happy New Year!