



JRI news release

Signs of Change in the Kansai Economy
— The Pulling Power of Exports to Asia and the Inherent Problems
of the Kansai Economy —

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Overview

1. In early 2003, the export growth that has, until now, powered the economy of the Kansai region slowed under the impact of the war in Iraq and the SARS epidemic, and production started to show signs of stagnation. However, following the recovery of the US economy after the conclusion of the war in Iraq and the recovery of the Asian economies since the end of the SARS epidemic, exports have continued to grow and production has also turned upward, the recovery as compared with the same period last year exceeding the national average.

Some sectors of the Kansai economy are showing hopeful signs; in the business sector, capital investment has turned upwards on the strength of a gentle recovery in profits. However, consumer spending continues to stagnate under severe employment conditions.

Looking to the future, the recovery of the Asian economies suggests that exports to Asia can be expected to support the Kansai economy in the short term.

2. Exports to Asia account for a larger share of exports from the Kansai region than the national average, and the anticipated growth of the Asian markets holds great promise for the Kansai region's exports. However, an examination of the trend of two indicators during the 1990s, with respect to the principal export items, suggests that the future of exports from the Kansai region is by no means bright.

First, the trade specialization coefficient, an indicator of export competitiveness, is following a downward trend with respect to exports to China and Asia at large.

Second, the added value ratio, which reflects profitability, is declining in the major export industries of the Kansai region.

3. In this light, given the export-dependent structure of the economy, it cannot be denied that there are grounds for concern over the future export competitiveness of the Kansai region. Although exports to Asia can be expected to grow in the short term, as Japanese companies transfer their production activities to overseas bases and domestic demand in Asia grows, but the rapidity with which Asian countries, especially China, are gaining technological expertise and expanding their production capacity suggests that, as things stand, the Kansai economy, which depends on exports to Asia, is on shaky ground.

To take advantage of the growth of the Asian markets, Kansai-based manufacturers must avoid entering into cost competition with Asia, and should make a renewed effort to move into new industries and product areas with higher added value and pursue a horizontal division of labor with Asia.

4. In pursuing this horizontal division of labor with Asia, the Kansai region must address the following three issues.

The first is the need to actively build up research & development systems. As the Kansai region is generally thought to be behindhand with the replacement of aging equipment, it is vital that the business sector should take full advantage of preferential tax treatment such as the reduction in the taxes on investment in information technology and research & development, and emphasize research & development.

The second is the need to enhance brand and design strength with a view to increasing added value. In product areas where the technology is mature and differentiation through technical innovation is difficult, it is necessary to enhance non-price based competitiveness by building brand and design strength. The Kansai region also has a considerable number of design-related industries, and exchange among companies

and designers with a view to enhancing planning and development strength and work on the fostering of brands should be pursued.

The third is the need to enhance the protection and management of intellectual property rights. The problem of illegal copies is growing overseas, but Japanese companies are still behind on the protection and management of intellectual property rights. Kansai companies must recognize that intellectual property is the key to a company's survival and must take adequate steps to protect it.