Message from the Minister of Economy, Trade and Industry

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The Japanese economy is now showing signs of recovery after bottoming out in January 2002, and since 2003, these signs have been becoming increasingly clearer. Major economic indicators confirm recovery trends especially in capital investment, exports, company profits and production, suggesting that the Japanese economy is on a steady recovery track led by private sector corporate activities. Apparently, economic structural reform to date has started to bear fruit in production rationalization and enhanced competitiveness of corporate sector.

On the other hand, a number of new challenges exist in the Japanese economy and in the world economy. For example, in the continuing global trend toward disinflation, commodity prices in Japan, particularly for imported goods and import-competing goods, are showing a rate of increase that is close to zero. In addition, the employment environment in Japan is lagging in relation to the recovery trend of the economy in general, as is the case in the United States.

Behind this situation, there seems to be the influence of structural changes beyond cycling factors. Such structural changes include, for example, the full-fledged entry into the market economy of China as well as other Asian countries and territories, which has brought about changes in the competition environment and corporate activities relevant to the Japanese economy. In other words, Asian companies outside Japan, where a cheap and plentiful supply of labor is available, are rapidly becoming more price competitive in global markets, causing Japanese companies as a whole to lose their pricing power, and therefore, in order to support profitability under such circumstances, Japanese companies are being persistently pressed to improve labor productivity. These changes in corporate activities are one factor in the changes in the macroeconomic environment as observed above.

Based on the changes in the global economic environment, Japan is required to construct a resilient economic structure that can make the current economic growth trend sustainable. In order to ensure profitability under these new economic conditions, the key will be for companies to differentiate themselves from other companies by improving the individuality of their products and services. This is not competition of a scale that depends only on the size of facilities and labor force; rather, it implies the importance for companies to shift to a new modality of competition in a market economy, one that utilizes each corporation’s difference to the full. In order for Japanese companies to step up in the midst of this new competition paradigm, they need to place intellectual assets including knowledge, human resources, patents, organizational strength, brand power and technological innovation at the center of their operations to secure individuality and strong resilience that will allow them to win a place in the international market.

However, given the difficulty in evaluating such intellectual assets, many Japanese companies are unable to grasp accurately the value of the intellectual assets they own and even in the financial markets, such evaluation has not been adequately conducted. If methods are established to understand and evaluate intellectual assets,
and measures are put in place to disclose these assets to the market, not only would companies be able to construct effective management strategies based on a more accurate knowledge of their own strengths and weaknesses, but appropriate investment could be made in intellectual assets through the financial markets. This way, constant value creation through utilization of intellectual assets can be achieved, making it possible to construct a resilient economic structure that would allow Japan to enjoy prosperity even in the new global economic environment described above.

Moreover, value creation that utilizes such intellectual assets is closely related to how the vitality of the Japanese economy can be maintained and enhanced, given the current situation in which economic integration in East Asia is progressing through the conclusion of economic partnership agreements and intra-regional trade and the division of functions are continuing to intensify. Value creation through utilization of intellectual assets would make Japan an innovation base continuously providing new goods and services. It would also be effective for Japan in that it would help Japanese companies capitalize on their strengths by understanding and evaluating their own intellectual assets, allowing them to provide value in response to needs in East Asia (this would be an effect that would link Japan’s supply with East Asia’s needs). This would enable the Japanese economy to harness the dynamism of the world economy through East Asia. In addition, given the simultaneous emergence of value creation through utilization of intellectual assets and the economic opening within East Asia, it is expected that the Japanese economy could, in harmony with the East Asian region, achieve prosperity and resilience.

An awareness of the above-mentioned issues is giving rise to international discussion in Japan concerning the role of intellectual assets in a corporate setting, and the modalities for policy, including programs aimed at companies. At the Ministerial Council Meeting of the Organisation for Economic Co-operation and Development (OECD) held on May 13-14, 2004, Japan proposed a framework aimed at studying the issue on the international level and including a broad range of public and private sector participants. By means of a joint proposal made together with Denmark, Finland, the Netherlands, Sweden and the United Kingdom, approval from OECD members was attained and work on this issue will begin in earnest from autumn this year.

Now that the structural reforms are finally bearing fruit, the Japanese economy is ready to take a new leap. It is time to leave behind the long-running recession for good and embark upon a new journey to a new level. The sub-heading of this year’s White Paper is “Toward a ‘new value creation economy’” and the title implies a new economic stage whereby value creation through utilization of intellectual assets will become a modality of corporate competition. The phrase is the expression of our belief that, from now, the Japanese economy will journey through this new stage, and must achieve further prosperity and resilience. We would be deeply gratified if this White Paper could become the compass for the Japanese economy’s progress toward new growth.

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