

## 2 Economic Information

The falling US\$/yen exchange rate that occurred during the early 1980s is no longer the dominant economic force in the Kansai region. However, in the wake of the appreciation of the yen, there has been a significant change in local attitudes. Today, there is a much more favourable attitude towards imports, overseas tie-ups and investment in manufacturing abroad.

The profitability of Japanese companies continues to increase as firms shift production to higher value-added items and move the manufacture of low value-added items offshore. The local economy has traditionally depended on exports for growth in GNP, but clearly all of Japan is moving towards an economy driven increasingly by domestic demand. Strong consumer spending and aggressive new business investment in plants and machinery continue to offset losses resulting from reduced exports.

There is a strong trend towards companies moving into new non-traditional business areas, adopting lower cost production strategies and opening import trade departments.

Japan's external trade surplus has been declining gradually, but it is almost certain the trade imbalance will remain a major source of political irritation in U.S.-Japan trade relations into the 1990s. Protectionist leanings, the expectation of further strengthening of the yen, and high levels of liquidity are factors that will accelerate the movement of production facilities to lower production cost centres closer to traditional export markets.

Figure 1

Cost Comparisons: Osaka Prefecture and Tokyo

