

Sales declined significantly in foreign markets for many of the major companies which then were forced to reduce prices to maintain their foreign market share. At the same time, these companies were forced to reduce prices in the domestic market to meet the threat posed by imported goods which were made considerably cheaper by the change in the value of the yen. In overall terms, Japanese companies received about 50 per cent less in yen for their exported products and faced significantly lower returns for goods sold at home. The net effect on electronics production was significant.

In value terms, production increased by only 5 per cent (to \$74.3 billion). However, most of this increase came from the appreciation of the yen rather than production volume and sales increases.

In consumer electronics, production value was up 5.5 per cent (exports by 6 per cent). Industrial electronic equipment production value rose by 13.3 per cent to \$28.8 billion. Exports increased by 10 per cent while imports increased by 7.7 per cent. Production of electronic application equipment moved up in value terms by 14.4 per cent, communication equipment by 12 per cent and electronic measuring instrumentation by 12.5 per cent.

In the category of electronic components and devices, production was down 1.4 per cent in spite of yen appreciation because of particularly poor performance in ICs caused by contraction in the U.S. market for semiconductors. Exports of ICs from Japan to the U.S. fell 41 per cent resulting in a total drop of 16.7 per cent in production in this area. Imports also plunged over 25 per cent. This trend continued in 1986 with a further semiconductor production decline of 6.5 per cent.

The volatility of the international market that resulted from the situation of the yen and the U.S. market condition is not the only problem facing the Japanese electronics industry. While Japan's heavy investment in state-of-the-art automated production facilities for standardized micro-electronics devices gave companies an excellent opportunity in the mass market of the early and mid 1980s, the change of economic conditions and increasing demand for specialized application materials means that Japanese companies are finding themselves with more and more excess production capacity in standardized fields and increasingly inappropriate production facilities to meet new demands. The industry is facing a time when it must begin to rethink its basic approach to manufacturing if it is to remain flexible enough to attain the world leadership in new technologies that is its goal.