Section 1

Trends in the Information and Communications Industry, etc.

1. Market size

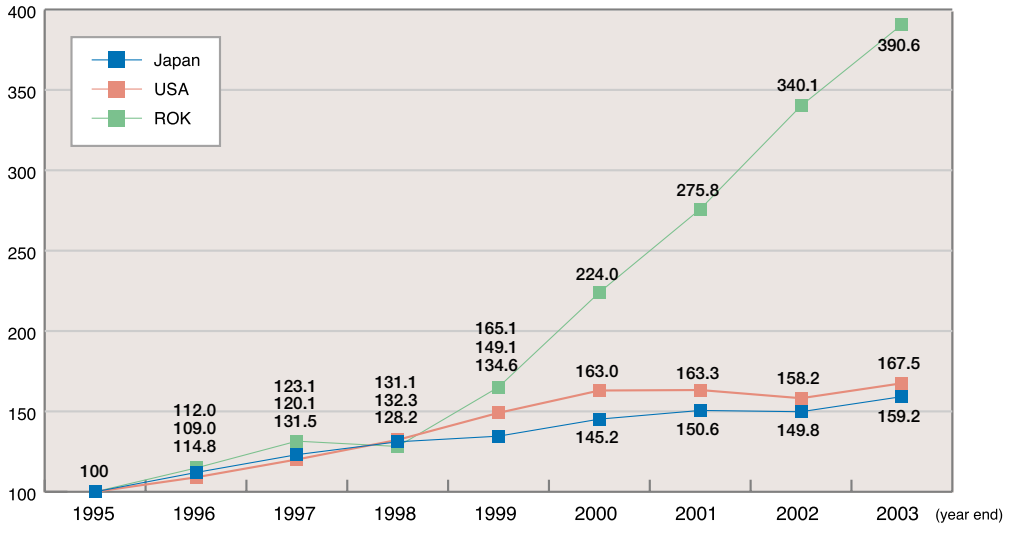
The market size (domestic output) of Japan's information and communications industry reached 126 trillion yen in 2003 (a 6.3% increase over the previous year), which is also a 5.7% increase over 2001. One of the reasons for this is that capital investment, particularly investment in computers and peripherals as well as wireless telecommunications equipment, increased in various industries with progress in corporate earnings improvement and capital stock adjustments in line with the economic recovery in the second half of 2003. In addition, the percentage of the market size of the information and communications industry to the total market size of all industries increased to 12.7% (a 0.5 point increase over the previous year) in 2003.

In addition, the market size of the U.S. information and communications industry has indicated the same trend as Japan. In 2002, both Japanese and U.S. information and communications industries marked the first decline since 1995, and turned to an increase once again in 2003. Meanwhile, the information and communications industry in the Republic of Korea has indicated dramatic growth since 1999 **(Figure 2-1-1)**.

2 Amount of added value

The real GDP (amount of sales minus amount of intermediate input) of Japan's information and communications industry reached 69 trillion yen in 2003 (a 9.6% increase over the previous year), indicating a recovery. Its percentage to Japan's overall real GDP was 12.6%, also showing a steady increase. Furthermore, in contrast to the 1.2% average annual growth rate in real GDP between 1995 and 2003 for all of Japan, the growth rate of the information and communications industry averaged 7.8%. Thus, the information and communications industry has achieved extremely high growth.

Figure 2-1-1 Transition in the market size (domestic output) of the information and communications industry in Japan, the United States, and the Republic of Korea (the value in 1995 was indexed at 100)



	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan (billion yen)	79,224	88,722	97,502	103,849	106,630	115,013	119,327	118,653	126,134
USA (billion dollars)	1,193.04	1,300.39	1,432.41	1,578.69	1,778.58	1,951.72	1,953.62	1,899.27	2,014.66
ROK (billion won)	62,960	72,270	82,800	80,700	103,970	141,030	173,630	214,140	245,920

Source: Survey on Economic Analysis of ICT

Similar to Japan, the real GDP of the information and communications industry in the United States also showed a recovery in 2003. Meanwhile, the information and communications industry in the Republic of Korea has been rapidly growing since 1999 **(Figure 2-1-2)**.

3 Employment

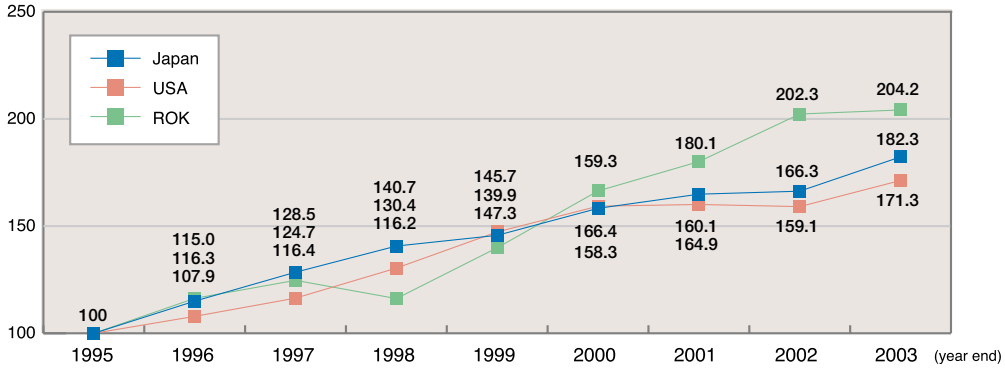
The number of people employed in Japan's information and communications industry in 2003 totaled 3.6 million, accounting for 6.8% of all employment. The size of the information and communications workforce continued to increase slightly from 1995 until 1999, but has declined slightly for four consecutive years since 2000.

While the number of people employed in the information and communications industry in Japan has more or less remained at the same level since 1995, that in the United States continued to increase and turned to a decline after peaking in 2000. In the Republic of Korea, the number dropped sharply in 1998, but has continued to increase rapidly since then **(Figure 2-1-3)**.

4 Productivity

Total factor productivity in the information and communications industry increased by 3.5% between 1995 and 2003. This shows the highest growth rate among all industries, far outpacing the 0.2% for all industries.

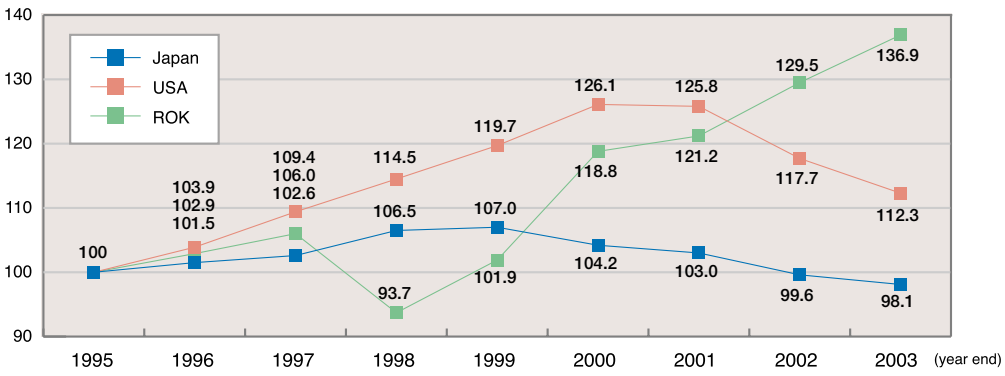
Figure 2-1-2 Transition in the real GDP of the information and communications industry in Japan, the United States, and the Republic of Korea (the value in 1995 was indexed at 100)



	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan (billion yen)	37,812	43,491	48,575	53,191	55,085	59,862	62,359	62,900	68,938
USA (billion dollars)	694.54	749.23	808.14	905.58	1,023.32	1,106.73	1,111.86	1,104.98	1,189.93
ROK (billion won)	29,060	33,790	36,230	33,770	40,650	48,360	52,330	58,800	59,350

Source: Survey on Economic Analysis of ICT

Figure 2-1-3 Transition in the number of people employed in the information and communications industry in Japan, the United States, and the Republic of Korea (the value in 1995 was indexed at 100)



(thousand persons)	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan	3,680	3,730	3,770	3,920	3,940	3,830	3,790	3,660	3,600
USA	7,250	7,540	7,940	8,300	8,680	9,150	9,130	8,540	8,140
ROK	710	730	760	670	730	850	870	920	980

Source: Survey on Economic Analysis of ICT

5 Trends in ICT investment and contribution of information and communications to macro-economy

From 1985 to 1990, the capital stock for information and communications made a 0.87% contribution to the average annual real economic growth of 4.73%. After that, from 1990 to 1995, it made a 0.15% contribution to the 1.43% economic growth, and from 1995 to 2000, it made a 0.50% contribution to the 1.49% economic growth. In this manner, the capital stock for information and communications has played a significant role in the process of economic development.

Furthermore, from 2000 to 2003, the capital stock for information and communications made a 0.19% contribution to the economic growth rate of 0.82%. While labor contribution is negative, the capital stock for information and communications is supporting economic growth **(Figure 2-1-4)**.

6 Capital investment

The actual value of capital investment in the communications and broadcasting industries in fiscal 2003 increased to 2.7263 trillion yen (a 0.2% increase over the previous fiscal year). However, capital investment plans for fiscal 2004 again turned to a decline to 2.6034 trillion yen (a 4.5% decrease from the previous fiscal year).

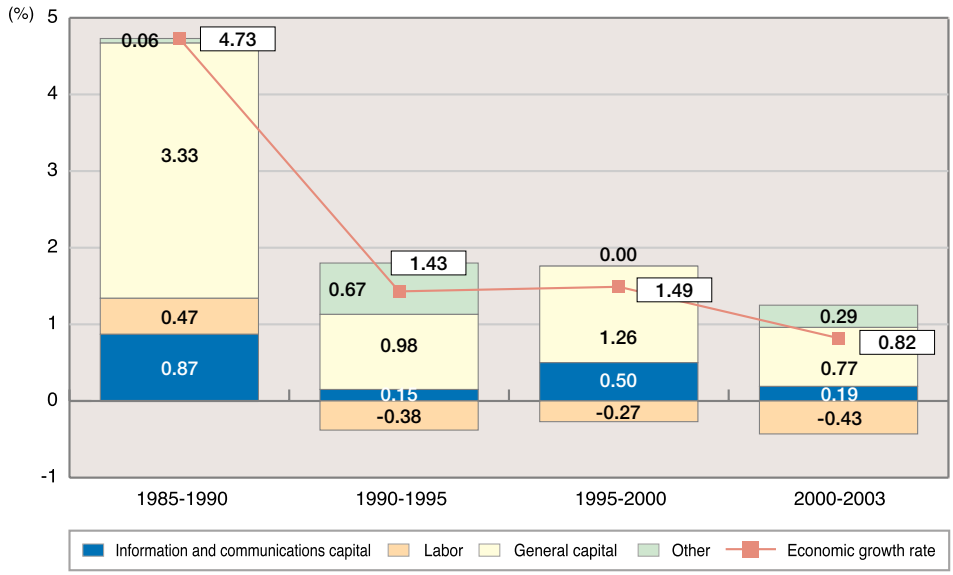
7 Information and communications ventures

The number of ventures originating from universities, etc. in the information and communications industry totaled 216 companies in 2003, and increased to 239 in 2004 (end of August). Information and communications companies accounted for 24.3% of ventures originating from universities, etc. (a 0.8 point decrease from the previous year). Even though there was a slight drop in ratio, information and communications continued to hold the largest share among ventures originating from universities, etc.

8 International trade and investment

Japan's IT related trade values for 2004 were 137.6 billion dollars in export (a 16.9% increase over the previous year) and 78.7 billion dollars in import (a 18.0% increase over the previous year).

Figure 2-1-4 Transition in contribution of various productivity factors to Japan's economic growth rate



* The percentages for 1985-1990, 1990-1995, and 1995-2000 are five-year averages, and those for 2000-2003 are three-year averages.

Source: Survey on Economic Analysis of ICT