

# Test of Ability

Japan's food industry is a key industrial sector, with annual shipments totaling some ¥30 trillion (\$230 billion) in value, about 11% of total industrial shipments on the 1989 actual basis. Total shipments in the food industry, however, rose only 2.2% in the five years from 1985 through 1989, compared with an average 3.0% for all manufacturing industries. The slow growth of shipments in the food industry in a sense reflected its maturity, with the quantity of food supply meeting demand.

Yet it is not appropriate to judge the current trend merely on the basis of the value of total shipments, because the food industry embraces a wide variety of products from flour milling, sugar refining and other partially processed items to highly processed items like cooked foods and liquors. The industry is in fact in the midst of a dynamic restructuring.

The most significant factors affecting the food industry environment are a rapid diversification of consumer needs, on the demand side, and deregulation of agricultural imports and increased food imports on the supply side. The diversification of consumer needs derives from structural factors, such as changes in the lifestyle of Japanese people including a decrease in the size of families, an increase in the number of working women, intensifying health consciousness and the introduction of fashion and leisure elements in eating.

Responding to such diversifying consumer needs, the supply side is developing characteristic new products and marketing foreign products with famous brand names. These marketing efforts have paid off in recent years with booming sales of the so-called "functional" foods such as fiber drinks which appeal to the health conscious, as well as a rapid expansion of the beer market. One trend gaining momentum in the food industry is toward production of a wide range of items in small quantity. This trend has dampened growth in the food industry overall, while some segments have been enjoying a continually expanding market.

Amid increasingly strict consumer demand for high quality, the food industry faces the severe task of improving distribution, including thorough control of freshness and lengthening the "sell by" date. The industry is also reinforcing relationships with large superstores and chain stores. This, together with the recent revision of the Large-scale Retail Store Law, is leading to the closure of many old small retail stores. At the same time, the food industry is stepping up the introduction of POS systems to process a variety of items in small quantity, ensuring quality and meeting consumer needs.

The food industry will inevitably feel the impact of the ongoing deregulation of agricultural imports in years to come, particularly the phased liberalization of im-



In response to diversifying consumer needs, food suppliers in Japan are developing new lines and marketing more foreign products.

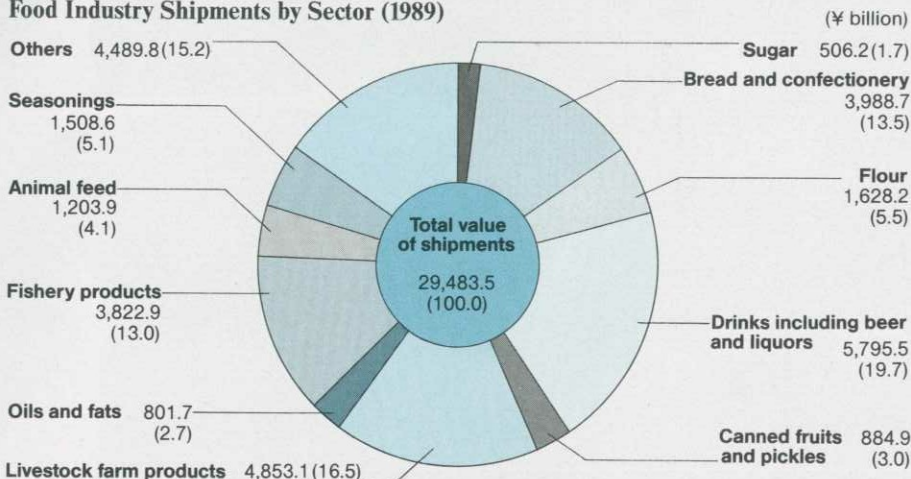
ports of beef and oranges under a GATT ruling. Liberalization of beef imports in April 1991 has not resulted in a sharp increase in the consumption of imported beef as tariffs were raised to 70%. On the other hand, oranges (liberalized in April 1991) and orange juice (to be liberalized in April 1992) may see their market expanded as tariffs have remained unchanged. Brazil, one of the largest orange suppliers in the world, is intent on exporting products to Japan, while U.S. orange producers and orange juice makers are trying to penetrate the Japanese market, armed with their famous brand names. Some U.S. companies involved with oranges are negotiating joint ventures with Japanese companies.

Imports of other foods such as processed fishery products are on the rise too. Under these circumstances, the Japanese food industry's competitive power is being put to the test on the domestic market. An increasing number of Japanese food makers are relocating their production bases overseas, particularly in Southeast Asia, seeking valuable sources of materials and manpower. They are aiming not only to cultivate local markets but also to reimport the products of these overseas factories to Japan.

Japanese food makers are facing the severe challenge of drastic structural changes on both the demand and supply sides, which could widen disparities among them. In a nutshell, Japan's food industry stands at a crossroads today. ■

(Kosuke Nakamura, senior economist)

Food Industry Shipments by Sector (1989)



Note: Figures in parentheses denote percentage share.

Source: 1989 Industrial Statistics Bulletin, Ministry of International Trade and Industry