

Japanese Carmakers Turn Overseas – Shrinking Domestic Market Spurs Move –

By Okabe Hiroshi

Photo: Kyodo News

The Japanese auto industry, the nation's leading industrial sector, is at a crossroads in the face of a shrinking population in the country. According to the Japan Automobile Dealers Association and other sources, the number of passenger cars in use in Japan is expected to peak at around 60.18 million in 2017 and will start falling afterward. As if foreshadowing such a projection, domestic sales of new cars, trucks and buses in 2006, including mini-vehicles, dropped to a 20-year low of 5.73 million. Japan at last has lost its long-held position as the world's second largest auto market after the United States; now it is No. 3, after China.

The number of cars on the road in Japan has expanded without interruption in the past, topping the 10 million mark in 1972 and then tripling to 30 million in 1989. However, based on data such as population estimates and the average number of cars per household, cars in possession are expected to peak in a decade and turn down from 2018. They are projected to fall to around 60 million by 2021 as the population declines and a growing number of elderly people give up driving.

But the harsh prospect of a shrinking domestic market has not stopped Japanese automakers from making strides. Domestic output in 2006 exceeded 10 million vehicles for the fifth consecutive year. This came despite stagnant domestic sales as exports continued to grow robustly, accounting for more than 50% of domestic output for the first time in 19 years.

Backed by brisk overseas demand, Toyota Motor Corp., Honda Motor Co. and Mazda Motor Corp. posted record group sales and operating profits for the April-September first half of fiscal 2006. Fuel-efficient Japanese compact cars have become more popular in North American and other overseas markets amid sharply higher gasoline prices, while a cheaper yen has helped offset rises in raw material costs. In 2006, Toyota replaced DaimlerChrysler AG for the first time as the third largest automaker in



Ford Motor Co. CEO Alan Mulally unveils a new model at the North American International Motor Show in Detroit as the loss-plagued automaker struggles with its back to the wall.

terms of US sales, behind General Motors Corp. and Ford Motor Co. This year, Toyota plans to launch production in Thailand, China and Russia and it is expected to become the world's first company to produce and sell 10 million vehicles annually. Buffeting strong headwinds in the domestic market, Japanese automakers appear to be expanding their global presence.

At the 2007 North American International Motor Show in Detroit in January, the Big Three US carmakers, breaking their tradition of launching big cars, put emphasis on fuel-efficient compact models. Struggling GM and loss-plagued Ford are now fighting with their back to the wall in a bid to regain market share lost to Japanese rivals.

Japanese automakers for their part are poised to counter the US side with environmentally friendly vehicles, including gasoline-electric hybrid cars and diesel models. Within a decade, Honda plans to launch mass production of the so-called "ultimate eco-cars," electric-powered vehicles that emit nothing other than water. These vehicles carry fuel cells that generate electricity through the chemical reaction of hydrogen and oxygen. "The level of environmental

technology in Japanese cars enjoys a clear edge in the world," said an auto industry analyst.

Deals for global realignment of the auto industry seen in the second half of the 1990s have mostly failed to bear fruit, and a new battle for supremacy in environmental technology is looming on the horizon. Japanese automakers are shaping up to become key players in this battle.

COMING UP

Japan's Prime Minister Abe Shinzo proclaimed a new vision on taking office: Making Japan a *beautiful country*. In the next issue, we will invite a number of economic experts to look into the government's economic management, economic policies, and future challenges, among other things. We will also launch new columns featuring Japanese food, architecture and thriving regional developments.

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Aid Quality Getting More Important – Japan’s Shrinking ODA Budget –

The Japanese government has increasingly been facing the challenge of devising ways to improve the quality of its official development assistance (ODA) at a time when it must continue down the path of fiscal reconstruction. In its budget for fiscal 2007 starting April 1, the government allocated ¥729.3 billion for ODA, down 4.0% from the initial fiscal 2006 budget. This reduction, which reflects the fiscal reconstruction policy pursued by Prime Minister Abe Shinzo’s administration, marks the eighth straight yearly decline.

Until fiscal 1997, Japan had been top in the

world in terms of total ODA, with the amount steadily growing up to that point. But Japan is now far behind the United States, the largest donor, and about to be passed by European countries. In particular, Japan’s funding to international institutions has been declining, leaving the Foreign Ministry worried that Tokyo’s say may erode and that the chance of realizing its longstanding wish to gain a permanent seat at the United Nations Security Council would become remote.

Amid constraints on quantitative expansion, the government will build new embassies in Botswana, Mali, Malawi,

Lithuania, Bosnia and Herzegovina, and Micronesia while increasing personnel at diplomatic offices abroad by about 150 in fiscal 2007 in a posture of assisting development by strengthening diplomacy. In Asia, Japan will create a ministerial conference on the development of the Mekong River basin involving five nations through or along which it flows and the first meeting is to be held in Japan in fiscal 2007. The government will make the Mekong River basin a priority for Japan’s ODA, concentrating funding on regional projects such as road and bridge construction.

Rebuilding Education, Stress on Patriotism

– Premier Abe’s Top Policy Agenda Gets Rolling –

The administration of Prime Minister Abe Shinzo, who regards revival of the nation’s educational system as a key policy program, has fulfilled its top legislative goal of amending the Basic Education Law. The revised law stresses the importance of “public spirit” and underlines the need to promote “patriotism.”

After the legislation cleared parliament, Abe said: “We see the revision as a starting point. We will do everything to revive our educational system. We will try to turn our schools into a place where everyone can acquire high academic skills and social norms.”

The amendment of the Basic Education

Law, known in Japan as the “Constitution of Education,” was the first since it was enacted in 1947. The reason behind Abe’s determination to pursue such a historical measure is that he realizes the need, as he put it, “to proclaim basic educational principles for a new era.” While the Basic Education Law enacted after the war stressed individual dignity, the concepts of “respecting public spirit” and “fostering an attitude to love the nation” formed the basis

of the revised law. Some countries in Asia feel that patriotism could lead to a revival of nationalism in Japan. In order to ward off such concerns, the revised law also says it is necessary “to foster an attitude to respect other countries.”

With the new law in place, the government plans to rewrite the current curriculum guidelines that include the controversial “education with ease” concept. The harsh reality is that Japanese classrooms have been plagued with big problems in recent years: Elementary and junior high school students who have become the target of school bullies sometimes take their own lives. There are also concerns about a decline of Japanese educational standards in the world. For the Abe administration, the important job now is to put flesh to the new law and really revive Japan’s educational system.

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Photo: Kyodo News



Prime Minister Abe Shinzo attends a meeting of a government task force on the reform of Japan’s educational system. On his left is Nobel chemistry laureate Noyori Ryoji, head of the panel.