

## Negative Growth Anticipated in Fiscal 2001

The Japanese economy shrank a real 0.8% (excluding price fluctuation) in the April-June quarter, according to figures released by the Cabinet Office on Sep. 7. The quarter-to-quarter decline, measured in terms of gross domestic product (GDP [after seasonal adjustment]), was the first in three quarters and was translated into an annualized contraction of 3.2%. It was the lowest level since the October-December 1999 quarter when the GDP sagged by 5.8%.

The second quarter result reflected the rapid deterioration of business conditions that started in the spring. It resulted from a continuing slowdown in the U.S. economy since the autumn of 2000, which had pressured Japanese exports, particularly information technology, corporate earnings and capital spending.

Nominal GDP fell below ¥500 trillion, down 10.3% in annualized terms, the largest drop since 1978, the farthest back that current statistical methods can be applied. The high unemployment rate of 5% as well as falling stock prices are adding to the Japanese economy's woes. Against such a background, Prime Minister Koizumi Jun'ichiro instructed his Cabinet the same day to start work on a supplementary budget for fiscal 2001.

Minister of State for Economic and Fiscal Policy Takenaka Heizo said at a press conference that it would be extremely difficult to achieve the government's target of annual 1.7% real economic growth for fiscal 2001, because the economy must grow at a rate of 1.4% on a quarter-to-quarter basis for each of the remaining three quarters to achieve the target. There is the possibility of the economy contracting at an annualized rate since fiscal 1998, Takenaka said.

Corporate capital investment, which accounts for less than 20% of the GDP, fell 2.8% from the previous quarter, marking the second consecutive quarterly decline. Consumer spending, which accounts for roughly 60% of the GDP, rose 0.5%, driven by strong demand for automobiles, despite declining income and employment uncertainties.

Housing investment plunged 8.8% as strong demand boosted by tax reductions has run its course, while public

investment fell 4.1% as the economic stimulus package implemented last autumn ran out of steam. Exports fell 2.9%, and imports also saw a 2.5% decrease.

As contributory figures to the growth rate, domestic demand and external demand (net exports of goods and services) shrank 0.7% and 0.1%, respectively. The GDP deflator, the barometer for the overall price fluctuations, also fell 1.1% from a year earlier for the 13th consecutive quarter-to-quarter decrease, underlining the deflationary trend.

In connection with the compilation of the supplementary budget, Koizumi said the government will not easily rely on bond issues. He emphasized that the supplementary budget should be in line with his pledge to put a ¥30 trillion cap on new government bond issues as a revenue source at least for the time being. However, with tax revenues likely to fall due to worsening corporate earnings, Koizumi is said likely to take a flexible stance on the bond issue while closely watching tax revenues and business conditions. Koizumi is facing growing pressure from within the ruling coalition to relax the debt cap in order to stimulate the economy, and his judgment will be the focal point of the compilation of the budget.

Chief Cabinet Secretary Fukuda Yasuo said the supplementary budget will be presented to the Diet after mid-October after the prospects for national tax revenues are announced. Additional fiscal resources for the extra budget will be about ¥3 trillion at maximum if a ¥30 trillion cap is put on new bond issues.

Koizumi took objection to merely increasing demand through public works and instructed Takenaka to draw up a report on programs under his reform initiative that should be prioritized in the extra budget. Koizumi expressed his intention to give priority to; 1) systemic reform aimed at creating new industries and employment; 2) establishing safety nets for small and medium-sized enterprises; and 3) urgent measures for accelerating structural reform.

Meanwhile, Moody's Investors Service announced on Sep. 6 that it may downgrade its Aa2 rating on Japanese government-issued and government-guaranteed yen-based domestic bonds, citing increasing credit risks in the economy arising from the expansion of debts under deflationary pressure. Moody's warned that the expand-

ing fiscal deficits and swelling debts of financial institutions and other private companies are raising concern over the future of the Japanese economy.

If the bonds are downgraded, the new rating will likely be Aa3, the same level as Italian government bonds and the lowest among the Group of Seven countries.

## New Version of Sony's AIBO Debuts

The marketing arm of Sony Corp. has introduced a new version of its robotic dog-like pet AIBO. The new version – looking like a cuddly hybrid between a bear and a dog – comes in two models, selling more than ¥50,000 less than the previous version, according to Sony Marketing (Japan) Inc.

The new AIBO sells for ¥98,000 (\$850.00) compared with the previous model's ¥150,000 (\$1,300.00). One of the two models is ivory-colored and called "LATTE," while the other is dark gray and known as "MACARON." If you plug a specified "memory stick" unit, which is sold separately, into each of them, LATTE will develop an honest, gentle character while MACARON will become playful and naughty, Sony Marketing says. Powered by 15 motors, their legs and heads show lovely movements. They can respond and recognize up to 75 different voice commands, nearly 50% more than the old AIBO.

Sony and Honda Motor Co. last year unveiled prototypes of full-fledged human-like robots walking on two legs. Expectations have since been growing that the day may be unexpectedly close at hand when robots appear in neighborhoods and homes, making useful contributions to local entertainment and household chores.

But when it comes to commercial production, there is a heap of technological challenges to be cleared, including the development of precise techniques for control and recognition, and of a long-life, high-performance battery. Scientists and engineers are toiling on the development scene night and day in quest of a 21st-century blockbuster on the robot market.

"We hope to come up with a commercially viable robot in five years or so," says Ishida Tatsuzo, who heads a team for Sony's robot project. The comment is also echoed by a senior team member, Kuroki Yoshihiro. The team has



developed an SDR (Sony Dream Robot) which, 50cm in height, can dance with light steps or perform the shadow boxing-like traditional Chinese practice of *Tai ji quan*.

The type of human-like robot Sony seeks to develop is not just a practical one but the sort of robot which can help family members enjoy communication with it. AIBO, which means a "partner" in Japanese, has been enormously popular since it went on sale last year, selling 95,000 units worldwide.

"Robots must not injure family members. They must not cause trouble destroying objects. They must be produced on the assumption that they sometimes fall," says Ishida, pointing to some of the challenges his team faces. "We have yet to establish full-fledged voice and image recognition technologies for robots to tell one family member from another."

Honda plans to loan its ASIMO human-like robot to various organizations and makers starting this fall, moving a step ahead toward the robot business. About 10 ASIMOs are already in use experimentally as a bouquet presenter at wedding halls and as a guide or a guard at exhibitions.

"The main purpose of the rental is to look into user opinions regarding what kinds of performance are required of ASIMO and then reflect them in its commercialization. Robots don't grow unless they are put to use many, many times" says Hirose Masato, a chief engineer at Honda's research institute who has been involved in the robot project for nearly 20 years.

Unlike Sony's pleasure-oriented robot series, ASIMO does work and other practical duties useful to humans. "We hope to develop a robot which can understand and follow easy instructions such as 'Bring me a canned beer from the fridge.' We initially intend to aim at developing a robot which can flexibly perform easy actions," says Hirose. His team plans to aggressively adopt fast-developing information technology such as artificial intelligence in pushing the project.

A Tokyo market research company, Seed Planning Inc., recently conducted a poll on 36 Japanese robotics specialists regarding robots walking on two legs. According to the poll, nearly half of them – 46% – said they expect such robots to be put on sale by 2005.

The Industrial Structure Council, an advisory body to the Minister of

Economy, Trade and Industry, has published an interesting projection on the market for life-supporting robots that substitute human labor for household chores such as nursing care, kitchen work and washing. The projection shows total sales of that market will rise rapidly to reach ¥4 trillion in 2010.

Orders for the new AIBO series are accepted via the Internet and by telephone. Interested consumers are advised to call the AIBO Shop (TEL. 0570-008811 or U.S. adoption hotline at 888-917-7669) or access a website (<http://www.aibo.com> or U.S. site at [www.us.aibo.com](http://www.us.aibo.com)).

## LDP Upper House Election Victory Reflects Popular Support for Koizumi's Reform Plans

Prime Minister Koizumi Jun'ichiro's Liberal Democratic Party (LDP) won a stunning victory in the July 29 House of Councilors election by garnering 65 of the 121 seats up for grabs, which boosted its total strength in the Upper House to 111. The LDP, New Komeito and the New Conservative Party (NCP), which form a coalition, won a combined 79 of the contested seats. The coalition now has a total of 140 seats, a comfortable majority in the 247-member upper chamber. Leader Ogi Chikage was the only successful candidate of NCP.

It was the first time since 1992 that the LDP won more seats than the majority (61) of the contested seats in an Upper House election.

The opposition camp saw mixed results. The largest opposition Democratic Party of Japan won 26 seats, four more than the pre-election strength, for a total of 59 seats. The Japanese Communist Party (JCP) and the Social Democratic Party (SDP) saw their contested seats reduced from eight to five and seven to three, respectively. JCP now has a total of 20 seats and SDP eight. The Liberal Party fared well, boosting its number of seats to six from the previous three.

The LDP, which suffered major defeats in previous Upper House elections in the 1990s, regained strength by fighting the election with the advantage of Koizumi who enjoys voters' strong support thanks to his unique character and personality. The election results showed that voters gave Koizumi a mandate for his structural reform initiative. In the election, voters placed high



New version of Sony's AIBO – LATTE (left) and MACARON (right)

expectations on Koizumi's "reform with no sanctuary" rather than passing their judgment on what former Prime Minister Mori Yoshiro's unpopular coalition administration did. During the election campaign, Koizumi repeatedly expressed his determination to get rid of forces within the LDP which will defy reform plans. Voters were apparently impressed by Koizumi's stance of fighting the LDP old guard.

Opposition parties, for their part, failed to take advantage of voters' criticism of the Mori Cabinet. Political pundits criticized the opposition for only taking a negative attitude: waiting for the LDP to commit mistakes, without convincing voters that they are capable of governing the country.

Despite the election victory, Koizumi is likely to encounter increasing resistance from the LDP old guard when his reform plans begin to take shape. His reform line is not firmly in place as he is just about to unveil specific reform measures.

Kyodo News and Yahoo Japan Corp. conducted an Internet opinion survey after the general picture of the Upper House election results was available early in the morning of July 30 to ask voters what would happen to Japan as a result of the LDP victory. Of 3,464 replies, the largest proportion (38%) said that Koizumi's reform initiative would fail in the face of objection from the LDP old guard. The second biggest proportion (29%) expressed fear that their livelihood would deteriorate due to the pains of the reform. Those who expected that the reform would succeed and Japan would revive accounted for only 24%. "Don't know" accounted for 9%. The poll results showed that Internet users do not expect much of Koizumi, and those anticipating Koizumi's failure or worrying about the pains of reform outnumber those hopeful of Koizumi's success.