

Ministry Proposes Labeling of Genetically Modified Foods from April, 2001

The Agriculture, Forestry and Fisheries Ministry has decided to subject 30 genetically modified (GM) food items to mandatory labeling starting in April, 2001. The 30 items include *tofu* (soybean curd) and *natto* (fermented soybeans) — traditional Japanese foods.

Genetically modified foods account for only 10% of foods imported into Japan and are a minor presence on the Japanese food market, but the ministry found it advisable to provide consumers with accurate information on the possible hazards of genetically modified ingredients.

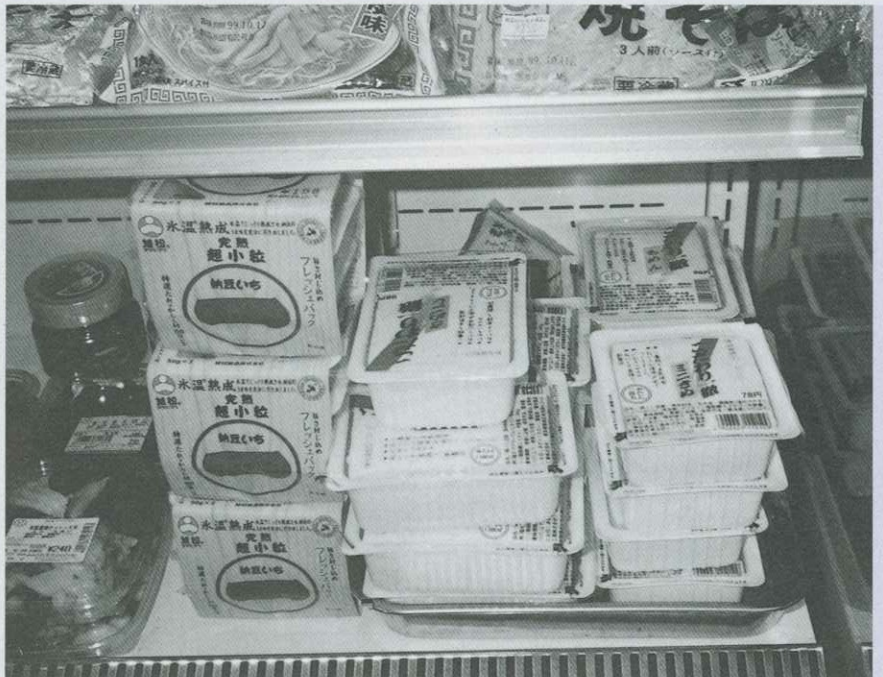
Genetically modified foods are produced for the purpose of ensuring a stable supply of foods. Western countries have developed and marketed genetically modified corn and insect-resistant potatoes resistant to insects, soybeans free from the harmful effects of herbicides and long-life tomatoes.

In Europe, genetically modified technology is applied to the manufacturing of cheese. Such technology has also enabled mass production of enzymes previously made only from the stomachs of calves.

Japan started importing genetically modified soybeans and corn in November 1996. However, there are growing concerns among consumers about the safety of genetically modified foods.

Some food specialists say that genetically modified foods cause allergic reactions. Japanese consumer organizations warn that since proteins produced with genetically modified technology could turn allergenic, the safety of genetically modified goods must be fully evaluated.

Under the Japanese Food Sanitation Law, manufacturers or importers have primary responsibility for the safety of foods. However, the Health and Welfare Ministry monitors the safety



Natto (fermented soybeans) and tofu (soybean curd)

of all genetically modified food items, because food makers or importers have little experience in highly advanced genetically modified technology.

Soybeans contain a substance which, if eaten raw, causes indigestion. Potato sprouts contain a poisonous substance. Since ancient times, people knew this, and heated soybeans and cut potato sprouts when they ate these vegetables.

The Health and Welfare Ministry applies safety standards for conventional foods to genetically modified foods in cases where it is scientifically established that they are as safe as conventional foods.

Based on the results of its inspections, the Health and Welfare Ministry has established that 22 genetically modified food items are safe. Yet, some Japanese breweries have decided not to use genetically modified grains as materials in their products. There are increasing trends among Japanese supermarket chains to shy away from marketing genetically modified foods or voluntarily label genetically modified

foods.

Meanwhile, food exporting countries, such as the U.S., Canada and Australia, are urging Japan not to require the labeling of genetically modified foods, because they are worried about a possible decline in their food exports to Japan. They may bring the case to the World Trade Organization (WTO) in what could become a new trade friction.

A joint food standard committee of the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) is studying the drafting of an international standard for food safety and labeling, but it will be some time before such an international standard is officially adopted.

Japan's GDP Grows for the Second Consecutive Quarter

The Japanese economy grew 0.2% for the April-June quarter, marking the second consecutive quarter of growth, and the government target of 0.5% growth for fiscal 1999 seems to be

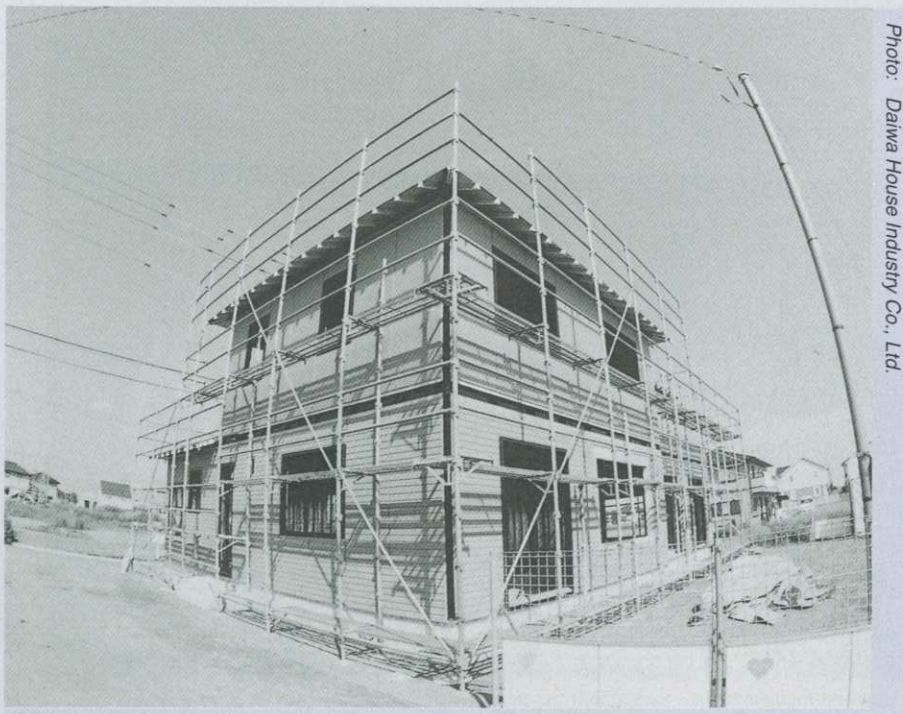


Photo: Daiwa House Industry Co., Ltd.

Lowered interest rates boosted orders for easily-built wooden houses

within reach.

According to preliminary national income statistics for the April-June period released by the Economic Planning Agency on September 9, the gross domestic product for the second quarter came to an annualized ¥483,94 trillion, an increase of 0.2% in real terms from the preceding quarter — an annualized rate of 0.9%. This followed 8.1% growth in the January-March quarter. GDP for the first six months grew 1.7%, an annualized rate of 3.4%.

Private consumption, which accounts for roughly 60% of GDP, jumped 0.8% for the second straight quarterly rise following a 1.2% increase in the previous quarter. Soaring sales of durable consumer goods such as personal computers and light vehicles offset sagging incomes resulting from a protracted recession and corporate restructuring, reflecting a recovery in consumer confidence.

Housing investment surged 16.1%, marking the biggest quarter-to-quarter

increase ever, which helped boost GDP by 0.6%. The heavy housing investment was backed by expanded tax deductions on housing loans and lowered interest rates on government housing loans which boosted orders for easily-built wooden houses and renovation of houses.

Corporate capital investment, which accounts for about 20% of GDP, fell 4%, following a 3.1% increase in the previous quarter, due to a slump in the production of semiconductors and automobiles. This testifies to the fact that while corporate earnings are improving, powerhouses, such as steelmakers and chemical firms, are still burdened with excessive equipment and remain cautious about new investment.

Commenting on the second quarter GDP report, Economic Planning Agency Director General Sakaiya Taichi said that Japan has come out of the crisis and entered a recovery track. His statement is interpreted as amounting to a government declaration that the Japanese economy is finally bottoming out.

Yet, Sakaiya expressed caution, saying Japan still needs economic measures for full-scale recovery, because private demand is not strong enough. He stressed the government's intention to continue to take stimulus measures.

Finance Minister Miyazawa Kiichi echoed Sakaiya's view, saying that Japan is now clearly on a growth track but the government has to take further measures to make sure of full-scale recovery. He also said that the government will submit a supplementary budget to an extraordinary session of the Diet to be convened in the fall. The budget, primarily designed to help ailing small businesses and sustain pump-priming public works projects, is expected to entail an outlay of ¥3-5 trillion.

Obuchi Re-elected Ruling Party President

Prime Minister Obuchi Keizo was re-elected president of the ruling Liberal Democratic Party, easily beating two challengers — former LDP Secretary General Kato Koichi and former Chairman of the LDP's Policy Research Council Yamasaki Taku. Riding the crest of his overwhelming victory in the September 21 party presidential election, Obuchi reorganized his cabinet, adding New Komeito to the coalition of the LDP and the Liberal Party.

However, Obuchi's new administration is viewed by political observers as being hardly stable because of objections to the inclusion of New Komeito in the coalition, not only from opposition parties but also from within the LDP. On the campaign trail, Kato and Yamasaki openly criticized Obuchi's scheme to add New Komeito members to the Cabinet on the grounds that the LDP has yet to coordinate policy with the party.

Opposition parties claim that the addition of New Komeito, closely affiliated with the neo-Buddhist religious organization Soka Gakkai,

infringes on the Constitution which stipulates that no religious organization shall receive any privileges from the State, nor exercise any political authority.

Obuchi's administration got off to an ominous start in September 1998, with initial approval ratings put at 25%, the lowest ever for a new cabinet.

He was even the butt of overseas ridicule. When he took office, one U.S. magazine jokingly described him as "cold pizza," meaning that he was as "unpalatable" as cold pizza. Obuchi himself sarcastically referred to himself as "vocabulary-poor" and raised public doubts about his quality as a politician.

But Obuchi's popularity among voters has been steadily rising lately and recent newspaper opinion polls put public approval ratings for his cabinet at above 50% and higher than disapproval ratings.

Political analysts attribute his rising popularity to these factors: 1) he implemented a series of economic recovery measures including tax reductions, pump-priming packages led by expanded public works projects and revival of the financial system; 2) he deftly dealt with controversial bills and had them cleared by the Diet with little turmoil (the bills are, among others, for new Japan-U.S. defense cooperation guidelines, for officially recognizing the Rising Sun flag as the national flag and "Kimigayo" as the national anthem, for allowing law enforcement officials to wiretap communications in organized crimes, for inaugurating the resident code-numbering system, and for establishing a parliamentary committee on a review of the Constitution; and 3) he demonstrated his decisiveness by choosing Okinawa as the prime venue for next year's Group of Eight summit.

A 0.2% increase in Japan's gross domestic product (GDP) for the April-June quarter (annualized 0.9%), the second consecutive quarterly increase following an annualized 7.9% increase in the January-March quarter, has also helped to boost

Obuchi's popularity.

Obuchi is expected to work toward formulating a second supplementary budget and compiling a fiscal 2000 budget designed to ensure Japan's full-scale economic recovery.

Depending on the political situation, Obuchi may resort to a snap general election to seek a new mandate, though he is ruling out such a possibility. Speculation is rife in the LDP that the prime minister, using his constitutional power, may dissolve the House of Representatives later this year or early next year before its term expires in October.

Obuchi's strategy is said to be aimed at firmly entrenching the coalition and forging a tripartite electoral partnership before appealing to the country.

Japanese Consumers Undergo Subtle Changes

Since the collapse of the speculative bubble economy about a decade ago, most Japanese consumers have kept a tight hold on their purse strings, and personal consumption has been wallowing in the doldrums. As Japanese society ages at the fastest rate in the world, people are increasingly concerned about payments to come in the future, such as social security contributions and medical expenses. And as corporate restructuring advances, with companies reviewing such traditional practices as cradle-to-the-grave employment and seniority-based wages and promotion, people are worried that their incomes are not going to rise as expected. So they stash as much money as they can into savings and are cutting back on consumption.

Recently, however, after nearly 10 years of recession, there are signs that Japanese consumers, or some of them at least, are getting tired of constantly keeping their belts tightened and consumption at last is beginning to pick up. Moreover, consumers now appear to be spending their money in different

ways than before, turning their attention to goods and services that show a little bit more novelty than the rest. It is these original goods and services that are doing well. And it is companies offering goods and services that are a little different from those of their rivals that are being successful in gaining consumer satisfaction.

The sales figures of department stores and supermarkets continue to fall compared with the same month of the previous year. Daiei, the largest supermarket chain, which originally achieved growth through its cheap prices, is now in the midst of restructuring, centered on the disposal of liabilities with interest amounting to ¥2 trillion, and its share price is tumbling. In contrast, Ito-Yokado, the second largest supermarket chain, is performing well, and its share price is hovering around ¥9,000 — about 40 times that of Daiei. One of the reasons for Ito-Yokado's success is that its related convenience store chain, Seven-Eleven Japan, is registering profits that exceed even those of its parent company. Ito-Yokado itself offers low prices, fresh food products, and a diverse range of goods on its shelves, including its own brand of clothing. Ito-Yokado also provides plenty of free parking space, thereby distinguishing itself from other supermarkets. As well as low prices, consumers want good quality and pleasant, enjoyable shopping.

Subtle changes can be seen in department stores, too. At the end of last year the venerable Nihonbashi Tokyu Department Store in Tokyo held a closing-down sale. In such a sale, it might be expected that cheap items would go first, but in fact this did not happen. Instead, it was expensive goods that were snapped up ahead of everything else — jewelry first, followed by drapery, futons, paintings and calligraphic works and antiques.

Another surprise was that men's wear sold well, including cashmere coats. Industry officials say that men's wear is a barometer of the

economy. Likening men's wear to the wheels of an aircraft, when a plane comes in to land, its wheels come out before anything else. In other words, consumption starts its descent with men's wear, an indicator of the trend. When the plane takes off, it closes its wheels last of all. That is to say, men's wear starts to sell at the end of a recession, when the takeoff is complete. Men's wear also sold well in this year's summer and fall sales at department stores. Industry officials explain this trend by saying that children's and women's clothing sold first, and now Japan's long-suffering middle-aged men, unable to remain in the background any longer, have begun to buy for themselves.

Most Japanese consumers, like their counterparts in other countries around the world, are sensitive to prices, and sales are advertised in newspapers and magazines and on television. However, advertising agencies point out that consumers cannot be won over by cheapness alone. Consumers, they say, are beginning to grow weary of ads that emphasize only price cuts.

After becoming used to the recession, middle-aged men and young people are now beginning to suffer from "recession fatigue." They have grown tired of living every day in a state of honorable poverty — the "grin and bear it" syndrome. Their incomes might not be increasing, but they now have a desire to do a bit of good-quality shopping and go to somewhat fashionable places.

Of course, most families and couples now shun the high-class hotel restaurants that they used to frequent in the bubble days. Eating out no longer means full-course meals at French restaurants. Instead, people treat themselves to pasta at slightly chic Italian restaurants. Indeed, many of the rather pompous French restaurants in high-class hotels have closed down and been replaced by more casual Italian restaurants.

It is the same with cars. Even if people have the money, they feel rather bashful about riding in posh cars, like a Rolls Royce. Instead,



The iMac as part of the interior design in people's homes

they are going for smaller and cheaper cars that, following changes in the regulations for such cars, have safer and better engines and are more environmentally friendly. For all Japanese automakers — Toyota, Nissan, Honda, Suzuki, Mazda, Mitsubishi, Daihatsu, and Fuji Heavy Industries — small cars that have more fashionable, slightly individualistic designs, parts, and colors are selling like hot cakes.

In the buoyant world of personal computers, the lighter, more compact machines launched by such makers as IBM, NEC, Fujitsu, and Toshiba are proving to be popular. And that is not all. Sony's Vaio series and Apple's iMac are also selling well. The reason lies not only in their functions but also in their rather distinctive designs. Personal computers are usually black, gray, or white, giving them a business-use image. But the Vaio and iMac machines are a little more stylish, coming in such colors as violet or transparent red or blue. This design appeals especially to young women.

People who use IBM or NEC machines at the office buy a Vaio or iMac for their homes, maybe using them as part of the interior design of their rooms.

A change is also occurring in the restaurant business. Restaurants offering small portions of food that customers just want to try and restaurants providing a range of *a la carte* dishes are thriving. For couples who cannot get through a whole bottle of wine, smart restaurants have responded successfully by offering small bottles.

At convenience stores, 500-milliliter plastic bottles of juice, tea, and coffee have become a hit recently. Because of their small size, they can be stuck into a bag and drunk little by little. One-liter and two-liter bottles are too big to carry around.

Indeed, "small is beautiful." Or rather, since consumers these days seem to be attracted to products and services that are slightly different from others, maybe we should say "a small difference is beautiful."