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Prime Minister Koizumi Jun'ichiro speaking at a plenary session of the House of Representatives

Koizumi Launches His Administration

Reform-minded politician Koizumi Jun'ichiro launched his administration on April 26 after being elected president of the Liberal Democratic Party (LDP) and Japan's 87th prime minister.

Koizumi, 59, who was regarded as "eccentric" in the ruling party for his drastic reform proposals and unconventional way of life, won a landslide victory in the April 24 LDP presidential election by gaining 298 of the 484 valid votes cast. He won strong support particularly from grass-roots party members in primaries held in local chapters. More than 80% of rank-and-file members voted for him. His chief rival and former Prime Minister Hashimoto Ryutaro, who was regarded as the favorite to win the race to succeed Mori Yoshiro because he headed the largest party faction, suffered a stunning defeat in the face of Koizumi's overwhelming popularity.

What brought Koizumi to power by crushing the barrier of the powerful Hashimoto faction was the tide which ran in his favor, as his appeal for reform and an end to money politics made him a hero of the times.

Koizumi's choice of ministers in his Cabinet reflected his commitment to a break from faction-oriented politics. He stayed clear of factional influences by avoiding the traditional practice of keeping a factional balance. He named only two members of the Hashimoto faction to his Cabinet. Instead, he appointed to his Cabinet two junior Dietmen in their 40s, such as Ishihara Nobuteru as State Minister in Charge of Administrative and Regulatory Reforms; three private-sector experts including Takenaka Heizo, professor of Economics at Keio University, as State Minister in Charge of Economic and Fiscal Policy; and five women, the largest number ever, including Tanaka Makiko as Foreign Minister. The appointment of such a large number of women, young Turks and nonpoliticians was unthinkable in the LDP's traditional faction-based politics.

The Koizumi Cabinet was welcomed by an overwhelming majority of the public, as indicated by the fact that it received an approval rating of more than 80% in all mass-media polls, the highest in Japan's political history, and eclipsing the approval rating of more than 70% for the Cabinet of Hosokawa Morihiro after he ousted the LDP from power in August 1993. The extraordinarily high approval rating testifies to the high expectations placed on Koizumi by the people.

Koizumi entered politics in 1972 when he was first elected to the House of Representatives. He failed to get elected in his first try at a parliamentary seat in the 1969 general election following the sudden death of his father, who was also a LDP dietman. In preparing to run in the next election he worked as a secretary to the late Prime Minister Fukuda Takeo, whom he still admires. But Koizumi raised an objection to Fukuda when his mentor moved to oust his predecessor and arch-rival Miki Takeo, contending that such foul play was against his grain. It was quite unusual for a junior LDP dietman to resist a senior party leader, testifying to his spirit of defiance.

After Fukuda's death, Koizumi consistently aligned himself with the factions led by Fukuda's successors – Abe Shintaro, Mitsuzuka Hiroshi and Mori Yoshiro – which were out of the mainstream of the LDP most of the time.

Koizumi emerged as a leading young member of the LDP, forming an alliance with Kato Koichi, a former LDP secretary general, and Yamasaki Taku, whom Koizumi appointed as LDP secretary general under his presidency. The group, known as the "YKK" trio, stole the political spotlight when they criticized the Kaifu Cabinet (1989-1991) for being dominated by the powerful group led by the late Takeshita Noboru (now the Hashimoto faction) and played a key role in its ouster. When the late Prime Minister Obuchi Keizo formed a coalition with the Liberal Party led by Ozawa Ichiro, his former rival in the LDP, Koizumi denounced Obuchi and his aides for being "unprincipled" and "inconstant."

During the LDP presidential election, Koizumi contended that the LDP had managed to maintain a majority in the Diet only because provincial constituencies had been allotted with parliamentary seats that were out of proportion to their population. In his view, the LDP had practically been put out of power due to a shift of population to urban districts and due to changes in voters' perceptions. The LDP must be changed so that it could be supported not only by traditional supporters but also by other people, he insisted. He called on the LDP to no longer rely on the traditional vote-gathering machine of industry groups and drastically change the party's system in order to expand the party's support base to uncommitted voters.

Economic recovery is the biggest challenge facing the Koizumi administration. Koizumi has declared that Japan's economic recovery will not be achieved without carrying out structural reform. In his campaign platform in the LDP presidential election, Koizumi placed the highest priority on the swift disposal of bad loans of financial institutions and the rebirth of industries. He also called for the privatization of the postal system, the direct election of prime ministers by voters and the possible revision of the Constitution.

Koizumi is determined to bolster his power base by maintaining his high popularity and winning the House of Councilors election in July. At stake is whether he can carry out his plans for reviving Japan through structural reform in visible form.

Japan Invokes Safeguard Measures to Restrict Imports

Japan on April 23 invoked temporary curbs on imports of three farm products: stone leeks, fresh *shiitake* mushrooms and rushes used to weave *tatami* mats. It was the first time for Japan to take such a measure under the safeguard mechanism of the World Trade Organization. Under the curb, high secondary tariffs of 106-266% will be added to the current tariffs of 3-6% when imports exceed the quota based on the average volume of imports.

The measure, to be implemented for 200 days through Nov. 8, is aimed at protecting domestic growers from the wave of Chinese imports. It represented a landmark in Japan's trade policy. Japan had sought China's reductions in the volume of exports of the three items in bilateral negotiations but failed to get China's agreement.

China criticized the Japanese decision, saying it could have "grave consequences," and warned it reserves the right to impose retaliatory measures. Other foreign countries are expressing fear that Japan may incline toward protectionism.

The Japanese move was politically motivated in connection with the House of Councilors election in July. Then Finance Minister Miyazawa Kiichi was initially cautious about invoking the safeguard measures on the grounds that Japan achieved economic growth through expansion of exports and it would not be advisable for the country to reverse its stand and curb imports. But he succumbed to pressure from the ruling LDP, which needed farmers' support in the forthcoming election.

Japanese officials intend to continue bilateral discussions with China to seek a solution to the issue before higher tariffs are actually implemented. For the time being, the officials are watching to see what retaliatory measure China would take.

Judging from the volume of last year's imports, Japanese importers are supposed to fill their import quota for some items in several months to half a year, but some importers may use up their import quota much earlier, and upward pressure on import prices could increase.

Against the background of the sharp rise in imports of farm products from China is the fact that Japanese food chains, supermarket chains and trading houses prefer Chinese products which are less susceptible to price fluctuations. They have pushed for the development in China of farm products which can be imported to Japan on a stable basis. Major food service chains rely on Chinese imports for as much as 60% of stone leek supplies amid the intensification of price wars.

Major trading houses push for the develop-and-import scheme for farm products; they provide seeds and technology to foreign countries and import the farm products which are either not available or out of season in Japan. Itochu Corp. established a joint venture in China to grow cucumbers for pickles and Chinese cabbage, among others. Some other trading houses tied up with seed companies to grow pumpkins in New Zealand during the Japanese winters.

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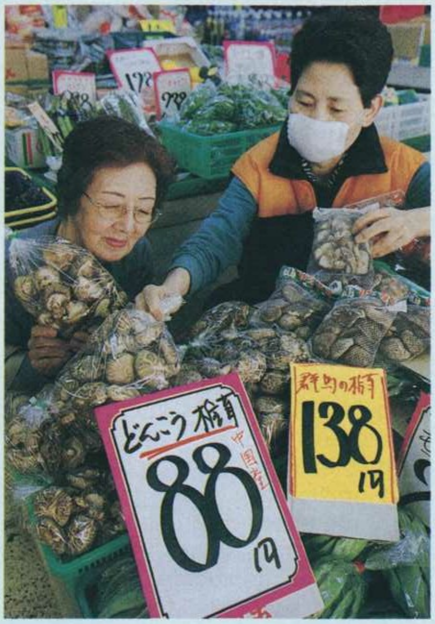

Chinese shiitake mushrooms (left) are about 40% cheaper than domestic products at this grocery store in Japan

According to major Japanese seed dealers, seeds of Japanese farm products are now available to Chinese farms through Hong Kong traders and Chinese farms now can produce various vegetables for Japanese markets on a stable basis.

Chinese farms can easily obtain the seeds of stone leeks similar to those produced in Japan's Ibaraki Prefecture, according to a Tokyo-based food importer Field, which has a 10% share in imports of Chinese garlic. "Since Hong Kong seed dealers give Chinese farms advice on cultivation, we just tell the contract farms to meet Japanese standards," Field officials say. That explains why Japan can now easily import high-quality vegetables from China.

Many Japanese vegetable dealers expect Thailand and Vietnam to start full-scale production of okra (gumbo) and asparagus in a year or two. Despite the invocation of safeguards, more and more Asian countries will produce farm products for Japanese markets under Japan's technical guidance.

NKK, Kawasaki to Merge Steel Operations

Two of Japan's largest steel mills, NKK Corp. and Kawasaki Steel Corp., have agreed to integrate their operations in a move that will produce the country's biggest steelmaker and the world's No.2 mill in terms of sales and crude steel output. The accord between Japan's second and third largest steelmakers marks the first full-fledged reorganization in 30 years of Japan's blast-furnace steel industry since the present leading steelmaker Nippon Steel Corp. was created out of a merger between Yawata and Fuji steelworks in 1970.

The NKK-Kawasaki alliance is aimed at enhancing international competitiveness and survival in the world steel market. The two companies plan to set up a joint holding company in October 2002 and reorganize their operations into several business divisions by April 2003. Combined annual sales of NKK and Kawasaki in fiscal 2000, which ended March 31, 2001, come to ¥3.04 trillion, exceeding Nippon Steel's ¥2.74 trillion. Their combined crude steel output, including overseas production, totals about 33 million tons a year, topping Nippon Steel's 29.07 million tons. Limited to domestic output, the NKK-Kawasaki team produces some 25 million tons, next only to Nippon Steel's 28 million tons.

Outside Japan, similar realignment is also under way in the steel industry; France's Usinor SA has agreed to merge with Luxembourg and Spanish companies in the fall of 2001 to become the world's largest steel mill. In accordance with global moves of automakers, the steel industry's major consumers, Japanese steelmakers are stepping up efforts for reorganization as seen in Nippon Steel's alliance with Usinor and South Korea's Pohang Iron and Steel Co. The NKK-Kawasaki integration is bound to spur moves toward more world steel industry shake-ups.

With the integration of operations, NKK and Kawasaki will drastically cut down on their research and development (R&D), investment and administrative expenses. They will also consider integrating their existing four steel complexes scattered across Japan and trimming jobs.

Behind the NKK-Kawasaki alliance is the belief that falling market prices force mills to cut back on production, and with restructuring and other self-help efforts alone, no steelmaker would survive the cost-conscious competition in the world steel market. Crude steel output in Japan exceeded 100 million tons in fiscal 2000 for the first time in three years thanks to increased exports to the rest of Asia and other factors. But Japanese mills will likely suffer poor earnings results in fiscal 2001 as they are forced to reduce output amid rapid declines in Asian steel market prices and the protracted domestic economic slowdown.

Both NKK and Kawasaki believe that cost reductions made possible through the present cooperation they are pushing among steelworks are not sufficient. What is required of them is the swift integration of operations so that they can slash R&D and administrative spending, consolidate output footholds and boost profitability rapidly.

Cost competition is intense in the steel industry as automakers are abandoning the practice of procuring steel products from all major mills in an effort to limit the number of steel suppliers and seek price discounts through mass deals. Toyota Motor Corp. is also moving to reduce the cost of purchasing steel products. Triggering the move was Nissan Motor Co.'s adoption of a selective policy under which it has stopped buying steel sheets from some mills. Another factor behind the cutthroat competition is the rapid progress in the use of information technology in steel production. Nippon Steel, the industry leader which used to play the role of a coordinator for the sake of benefiting industry as a whole, has abandoned the policy of cooperation and launched a sales campaign at the risk of losing its fame for that role. This is another factor that has prompted NKK and Kawasaki to seek the integration.

Speculation is swirling in the industry that Nippon Steel, which stands to lose the position of Japan's No.1 steelmaker, may absorb the sixth largest mill, Nisshin Steel Co., or buy a controlling stake in Sumitomo Metal Industries, Ltd., with which Nippon Steel is cooperating in the stainless steel business. Also being watched closely is how Kobe Steel, Ltd., which is looking for ways of surviving competition on its own, is going to react following the series of reorganization moves in and outside Japan. The Japanese steel industry is likely to face rough sailing in the months and years ahead as shake-ups involving foreign mills continue to sway the industry.

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Shimogaichi Yoichi (left), the President of NKK Corp., shakes hands with Emoto Kanji, the President of Kawasaki Steel Corp., following the announcement of their integration plan