

JETRO Chicago Midwest NEWSLETTER

Japan External Trade Organization

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From the Chief Executive Director

*Takashi "Taka" Tsuchiya,
Chief Executive Director,
JETRO Chicago*

Finding opportunities for collaboration between Japanese and U.S. companies in the biotechnology sector has been one of JETRO's priorities over the past few years. Here in Chicago we have worked to advance that process through organizing seminars, coordinating missions, delivering industry-specific communications, and helping companies discover each other.

That's why we're so enthusiastic about having BIO 2006 in Chicago. It allows us to welcome many friends and associates that we have worked with over the past few years, and to provide outstanding information and networking opportunities through seminar sessions and the Japan Night reception. Of course the 54 exhibitors at the Japan Pavilion will be the major draw at the conference, and we hope that those exhibitors meet many attendees interested in their range of products and services.

This showcase demonstrates how JETRO can be of assistance to you and your company or organization, whether you are involved in biotech, manufacturing, robotics, healthcare, environment, or any other industry.

For those of you attending BIO 2006, welcome to Chicago. For all the rest of you, I hope that we will have the chance to meet up at other upcoming events.

54 exhibitors, 2 seminars plus Japan Night Reception highlight JETRO participation at BIO 2006 convention

JETRO's biotech initiative reaches new heights in Chicago, with extensive participation at the BIO 2006 Chicago Annual International Convention. The BIO 2006 show runs April 9-12, 2006 at Chicago's McCormick Place.

A record number of Japanese biotechnology companies and organizations (54) will exhibit at the Japan Pavilion during the show, where more than 20,000 biotech executives, investors, journalists, policy makers and scientists from more than 60 countries are expected to attend.

The Japanese exhibitors range in size from small start-ups to well-established biotech businesses, along with a number of biotech business development groups. The Japan Pavilion is organized by JETRO. 2006 is JETRO's fifth year of participation at the BIO show.

The Japanese presence will be noticeable during special Sunday sessions at BIO 2006. As part of the event's International Seminars

Program, the session, "Japan: More than a Market" will run from 12:30 – 1:20 p.m., and will profile Japan as the world's second largest biotech market, and a source of industry-leading innovation. Attendees will get an overview of Japan's strengths within the life sciences, placing emphasis on the perspectives of the domestic producers (research institutions), and international consumers (biotech companies), of Japanese innovation. Scheduled speakers include: Tsuney Yanagihara, General Manager of the Life Sciences Business Unit at Mitsubishi International Corporation; William A. Linton, PhD, Chairman and CEO of Promega Corporation (Madison, WI); Michio Oishi, PhD, Director of Kazusa DNA Research Institute; and will be moderated by Ralph Inforzato, Director of Business Development, JETRO Chicago.

A second session will be held from 2:30 - 3:30 p.m. on April 9, as part of the BIO 2006

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Japan: Nutraceutical Nation



Guest View

*Paul Yamaguchi
President
Paul Yamaguchi &
Associates, Inc.*

Market Dynamics

Japan is the second largest market by country in the world for nutraceutical products, second only to the United States. Actually, Japanese per capita consumption is higher, at \$214* annually compared to the U.S.: \$144** and; Europe: \$99***. The

growth rate for nutraceuticals in Japan is enormous, especially in the area of functional foods and nutritional supplements. The wide range of functional foods offered in Japan is the largest and undoubtedly the most innovative in the world achieving over \$16 billion in 2004, a 12% increase over 2003. And in 2005, it reached \$17.2 billion. (PYA) The market size for functional foods with the government approved health claim; FOSHU (Foods for Specified Health Use) alone accounts for \$6 billion in 2005, up 11.1% from 2003, with over 500 approved products. (JHNFA).

As matter of fact during the last 15 years, the Japanese nutraceutical industry (dietary

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supplements and functional foods) grew at an average rate of 15 percent per year. This is even more impressive when you consider that the Japanese economy grew at an average annual rate of 1.5 percent during the same time period. Among all industries in Japan, only the nutraceutical industry showed an average annual growth rate in the double-digits for the last 15 years. Back in 1987, the industry was just over \$2 billion in size; today, it is \$27.2 billion. (PYA) More specifically, the nutritional supplement market is \$10 billion and the functional food market is \$17.2 billion.

Seniors: Driving Market Growth

Japan has become a country of seniors. 24.3 million people of a total population of 127 million. One in every 5 are 65 years or older. The life expectancy for Japanese women is 85.2 years and 78.3 years for men, the world's longest. The largest population group, baby boomers, is already reaching age 50 and this trend will continue for the next 8 years. In general, as people get older, they tend to consume more nutraceuticals, which is the case for the health conscious Japanese seniors. Therefore, the consumption of nutraceuticals in Japan will increase over the next decade or so. *Health Industry News*, a leading Japanese health food newspaper, predicts the annual growth rate of the industry will be 7 percent. By the year 2011, this translates to a market capitalization of \$41 billion. That's almost as high as the U.S. nutraceutical market today, with less than one half of US population.

*Japan: nutraceutical market \$27.2 billion (PYA) with population of 126 million

**US: nutraceutical market \$42 billion (NBJ) with population of 290 million

*** Europe: nutraceutical market \$35 billion (NBJ) with population of 355 million

PYA: Paul Yamaguchi & Associates, Inc.

NBJ: Nutrition Business Journal

JHNFA: Japan Health & Nutrition Food Association

The Paul Yamaguchi & Associates website is at www.functionalfoodsja.com



DePaul students prepare for Japan trip with JETRO's help

On February 17, a mix of MBA and undergraduate marketing students from DePaul University in Chicago, along with business leaders and academics, got advice from JETRO and the City of Osaka to help prepare for a visit to Japan in March. Speakers included Ralph Inforzato and Bryan Esenberg from JETRO Chicago; and Terry Sasaki and Akari Rokumoto from the City of Osaka Chicago Office. Subjects included the business culture of Japan; basic business practices and language, along with a Q&A.



Two Kansas seminars attract business leaders and academics



On March 6 and 7, JETRO Chicago presented two seminars in Kansas. "Is Japan's Economy Back? Outsider Opportunities in the Japanese Services Market," was presented at the Robert J. Dole Institute of Politics at Kansas University in Lawrence on March 6, followed by the March 7 presentation at Johnson County Community College outside of Kansas City.

(Above left) JETRO Chicago's Chief Executive Director Taka Tsuchiya speaks at Viewpoint Japan III, March 7 at The Robert J. Dole Institute of Politics.

(Above right) Tim Clark, lecturer at Portland State University and co-author of "Saying Yes to Japan," makes a point at Viewpoint Japan III at The Robert J. Dole Institute of Politics

(Left) At a visit to the SONY World Repair Parts Center in Kansas City. From left, Shun Fujishima, Vice President, Sony Corporation of America; David Peterson, JETRO Chicago; Dai Higashino, JETRO Tokyo; Fran Lemery, Heart of America Japan America-Society; Taka Tsuchiya, JETRO Chicago; Ralph Inforzato, JETRO Chicago; Tim Clark, Portland State University.



Return Visit

Former JETRO Chicago Executive Director for Public Affairs Tetsuo "Ted" Okubo stopped by for a visit on February 21. Okubo (second from right) is now with the Consulate General of Japan in Boston. He is joined by Kazuya Nakajo, Hideki Sho, Taka Tsuchiya and Ralph Inforzato of JETRO Chicago.



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Agriculture, Food and the Japanese Mindset



Director's Dialogue

Junichiro Yamakuchi
Director of Agriculture,
JETRO Chicago

Usually the first comparison people use when speaking about Japan and the U.S. is the population size: Japan is a small country with 128 million people, a little less than half of the U.S. population. However, few people realize how small Japan actually is from a physical perspective: 95 million acres compared to 2.3 billion total acres of the United States. Approximately 70% of Japan's land mass is mountains. Think of it this way: Japan has a population of 128 million people living in an area of land that is just smaller than the size of California.

This combination of a large population living in a compact land area has a great impact on Japanese agriculture and society. Japan's farmland is only 11.8 million acres compared to the 938 million acres the U.S. Although Japan has 2.9 million farms compared to 2.1 million in the United States, Japanese farms are much, much smaller than those in the U.S., averaging only 4 acres compared to the average 441 acre American farm. These components reveal an important fact: Japan cannot feed its own people by its own agricultural production.

Japan therefore is the largest net importer of food in the world. It actually imports 60% of the food it needs annually. In 2004, Japan imported \$42.2 billion in agricultural products, most of which (31.6%) were from the U.S. Half of all of Japan's imported wheat, 70% of soybean imports, and 95% of all corn imports are from the U.S.

Rice is Japan's staple crop; rice paddies account for 55% of farmland, but contribute only 26% (\$22 billion) of the total market output value of \$85 billion. Livestock accounts for 26% (\$22 billion) and vegetables 24% (\$20 billion). The number of Japanese farms are declining as

well. Currently, there are 2.9 million farmers compared to five years ago when there were 3.7 million.

However, agriculture in Japan is still important and will continue to be the foundation of Japanese society, providing a variety of critical functions and benefits ... producing basic food and fiber for the population but also creating certain tangible and intangible values. In Japan, agriculture has a certain positive multi-functionality linked to it. For example, farmland has to be protected from floods and soil erosion, which in the long term results in greater care for the environment and society as a whole. Importantly, the primary industry in Japan's mountainous rural communities is agriculture. All rural economies in Japan depend on agriculture as the primary economic activity for employment. Without agriculture, these communities cannot survive.

Gradually we have seen global demand for Japanese agricultural products rise due to a heightened interest in Japanese cuisine. Japan's food exports were approximately \$1.6 billion in 2003, primarily sales of apples, yams and miso all of which have shown steady increases.

Japan depended on U.S. beef before the detection of the first BSE case in the U.S. in 2003. Before the ban, beef imports from the United States accounted for 48% (\$1.2 billion) of total beef imports. The Japanese restaurant industry, especially BBQ and beef-bowl restaurants have been hurt because of the ban on U.S. imported beef. The Japanese consumer is very conscious about food quality, domestic and imported, and is especially concerned about the BSE issue. According to a recent survey, 64% of the respondents indicated they will not eat U.S. beef after the resumption of beef imports. I am concerned about the disconnection of the U.S. beef industry from the heightened sense of food safety among Japanese consumers. It is very important to ensure compliance of the Export Verification program and to continue to clearly emphasize the safety of U.S. beef in order to regain the confidence of the Japanese consumer.



Ask JETRO

Is there a simple way to find trade fairs in Japan where I can exhibit or attend?

Whether you're looking to exhibit at an overseas trade show, or want to attend for networking or as a potential buyer, the first step is finding the shows that are appropriate to your industry.



JETRO's "J-Messe" searchable trade fair database offers comprehensive information on fairs and exhibitions held in Japan and globally. Users can search by industry, location, keyword and date. Descriptions of industry sectors, show size, and complete contact and website information help direct users to additional details.

Trade fair organizers can also register details of their own shows at J-Messe.

J-Messe is available free of charge at www.jetro.go.jp/en/matching/j-messe/

Contact JETRO Chicago

JETRO Chicago is located at 1 East Wacker Drive, Suite 600, Chicago 60601. Phone: 312-832-6000; Fax: 312-832-6066; website: www.jetro.org

For general information, call the number above, or for a specific inquiry, use the form at www.jetro.org (select "Contact JETRO" from the menu bar at left).

For Invest-in-Japan information contact Bryan Esenberg, Assistant Director, at bryan_esenberg@jetro.go.jp



For biotech information, contact David Peterson at David_Peterson@jetro.go.jp

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Japan's Economy and the Beginning of a Sustained Growth Cycle

by Dai Higashino, Japanese Economy Division, Economic Research Department, JETRO Tokyo

There is a sense of rising optimism for Japan's economy in 2006 and beyond. After the collapse of Japan's stock and real estate markets in 1990, the economy was burdened with tremendous excesses in debt, capacity and employment. Adding to that, deflation, which started from the late 1990s, hurt economic growth. As a matter of fact, Japan's average annual growth since the 1990s was a mere 1.7%.

Today, however, the economy finally appears set for sustained recovery. The economic recovery started in 2002, and today the three excesses have been nearly eliminated. Deflation is also steadily easing. Japanese GDP grew 2.8% in 2005, the highest rate since 2000.

Excess Employment

As demand stagnated in the 1990s, companies tried to slash staff costs by reducing workers and wages. But these actions caused a deterioration of employment and weak consumption. After demand bottomed out in 2002, companies became much less pessimistic about the size of their workforce. Unemployment rose to 5.4% in 2002, but fell to 4.4% by the end of 2005. And household spending grew rapidly in 2004 and 2005.

Excess Capacity

Concerning production capacity, companies invested extravagantly in new plant and facilities during the late 1980s. The result was excess capacity and slowdown of capital investment throughout the 1990s. However the

latest data shows prolonged excess capacity has been decreasing. During 1990s, companies controlled capital investment in the scope of cash flow, gradually eliminating excess capacity. Capital investment is now expected to increase steadily for the longer term.

Excess Debt

From the early 1990s, Japan's banking sector was severely burdened with a huge amount of bad loans due to plunging real estate prices and worsening corporate balance sheets. The problem peaked in 2002, when the ratio of bad debts to total credit exceeded 8%. In response, in October 2002, financial authorities set a target of cutting the major banks' bad loan ratio to 4% by March 2005. By 2005, they had reduced their bad loan ratio to 2.9%, exceeding the government target.

Now, corporate profits have steadily improved with the resolution of excess employment and capacity. According to the Bank of Japan, profits increased 20% in 2004, and 5.4% in 2005, the highest level ever recorded. According to research by security brokerage houses, current profits for major listed companies are forecast to grow 15% in 2005 with forecast growth of 10% in fiscal 2006 and 2007.

Deflation and Energy

The Japanese economy has also been weighed down by deflation. The main deflationary pressures, the supply/demand gap and monetary factors, are expected to be resolved by 2006.

Rising oil prices have had a worldwide impact on consumer prices but have had a limited effect in Japan. Energy efficiency in Japan is very high, thanks to development of energy saving technologies in the 1980s.

The Challenge Ahead

Due to a slower birth rate, Japan's current population of approximately 130 million is forecast to shrink at a rapid rate. Some believe that productivity will decline while others believe the quality of people's living environment will improve, still others propose there should be greater acceptance of foreign workers in the economy.

In Japan, economic growth was historically supported largely by capital investment and productivity, rather than labor input. Therefore, even if labor input became less due to the declining population forecast, production levels could be maintained through technological

innovation and capital investment.

Achieving Economic Sustainability

Views on the Japanese economy are dramatically improving. In the Japanese government's estimates, fiscal 2006 will see a 1.9% growth rate, nearly the same level as the Japan's potential growth rate.

In 2003, Japan invested 17 trillion yen (\$170 billion) in research and development, or 3.4% of GDP. Japan's level of investment in technology research and development has remained among the world leaders.

Japan also possesses latent cultural strengths, or "soft power." Japan is a cultural superpower in everything from pop music and appliances to fashion and animation. I believe this cultural resource will be used more effectively in the global community resulting in a big boost to the achievement of sustainable economic growth.

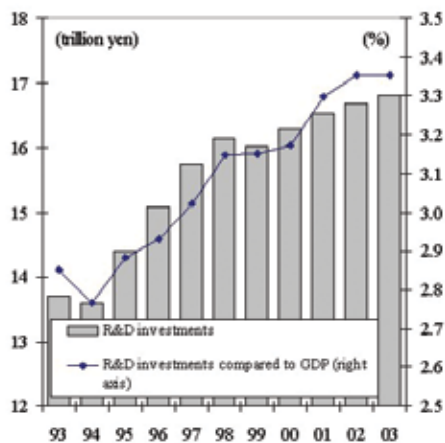
I believe that Japan's economy overcame the burden of the "three excesses" by 2002, and is finally headed toward full recovery. Sustaining economic growth in the face of a declining population will be possible if there is greater use of factory automation and continued technological innovation, as Japan's cultural soft power becomes even more of an important global asset.

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International Food and Agriculture Seminars. "Japan: the Nutraceutical Phenomenon" will describe why the nutraceutical market in Japan is the second largest in the world, and how the average Japanese spends more per year on nutraceutical products than her counterparts in the U.S., Europe, or any other region. Among speakers at this session will be Paul Yamaguchi, President of Paul Yamaguchi & Associates. (Yamaguchi also discusses nutraceuticals elsewhere in this newsletter).

In addition to the Seminars and the Japan Pavilion in the exhibit hall, convention attendees are invited to enjoy music, sake, sushi and networking at a unique Japan Night Reception, to be held at the Chicago Hilton and Towers the evening of April 10.

For more information on JETRO's biotech initiative, contact David Peterson at JETRO, 312-832-6000, email david.peterson@jetro.go.jp, or visit www.jetro.org/bio2006.



Japanese R&D expenditures continue upward according to Higashino