

Special points of interest:

- The Japanese economy contracted by 2.4% in the second quarter
- Japan increasingly relies on robots to make up for the declining labor force: is this right?
- Special reports: A plan to increase the number of foreign students, and the strong health of Japanese banks

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Japan's current economic situation

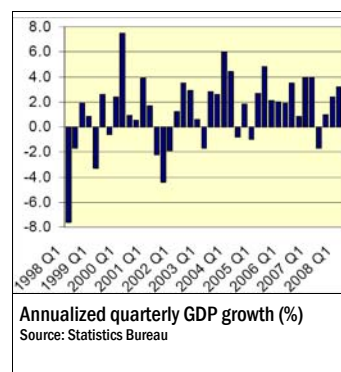
On August 12, the Japanese government admitted that its economy contracted in the second quarter at an annualized 2.4%, confirming that Japan could be facing a recession for the first time in six years.

This announcement followed news that exports fell for the first time in 55 months in June, by 1.7% year-on-year. Growing exports to emerging markets failed to offset the declining exports to the US and Europe.

Meanwhile, annual inflation accelerated to 1.9% in June, the fastest pace in more than a decade, and the unemployment rate hit a 21-month high of 4.1%. Corporate bankruptcies in July surged

24% year-on-year to a record for a year of 1,131, a sign that the slowdown in economic activity and rising costs are taking their toll on businesses. This prompted the government to compile a stimulus package to help small and medium-sized companies to cope with rising prices.

Although the situation seems daunting, there is no need for panic, as many economists pointed out. Any downturn this year is likely to be far shallower than previous contractions in 1998 and 2001. Compared to the US and the UK, Japan's problems remain minor. It has no house price bubble or credit crunch, and its export markets in Asia are still growing. The financial



system is still relatively strong and large firms' balance sheets have remained healthy.

Furthermore, Japan recorded a revised 3.2% growth in the first quarter, which means that the country could still record a strong result for the year. Finally, Japan's declining population means that a slowdown is not as bad as in other countries.

Robots in Japan: is there a real future for them?

From the Walkman to hybrid cars, Japan has splashed the world with countless high-tech products that have in some occasions changed the way we live. As a result, Japan is now seen as the ultimate high-tech country,

with flashy lights at every street corner and geeks queuing for days to be the first to get their hands on the latest PlayStation. Yet nothing highlights the fascination of Japanese

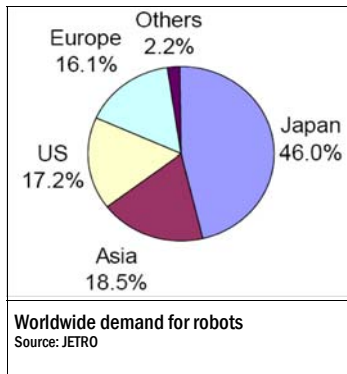
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Toyota's violin-playing robot

Robots in Japan: is there a real future for them?

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A technology roadmap [...] calls for 1 million robots to be in use in factories throughout the country by 2025.



A karakuri automaton, circa 1800

people for technology better than their love of robotics.

Large Japanese companies are investing heavily in R&D in this field, with Toyota and Honda particularly active in the development of humanoid robots which, someday, could live among us and help us with everyday chores.

Yet, this all remains very futuristic and the market for household robots is still relatively small today. Yet Japan remains some way ahead in terms of industrial robotics, with over 370,000 robots working in factories in 2005, representing about 40% of the global robot workforce.

A reason for this wide use of robots in the workforce can be found in Japan's culture, in which robots are portrayed as friendly and complementary to humans – such as manga character Astro Boy – as opposed to dangerous and uncontrollable in the Western imagination – as in Terminator. As a result, Japanese workers do not see robots as a threat to their job security, as many would do in the West.

Another reason could be the long existence of robots in Japan, with some in use as far as 300 years ago. These automata, called *karakuri*, were mainly used as entertainers, by serving tea to guests, for example.

All in all, it appears that Japan is the closest to a future where humans and

robots will live side by side. The government in particular sees enormous potential in the development of robots, which it supports with huge subsidies amounting to 50% of the research costs. A technology roadmap by the Ministry of Economy, Trade and Industry (METI) calls for 1 million industrial robots to be in use in factories throughout the country by 2025. According to its calculations, a robot could replace 10 employees, meaning that they could take the place of about 10 million workers, or 15% of the current workforce.

This plan, of course, is directly related to Japan's shrinking population. It is estimated that from the current 127 million, the population will shrink by a third within 50 years and two-thirds within a century, leaving just 42 million people. The aging of the population means that the workforce will shrink even faster. It is therefore quite fitting that, by then, robots will be there to replace humans.

Of course, such a bold plan does not go uncriticized. Many have pointed out the government officials' inability to properly address the shrinking population issue, picking instead a solution that keeps them safe. Nevertheless, the problem is there and needs to be addressed seriously. According to estimates, Japan needs to accept 10 million new immigrants over the

next five decades in order to remain a major economic power. Yet, mass immigration is not easily tolerated by Japanese people.

Critics say that robots are a fitting way to address the real issues that Japan faces nowadays – namely its aversion to mass immigration, its shortage of affordable daycare and its declining birthrate – without facing the wrath of the population with unpopular plans.

They have a good point, and it seems fair to say that robots do not represent a viable solution to Japan's shrinking population. Nevertheless, robotics has a bright future ahead.

It seems indeed inevitable that machines will increasingly replace humans in certain tasks. Already, some cars are built solely by machines, while automatons are increasingly replacing ticket vendors at train stations across the world. The cost of machinery is going down, while labor costs are rising.

The government is right to push for the development of robots. After all, they represent Japan's technological advance, an image it is eager to keep. Yet there are areas where robots will never replace humans, and the government knows it. New immigration plans have recently been proposed (see *Geneva Bulletin* #9), calling for Japan to accept the immigrants it needs.

More foreign students to open Japan to the world

The Japanese government recently unveiled a plan to increase the number of foreign students in Japan to 300,000 by around 2020 from 118,500 at present, “to make Japan a nation more open to the world.” This plan includes the facilitation of immigration procedures and steps to increase the international appeal of Japanese universities.

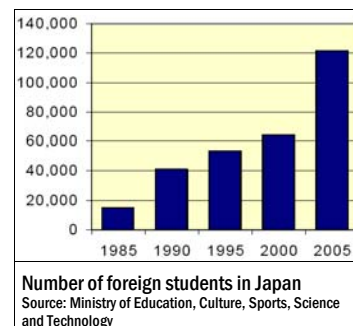
With the declining birth-rate in Japan, universities face a critical period, and in this era of globalization, they also face intense competition from outside Japan. The government hopes that this plan will help to enhance the international competitiveness of its universities.

One Japanese university that has succeeded in doing so is Waseda University, which had 2,435 foreign students as of last year – the highest number at any institute of higher education in Japan. Steps to improve their attractiveness included the creation of all-English courses, both at undergraduate and postgraduate levels, a wide offer of intensive Japanese-language programs, and the building of numerous student dormitories.

Of course, a main target of this plan is to increase the number of skilled foreigners working in Japan. As such, it calls for universities to provide job-hunting assistance and for busi-

nesses to hire more foreigners. Last year, the number of foreign students who graduated in Japan and found jobs there came to 10,262, up 24% from the previous year and topping the 10,000 mark for the first time. Of those, 97% came from Asia.

In May, Prime Minister Fukuda expressed his desire to create an Asian version of the European ERASMUS program, in order to dramatically increase exchanges among universities within the region. Further plans include the creation of an organization for the promotion of Japanese universities and Japanese culture akin to The British Council.



Japanese banks are looking abroad once again

As major global banks continue to struggle due to the subprime mortgage crisis, Japanese banks are faring a lot better than their peers. Mizuho Financial Group reported around \$6 billion of subprime-related losses, while Sumitomo Mitsui Financial Group (SMFG) and Mitsubishi UFJ Financial Group (MUFG) lost around \$1 billion apiece, paltry sums compared to the \$43 billion UBS wrote down so far.

As a result, Japanese banks have begun to look abroad once again, almost two decades after their golden age, when seven of

the world's top-ten banks were Japanese.

MUFG recently announced that it would acquire the remaining 35% of US bank holding company Union-BanCal it doesn't already own. This move follows a year during which SMFG said it would inject nearly \$1 billion in the UK's Barclays PLC and Mizuho decided to invest \$1.2 billion in Merrill Lynch.

The current situation marks a sharp reversal of fortunes between the banking sectors in Japan and the West. Just a decade ago, Japanese banks were damaged so badly that the government had

to inject nearly \$440 billion and had to nationalize some to prevent a panic in the financial markets. Their golden age clearly behind them, they began to look inward and focused on rebuilding their domestic operations. This is what helped them avoid the worst of the subprime-related credit crunch.

Thanks to their relative wealth, Japanese banks are now experiencing a reopening to the world. In addition to foreign acquisitions, their overseas loans and the proportion of their shares held by foreign investors also increased dramatically of late.



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The Geneva Bulletin can also be viewed and/or downloaded online:
<http://www.jetro.go.jp/switzerland/bulletin>

Message from our new Director General Mr. Michiaki WATANABE

Dear everybody,

It is a great pleasure to inform you that I arrived from Japan and succeeded to Mr. Togo's post at the beginning of August.

I hear from Mr. Togo that the history between Switzerland and Japan is very long and both people have a positive and friendly image of each other.

Both sides are eager to promote economic cooperation and negotiations for an Economic Partnership Agreement are expected to be finalized soon.

I hope that the good relation between both countries will continue, and we, at JETRO, will keep supporting businesses and contributing to develop this relation.