

**Special points of Interest:**

- The Nikkei 225 tumbles to a 26-year low
- An agreement in principle has been reached on the EPA between Switzerland and Japan
- Special reports: Taro Aso new Japanese prime minister and Japanese banks' rescue of fallen Western institutions

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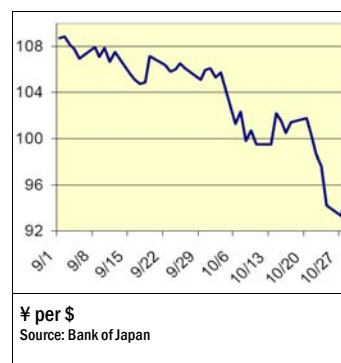
**Japan's current economic situation**

Although it had initially appeared that Japan could remain on the periphery of the global credit crisis, the country got a rude awakening as the crisis claimed its first Japanese casualty, Yamato Life Insurance, which filed for bankruptcy on October 9.

The country was also hit by a surging yen, a result from investors pulling money out of emerging markets and high-yielding developed economies such as Australia and buying back yen in a reversal of the carry trade. The yen hit 13-year highs against the dollar and pound (reaching respectively ¥93.28 and ¥144.32) and a 6-year high against the euro (at ¥116.09) on Oc-

tober 27.

This increases pressure on exporters, who had already seen a sharp decline in sales, with exports to the US tumbling by 22% in August. The Japanese economy has traditionally been dependent on exports, a large part of it going to the US. With the US economy on its knees, Japan turned towards emerging economies such as China, but they too, are becoming increasingly shaky. Industrial output also fell 6.9% year-on-year in August, the largest decline since January 2001. In addition, stock markets plunged, with the Nikkei 225 reaching a 26-year low of 7,162.90, more than half its level at the start of the year.



Prime Minister Taro Aso warned that "Unless appropriate measures are adopted, the market's freefall will have a huge impact on the real economy".

On October 28, rumors that Japan could cut interest rates fueled a dramatic reversal in the yen, which went down 5.6% against the dollar and 7.2% against the euro.

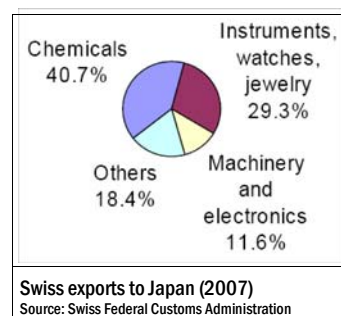
**EPA between Switzerland and Japan**

Twenty-one months after Shinzo Abe, then Japanese Prime Minister and Micheline Calmy-Rey, then President of the Swiss Confederation launched the negotiations, an agreement in principle on the Free Trade and Eco-

nomie Partnership Agreement (FTEPA) between the two countries was reached.

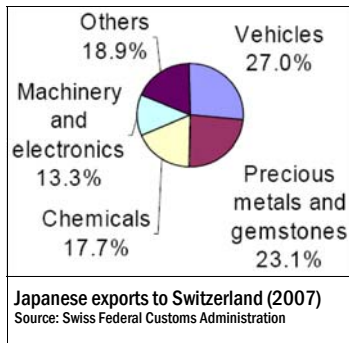
According to both parties' joint press release, "The JSFTEPA will mark a new

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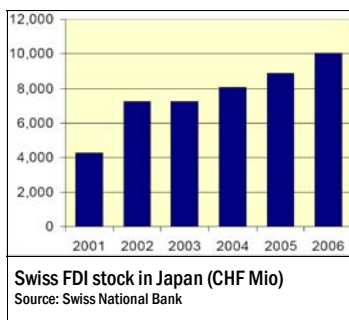


## EPA between Switzerland and Japan

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*Japan is the world's second-largest economy, and after the EU and US, is Switzerland's third-largest trading partner*



era of economic partnership between Japan and Switzerland and will provide a solid basis for further strengthening of the bilateral relationship between the two countries, particularly through trade and investment.”

For Japan, this is the first EPA with a European country, and is as such hailed as a breakthrough agreement. With WTO's Doha Round of trade talks faltering, Japan has taken the road of bilateral agreements, and since its first one with Singapore in 2002, has concluded numerous EPAs, mostly with Asian and South American countries.

For Switzerland, this is the second most important bilateral agreement after the one reached with the European Union in 1973, a sign of Switzerland's willingness to look to Asia in order to reduce its dependence on the US.

In terms of trade, bilateral relations are already strong. Japan is the world's second-largest economy, and after the EU and US, is Switzerland's third-largest trading partner. In 2007, Swiss exports to Japan – mainly machinery, chemicals and watches – totaled CHF 6.7bn, representing 3.1% of total Swiss exports, or 20.2% of Swiss exports to Asia. Meanwhile Japanese exports to Switzerland – mainly cars and electronics – reached CHF 3.5bn.

In addition, Switzerland

has so far invested over CHF 10bn in Japan, almost 20% of the Swiss FDI stock in Asia. Japan, meanwhile, has invested CHF 940mio in Switzerland to this day.

Concretely, this agreement will facilitate trade and investment in various ways. Most importantly, tariffs for more than 99% of the total trade value between the two countries will be eliminated within 10 years.

Furthermore, both sides will promote trade facilitation and effective enforcement against illicit goods or goods infringing intellectual property rights through simplification of customs procedures, co-operation between authorities and exchange of information.

As for trade in services, this agreement far exceeds the requirements of the WTO's General Agreement on Trade in Services (GATS) by liberalizing trade with regards to market access, national treatment, most favored nation and transparency. The FTEPA will also facilitate the movement of natural persons for business purposes between the two countries.

In order to increase investments between the two countries, the agreement will provide a framework that includes commitments on national treatment and most favored nation. It will also include enhanced protection of investors and investment by notably banning per-

formance requirements (for example, it is forbidden to require investors to use local part suppliers in exchange of the right to invest in the country) and incorporating an umbrella clause (the government has the obligation to fulfill its promises regarding business development and investment).

Furthermore, in order to rectify the 10-to-1 imbalance between the two countries in terms of FDI, several steps were taken to increase Switzerland's attractiveness. For instance, the obligation for firms established in Switzerland to have a majority of Swiss/EU citizens on the Board of Directors has been waived for Japanese firms. In addition, Switzerland pledged not to make use of its framework on residence permit quotas for Japanese citizens. Both steps were highly demanded by Japanese investors, so that FDI from Japan to Switzerland is expected to increase substantially.

Other topics include rules of origin, intellectual property, government procurement, electronic commerce and competition.

Finally, the agreement will provide a framework for the promotion of closer economic relationship between Japan and Switzerland, with the participation of the governments and business sectors of both countries.

The agreement is expected to be signed by the first quarter of 2009.

## Yet another new prime minister for Japan

In the end, Yasuo Fukuda didn't manage to remain in Japan's top seat any longer than his predecessor, Shinzo Abe. He announced his resignation on September 1, just 11 months after becoming Japan's 10<sup>th</sup> prime minister in 14 years, defeated by the impossible political situation he inherited in which, for the first time since the war, control of the upper house was seized by the opposition Democratic Party of Japan (DPJ).

This resulted in a political deadlock, with the DPJ blocking almost every bill put forward by Mr. Fukuda's party, the Liberal Democratic Party (LDP). His position having be-

come untenable, he walked away in the hope that a new leader could break that stifling situation.

That new leader is Taro Aso, 68, who was elected on September 21, becoming Japan's fourth prime minister in just over two years. The grandson of a former prime minister, Mr. Aso is also more hawkish and charismatic than his predecessor. Some fear that his patriotic views will jeopardize Japan's much-improved relations with China and South Korea, but he has so far reassured his colleagues on this matter, and is expected to work towards the continuation of Mr. Fukuda's efforts.

Yet it is likely that his tenure will be rather short. Due to the political deadlock, Mr. Aso is expected to call an early election ahead of the scheduled date of September 2009. Although he was expected to do it within the first few weeks following his appointment, he backed away from such plans due to the recent global economic turmoil.

Nonetheless, his term will certainly be an eventful one. Polls indeed suggest that the LDP, which has been in power for virtually the entire postwar period, could lose the general election, a move that would dramatically rewrite Japan's political landscape.



Taro Aso, Japan's new prime minister

## Japanese banks take advantage of the crisis

Although it has become clear that Japan will not remain unaffected by the current credit crisis, some of its companies still managed to find some reasons to celebrate. Following years of belt-tightening, Japanese firms are now on a spending spree, taking advantage of low share prices abroad.

In the past month, Nomura, Japan's biggest broker, bought the Asian, European and Middle Eastern divisions of the failed Lehman Brothers for a knockdown \$227mio, while Mitsubishi UFJ Financial Group (MUFG), Japan's biggest

bank, paid \$9bn for a 21% stake in Morgan Stanley.

In today's grim economic context, Japanese firms can boast relatively strong financial resources thanks to conservative managers and years of record profits, a strong factor behind these forays abroad. Other factors include the lack of rival buyers – because of the difficulty of raising capital – and the increasingly strong yen.

While these foreign acquisitions are a source of optimism for Japanese business, questions remain concerning their strategic value, especially in the

banking sector. Yet, unreasonable as it may sound to buy investment banks at a time when the model is waning and when profitability is plummeting, these acquisitions could provide much welcome diversification and internationalization. However, their ability to marry Japanese and Western cultures are also questioned, notably in relation to their pay structures.

Although these acquisitions could prove challenging, there is at least one very valuable skill that Japanese banks master: the ability to cope with crisis.



Lehman Brothers headquarters in New York: its Asian, European and Middle Eastern divisions were snapped up by Nomura



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*JETRO is a government-related organization that works to promote mutual trade and investment between Japan and the rest of the world. Originally established in 1958 to promote Japanese exports abroad, JETRO's core focus in the 21<sup>st</sup> century has shifted toward promoting foreign direct investment into Japan and helping small to medium size Japanese firms maximize their global export potential.*

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## Swiss-Japanese Business Information Seminar: Life Science Sector

On November 13, 2008, JETRO, in collaboration with Bioalps and the Geneva Chamber of Commerce and Industry, will hold an informative seminar on the Life Science sector in Geneva, with a view to strengthen business relations in this field between Switzerland and Japan.

This seminar will be attended by a delegation from Toyama, an area renowned in Japan for its historical pharmaceutical industry. It will be a good networking occasion for those of you who are interested in Japan's growing opportunities in this field.

With the world's longest life expectancy, it is projected that one out of three Japanese will be a senior citizen by 2050. The country is also a leader in life science, with highly competitive clusters including state-of-the-art research facilities and outstanding human resources.

Interested? If so, please visit our website to view the program and download the registration form at:  
<http://www.jetro.go.jp/switzerland>