

Special points of Interest:

- Japan falls into first recession since 2001
- Despite the crisis, the video game industry, with its major Japanese manufacturers, has been faring well
- Special reports: The end of an era for the original Shinkansen, and tissue-pack advertising, a very Japanese form of marketing

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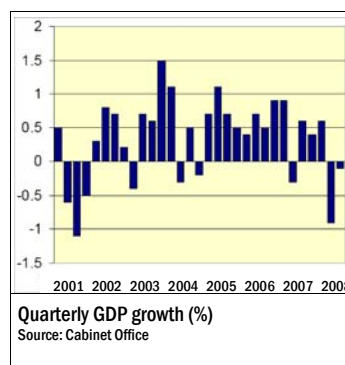
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Japan's current economic situation

For the first time since 2001, Japan fell into a recession, the economy having shrunk by 0.1% in the three months to September, following a 0.9% drop in the second quarter.

Although Japan has been less affected by the global credit crisis than Western economies, thanks notably to a relatively sound financial system, the global economic downturn finally caught up Japan and its dependence on exports to fuel growth. While exports to the US and Europe had been declining for a while, exports to Asia fell for the first time in seven years. Overall, exports were down 7.7% year-on-year in October. The strong yen has not helped either.

As a result, Japanese companies had to cut back on spending, leading to a third consecutive quarterly drop in capital spending – by a sharp 1.7%. Bankruptcies have also leapt 13.4% from a year earlier to 1,429, the highest monthly figure this year. Meanwhile, the 44% fall in the Tokyo stock market this year has led consumer confidence in October to the lowest level since the government began survey in 1982. To alleviate the pain, the government unveiled a \$51bn economic stimulus package and the Bank of Japan cut interest rates for the first time in seven years, from 0.5% to 0.3%. Yet there are some good news. Unemployment, at



4.1%, is still much lower than in the US and Europe. Furthermore, the OECD forecast only a 0.1% fall in economic activity next year in Japan, a modest figure compared to the 0.5% drop forecast for Europe and the 0.9% drop expected in the US. Yet, as domestic demand is not expected to pick up, Japan will have to wait for global growth to recover.

The video game industry unaffected by the crisis

Amid the current credit crisis, the global economy has been experiencing a slump in consumer spending and profits across major industries have been on a rapid decline. Yet, among all this doom, one sector has been perform-

ing particularly well: the video game industry. Nintendo, the world's largest maker of game consoles, recently reported first-half operating profits up 34% on last year at

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A crowd of men dressed up as Mario, Nintendo's mascot

The video game industry unaffected by the crisis

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The Nintendo DS and its revolutionary two-screen design

The whole industry has grown to an \$18bn global industry appealing to players from all ages, demographic and geographic backgrounds

\$2.6bn and raised its sales forecast for the Wii console by 1mio to 27.5mio, a sharp contrast with other Japanese consumer electronics companies. Similarly, one of the few bright spots in Sony's dire profits warning was its PlayStation division.

This is a trend that has already been observed before. During the recession that followed Sept. 11 in the US, demand for technology crashed, but sales of video games increased 43%. It does indeed appear that consumers tend to spend more time at home, and therefore also play more video games, when the economy is down. Although the cost of a video game is higher than, say, a cinema ticket, it will provide hundreds of hours of entertainment, a solid argument for people looking to save money.

In fact, Nintendo has been doing exceptionally well of late, thanks to the huge success of its latest Wii console, which is characterized by a revolutionary controller that includes an accelerometer. This means that instead of pressing a button to make a game character swing a golf club, the player makes the swing movement with the controller.

This concept has proved to be fun for grandmas as well as gamers, and the simple technology used in the Wii means that it is cheap enough for the mass market to buy,

claims that cannot be matched by Nintendo's major rivals, Sony and Microsoft.

In addition to the Wii, the Kyoto-based firm has also encountered strong success with its handheld DS console, which has also been a big hit among people that do not normally play games, such as women and the elderly. This was achieved thanks to "games" such as Brain Training, which trains your memory and calculates your brain age, and Cooking Guide, an elaborate recipe book with step-by-step instructions.

In fact, the stereotypes of video games being the domain of teenage boys, as well as being ultra-violent, are changing. For instance, 30% of all game players are now women.

For Nintendo, its recent success is all the more welcome that it was on the brink of collapse about three years ago, when sales of its GameCube lagged behind Sony's PlayStation 2 and Microsoft's Xbox. As if that were not enough, Sony had entered its niche of handheld gaming with its PlayStation Portable machine. Nintendo's financial resources were also much smaller than the two juggernauts Sony and Microsoft.

Yet it is following the failure of the GameCube that Nintendo has decided to reassess itself, and to do something different. Nintendo has since become Japan's biggest electron-

ics company by market value, no small feat for a company with less than 3,000 permanent employees.

Sony, meanwhile, has been taking the opposite route. Following the huge success of its PlayStation 2, sales of its latest PlayStation 3 have so far failed to live up to expectations. This is notably due to its prohibitive price (launch price in Switzerland: CHF 749), a result of the high development costs of its Cell processor and its Blu-Ray DVD player. Yet, the price will certainly go down in the future, and with the Blu-Ray establishing itself as the sole high-definition DVD format, sales are more than likely to push up.

Although Japan is the long-standing leader in the world of video games, the whole industry has grown to an \$18bn global industry appealing to players from all ages, demographic and geographic backgrounds. The industry has grown far beyond Japan's borders, and both Nintendo and Sony are starting to feel the pinch, even at home. Although Microsoft has traditionally had a tough time in Japan, its Xbox 360 sold out across the country this summer, following the release of a popular role-playing game.

Yet Japanese firms have always managed to retain the edge in this industry, a case well exemplified by the revolutionary Wii.



Men flocking to the Tokyo Game Show, the popular annual video game convention

Original Shinkansen reaches end of the road

After 44 years of reliable service, the 0 Series Shinkansen, the original model that debuted with the opening of the Shinkansen network in 1964, will be retired from service in mid-December, marking the end of an era. Indeed, the Shinkansen has since become a symbol of modern Japan, the image of one of those 'bullet trains' passing Mount Fuji having established itself as one of the most famous Japanese sceneries.

In fact, the Shinkansen was an instant hit right from the start, when it was inaugurated in time for the Tokyo Olympics, as it shortened the journey time between Tokyo and

Osaka from an exhausting ten hours to a mere three hours. Through the Shinkansen, the world had an early glimpse of what Japan had become renowned for: its high-tech and modernity.

Since then, numerous other series have followed, and the Shinkansen is now running from the Northern tip of Honshu all the way down to Kyushu. Today the Shinkansen forms the backbone of Japan's highly efficient rail transportation system. Its busiest route remains the original Tokyo-Osaka route, which carries 375,000 passengers a day and has transported more people (4.5 billion)

than all other high-speed lines in the world combined.

Most of all, it is the Shinkansen's reliability that has attracted the admiration of the world. Not only has it never killed anyone (no mean feat considering that it has carried 7 billion people so far), but its punctuality is legendary: in 2003, Japan Railways reported that the Shinkansen's average arrival time was within six seconds of the scheduled time!

Throughout its 44-year existence, the Shinkansen has established a standard of excellence unmatched in the international arena. The 0 Series can rest in peace.



The original 0 Series Shinkansen will stop operating at the end of November

Tissue-pack advertising: a unique form of marketing

Anyone who has been in Japan will have noticed this particular yet ubiquitous form of marketing: tissue-pack advertising. Outside every train station, around the corners of big shopping streets, one can see them almost everywhere, those people handing out free pocket tissue packs with incorporated adverts.

This very Japanese form of marketing began in the late 1960s, when the founder of a paper-goods manufacturer thought of a way to increase demand for his products. At the time, free matchboxes were common, but en-

countered only limited success. He thought that tissue packs would have a wider appeal, and created the current tissue format and packaging, and gave them away freely.

The practice rapidly spread throughout the country, and has since grown to an industry that generates sales in the range of \$750mio annually. Every year, about 4 million of those free tissue packs are distributed. This form of marketing is so widespread that pocket tissues hardly exist as a retail category in Japan because everyone expects to receive them for free.

But why is it so successful?

First of all, it is relatively cheap: for a cost as little as ¥10 to ¥25 you can get your message directly into the hands of potential customers. Furthermore, it is easy to target people. Your product targets teenagers? Then restrict tissue distribution to them. Yet the most important reason lies in its effectiveness. A recent survey revealed that over half the people "at least glance at" the advert, and it is also highly possible that they will have more than one look at it before the tissues are used up.



Examples of free tissue packs



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kansei-Japan Design Exhibition to be held in Paris

This December, JETRO, in conjunction with the Ministry of Economy, Trade and Industry (METI), will hold the "kansei-Japan Design Exhibition" at Les Arts Décoratifs in Paris, as the first in a series of exhibitions held under the Japanese government's "Kansei Value Creation Initiatives." The exhibition is also being held as part of activities to commemorate 150 years of diplomatic ties between Japan and France.

The exhibition, which will feature numerous product displays and visual installations, aims to promote understanding of the Japanese "kansei," or sensibility, found in Japanese design and products, as well as the "monozukuri" spirit behind Japanese manufacturing.

Period

December 12-21, 2008

Exhibit categories

Interior goods, electrical equipment, tableware, household goods, fashion goods, fabrics, stationery, kitchenware, precision instruments, furniture, etc.

For more information, please go to:
<http://www.jetro.go.jp>