

**Special points of Interest:**

- Yen hits 13-year high against dollar, exports down 27% in November
- Major changes in the global automotive industry: whither Japanese carmakers?
- Special reports: Japanese, Chinese and Korean leaders meet in historic summit; and the reasons behind the growing number of Japanese learners

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**Japan's current economic situation**

Until last month, it was widely believed that Japan would weather the storm thanks to its relatively healthy banking system, but economic indicators have since hit rock bottom, underlining the fact that Japan is just as badly affected as everyone else. The Bank of Japan's much-watched Tankan index, which surveys Japanese manufacturers' confidence, suffered its sharpest decline since the 1973-74 oil shock, and bankruptcies of publicly listed companies, at 31 so far this year, have reached their highest level since the end of the second world war.

Meanwhile, it appears that the Japanese economy has shrunk far quicker in

the third quarter than originally expected, with revised figures showing a quarter-on-quarter fall of 0.5% against preliminary estimates of a 0.1% drop. As if Japan's huge export sector was not already affected enough by plummeting demand abroad, the yen hit a 13-year high against the dollar on Dec. 17.

The high yen had already made an impact in November, as exports fell by a staggering 26.7% year-on-year, the steepest fall since the government started releasing such data in 1980. While Japan was counting on developing economies to support its exports, this proved too optimistic. Exports to China fell 24.5% in the



2008 Exports, Year-on-year % change  
Source: Ministry of Finance

same period.

Tokyo responded with a package of emergency measures worth ¥4,000bn in spending and tax cuts and ¥3,000bn of additional credit to companies, as well as ¥12,000bn of public fund injections into financial institutions.

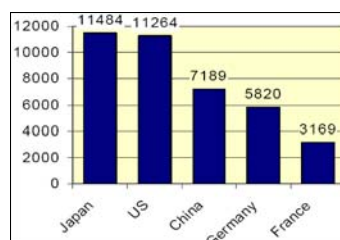
Meanwhile, the BoJ lowered its key interest rate from 0.3% to 0.1%.

**Japanese carmakers and the future: grim or bright?**

General Motors had retained the title for 77 years as people were tipping Toyota to surpass it last year to become the world's largest automaker. Yet Toyota came about 3,100 cars short, making it a certainty that 2008

would be theirs. Everybody was waiting in expectation for the end-of-year sales figures to be published. Considering the current situation, Toyota can now safely claim the

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Top 5 Automobile Producing Countries  
(2006) (1,000 vehicles)  
Source: JETRO

## Japanese carmakers and the future: grim or bright?

*Continued from page 1*



Toyota's Prius hybrid car has done much to establish Toyota at the top of the industry

*In 2006, Japan has become the top automobile producing country in the world with an annual production of 11.5mio vehicles*



Chrysler's Dodge Ram, a symbol of what went wrong with the US auto industry

crown. But with GM on the edge of bankruptcy, the victory doesn't taste so good after all.

With the US automotive industry on the brink of collapse, now is hardly the time to celebrate, for the fall of one or more of Detroit's Big Three would have serious consequences throughout the whole industry, not just its American wing.

Japanese manufacturers would be particularly vulnerable, as they have established numerous manufacturing plants in the US, where they often use the same part suppliers as their American counterparts. Were one of the Big Three to go down, these part suppliers could follow them, considerably hurting Japanese manufacturers' production capacities.

However, the major problem is that global demand is already bleak enough; nobody needs a deepening crisis. In November, US car sales plunged 36.5% from last year to reach their lowest level in 26 years, while European car sales were down 25.8%, the biggest fall since 1999. Even demand in developing economies is weakening.

In such conditions, nobody remains unaffected: during the same period, Toyota's sales sank 34%, Honda's fell 32%, and Nissan's were down 42%. In the meantime, Honda has quit the world of Formula

1 to save costs and focus on its core business, while Suzuki and Subaru have moved out of the World Rally Championship.

Although none of them is under the threat of bankruptcy, people in Japan still worry about the future of the industry. With 5 million people working for the automotive and related industries, the Japanese economy has much to lose from a collapse in Detroit. While President Bush has given a 3 month-lifeline to GM and Chrysler with a \$17.4bn bailout, the future remains very uncertain for the US automotive industry.

For Japanese carmakers, bankruptcies in Detroit could be catastrophic in the short term, but could work out in their favor in the long run, as they, and Toyota in particular, seem the most likely to be still standing when the crisis is over.

Although the size of the pie has been shrinking in the last few months, Japanese companies' growing market share is not showing any sign of fatigue. Toyota, for instance has seen its market share grow from 7.5% in 1990 to 16% in 2007. One car sold in the US out of three is now Japanese. In 2006, Japan has become the top automobile producing country in the world with an annual production of 11.5mio vehicles.

To be sure, business is not great at the moment. Toyota, considered one of the best-run firms in the busi-

ness, has shocked the auto world by announcing it expects its first operating loss ever (¥150bn) in the fiscal year ending March 31. Honda still expects to be in the black, but only just: it expects a profit of ¥180bn for the year.

Yet it is in the longer run that Japanese firms have an advantage. They understood the importance of investing in alternative energy and fuel efficiency better than anyone, as a result of which they are now world leaders in this field. Apart from diesel engines, a field in which Germany still has the lead, Japanese manufacturers have developed the most advanced and successful environment-friendly cars, with the Toyota Prius a fine example.

Japanese carmakers also have strong positions in developing markets such as China and India, where growth will undoubtedly pick up sooner or later.

The global automotive industry is going through troubled times. Nobody is quite sure of the outcome, but it seems likely that Japanese manufacturers will come out of the crisis bigger in relative terms.

In particular, Toyota will become the undisputed leader in the industry, a well-deserved title with regards to its sustainable vision and cutting-edge technology.

If Detroit's Big Three survive, they should have a serious look at Toyota's business model.

## Historic summit between Japan, China and Korea

In spite of their geographical proximity, political relations between Japan, China and South Korea have never really reflected their strong economic bonds.

In the last decades, trade and investment between the three neighbors has been on a steady upward curve, and China has even surpassed the US as Japan's largest trading partner.

The three nations account for 75% of East Asia's gross domestic product and about 17% of the global GDP, and the area is also expected to play a central role in world economic growth. Increased economic cooperation has thus happened very natu-

rally.

Politics, however, have not followed suit. Yet in the last few years, their leaders have set to gradually change all this.

Former Prime Minister Yasuo Fukuda began a thaw in relations that his successor Taro Aso pledged to pursue, leaving aside his personal convictions.

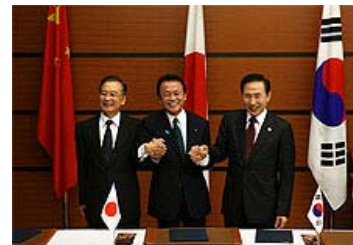
He even made a significant step towards increased cooperation by inviting China's Prime Minister Wen Jiabao and South Korea's President Lee Myung Bak to his native Fukuoka prefecture, for the first ever trilateral meeting between the three nations.

They addressed various issues, from the current

crisis to the creation of a tripartite partnership, as well as increased private-sector cooperation. They also discussed the need to collaborate on African aid, the development of clean energy use in East Asia, and further youth exchanges.

This summit seems to signal a willingness to engage in further cooperation at the political level, especially as they decided to make this an annual meeting.

This historic event marks the beginning of a new era in East Asia, a move that enables the three nations to build on their strong economic ties to increase the region's influence in the world.



Wen Jiabao, Taro Aso and Lee Myung Bak at the Fukuoka summit

## Improved image increases number of Japanese learners

Have you ever thought of learning Japanese? Apparently, more and more people do. According to the Japan Foundation, nearly 3 million people were studying Japanese in 2006, up from 1 million in 1990. Although most of them are still in Asia and Oceania – places where Japanese can usually be chosen as an option in secondary school, this increase highlights a growing interest in the Japanese culture in general.

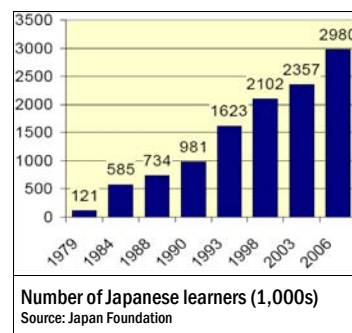
Compared to the Eighties and early Nineties, when Japan was still considered as an invader and most people who learned Japa-

nese did so for business purposes, students nowadays learn the language because they have a genuine interest in the country. Mangas, video games and sushi have obviously played a huge part, but an increasing number of people look beyond that and learn the language to possibly move to Japan someday.

This is of course great news for Japan, especially when bringing the nation's decreasing population into the mix. Over the years, Japan has benefited from an increasingly positive image. Whereas people pictured Japan as strange

and isolated, its cutting-edge technology, environmental credentials and foreign aid have helped the country become one of the most appreciated in the world. In fact, a recent BBC poll ranked Japan second in the world when it comes to a positive global image (behind Germany).

With the advent of the internet and the growing number of Japanese abroad – the number of Japanese who studied at foreign universities tripled between 1990 and 2004, Japanese culture has also become a lot more accessible.





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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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## 2008 JETRO White Paper now available

The English translation of the 2008 White Paper on International Trade and Foreign Direct Investment (originally published in Japanese) is now available for free download (in PDF format) on the JETRO website at:  
[http://www.jetro.go.jp/en/stats/white\\_paper/](http://www.jetro.go.jp/en/stats/white_paper/)

The 2008 white paper analyzes the world economy and key regional trade and foreign direct investment trends in 2007. According to the report, Japan's imports and exports both recorded their highest levels ever in 2007, with exports topping US\$700 billion for the first time and the export-to-GDP ratio reaching 16.3%, also a record. The total value of Japan's inward FDI also reached a record US\$22 billion, on the back of an increase in large-scale inward M&As, suggesting that firms are viewing Japan as an important and attractive market.

The report also surveyed firms on their expectations for FTA networks in the region and worldwide, as well as their strategies for tapping into the world's expanding consumer markets.

We at JETRO Geneva wish you a **Happy New Year!**

We hope that you were satisfied with our services in 2008 and remain at your service for the coming year.

We look forward to hearing from you again in 2009.