

Special points of interest:

- The Japanese economy is growing again, but fears about the future remain
- A series of regulatory changes suggests a Westernization process is taking place in the Japanese economy
- Special reports : the Tokyo Motor Show, and a sad ending for foreign language teachers in Japan

Inside this Issue:

Japan's current economic situation	1
The Westernization of the Japanese economy	1 & 2
Tokyo Motor Show: the green- ing car industry on display	3
Nova: the end of a teaching giant?	3
Basel Seminar (Oct. 23, 2007)	4

Japan's current economic situation

Japan's economy rebounded in the third quarter, growing at 0.6% from the previous quarter, an annualized +2.6% in real terms. This good performance follows a 1.6% contraction in the three months to June.

In October, exports even reached a record high ¥7,500bn, up 13.9% from a year earlier. Import figures went up too (+8.6%), mainly because of the increase in crude oil costs. The trade surplus was ¥1,000bn, up 66%.

These figures, though, do not reflect the widespread pessimism that currently characterizes the Japanese economy.

Indeed, the economy is highly dependent on exports, as highlighted in the

fact that two-thirds of the GDP growth came from this segment. And with the yen at an 18-month high against the dollar, the future does not bode well. Some say they expect to see a quarter or two of shrinkage next year, once the effect of the strong yen kicks in. On top of that, the outlook of the American economy, Japan's biggest trading partner, looks rather dull. Domestically, things aren't going well either. The economy has been rattled by a 40% drop in new housing starts since new earthquake-related safety rules were tightened in June. In addition, the strong health of corporate profits has not resulted in higher wages, due the in-



creasing hiring of less-paid part-time workers. Consumer spending thus remains sluggish. More worrying, though, was the announcement that Japan's leading index of economic indicators hit zero for the first time in a decade in September.

This grim prospect forced the BoJ to keep its interest rate unchanged for the ninth month at 0.5%.

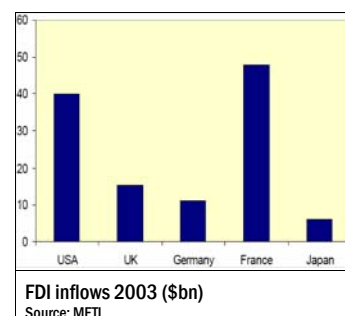
The Westernization of the Japanese economy

The last few months have been marked by a series of new regulatory developments in Japan that, confirming a trend that has been noted for years, is sending the Japanese economic system ever closer to that of Western coun-

tries.

Due to its rapidly ageing population, the Japanese government is now increasingly keen to restructure its economy in order to render it more

Continued on page 2





The privatization of Japan's postal services gave birth to a banking giant

...a clear willingness by the government to move [...] towards a more Western-style shareholder-oriented model...



The Westernization of the Japanese economy

Continued from page 1

productive and competitive. Increasing the flow of FDI is a key priority, and so is the (re)affirmation of Tokyo as a major financial center in the Asia-Pacific region.

It is within this context that, on Oct 1, the world witnessed the birth of a new banking giant: the Japan Post Bank, the world's biggest bank by deposits (\$1.6 trillion), which was born as a result of a decade-long process of privatizing Japan's 136-year-old postal services.

This privatization, however, is accompanied by several issues that need to be resolved. Indeed, most of the bank's deposits are invested in Japanese government bonds (67% of its assets). Those investments yielding too low a return, many savers have increasingly turned to more rewarding investments and as a result, deposits have been on a downtrend. That is why the Japan Post Bank intends to diversify into derivatives, syndicated loans, securitized products and others.

In order to support this reform, the Japanese authorities launched the Financial Instruments and Exchange Law (FIEL), a landmark change aimed at getting money out of banks, into stocks and bonds. It represents the biggest change in the country's financial regulations in 20 years, and governs everything from cor-

porate reporting procedures to acceptable securities trading practices. It also lays out new registration requirements for hedge and private-equity funds, requires executives to certify that financial statements are true, and mandates quarterly earnings reports, something Westerns companies have provided for years.

In addition, to the FIEL, Japan's Financial Services Agency signaled on Oct. 24 a shift towards a more UK-style - i.e. more open, transparent and market-friendly - regulatory model to strengthen the country's competitiveness as a financial center.

A week earlier, Japan's Fair Trade Commission had unveiled proposed changes to anti-monopoly laws that would broaden the definition of anti-competitive behavior and increase fines to bring Japan into line with European and US standards.

Meanwhile, it appears that Japanese firms are slowly beginning to embrace mergers and acquisitions as a path to growth. Indeed, M&A activity hit a record 2,775 deals in 2006, more than four times the level of a decade ago. So far this year, there have been 1,949, with Citigroup's \$7.92 billion acquisition of Nikko Cordial on top of the list. M&A activity is still nowhere near that of the US and the UK, but it is definitely increasing.

A gradual change in Japanese executive's attitudes

has driven the recent surge in deal making, bankers say. They have moved away from seeing spin-offs of non-core assets and merging businesses as akin to auctioning off the family silver. Instead, they increasingly view M&A as a necessary tool to generate economies of scale and access overseas markets.

This growth in M&A activity comes despite the new rule allowing the Japanese government to have broader say in M&As that could affect national security, tightening rules on foreign investment in strategic local companies. This revision, nevertheless, also brings Japanese rules closer to those of Western countries such as the US and the UK.

Overall, the implementation of those new regulations shows a clear willingness by the government to move away from its traditional business model towards a more Western - or Anglo-Saxon - style shareholder-oriented model. Cross-shareholdings are becoming weaker, and pressures for greater transparency in financial reporting should lead to the emergence of an active market for corporate control, increasingly attracting foreign firms into the Japanese market.

So is this the beginning of a new era? The future will tell, but it seems indeed that the traditional Japanese business model is now under pressure.

Tokyo Motor Show: the greening car industry on display

This year's 40th Tokyo Motor Show, which took place from Oct. 26 to Nov. 11, confirmed and even accentuated a trend that radically changed the face of the global automobile industry: cars are getting greener and greener. In fact, the greening of the industry is occurring at a greater pace than one would have imagined just a few years ago.

More than ever, this year's show was dominated by concepts for new hybrids, plug-in hybrids and electric vehicles from Japan's leading automakers.

For example, Toyota displayed its 1/X hybrid, which weighs only 420 kg, or one-third the weight of the Prius, thanks to the

use of carbon fiber reinforced plastic in its body frame; as such, it is twice as fuel-efficient compared with the Prius. Among other notable models were Nissan's Pivo, an electric concept car, and Honda's Puyo, a fuel-cell car featuring a soft exterior made of silicon.

Overall, this show has been characterized by the wide range of alternative technologies on display, a sharp contrast with the previous one, where hybrids were seen as the core technology. The uncertainty over the future of green technology has indeed led car manufacturers to avoid putting all their eggs in one basket.

However, the show has

also shed light on another issue facing the auto industry: while the offer of green cars is on the rise, so is the number of big, gas-guzzling sports cars. For instance, the real star of the show was the new Nissan GT-R coupe, a car more renowned for its performance than its green attributes.

It seems therefore that the car industry is facing an identity problem, pursuing a dual strategy that can work in the short-term, but that might well backfire, by throwing confusion in the customer's mind concerning their image. They might be advised to focus on fuel-efficient cars, the real future of the car industry.

Nova: the end of a teaching giant?

Late last month, Japan's foreign community was hit by the downfall of the biggest employer of foreign nationals in Japan, language school Nova.

Founded in 1981, the company rapidly expanded thanks to an aggressive market penetration notably including low prices and ubiquitous advertising. The number of Nova schools increased from 239 in 1997 to 623 in 2004, capturing a market share of 50%.

Its main income came from English classes, benefiting from a gap left by Japan's educational system, which does a no-

toriously poor job of training students to speak the language – only nine of 147 countries ranked lower than Japan last year in a US-run test.

For Nova, trouble appeared as early as in 1997, when 18 students complained that the advertising claim that classes can be reserved "at any time" was false. The school also faced criticism concerning its refund policy.

Following those allegations, in June 2007, the government forbade Nova to recruit students for six months for courses lasting more than a year, effec-

tively banning the sale of Nova's key product: hugely discounted prepaid tickets. A huge blow for the school. Paychecks began coming in late and on October 26, the company was forced to file for bankruptcy with estimated debts of ¥44 bn.

Meanwhile, 4,000 non-Japanese instructors have not been paid since September. Many are jobless and stuck in Japan, and some are now teaching for food. Some have already received eviction notices from company-sponsored housing. Nonetheless, all of them will fight to get their unpaid wages.



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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 21st century has shifted toward promoting foreign direct investment into Japan and helping small to medium size Japanese firms maximize their global export potential.

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

Basel Seminar (Oct. 23, 2007)

The Pharmaceutical and Bio Seminar between Switzerland and Japan took place on October 23, 2007 in Basel.

Thanks to the participation of 130 people, this seminar was a genuine success. The speakers all gave very interesting and instructive speeches, providing a good insight into the industry's challenges and opportunities when it comes to doing business with Japan.

Furthermore, this seminar strongly contributed to developing ties between the Swiss and Japanese pharmaceutical and biotech industries by providing a platform for networking and information exchange.

We, at JETRO Geneva, would like to thank all of you who took part in this seminar and contributed to its success.

Note: The PowerPoint slides of the seminar can be viewed on our website at:
<http://www.jetro.go.jp/switzerland/archives>

