

**Special points of interest:**

- Nikkei 225 at its lowest in over 2 years
- Recent Japan-China relations much improved, as highlighted by PM Fukuda's visit to China
- Special reports: the whaling issue and the Sample Lab

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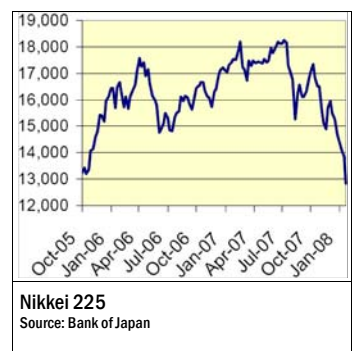
## Japan's current economic situation

The Bank of Japan is expected to admit that its forecasts of a 1.8% growth in the fiscal year ending March 2008 were too high. Most analysts say that the BoJ has not taken sufficiently into account the severity of the housing shock, in which housing starts fell by as much as 40%; they now expect a growth rate of around 1.3%.

This outlook, accompanied by the widespread pessimism concerning the state of the American economy, has led the Nikkei 225 to close at its lowest point since October 2005. The stocks of exporters, including automakers and machinery manufacturers, were

among the biggest losers. With December US retail sales showing their first decline in about 6 months and the yen briefly rising to ¥105 per dollar for the first time since May 2005, prospects for exporters look indeed rather dull. This is all the more unwelcome that Japan's lackluster performance means that the country increasingly relies on exports to support economic growth. Japan's current account surplus widened 2.1 per cent to \$8.4bn in November, helped by increasing exports to China.

Meanwhile, the economy had to support the increasing energy costs. Although Japan is one of the most energy-efficient



countries in the world, rising cost of oil led producer prices to jump at their fastest pace in a year in December. Consumer prices rose at the fastest rate in nearly a decade in November, leading consumer confidence to decrease significantly.

It is now speculated that the BoJ might have to cut rates, which are currently at 0.5%.

## A new dawn in Japan-China ties

Everything had been done to make sure it all happens as smoothly as possible. In November, Japanese Prime Minister Yasuo Fukuda refused to meet the Dalai Lama, saying that he was not "important" enough. On

the Chinese side, the 70<sup>th</sup> anniversary of the Nanjing Massacre was commemorated in a particularly low-profile tone. Increasing mutual confidence had also been emphasized by

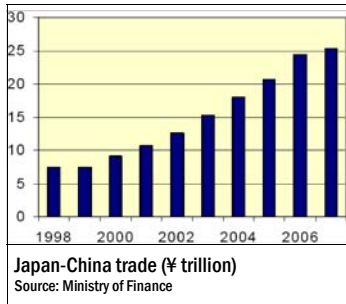
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1. China	17.7%
2. US	16.2%
3. South Korea	6.1%
4. Taiwan	4.8%
5. Thailand	3.3%

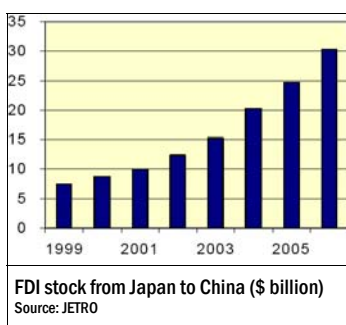
Japan's biggest trading partners (Jan-Nov 2007), percentage of total trade  
Source: Ministry of Finance

## A new dawn in Japan-China ties

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*"There has never been a time when Japan and China had more influence or responsibilities in Asia and the world"*  
Yasuo Fukuda



a historic port call in Japan by a Chinese warship. So when Mr. Fukuda arrived in China for his four-day visit late last month, everything just looked perfect.

In fact, since Mr. Fukuda's appointment at the PM post last September, Sino-Japanese relations seem to have reached one of their warmest points in a very long time. Days when the Chinese were burning Japanese flags in response to then PM Junichiro Koizumi's visits to Yasukuni Shrine – where Japan's war dead (including several class-A criminals) are memorialized – and the Japanese government's authorization of a revisionist history textbook seem to be long gone now.

Mr. Fukuda knows that China's rapid rise to economic supremacy in Asia means that having a confrontational stance is not an option. During his visit to China, he said: "There is no other choice for China-Japan relations other than peaceful friendship". Chinese Prime Minister Wen Jiabao added: "I truly feel the spring of Sino-Japanese relations has [...] arrived".

Chinese officials can in fact consider for the first time in a while to have an ally on the Japanese side. Of course, it helps that Mr. Fukuda is the son of former Prime Minister Takeo Fukuda, who in the late 1970s did everything to

regain East Asia's favor and signed the Treaty of Peace and Friendship between Japan and the People's Republic of China in 1978. At the time, this novel post-war stance was dubbed the 'Fukuda doctrine', which Yasuo Fukuda said to be alive and well a few months back at the East Asia Summit in Singapore. He said that he intends to follow a more "Asia-focused" policy, a sharp turn from his predecessors, Koizumi in particular.

This change comes at a time when China has overcome the United States as Japan's major trading partner, highlighting China's growing presence in the world economy. "In the long history of our relations, there has never been a time when Japan and China had more influence or responsibilities in Asia and the world", Fukuda said.

The truth is, the relationship between the two countries is on the verge of big change. As younger generations replace older ones, the animosity that has long characterized Sino-Japanese relations is slowly waning. Furthermore, the fact that China is about to replace Japan as Asia's biggest economic and political power now seems ineluctable. Japanese people just have to acknowledge it and accept it. Instead of a threat, China's rise should be seen as an opportunity. The two countries have strikingly complementary

economies and look like natural partners: Japan makes high-tech, high-margin goods whereas China tends to concentrate on high-volume, low-tech products. In addition, Chinese youngsters have a much better image of Japan than older generations, and they love Japanese products. Finally, though some large cultural differences remain, the two countries share certain basic Confucian values that should help them build strong business relationships.

For the moment however, it is still hard to tell if this diplomatic rapprochement is only momentary or if it truly marks the beginning to a new era in Sino-Japanese relations. The main reason behind this improvement being Mr. Fukuda's accession to the post of PM, the major concern remains his successor's attitude towards China. In particular, if the next PM resumes visits to Yasukuni Shrine, current efforts could just prove useless.

Moreover, there are still some concrete points that both governments need to solve, starting with the dispute over gas reserves in the East China Sea, which both countries claim.

Nevertheless, the near future looks bright for Sino-Japanese relations, with Chinese president Hu Jintao's visit planned in spring and the G8 summit in Japan in July, where Mr. Hu is likely to be invited as a guest.

## Kevin Rudd's Australia at war against Japanese whaling

Every winter, the same thing happens over and over again. Japanese whaling vessels sail off to the Antarctic for their annual whale hunting, and the international community then shouts their outrage at this highly controversial practice. This year is no different. However, there is one noticeable difference: the opposition seems to be even more virulent this time around. The reason for that? A significant change in Australian politics. Indeed, since Kevin Rudd replaced John Howard at the post of Prime Minister in early December, many things seem to have changed Down Under. One of those changes is the stance to-

wards Japanese whaling. On Jan. 17, Mr. Rudd said his government would pursue all means to end commercial whaling. Australia sent a ship to monitor the Japanese whaling fleet and try to build a legal case against Japan in international courts.

Since the International Whaling Commission imposed a moratorium on commercial whaling in 1986, Japan has been claiming that the hunting is for scientific research. But Mr. Rudd said: "This is not scientific whaling – this is commercial whaling".

The Japanese argue that they have been eating whale for 5,000 years and that their tradition should

be respected. However, the popularity of whale as a meal has been in sharp decline, so that the end of whaling would not make a huge difference. Nevertheless, it would be seen as a defeat.

Japan being Australia's largest trading partner, Australia had always avoided antagonizing Japan over this issue under the conservative government of John Howard.

The recent change thus marks a significant shift in Australian foreign policy, and it is wondered if there will be any negative impact on mutual economic interests, especially as Japan and Australia are currently negotiating for an EPA.



Japan temporarily suspended hunting humpback whales following international protest

## The new Tokyo store that doesn't sell anything

Since it opened in July last year, the Sample Lab has been the new hot topic among Tokyo shoppers. Located in the fashionable Omotesando district, this store has indeed a quite particular characteristic: it doesn't sell anything.

The concept is rather simple. Companies in search of marketing data rent shelf space on which they display their samples – mainly cosmetics, food and alcoholic beverages. And because they are samples, customers are able to take them home for free – well, almost.

People who can fill out questionnaires in Japa-

nese become members for ¥1,000 a year and pay a ¥300 admission fee each time they come in. In return, they can start out by taking five products a day from the store's shelves. The system requires them to respond to questionnaires about the products by e-mail in the days after sampling something. By responding to questionnaires, members gain points, which in turn increases the number of items they can get, a system that boosts the response rate.

For the users it provides an opportunity to enjoy sampling all sorts of prod-

ucts for free and for the companies it serves as a valuable method of gaining feedback from potential customers.

For businesses desperately seeking precise marketing data, this new concept is extremely valuable. The rate of response to the questionnaires is high (an impressive 98%), and their content is good. With membership, targeted people depending on age and interests can be narrowed down.

Sample Lab now has approximately 40,000 members and similar stores are scheduled to open in Osaka and Nagoya.

*For the companies it serves as a valuable method of gaining feedback from potential customers*



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## **JETRO expands support for foreign-affiliated firms targeting secondary investment in Japan**

JETRO is boosting its support and service for foreign-affiliated firms already operating in Japan seeking to expand their operations into other regions of the country. This follows on JETRO's success of attracting 508 new foreign entrants to the Japan market since 2003, in line with JETRO's role as the principal body tasked with doubling Japan's cumulative foreign direct investment stock.

One example of a global enterprise that has expanded regionally in Japan is Nobel Biocare, a global leader in innovative esthetic dental solutions based in Zurich, which with JETRO's support in September 2007 established its first Asian supply base in Narashino, Chiba prefecture. "We have been doing business in Japan for more than 20 years and have established our position as the market leader in dental implants and CAD/CAM - based crowns and bridges," says Atushi Shimada, President of Nobel Biocare Japan K.K. "But knowing that we needed to expand further in Japan and Asia Pacific, we established the supply center in Narashino. This gives us good access to our Japan office in Shinagawa and to Narita and Haneda airports. Blessed with that kind of location we decided to move forward."

Foreign firms interested in JETRO's support and services for investing in Japan's regions are invited to contact the JETRO Japan Business Secondary Investment Group at: [jad2@jetro.go.jp](mailto:jad2@jetro.go.jp).