

Special points of interest:

- Yen hits 12-year high against dollar
- Article on Honda's strong presence at the Geneva Motor Show, featuring an interview with Nobuyuki Yanai, head of Honda Automobiles Switzerland
- Special reports: Tokyo's demographic might and the strong health of luxury groups in Japan

Inside this issue:

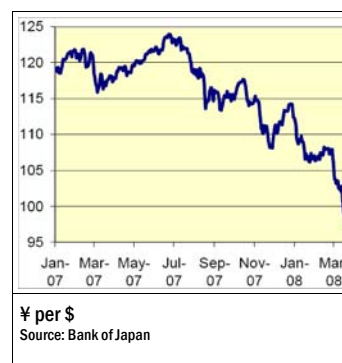
Japan's current economic situation	1
Honda goes green at the Geneva Motor Show	1 & 2
Tokyo to remain the world's largest city for a while	3
Japan gets a taste of the Eighties again	3
China overtakes US as Japan's largest trading partner	4

Japan's current economic situation

Fears of a recession in the United States continue to fuel concerns over the state of the Japanese economy, which suffered another blow on May 17th, when the yen hit a 12-year high against the dollar at ¥95.76. It has soared almost 30% against the dollar since June, making life increasingly tough for Japan's large exporters, the largest contributors to economic growth. Meanwhile, the Bank of Japan is still looking for a new governor following Toshihiko Fukui's retirement on May 19. So far, two candidates have been put forward, but both have been rejected by the Democratic Party of Japan, the opposition party in control of the upper house

of parliament. The vacancy at the top job comes at a particularly delicate time, considering the worldwide economic turmoil.

In the meantime, both consumer spending and prices remain sluggish. Despite the strong profits that large corporations have shown in the past six years, wages have remained stagnant. The increasing proportion of foreign ownership is adding pressure on Japanese companies to deliver higher dividends, limiting the scope for wage increases. In addition, small and medium-sized companies – which employ around 70% of the Japanese workforce – have not benefited from economic



growth either.

Finally, the combination of strong yen and high material costs has also impacted business sentiment at large manufacturers, which worsened to its lowest level since the government began collecting data in 2004.

The Nikkei 225 has also hit its lowest level since September 2005 this month.

Honda goes green at the Geneva Motor Show

In the past few years, motor shows around the globe all had a similar taste, and this year's Geneva Motor Show was no different. Amid growing concern over pollution, future energy sources and rising fuel prices, the fo-

cus of motor shows has clearly shifted towards the environmental sustainability of the industry as a whole. Hybrid, electric, fuel cell, natural gas and ethanol vehicles have

Continued on page 2



The Honda FCX Clarity hydrogen fuel cell car on display at the Geneva Motor Show

Honda goes green at the Geneva Motor Show

Continued from page 1



Nobuyuki Yanai, head of Honda Automobiles Switzerland, in front of the new European Honda Accord

"Japanese car manufacturers are ahead of their foreign rivals in terms of environmental technology"
Nobuyuki Yanai

once again been at the center of all attentions. At this year's Geneva Motor Show, Honda was one of those companies that put a strong emphasis on their green credentials. The Tokyo-based manufacturer unveiled the CR-Z hybrid sports car concept and the eagerly awaited all-new European Honda Accord model, which notably comes with Honda's new generation diesel engine, already meeting the Euro 5 standard which will come into force in September 2009.

However, the car that stole the show was certainly the FCX Clarity, a next-generation, hydrogen-powered fuel cell vehicle that emits no CO₂ at all – only clean water vapor. It will be available to lease in the US this summer and in Japan later this year, making it one of the first hydrogen-powered vehicles commercially available.

Of course, the Clarity still remains a car for the future. A future, however, that is nearing at rapid pace. For the moment, hydrogen stations are still rare – about 5 exist in the Los Angeles area, and some more in Japan – but Nobuyuki Yanai, president and CEO of Honda Automobiles Switzerland, says that this technology should be widely available within 15 to 20 years. The company is actually developing a process that would allow people to pro-

duce hydrogen at home using solar energy, virtually bringing the pollution level to zero. "That's the best way for the future" claims Mr. Yanai, adding that the Clarity is the most advanced car in the world: "It can even work by -20 degrees, which is no small feat considering the numerous difficulties encountered by the hydrogen technology".

In fact, Mr. Yanai believes that Japanese car manufacturers are ahead of their foreign rivals in terms of environmental technology. After all, the only real success to date among alternative cars has been Toyota's Prius hybrid car.

The reason for that, according to Mr. Yanai, resides in the high quality of the support industry in Japan. "In a car, only about 40% of the parts are made in-house" he says, "which means that 60% of the parts are bought. Therefore, the support industry is very important. Japan being home to many top manufacturers in environmental technology and many other technologies, Japanese car manufacturers have an advantage over those from other countries". BMW, for example, buys its advanced navigation system from Japan, highlighting the country's cutting-edge telecommunications technologies.

Environmental technology, however, is not the only focus of Honda's R&D efforts. The company got a

lot of publicity for its ASIMO humanoid robot, which can walk, run and serve tea. According to Mr. Yanai, robots will soon be useful in various fields such as helping persons with disabilities or performing tasks that are dangerous to humans, but asserts that research in robotics is also important for cars, as it allows a better understanding of movements.

In Switzerland, demand is still rather low for green vehicles but it is growing steadily. There are now around 7,800 hybrid cars in circulation in Switzerland, up by 50% compared with last year. The Swiss diesel market too, is still small: less than 30% of cars in Switzerland are diesel-powered, compared with over 70% in France. Mr. Yanai reckons that the reason for this is a still relatively low level of government incentives to switch to greener cars.

The green car market in Switzerland still being quite small, Honda knows that it has the opportunity to increase its presence in the country with its revolutionary environmental technology.

Honda aims to expand its market share from the current 9000 cars sold every year throughout the country (3.3% market share, 11th position), but more importantly, the company aspires to be recognized as a top company in terms of environmental protection and safety.



Honda's ASIMO robot at the 30th International Balloon Festival in Château-d'Oex
©Honda

Tokyo to remain the world's largest city for a while

The 2007 revision of the United Nations' World Urbanization Prospects report revealed that Tokyo is to remain the biggest urban area in the world for a while. From the current figure of 35.7 million, the megacity is expected to reach a population of 36.4 million in 2025.

Meanwhile, its followers remain far behind. Currently, the next most populous urban agglomerations are New York-Newark, Mexico City and Bombay, each with 19 million inhabitants. In 2025, the world's second-largest city is expected to be Bombay, reaching a population of 26.4 million.

Another Japanese urban area appearing in the

ranking is Osaka-Kobe, ranked 15th with a population of 11.3 million. The presence of two Japanese cities within the world's 15 largest illustrates the extreme level of urbanization in the country. Of the total 127 million inhabitants Japan counts, 28% live in Tokyo alone.

Considering its huge population, it is unsurprising that Tokyo also has the largest metropolitan economy in the world, with an estimated GDP of \$1,191 billion in 2005, according to a study conducted by PricewaterhouseCoopers. The same study shows that Tokyo should retain this title for a while too, reaching a GDP of \$1,602 billion in 2020. Osaka-

Kobe is currently placed 7th in this ranking.

Despite the economic downturn of the late 1990s, Tokyo remains one of the three major financial centers along New York and London. The Tokyo Stock Exchange is actually the world's second-largest after New York in terms of market capitalization.

Considering that Japan's population is now declining, Tokyo's importance within Japan is expected to increase even more. This creates a huge economic gap between rural and urban areas, which the national government is now eager to fix with plans to decentralize power.



The busy streets of Tokyo are set to get even more crowded

Japan gets a taste of the Eighties again

In 2007, Japanese sales figures for Aston Martin went up 17% compared to 2006, Maserati sales were up 21%, and Ferrari saw a staggering 40% increase. Meanwhile, Toyota sales fell 17% and Volkswagen's 6%.

In fact, demand has been up for all luxury goods and services, reminiscing economic conditions that prevailed in the roaring 1980s. Yet, this time around, things are completely different: the economy is sluggish, consumer spending is down, and stock markets are sinking. So what is going on?

The reality is, a small,

growing class of new rich is emerging following the reforms that took place in corporate Japan in the aftermath of the economic downturn of the 1990s. Companies began introducing performance-based pay and stock options, favoring the emergence of millionaires.

Actually, Japan has always been a huge market for luxury goods, one that many top brands could simply not live without. However, they were rather seen as mainstream, as exemplified by the huge popularity of Louis Vuitton bags among young women. Lately, it is in

higher price segments that demand has become particularly strong.

In a society that used to value equality and modesty, some are now eager to flaunt their wealth, and big luxury groups have sensed that. Over the past year or so, Armani, Gucci and Bulgari have all opened retail towers in Ginza, Tokyo's most exclusive shopping district.

As a sign of change, car retailers have recently experienced an interesting trend: the demand for red and yellow sports cars has increased dramatically. A while ago, everyone wanted them in black.



A sign of change in Japan: flashy sports cars running the streets



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China overtakes US as Japan's largest trading partner

According to a report released by JETRO, China overtook the US in 2007 as Japan's largest trading partner, with total Japan-China trade (imports and exports combined) reaching US\$236.6 billion, up 12% year-on-year over the 2006 figure.

Japan's trade with China in 2007 set a record for ninth straight year, the report revealed. Japan's export growth rate (to China) registered higher for the second straight year, while the rate for imports continued its downward trend. Japan-US trade accounted for 16.1% of Japan's total trade in 2007, down 1.3 points from last year's figure; this contrasts with the figure for Japan-China trade, which grew 0.5 points in 2007 to 17.7%, helping China eclipse the US for the first time ever.

Japan's exports to China rose 17.5% year-on-year to \$109.1 billion in 2007, topping the \$100 billion mark for the first time, reflecting the strength of the Chinese economy. Significant increases were noted in exports of electric equipment, including semiconductors & other electronic parts (mainly ICs) and high-end digital cameras, reflecting a global trend towards multi-functional and advanced computers and digital home appliances. Exports of passenger cars were also up, driven by robust sales of luxury automobiles (with engine capacities of 3000cc and above) and full-size SUVs, which are in high demand among China's wealthy and also companies. Exports of automobile parts & components, such as drive shafts, gearboxes, steering wheels and brakes, were also up in 2007.

Japan's imports from China rose 7.6% year-on-year to \$127.6 billion in 2007, led by electric equipment, such as mobile phones, low-end digital cameras and DVD players/recorders.