

Special points of interest:

- Japanese export growth at three-year low
- The metamorphosis of Japan's labor market: the slow erosion of the traditional model
- Special reports: FTA signed between Japan and ASEAN and the Tsukiji fish market under pressure

Inside this issue:

Japan's current economic situation	1
The long road to reform in Japan's labor market	1 & 2
Japan, ASEAN finish signing FTA	3
The Tsukiji fish market under pressure	3
Survey on international operations of Japanese firms	4

Japan's current economic situation

Japan entered its new fiscal year with a rudderless central bank and an economy on the brink of recession. The former problem was finally solved when the opposition Democratic Party of Japan approved Masaaki Shirakawa as governor of the Bank of Japan after rejecting the two previous candidates. The latter issue, however, is much harder to address.

The grim outlook of the Japanese economy was confirmed when the Tankan survey was released, revealing that business sentiment hit a four-year low with figures even lower than expected. Meanwhile, core consumer prices, excluding fresh food, rose a faster-

than-expected 1% in February from the year-earlier month, hitting another ten-year high. However, prices fell 0.1% after removing energy and food costs, suggesting deflation remains entrenched in the domestic economy.

Yet the biggest cause of worries remains the state of exports, on which the Japanese economy is highly dependent. Export growth indeed slowed to 2.3% in March, its lowest rate in three years, as a stronger yen and slackening shipments to Asia raised concern that the country's export machine might be grinding to a halt. Shipments of cars and car parts to the US fell sharply, bringing overall exports to that market



Export growth (%), Fiscal Year 2007-08
Source: Ministry of Finance

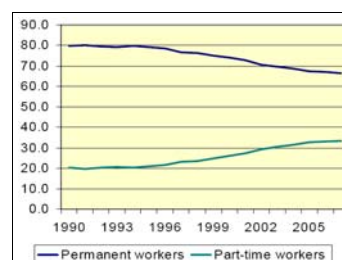
down by 11%, the steepest fall in four years. Exports to Asia rose just 2% in nominal yen terms, a sharp decrease from the 14% registered in February, with exports to China getting a particular blow. Overall, it seems that "the key outlook for Japan's economy is how big and how long the US slowdown will be," as economy minister Hiroko Ota said.

The long road to reform in Japan's labor market

When asked about the Japanese labor market, words such as lifetime employment, seniority-based pay and salaryman come to mind. However, since the economic downturn of the 1990s, these traditional features have

begun eroding, making their way for new attributes that have considerably changed the face of the Japanese labor market. Today, the words that have become popular to

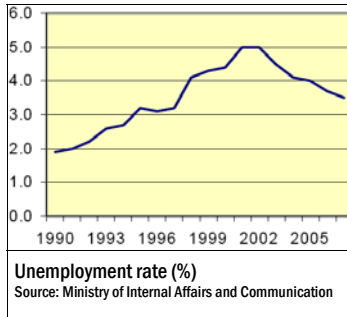
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% of total workers
Source: Ministry of Internal Affairs and Communication

The long road to reform in Japan's labor market

Continued from page 1



The term “work-life balance”, once never heard of, is now commonly used among recruiters



Salarymen during rush hour: a slowly disappearing breed

describe the employment situation include neologies such as *freeter* and *NEET*.

Traditionally, a university graduate chose a company to work for, and then stuck to that company until retirement. The newly-appointed salaryman got a substantial amount of training, and was then handed a job which had to be accepted without question. In the early years, pay was low, reflecting the low level of responsibility. When entering his 50s, the salaryman got a succession of wage increases until retirement, when he was handed a lump sum to get into his *silver years*, which were financed by a pension paid partly by the company, partly by the government. Pay, but also the position became more important based solely on age: young managers were unusual in corporate Japan.

In return for this guaranteed career path, salarymen had to work hard, putting in long unpaid overtime, which was often followed by drinking sessions that could last until the middle of the night.

It is based on this model that Japan rose from the ashes of World War II to become the world's second-largest economy. This is a system that provided a great deal of stability both for employees and firms. Yet, during the economic downturn of the 1990s, it became clear

that this system was also inefficient.

As long as the economy kept growing, it worked just fine. However, the stability that comes with the model also involves a certain amount of inflexibility. As the Japanese economy entered a decade of recession in the early 1990s, the system became unviable, as firms could simply not guarantee lifetime employment anymore. Spurred by changes to employment law, firms increasingly began hiring non-regular workers on lower pay and short-term contracts. Since then, the proportion of part-time and temporary workers in the total workforce has gone from 20% to nearly 35%.

This created a generation of graduates who were unable to kick-start their careers properly and had to do with low-paid, non-regular jobs which provided no or little training. That is when new words such as *freeters* (a combination of *free* and *Arbeiter*, German for worker) - referring to persons who go from one temporary job to another - and *NEETs* (as in “not in education, employment or training”) appeared. Many young people began losing confidence in their ability to get permanent, stable jobs, and some - called *hikikomori* - even withdrew from social life altogether.

Moreover, the traditional system was also inefficient because it lacked

the incentives for strong performance. A young employee outperforming his peers would just be thanked by a bow, and possibilities for climbing up the ladder quicker than age would permit were unusual. Being aware of this inefficiency, Japanese firms have started making an increasing use of more Western features such as performance-based pay and stock options.

Additionally, a generational shift is also at the origin of the metamorphosis the Japanese labor market has gone through in the past fifteen years. Younger people no longer want to devote their lives to their company. The term “work-life-balance”, once never heard of, is now commonly used among recruiters.

Facing this new reality, government representatives and trade unions are working hard to protect the interests of temporary workers, whose rights are still limited compared to full-time workers: the wage difference can be as much as 40%, resulting in a growing inequality and the emergence of a class of working poor.

The reform of the Japanese labor market is also being driven by the need to become more flexible and competitive in the face of globalization. It takes time to implement, but slowly, Japan's labor market is becoming increasingly flexible and similar to that of Western countries.

Japan, ASEAN finish signing FTA

On April 14, Japan and the 10-member Association of Southeast Asian Nations (ASEAN) completed signing a comprehensive free trade agreement, Japan's first with a regional bloc. Under the pact, about 90 percent of trade between Asia's largest economy and the ASEAN bloc will be tariff-free within 10 years. It will be the first multinational free trade agreement for Japan, which also has been seeking to conclude a flurry of bilateral pacts amid a breakdown in global trade negotiations.

In a joint statement, Japan and the ASEAN said that the pact "will provide a strong impetus for further invigoration of trade and

investment in the region." Japan has been eager to catch up with China and South Korea amid an intensifying race for regional FTAs. The accord with ASEAN is not only a free trade agreement for goods but also covers services and investment.

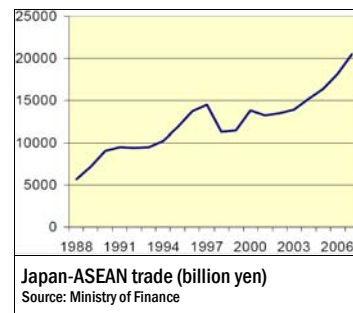
It will enable Japanese companies that are expanding their markets in Southeast Asia to reduce trade costs. For example, tariffs on Japanese exports from one ASEAN country to another will be removed.

Japan will repeal tariffs on 93% of imports from ASEAN by value within 10 years of the deal taking effect. Meanwhile, six major ASEAN members –

Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – will eliminate tariffs on 90% of imports such as automobiles from Japan within 10 years. A more gradual tariff elimination table has been set for the remaining four ASEAN members with smaller economies – Cambodia, Myanmar, Laos and Vietnam.

Tokyo has so far reached bilateral deals with eight nations: the six major ASEAN nations plus Chile and Mexico.

Japan is also exploring the possibility of a wider East Asia trade deal that would include ASEAN plus Australia, China, India, Japan, New Zealand and South Korea.



The Tsukiji fish market under pressure

Attracted by the astonishing spectacle on offer and curious about the origins of their sushi, a growing number of foreign tourists has been flocking to the Tsukiji fish market in Tokyo in recent years. Braving the early hours – the market is mainly active between 5 and 6 am – visitors follow the narrow alleyways, trying to get a few snapshots of the unique atmosphere and the huge amount of fish on display.

The problem is, Tsukiji has become too popular. The growing number of tourists in the market was interfering with the buyers' inspection or bidding, enforcing the introduction, on April 1, of new rules restricting visitors' access.

For example, they will only be allowed to watch the hugely popular tuna auction from a designated area, and some parts will be closed to tourists.

Founded in the 1930s, Tsukiji quickly became the largest fish market in the world. According to estimates, over 2000 tons of fish worth over \$15 million are sold there every day. Approximately 60,000 people work there, selling just about anything that comes from the sea, from tiny sardines

to 300 kg tunas.

However, it is not only the tourists that are putting pressure on the fish market. Increasing criticism over tuna overfishing has prompted signals of a tightening of fishing quotas. Furthermore, the limited size of the current market and the poor state of infrastructures has led to a plan by the Tokyo government to move the market out of the city center to an artificial island by 2012.

Meanwhile, property developers are closely following the possible availability of acres of new land in the center of Tokyo.



A man inspects the tuna on auction at the Tsukiji fish market



80, Rue de Lausanne
1202 Genève

Phone: 022/732 13 04

Fax: 022/732 07 72

E-mail: webmaster@jetroge.ch

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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.

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Survey on international operations of Japanese firms

JETRO released the results of its latest annual survey on the international operations of Japanese firms.

The percentage of respondents planning to expand their business overseas (make new/additional investments) in the coming three years or so was 66.4%, compared to 50.2% who plan to expand operations domestically. For overseas expansion plans by country/region and function, China again ranked at the top in all categories, although the figure for firms planning to expand production functions in the country continued on a downward trend.

Firms were asked about their business plans in/with China in the coming three years or so. The percentage of respondents planning to expand/start new business fell for the third straight year, to 63.0%, with notable falls in "establish/expand a production base" and "outsourcing" categories. The most dramatic fall, however, was in the percentage of respondents planning to increase imports from China, which slipped nearly seven points from last year's figure to 23.6%. This contrasts with the figure for firms planning to increase exports to China, which rose almost three points in this latest survey to 53.0%.

Asked about their outlook for demand after the 2008 Summer Olympic Games in Beijing, more than half of respondents (55.5%) expect demand to continue growing.

For more information, please visit:

<http://www.jetro.go.jp/en/news/releases/20080326078-news>