

Special points of Interest:

- Japanese growth at three-year low
- How Japan continually learns from its previous mistakes to improve its disaster prevention systems
- Special reports: Mitsubishi Heavy to build passenger jet, and the exodus of Japanese baseball stars to the US

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Japan's current economic situation

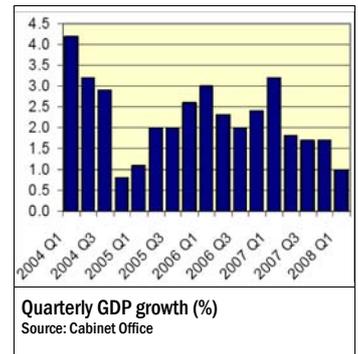
Is Japan about to come out of ten years of deflation? Figures released in late April indeed suggest that this is the case, with Japanese consumer prices excluding energy and fresh food rising for the first time since 1998 in March. The 0.1% year-on-year increase helped push the headline core rate of consumer price inflation, which includes energy and food, to 1.2% - also the highest in ten years.

The good news was however tarnished by the announcement that Japan's economy grew by just 1% in the first three months of this year - its slowest pace in three years - as strong exports to China failed to offset weak capi-

tal spending. Net exports contributed 1.4 percentage points, while capital spending contributed a negative 0.4 points.

Although export figures have been surprisingly strong in the face of a US slowdown, monthly trade figures suggest exports may well begin to go down, leaving the Japanese economy relying on its domestic market at a time when consumers and companies face higher energy, food and raw material costs. Japan's car industry seems to be particularly hard hit, with Nissan, Toyota and Honda expecting net profits to plunge by respectively 30%, 27% and 18%.

This situation leaves the Bank of Japan with a trou-



bled picture. Rising consumer prices might lead it to consider a rate rise, but the international credit crunch means that it is rather unlikely. In fact, Governor Shirakawa has warned of continuing downside risks to Japan's economy, keeping slim expectations of a rate cut alive. Overall, the bank's current position could be described as neutral.

Continuous improvement and disaster prevention

Collapsed buildings, dead bodies, never-ending searches... The earthquake that recently shook China gave us yet another reminder of the tragedy that people go through when Mother Nature strikes, revealing the help-

lessness man faces when confronted with such devastating power. Japan, of course, is no stranger to such disasters. Earthquakes, tsunamis, typhoons, you name

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Part of the old Kobe harbor which was destroyed in the 1995 earthquake

Continuous improvement and disaster prevention

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Vehicle equipped with earthquake simulator

it. Japan's geographical location on the shores of the Pacific Ocean and right atop four tectonic plates means it is particularly prone to them. Japanese people, however, have learnt to deal with them. After each disaster the Japanese pick themselves up, learn from experience and find ways to reduce the potential for reduction the next time.

One of the biggest catastrophes Japan had to deal with was the 1923 Great Kantō earthquake, which hit the Tokyo area with a magnitude of 8.3 on the Richter scale, killing over 144,000 people.

More recently, the Great Hanshin earthquake killed more than 6,000 people and caused an estimated \$120 billion in damage when it hit the Kobe area in 1995. Although enormous technological improvements had been made between 1923 and 1995, much could be learnt from the multiple failures that were made apparent in the aftermath of the latter earthquake.

Although a surprising number of buildings survived, many of them collapsed, revealing the inadequacy of some structures in a country that likes to boast about its high technology.

Building regulations were therefore tightened, and the government invested heavily in research facilities such as the 3D Full-Scale Earthquake Testing

Facility, a shaking platform which studies the earthquake resistance of residential buildings. Buildings have also be reinforced by placing shock-absorbing rubber pads beneath them so they can float above violently shaking ground. About 2,000 buildings in Japan use such "seismic isolation" technology, compared with 700 in China and less than 300 in the rest of the world.

Prevention, however, remains the best way to limit casualties. Japanese kids all go through regular drill exercises teaching them how to behave in case of an earthquake. For instance, vehicles equipped with earthquake simulators visit schools to give students a taste of the real thing at magnitude 7, and to teach them not to panic. As a result, disaster prevention has become part of the national way of life.

Nevertheless, it is not sufficient. Japan being so prone to major disasters, the government is keen to warn residents of temblors, and has thus invested \$16.2 million to develop a high-tech early-warning system which alerts the public to incoming tremors by sending timely warnings to TV and radio broadcasters.

This system, which detects initial signs of an earthquake via a network of underground sensors, gives residents precious extra seconds to shut off heaters and gas stoves

and head for cover. It is also meant to let surgeons at hospitals suspend complicated operations, or allow bullet train (*shinkansen*) operators to stop trains.

However, failure to detect a recent earthquake on time revealed the improvements that still have to be made in this field. Moreover, one has to have a radio or TV on to be able to hear the warning. Lightning and other electrical interferences can also disrupt the system.

Yet the biggest criticism following the 1995 Kobe earthquake was that the government, not realizing the scale of the disaster, hesitated when foreign countries offered help. Also, governmental rigidities prevented the army from intervening, leaving rescue teams short-staffed.

In response to the criticism, the government created an emergency team which gathers at the prime minister's office within 30 minutes of a disaster in order to assess the scale of the damage caused. In addition, Hyper Rescue Teams were formed to improve the rapidity and efficiency of intervention following a natural disaster.

Disasters, of course, will always kill people, yet there is always room for improvement. By the time the next big disaster hits, the world should witness a country which is much more prepared than in 1995.

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What to do and what not to do in case of an earthquake: instructions in a train station

Japan back on the aviation industry map

Four decades after the production of the last domestically made passenger aircraft, Japan is once again set to become a major player in the aviation industry. Mitsubishi Heavy Industries Ltd. indeed announced in late March that it will go ahead with plans to market a 90-seat passenger jet called the Mitsubishi Regional Jet as early as 2013, exactly 40 years after the YS-11 turboprop ended production in 1973.

All this time, Japanese manufacturers dreamed of applying their advanced technology to produce airplanes, but had to limit their role in the aviation industry to that of suppliers to giants Boeing and

Airbus. At last, the Japanese heavy-machinery industry will have the opportunity to show its technical prowess by launching jets of its own.

The project, which will cost between 150 and 180 billion yen, will be implemented through a joint venture associating Mitsubishi Heavy with Toyota Motor, Mitsubishi Corp., Mitsui & Co. and the state-run Development Bank of Japan. Two-thirds of the capital will come from Mitsubishi Heavy, with the project also benefiting from a 50 billion yen government subsidy.

Regional jets are small commercial planes with limited range aimed at mid-size markets. The

MRJ will therefore not be in direct competition with Boeing and Airbus, but with other established players such as Canada's Bombardier and Brazil's Embraer.

While the long-term goal is still unknown, the logical next step might be to build larger jets and enter the market currently led by Boeing and Airbus. Although entry barriers are high, Mitsubishi Heavy could benefit from being based in one of the world's largest domestic flight markets and from the presence of All Nippon Airways and Japan Airlines, respectively the world's eighth and ninth largest carriers in terms of passengers carried.



The Mitsubishi Regional Jet will be the first passenger plane made in Japan since the YS-11 turboprop in 1973

Globalization and baseball: how it affects Japan

Japan's 10-6 victory over Cuba in the final of the World Baseball Classic – baseball's first international tournament worthy of the name – two years ago may have come as a surprise to some, but it was certainly not undeserved. In spite of the introduction of professional football in Japan in the 1990s, baseball still remains the most popular sport in Japan, and the nation counts established stars such as the New York Yankees' Hideki Matsui and the Seattle Mariners' Ichiro Suzuki among its ranks.

Baseball - called *yakyū* in

Japanese - has a long history in Japan. The sport was introduced in the 1870s by American missionaries as the country modernized after the Meiji Restoration, and became an immediate hit. Tokyo University created a team in the 1890s, and by 1905, Waseda University had a team traveling to the United States to improve their skills. In 1935, the first professional league was created.

Nowadays, the Nippon Professional Baseball league counts 12 teams, and live games are broadcast almost every night on TV. However, interest for

the NPB has been waning in recent years at the expense of the American version, the Major League Baseball, which increasingly attracts Japanese stars with higher salaries.

As a result, Japanese kids have traded Tokyo Giants caps for Yankees caps, increasing the revenue divide between the two leagues. In recent years, the MLB has intensified its efforts to emulate the business model created by the National Basketball Association (NBA), its fellow American league which has successfully marketed its product on a global scale.



Ichiro Suzuki, the Seattle Mariners star, in his trademark pose



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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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125 foreign firms utilized JETRO services to set up business in Japan in FY 2007

In FY2007 a total of 125 foreign firms utilized JETRO support and services to set-up a business in Japan, an increase over the figure recorded in FY2006 (115). By region, the majority of these new firms are from Europe (48 firms [Germany 17, U.K. 8, France 7, etc]), Asia/Pacific (40 firms [China 18, Korea 7, Australia 5, India 3, Singapore 3, etc]) and North America (34 firms [U.S. 31, Canada 3]). These new entrants are spread across a wide range of industries, including software/content (24), services (24), machinery & equipment (16) and automobile & automobile parts (14); other categories include electrics & electronics, clothing and accessories, telecommunication equipment, food, general consumer goods and medical treatment and nursing, etc. Particularly in FY 2007, many European and the U.S. automobile-parts corporations set-up businesses in Aichi and Kanagawa prefectures.

Two notable trends emerged among the firms that utilized JETRO to enter the Japanese market in recent years 1) Half of the companies are setting up offices in regions across the country other than in Tokyo; and 2) the number of firms from Europe and Asia/Pacific are on the rise.

Swiss companies that used JETRO services to set up/expand business in Japan in FY 2007 include dental and medical equipment maker EMS and dental manufacturer Nobel Biocare.