

Special points of interest:

- Core inflation at the highest level in ten years
- Japan hosting mammoth conference on African development a sign of its growing interests in the continent
- Special reports: Japan set to let more foreign workers in, and the G8 summit in Hokkaido

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Japan's current economic situation

In the context of surging energy costs and weakening growth in the United States, both the Bank of Japan and the Cabinet Office lowered their growth predictions for fiscal year 2008, from 1.5% to 1.2% and from 2.0% to 1.3% respectively. This will make it harder for the government to achieve its goal of having a surplus in the primary balance at the national and local government levels in fiscal 2011, sparking fears over a possible tax increase.

In the meantime, inflation seems to be back in Japan. Core inflation – which excludes volatile fresh-food prices – reached 1.5%, the highest level in ten years. Following a grim decade to 2007

during which prices fell on average by 0.2% a year, the BoJ raised its forecast for core inflation in FY 2008 to 1.8%, up from 1.1% three months ago.

Despite high oil and commodity prices, industrial production, considered by many the best indicator of economic activity, rose 2.9% in May, easing concerns about a recession. History indeed suggests a sharp fall in industrial production when Japan falls into recession. This strong figure was achieved thanks to robust exports to Asia, the Middle East and Eastern Europe.

Overall, faced with the current global economic problems, Japan is not doing too bad, thanks notably to a lower dependence on



Western economies. Indeed, its proportion of exports to non-OECD countries has doubled from 5 to 10% since 2000.

This did not prevent business confidence from falling, along with a 3.2% fall in household spending over the previous year. Rising prices of food and the prospect of lower summer bonuses are certainly at the origin of this fall.

A different approach to African development

Over 40 heads of state flocking to Japan at the same time, that doesn't happen very often. In fact, last time was at Emperor Hirohito's funeral in 1989. Luckily, Japan didn't have to wait for another notable death to gather so many

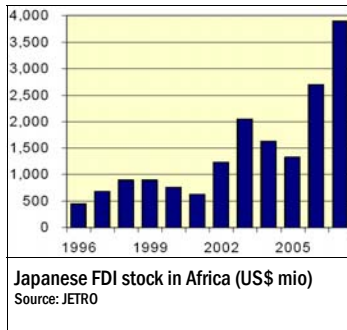
leaders. This time, 45 African leaders came to take part in the Fourth Tokyo International Conference on African Development (TICAD IV), which was held last May in Yokohama,

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A different approach to African development

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If Africa could emulate Asia's development, [...] the continent could break the cycle of poverty that has become all too familiar



Prime Minister Fukuda giving his opening speech at TICAD IV

attracted by Japan's new-found interest in their continent.

Actually, Japan's interest in the Dark Continent is not really new. After all, this was the fourth TICAD, the last of a series of conferences held every five years that begun in 1993, at a time when the international community started to forget about Africa. Japan, the world's largest donor of Official Development Assistance throughout most of the Nineties, launched TICAD "in order to refocus international attention on the importance and urgency of African development issues."

Things are now different. Economic growth in Sub-Saharan Africa has averaged almost 5% a year since 2000 – the best run since the 1970s – attracting billions of private capital from overseas. China in particular has been quick to realize the potential for fruitful investments, something that unsettled Japan and prompted its leaders to follow the footsteps of their giant rival into the heart of Africa.

Its rivalry with China, of course, is not the only reason for Japan's newfound interest in Africa. In the context of growing scarcity and rising prices of rare metals, some electronics and car manufacturers are growing worried at the prospect of someday having to face a shortage of

these resources, which form essential parts in motors, cellphones, etc. This prompted Japan to increase its efforts to get deals providing its firms with preferential access to metals such as platinum, nickel and cobalt. In January, Tokyo even opened three new embassies in Botswana, Malawi and Mali, three mineral-rich countries.

Of course, oil is also an important factor, and Japan has already started buying some from Sudan. Finally, Japan hopes to court African leaders for their votes at the United Nations in order to fulfill their long-held ambition of a permanent seat at the UN Security Council.

It is therefore in Japan's best interests to keep strong diplomatic relations with African nations. At TICAD IV, Prime Minister Yasuo Fukuda showed strong commitment to the African cause by holding 17 hours of bilateral talks with 45 African leaders and by pledging to double Japan's annual net ODA to the continent to \$1.8 billion by 2012 and extend up to \$4 billion in new yen loans over the next five years, in particular for road projects.

Tokyo will also set up a \$2.5 billion investment fund to help Japanese firms do more business in Africa in accordance with a new target to help double Japanese private-sector direct investment to the continent to \$3.4 billion by 2012. Finally,

Japan aims to help double the production of rice in Africa to 28 million tons over the next 10 years.

Japan believes that the best way to support African growth is to combine traditional humanitarian help with an Asian-style development policy, putting money into roads, ports, wells, and irrigation systems without being too fussy about good governance. The underlying message is that if Africa could emulate Asia's development, much of which rode on Japan's extraordinary rise from wartime destruction, the continent could break the cycle of poverty that has become all too familiar.

All in all, it seems that the last few years have witnessed a change of perception concerning Africa. There is now a belief that the continent has a real possibility to leave its long history of suffering behind and be an integral part of the international community. The G8 summit in Hokkaido also provided a reminder that Africa is nowadays no longer treated as a standalone topic – as it was during the 2005 summit.

Japanese firms now want to invest in Africa, and they have told the government to help them. South Africa and Egypt aside, Africa has always been considered a far-off land too risky to invest in. Now that Tokyo has begun working hard on the matter, things could change pretty rapidly.

Towards a loosening of Japan's immigration policy?

In spite of a shrinking population and increasing labor shortages, Japan has traditionally been opposed to resort to mass immigration on the grounds that its society is too homogenous to stand a sharp increase in foreign population.

Yet for the first time in a while, things seem to be moving towards a wider acceptance of this solution. The Foreign Ministry has recently announced a plan to extend the maximum period of stay in Japan for long-staying foreigners from three years at present to five years if they have a certain degree of Japanese-language ability. This plan aims at doubling the number of for-

eigners permitted to stay with specialist skills from 158,000 at the end of 2006 to 300,000 at the end of 2015.

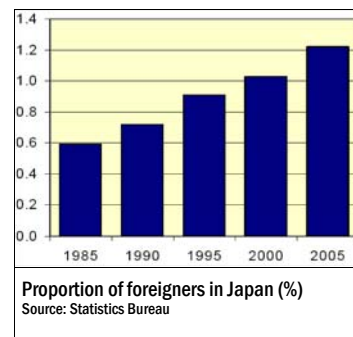
Meanwhile, a more extensive immigration plan drafted by some 80 Liberal Democratic Party lawmakers calls for Japan to accept 10 million immigrants in the next 50 years in order to reach a foreign population representing 10% of the total population.

This plan has been positively received by Prime Minister Yasuo Fukuda, yet its implementation will undoubtedly take time due to the opposition it is likely to face. Nevertheless, the fact that this plan was drafted by a large

number of powerful politicians headed by former LDP Secretary General Hidenao Nakagawa represents a big step forward for Japan.

This plan goes one step further than the Foreign Ministry's in the sense that it emphasizes the acceptance of immigrants as permanent residents, not just specialized workers who are expected to return home after a period of time.

Although the plan to increase the proportion of foreigners to 10% may sound bold, this figure remains modest compared to Western countries. For instance, Switzerland has a proportion of foreigners of over 20%.



All spotlights on Japan for the G8 summit

Eight years after having hosted the 26th Group of Eight summit in Okinawa, Japan invited the world leaders on the shores of Lake Toya in the Northern island of Hokkaido, pointing a rare spotlight on that part of the world.

Japan, meanwhile, was also keen to regain some of its previous might on the global stage. Although it still is the world's second-largest economy, its political presence in world affairs remains modest considering its importance in the global economy.

In the Eighties, the future, it seemed, was all about Japan. Then came the

'lost decade' and all the buzz went away. Now, Japan has to deal with the fact that the spotlights have shifted away onto China, its big regional rival.

The G8 summit was therefore a fitting occasion to regain some of the world's attention. Climate change being once again the main topic on the agenda, Prime Minister Yasuo Fukuda was keen to push for a breakthrough deal in this area, partly to regain some of his waning political credentials at home. How relieved he must have been when the world leaders agreed to

"consider and adopt a goal of achieving at least 50% reduction of global emissions by 2050". In particular, the inclusion of the US and Russia in the agreement can be seen as a big step forward.

Yet, as many NGOs pointed out, this can hardly be hailed as a breakthrough deal, mainly because it lacks a basis year from which the 50% cuts should be measured. There is therefore a lot of work left for next year, when G8 leaders meet again in Italy, leaving a sentiment of underachievement from this year's summit.



The G8 leaders at this year's Hokkaido summit



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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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Message from our Director General Mr. Yoichi Togo, who is returning to Japan after three years at JETRO Geneva

Dear everybody,

I have worked as the head of JETRO Geneva since June 2005, and I am about to leave now. As soon as I started this job here, I realized that Switzerland has a huge stock of investment in Japan, and is also an important trading partner. It was fortunate for me that both Swiss and Japanese people have a positive and friendly image of each other, and that both sides are eager to promote economic cooperation. Around that time, Japan was recovering from its suffering and resumed to seek international development. Meanwhile, Switzerland's GDP growth rate exceeded that of EU. It was therefore a good timing for both countries to be strong partners for mutual cooperation. During these three years, we held seminars several times, arranged many business meetings between both countries, and in most cases there have been fruitful results. Sometimes, Swiss people hesitated to consider Japan as a trade or investment target because of cultural differences. However, I can pleasantly say that their knowledge and comprehension increased through discussions during seminars or other events.

Since last year, three regional cooperation projects have started in the field of high-tech industries using JETRO cooperation schemes. Both governments are also continuing positive negotiations to conclude an Economic Partnership Agreement, which is expected to be finalized this year. There is increasing demand from both sides to promote economic cooperation as both countries, which lack natural resources and depend on high technology, seek sustainable development.

I hope that the good relation between both countries will continue, and will keep supporting it in Japan.

Thank you for your kindness during the past three years and please give your continuous support to JETRO Geneva.

Yoichi Togo