

**COUNTRY PROFILE: JAPAN****DATED: APRIL 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	1A	No restrictions

*Recent Political Highlights*

- ❑ Shinzo Abe was elected Prime Minister in a Diet vote in September 2006. However he resigned abruptly on September 12, 2007, not long after the Liberal Democratic Party (LDP) lost control of the upper house in July 2007 elections. Yasuo Fukuda of the LDP was elected Prime Minister by the Diet on September 25, 2007, to replace Abe.
- ❑ Japan's governing LDP endorsed a government plan to extend expiring portions of Japanese sanctions on North Korea for another six months. Citing a lack of breakthrough in the issues of North Korea's nuclear programs and its abductions of Japanese citizens in the 1970's, Tokyo plans to extend the sanctions until mid-October.
- ❑ The next general election does not have to be held until September 2009, but the ruling LDP is expected to call one during 2008 due to disputes over the supplementary bills associated with the 2008-09 budget.

*Recent Economic Highlights*

- ❑ Japan is the third-largest economy in the world in purchasing power parity terms and the second-largest at market-exchange rates. It also boasts one of the world's largest markets with a population of about 127.5 million. The rapid ageing population has implications for the structure of the future labour force, the savings rate and the government's budget.
- ❑ Maasaki Shiaraka, who took over as the head of the Bank of Japan, faces the daunting challenge of preventing the world's second-biggest economy sliding into a recession amid growing downside risks both at home and abroad. The appointment of Shirakawa ended a three-week leadership vacuum at the Japanese central bank due to a political stalemate when the 72-year old predecessor, Toshihiko Fukui, stepped down on March 19. Combined net profit at Japan's six major banks is estimated to have dropped more than 40% for the year to March 2008, weighed down by losses related to the US subprime mortgages.
- ❑ According to economists Japan's GDP is expected to grow between 1.3 and 1.8% in 2008, slower than the government's projection of 2%. The EIU has revised down its GDP growth forecast to 1.1% in 2008 and 1.3% in 2009, following sharp appreciation of the yen against the US dollar in March and upward revisions to 2008 forecasts for oil prices. Japan's economic growth is at risk as soaring raw-materials costs squeeze profits, forcing companies to cut spending and wages. Japan's currency has risen 9.7% against the dollar.
- ❑ According to the OCED, tax reform is an urgent priority for Japan as it needs as much as 5 to 6% of additional government revenue just to stabilise public debt that has risen to 180% of GDP.
- ❑ The Japanese economy is grinding to a halt due to unpredictable government policies that discourage foreign companies from investing in Japan and local consumers from spending. The revision to construction standards law that came into effect last year has resulted in tougher rules and some builders have gone bankrupt. An estimated 500,000 jobs are expected to be lost in the industry. Direct investment in Japan by foreign companies plummeted to less than 500 billion yen in the latter half of 2007, from roughly 2.2 trillion yen in the first half.
- ❑ The number of corporate bankruptcies in fiscal 2007 through March 31 rose 7.7% from the previous year to 14,366, up for the second straight year. The debts they left behind grew 6.41% to 5.8 trillion yen, rising for the first time in seven years. Business confidence among Japanese companies fell in Q1'08, to hit a record low, reflecting surges in crude oil and other raw material prices as well as heightened uncertainty surrounding the global economy. Transport and telecommunication industries saw a 28.2% rise in bankruptcies, while retail saw a 28.1% increase and services saw a hike of 24.3%. 3,043 firms connected to the construction industry filed for bankruptcy in FY2007, accounting for about 26.9% of the number of bankrupt firms. Seven listed firms filed for bankruptcy in 2007, while 1,819 self-employed people did the same, increasing by 36%. In March the number of bankruptcies were up 23% y/y; however aggregate liabilities decreased by 3.6% to 455.9bn yen.
- ❑ A year ago, the lack of new models was believed to be the main factor inhibiting growth in the domestic auto sales, as they continued to slump throughout the year. Now, despite the fact that Japan's automakers have been on a binge of releasing new models, new auto sales are still not picking up. In March, new auto sales fell 3.3% to 471,755 units, according to Japan's Automobile Dealers Association.

*Latest Trade Developments*

- ❑ Main exports: transport equipment, motor vehicles, semiconductors, electrical machinery and chemicals.
- ❑ Main imports: machinery and equipment, fuels, foodstuffs, chemicals, textiles and raw materials.
- ❑ Major trade partners: US, China, South Korea, Taiwan, Hong Kong, Saudi Arabia, UAE, Indonesia and Australia.
- ❑ South African exports to Japan amounted R50.4bn in 2007 and R41.3bn in 2006. Meanwhile imports from Japan totalled R36.9bn in 2007 and R30.2bn in 2006.
- ❑ The United States pledged to keep urging that Japan fully open its beef market by lifting an age limit and other restrictions related to mad cow disease fears. Japan was the largest importer of US beef before banning US beef imports in December 2003, when the first case of the disease was discovered.

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