
Osaka Renaissance News

No 6 June 2004

Welcome to “Osaka Renaissance News” - the email newsletter of Osaka City Government’s “Urban Revitalization Task Force”.

The Osaka Urban Revitalization Task Force

We are the first *City Task Force* established in Japan to address urban regeneration and revitalization at the same time. For this we are also collaborating with the central government’s “Urban Renaissance Program”. The role of the task force is to coordinate and promote the set of initiatives that taken together form the Osaka Revitalization Plan.

.....

This Issue: Foreign Direct Investment

“Osaka Renaissance” is distributed through multiple email channels to spread the word about the new and most important initiatives taking place in Osaka. This month’s issue is about foreign direct investment and how the city is aiming to create a cosmopolitan, open, and dynamic city, especially in the field of knowledge-based industries.

.....

The Osaka City Blue Print for Urban Revitalization covers:

- Urban regeneration
 - Business stimulation (notably in knowledge industries)
 - Tourism and life-style services
 - Education – especially professional and life-time learning
 - Foreign direct investment
-

CONTACT POINT

Osaka City Urban Revitalization Task Force

Toru Takahashi, Deputy Director, Office of the Urban Revitalization Committee

Tel: 06 6244 4315

Fax: 06 6244 4307

Email: ea0012@ii.city.osaka.jp

URL: www.osaka-saisei.jp/eng/index.html

FOREIGN DIRECT INVESTMENT

Contents

- ◆ (1) Commercial capital of Kansai
- ◆ (2) Link with urban regeneration
- ◆ (3) Reasons to invest
- ◆ (4) Investment promotion program
- ◆ (5) New focus on existing investors
- ◆ (6) Role of M&A

Author's Introduction

One reason our company is in Osaka is that we don't follow the herd. Of course, the pastures are green in Tokyo. But, there is plenty of room for growth in the green pastures of Osaka too. Many companies fail to look at this option because they are not adequately informed of the opportunities. The first step therefore is to broadcast the wide welcome Osaka extends to foreign investment.

Our company helped to conduct a market feedback evaluation of what foreign companies with headquarters in Osaka feel are the strong points of foreign direct investment in Osaka. The answers were: much lower operating costs compared with Tokyo; access to a regional market economically the size of Canada; the number of small and medium size companies with which it is possible to form partnerships; the existence of important technology clusters; and a superior quality of life compared with Tokyo.

Osaka's support for foreign direct investment is led by the newly-elected Mayor of Osaka, Hajime Seki. In April, he visited New York and Chicago to

promote foreign investment. At the end of May, he hosted a large foreign business networking reception in Osaka at which the ideas of the foreign business community were presented. He also appeared in an advert, which was carried in a special edition of the Financial Times on April 27th, in which he declared his vision of a city open to the world. Leadership will make a major difference to the way the city achieves its goals of becoming open, cosmopolitan, and consequently a preferred location for foreign investment.

Osaka's vision is to become a knowledge-intensive, lifestyle city, modelled after the urban regeneration successes of regional cities in Europe and the US. It has appointed foreign advisers to help develop strategies which will attract more investment within the context of urban regeneration. With the two other cities of Kobe and Kyoto nearby, forming a Greater Osaka area, the city can be confident of having a winning investment proposition to offer.

Alex Stewart

OSAKA RENAISSANCE NEWS

No 6 June 2004

The Osaka City Revitalization Task Force has commissioned Alex Stewart to author this series of newsletters. He is the president of Alexander Capital Access Co., Ltd., an investment catalyst and PR communications company based in Osaka. He is also an Executive Adviser to the Osaka City Revitalization Task Force. Questions about these articles can be directed to him at: alex@ac-access.com

FOREIGN DIRECT INVESTMENT

In this issue we look at how Osaka is actively seeking to increase foreign direct investment.

Commercial capital of Kansai

Osaka city is the commercial capital of the region called Kansai, which is a region as large as Canada, measured on a GDP basis. In 2002, 258 foreign affiliated companies had their main office in the Kansai, out of which 159 were based in the Osaka area (62%). The foreign presence is strong in pharmaceuticals, where companies like Astra Zeneca, Abbott, and Schering Plough have made their headquarters. Bayer has longstanding links across its product fields in Osaka. The other area to attract foreign investment traditionally is speciality chemicals. Here companies like National Starch of the UK and Bayer Polymers are representative, along with many smaller specialised companies from the US and Europe.

Foreign direct investment is a key priority of central government, which has plans to double investment over a five-year period. The consensus is that foreign investment is essential in order to compete in a world where capital is increasingly mobile. Osaka has several longstanding initiatives to promote

FDI. In April 2003, it consolidated the activities of two international trade promotion groups, Sister City Business Network and the World Trade Centre Osaka, into one inward promotion agency, called the Osaka International Business Promotion Center (IBPC). In the fiscal year, ending March 2004, IBPC assisted a total of 31 foreign affiliated companies to set up operations in the city.

Link with urban regeneration

Even more important than the hard infrastructure is that there is a new mindset that recognises FDI is central to the city's revitalisation plans. Osaka's new revitalisation program differs radically from the Bubble era, when government was recycling surplus funds into large property projects. The new approach is to link urban regeneration with business stimulation and tourism. There are many successful models of cities around the world which have succeeded by focusing on these areas, thereby in the process attracting higher levels of foreign investment.

It was with this knowledge in mind that the Mayor of Osaka, Dr. Hajime Seki, travelled to New York and Chicago in April. It had two goals: to raise the profile of Osaka with important members of the investment community, and to strengthen linkages, especially with investment-related institutions. The new story to tell was that Osaka is undergoing profound change, it has exciting new development projects, and it provides a new investment opportunity for many different kinds of company.

To strengthen the power of this message the city has appointed several international executive advisers. Our company, Alexander Capital Access, is responsible for global media promotion (helping to spread the word that Osaka is open for foreign investment); a multinational urban planning consultancy, DEGW, has been appointed to advise about urban regeneration strategies; and a multinational real estate consultancy, CB Richard Ellis, is helping to market Osaka to prospective investors in the US. In addition, the city is working with foreign investment banks to reach other prospective investors. The Urban Revitalization Task Force, sitting under the authority of the Mayor is the group to which this advice is initially provided.

Reasons to invest in Osaka

Osaka has a number of compelling reasons that make it attractive for investment. The first is that the cost of doing business is significantly lower than Tokyo. Office rentals are at least 30% lower, land prices over 40% lower, wage costs 15% cheaper, housing rents 30%, and so on. The cost of operating in Osaka therefore is no more expensive than in most regional cities in Europe. Often times this comes as a surprise to foreign business

people, still educated to think of Japan as expensive, and failing to differentiate Tokyo from the rest of Japan.

Osaka serves as the hub of the Kansai region with a transport network which includes two major airports, and a world-class port. There are around 20 million consumers living in the region, the majority of whom are within a one-hour train ride of the city. This provides significant opportunities for foreign companies since it allows them to test a large regional market before broadening out to the rest of Japan. If the product is chiefly for the domestic market, there is no need to move the head office to Tokyo. Both Procter and Gamble and Nestle, two of the most successful consumer companies in Japan, operate from Kansai bases.

An advantage of operating from a base within a regional market is that establishing business relationships is easier than in Tokyo. Osaka has a large number of small and medium-size companies, while there are relatively few foreign companies to compete for their attention, unlike in Tokyo. Smaller companies are generally faster at making decisions and more open to collaboration. Examples of companies which have made a successful launch from the Osaka area include the French retail store group, Carrefour, which focused its store openings initially on the Kansai area, and the coffee chain, Seattle Best, which has found it easier to establish a second coffee brand in Japan by avoiding direct competition with Starbucks in Tokyo.

Osaka contains a number of world leading technology clusters. Notable ones are: robotics, consumer digital electronics, flat panel displays, electronic components and micro devices, specialised chemicals,

environmental-related technologies, bio and pharma, and speciality textiles. To illustrate the opportunity for foreign companies, in April Matsushita announced plans to build the world's largest PDP (plasma display panel) plant on a site next to Osaka. It is a joint venture with Toray, a textile-based company, which has its roots in Osaka. IXYS Westcode, a UK-based company, which supplies among other things, the power switches for driving the pixels on flat displays screens, recently located its Asian representative office in Osaka in order to increase its chances of acquiring business in such new areas.

Osaka also offers the advantage of a central location between the main markets to the east (Tokyo) and the west. This makes it a preferred location for importers, notably foodstuffs and building materials. However, the most notable activity is trade with China. More than half of the trade carried by the port of Osaka is with China, up from less than 10% 15 years ago. The extent of this trade is creating a sense that its future lies with Asia. It is also affecting the pattern of investment, not only from Osaka, but from Asia into Osaka. Asian companies now constitute the majority of new investors by number. For example, of the 31 companies, which established operations in Osaka last year, ten were Chinese and five were Korean. The total number of Chinese companies, which established operations in Japan was 54, so the number in Osaka represented nearly 20% of the total (similarly, 83 Korean companies opened offices in Japan, of which five, or 6% of the total, located in Osaka).

Quality of life is another important factor in influencing foreign investment choices. Surrounding Osaka are mountains and sea; it is a

short commute from pleasant residential areas; and there are many attractive areas to visit around the city, including Kyoto, only 30 minutes away by train. Owing to the longstanding foreign presence in Kobe there is a good choice of international schooling. There is also a social infrastructure of clubs, associations, and places to worship, all of which helps to sustain an international quality of life. Tokyo is a huge, sprawling urban jungle by comparison. People who have lived in both the Kansai and Tokyo, for any length of time, invariably say they would rather live and work in Kansai.

Investment promotion program

Osaka offers a comprehensive inward investment support service. This includes several incubation offices for companies which want to test the market first. These offices are generally free of charge, and for qualifying companies can be used for as long as six months. Another service is business matching, where IBPC will help companies to find a partner in order to accelerate their entry into the market.

Subsidies are available for companies which operate in areas that the government designates "priority industry areas". They are: Medical and Welfare, Living and Culture, Information and Communications, Environment, Education, Biotechnology, Nano-technology and Robotics. The list gives a good idea of the kind of economy Osaka wants to build. The amount of subsidy depends on the company's scale of investment. It includes rental and start up costs, as well as professional fees for licensing, registration, and market research.

The extent of the city's support efforts have been acknowledged by the

Ministry for Economy, Trade and Industry (METI) which has designated Osaka as a leading centre for inward investment. Further information about investment incentives can be found at either of the following sites: <http://www.ibpcosaka.or.jp/> (provides information about the services provided by the inward promotion agency) and <http://www.osaka-saisei.jp/> (gives useful background about the city's plans to stimulate and promote foreign direct investment).

New focus on existing investors

A key point of differentiation with other regional cities' FDI promotion efforts is that Osaka is reaching out to the foreign business community within its walls. In February, it organised three networking luncheons for groups of foreign businesses, which had two purposes: 1) to establish a pipeline with the existing business community, and 2) to hear their views about the strengths and weaknesses of the city's FDI promotion. The feedback from these meetings and the supplementary questionnaires, which companies answered, was presented at a formal reception for the foreign business community held at the Mayor's Mansion on May 31st.

Representatives from about 25 foreign companies headquartered in Osaka attended the event, as well as leading officials from the government. The Mayor, Dr. Hajime Seki, declared in his speech that the need to keep existing investors happy was as important as PR to attract outside investment. The point is, if existing investors are happy it will make it easier to attract other investors, which will be more effective than PR measures alone. The result of this is that the city is expected to put more emphasis on "after care services" for foreign companies. Up to now this has

been missing in Japan. On the other hand, in countries like the UK, where inward investment promotion has been operating for many years, after care accounts for as much as 50% of the activities of inward investment agencies.

The foreign business community also encouraged the city to strengthen its vision of a Future Osaka. Werner Geissler, head of Procter and Gamble North Asia, who attended one of the networking luncheons, proposed that the city develop an "aspirational vision" such as P&G develops for its products. The reason is that companies are more likely to stay, and more companies to come, if they believe Osaka has an exciting future. Osaka's revitalisation strategy offers a vision and a way forward, and with the support of the foreign business community, the city hopes to keep improving its service and its prospects so that a virtuous cycle of investment ensues.

Role of M&A

The foreign business community also commented on the role of M&A. Previously the Japanese view was that M&A involving foreign companies was undesirable. Now it is acknowledged, especially in Osaka, that foreign know-how and funding is necessary to stimulate the economy and increase its international competitiveness. The American Chamber of Commerce in Japan has been stressing recently that M&A is one of the most effective ways to expand foreign direct investment. At the Mayor's reception party, the president of the Kansai chapter of the ACCJ, Norman Solberg, who is an attorney at law based in Osaka, pointed out that M&A is especially effective when it gives the foreign company

more operating freedom, which is often lacking in a joint venture.

There have been at least two notable M&A transactions by foreign companies in Osaka in recent years. One involved a French company, Schneider Electric, which in 2002 acquired almost 100% of the shares of privately-owned, Digital Electronics, headquartered in Osaka. Digital is a world leader in Human-Machine-Interface systems, while Schneider is a world leader in power and control systems. The acquisition helped to fill out Schneider's product line in a key area and provided a point of entry to the Japanese market, which it was missing before. One of the proponents of the deal, Michel Ramser, who is in charge of the HMI activity for Schneider, based in southern Osaka, comments: "before the acquisition we had not achieved serious penetration of the Japanese market, despite many years of trying. After the acquisition many more doors have opened!"

The other major M&A transaction developed out of an Osaka-based joint venture between Abbott Industries of the US and Osaka-based Dai Nippon Pharmaceutical. Through its joint venture, Dainabot, Abbott launched in

2002 a successful tender offer for all of the shares in Hokuriku Pharmaceutical. "Abbott's decision to pursue full ownership of Hokuriku underscores our commitment to building a broader presence in Japan, the world's second largest health care market," said Holger A. Liepmann, vice president, Japan Operations, Abbott Laboratories, and representative director and executive vice president, Dainabot

Currently there is increasing activity by foreign funds looking for investment targets in Japan. Companies established in Japan can obtain low cost funding, while local banks are less able or willing to finance companies which have poor balance sheets. In addition, outside Tokyo, operating costs are not significantly high relative to the size and sophistication of the Japanese market. Within Japan, the Kansai is the largest market after Tokyo and can justify special attention in its own right. Therefore for foreign companies the timing for market entry is excellent, either directly, with a partner, or through acquisition, like Schneider Electric.

THE END
