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# Osaka Renaissance News

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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 issues within a common framework. We also collaborate 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.

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“Osaka Renaissance News” is distributed through multiple email channels to spread the word about important initiatives taking place in Osaka.

## **This Issue: Investment U-Turn**

Matsushita’s decision in 2005 to build their flagship PDP plant on Osaka Bay has helped trigger an investment U-turn into the Kansai region, with benefits for a range of industries, including the port and KIX cargo hubs.

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## **The Osaka City Blue Print for Urban Revitalization addresses:**

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

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# INVESTMENT U-TURN

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## AUTHOR'S INTRODUCTION

Something is going on in the manufacturing sector around Osaka, which is not widely reported. It is a massive expansion in investment in digital electronic parts and materials manufacture to support the industry's major brand leaders in flat panel displays, notably Matsushita and Sharp. As a result, the Osaka region is becoming the manufacturing hub for parts and final products for not only Japan, but the whole world.

This is in stark contrast to how things stood just as recently as 2000. It was so bad then that the regional power utility, Kansai Electric, established an internal department to work with local governments to attract more inward investment. It was soon after that however that the digital electronics industry started to expand investment in new flat panel displays. First Sharp and then Matsushita set off a chain of investments by parts and materials suppliers. By 2005, some 40% of new investment in the consumer-related and IT parts industry was concentrated in the Kansai region. Chairman of Kansai Electric and chairman of the Kansai Economic Federation, Yoshihisa

Akiyama, stated in his 2006 New Year address to the leaders of the business and government communities in Osaka that companies from now on would invest more than 50% of their capex in the region and the rest outside (meaning principally Asia).

The success of Matsushita and Sharp in restructuring their operations is enabling them now to reinvest in keeping ahead in the technology race. This is supported by the high level of manufacturing and process skills which exist in the Osaka and Kansai cluster making it possible for Matsushita and Sharp to preserve a lead in high-end products. Their competitive position is supported by the role of China as a low-cost manufacturing centre for standard parts. The improving price competitiveness of the port and air cargo services at KIX is giving Osaka and Kansai companies a time and price advantage over companies based further north in Japan. All of this is underpinning the manufacturing renaissance and supporting the development of Osaka as a distribution hub.

**Alex Stewart**

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## INVESTMENT U-TURN

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**The consumer electronics and IT sectors are enjoying a capex investment boom.**

### **(1) A new reality**

Reality and perception take time to come into line. In the Kansai region around Osaka the standard perception has been that manufacturing has moved offshore to cheap producer countries causing a hollowing out. This is only half true. The actual reality is that in the last two years a huge amount of investment has been rolling in.

There was a hollowing out in the second half of the nineties, due to plant investment moving to Asia, especially China. The Osaka economy suffered, with factory closures, and job losses. However, the perception still lingers that manufacturing is in freefall. While the lower end of the value chain is certainly suffering, in the area where Osaka and Kansai is strongest – digital electronics – the situation is opposite – manufacturing is booming!

According to a report published by the Kansai Institute for Social and Economic Research in July 2005, 11 companies in the Kansai region accounted for 40% of all corporate investment in digital electronics in Japan. In other words, capex was heavily concentrated in the Kansai/Osaka region with many secondary benefits for the wider economy.

### **(2) Flat Panel Displays**

The boom in manufacturing investment centres on flat panel tv displays, digital cameras, cell phones and DVDs. Growth in these markets

has been strong since 2002. The positive effect on the Kansai-Osaka economy, however, is only now starting to be recognized. Growth is set to continue over the next few years as new products and applications based on flat panels are spawned. The magnitude of the new market is reflected in the predictions by Japan's Ministry of Economy and International Trade, that the global market for flat panel displays would grow to JPY 10 trillion per year by 2010, up from JPY2.7 trillion in 2002.

Two Osaka-based companies, Matsushita and Sharp, lead the industry worldwide in production of flat panel displays: Sharp in Liquid Crystal Displays, with a 19% global market share; Matsushita in Plasma Panel Displays, with a 26% share (as of 2005). That means the Osaka/Kansai region is the centre of the flat panel display industry worldwide. Osaka-based Sanyo Electric is also another important player.

### **(3) Technology Cluster**

Behind these companies stand a wide range of partner firms, and affiliates, who ensure timely product development, manufacture and distribution. Production of liquid crystal displays requires the use of colour filters, liquid crystal materials, glass substrates, polymer films, polarizing filters, semiconductors, etc.,. It also needs sophisticated production equipment to produce them.

The partner companies and affiliates are themselves global suppliers; most of the digital electronic devices sold in the world contain their parts and materials. They include companies like Nitto Denko (which has a commanding share of plastic materials and film used in flat panels), and glass makers - Nippon Electric Glass and Asahi Glass - which are major suppliers of glass substrate materials. There are many more smaller companies with number one shares in a specialized area. Major textile-related companies, strong in Osaka, have also adapted their core technology to produce key parts and materials for flat panel displays. There are also foreign firms operating within the supply chain, with local production plants. Examples are: Sumitomo 3M, which has a plant in Shiga, and Nitta Haas, headquartered in Osaka (in which Kyoto-based Rohm has a leading share through its purchase of Haas Electronic Materials in the US).

#### **(4) Supply Chain**

These companies work within integrated supply chains, similar to the way in which Toyota organizes the auto parts and materials industry around Nagoya. It requires extremely well-organized supply chains and disciplined work forces to execute successfully. This is what makes Toyota so successful in the Nagoya area - and it is being replicated by Matsushita and Sharp across the Kansai region. It is also a major factor driving the expansion of investment in the region. For example, when Sharp established its main centre for the production of LCD panels in Kameyama, Mie Prefecture, in 2002, it requested major suppliers to establish plants in the same area - the so-called "Crystal Valley" - in order to create a tightly-knit and well guarded supply chain.

Companies like Sharp and Matsushita have also weathered intense competition by manufacturing standard parts and components at plants in Asian locations, especially China. Much of this production is concentrated in the hinterland of Shanghai, only a short air ride from Osaka (and one hour closer than Tokyo). The key to profitability is speed to market since in the high-value digital electronics field, the innovation cycle is all important before low cost OEM producers undermine profitability.

Other reasons for local investment are lower land prices since the Bubble era; the share of labour costs is relatively small in highly automated plants; reliability and quality are essential to maintain a strong brand. Besides this, the risk of depending on China has become more obvious following the street protests against Japan in 2005. There is also the problem of leakage of Intellectual Property. Hence Sharp's LCD complex in the "Crystal Valley" of Mie Prefecture is protected like a top secret military research establishment.

#### **(5) Overcoming the recession**

All of this activity contrasts sharply with the situation as recently as 2002. In that year the number of factory starts in the Kansai region recorded their lowest number, based on data published by the Ministry of Economy and International Trade. The 1990s were the period of the long Heisei Recession which forced companies to close down unprofitable operations, and concentrate resources in strategic areas. In the case of Matsushita, it made drastic cuts in its work force, closed and rationalized plants, and eliminated waste along the supply chain, including cutting suppliers to

one third of the former level. Many affected suppliers had to close operations or move offshore to compete on price. The surviving ones however were also strengthened and could reinvest. This supported the powerful revival of the manufacturing economy.

At the low point for the economy, in 2000, the major companies in the Osaka region, led by the Kansai Economic Federation (Kankeiren) weighed in to help attract investment. They established the “Kansai Partnership, modelled after San Francisco’s privately-funded inward investment program. Kansai Electric Power (KEPCO), also established a department with the goal of supporting local governments to attract investment into the Osaka and Kansai region.

The KEPCO department reports to a member of the board, Mr. Hirufumi Tayama. He condenses the reasons why companies are investing to four Chinese characters – “An-Kin-Tan-Shu”. The first is: “Cost” (An) which includes good access to transportation, stable electricity, and time to market; the second, “Close” (Kin) – near to the supply chain; the third, “Quick” (Tan) – because local governments are aggressive in offering non-stop services to investors (Tayama calls it ‘non-stop’ service, not ‘one-stop’ service); finally “Concentration” (Shu) refers to the way government, industry and academia are collaborating to speed up technology development.

#### **(6) Matsushita’s PDP Plant**

KEPCO’s greatest success was in 2004 when it leased the site of a former generation plant in the Osaka Bay Area to a joint venture of Matsushita and Toray for the production of PDP

plasma display panels. Several factors made it possible. First was the deregulation of the 40-year old Factory Law, which limited construction of factories in urban areas. Second, was the “quality of location” – near the joint venture’s respective R&D laboratories in the Osaka area. Other positive factors were the size of the area (potential land area of 33 hectares); power and water recycling facilities on hand; close to the port and expressway to Kansai International Airport; and also negotiations with local governments were handled quickly and smoothly. Construction was completed in record time.

In January 2006, the joint venture announced plans to construct a second plant, with twice the capacity of the first. According to KEPCO’s Tayama the investment helps secure a leading role for the production of advanced digital devices in the Osaka and Kansai region well into this century. It will also help generate new kinds of demand for software-based services, since the characteristics of Flat Panel Displays – for example, portability, space saving, picture quality and large formatting - create opportunities for presenting information which enhances entertainment, fashion, business communications, health delivery, and so on. The multiplier effect therefore is great.

For Osaka, the benefit of increased production, exports, and port activity is reflected in rising tax revenues, on which the City depends to finance its “renaissance”. Unsurprisingly, China and Digital Electronics are described as the “divine winds” of the Kansai and Osaka economies.

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