

January 8, 2010

Issue No. 41

Osaka Renaissance News

Special Notes:

- Message from Paul Dupuis
- Osaka's Economic Potential
- Tokuda Yuhei: Insights from the Urban Industry Promotion Center

Individual Highlights:

Creating New Demand at Home and Abroad	3
Assessing the Current Situation and Charting A Way Forward	4
About Us	7

"Get Across the Bridge"

It's hard to believe that the financial crisis which sent shockwaves across the globe began just over one year ago. Regardless of where one does business, it's nearly impossible to find an industry which has not been affected by this crisis and the drastic fallout which it delivered. Nevertheless, many businesses have survived, and most (if not all), have applied some sort of *kaizen* in how we operate our businesses.

Right here in Osaka, the crisis hit in the midst

of a consolidated effort across the city to revitalize the economy and its infrastructure. In true Osaka style, throughout this economic storm, major projects continue to forge ahead: These include the JR Osaka station re-construction, the massive Umeda Kita-Yard project, Hankyu and Mitsukoshi department store construction in Umeda, Nakanoshima beautification, several new multi-function office /retail developments along Midosuji, etc...

All of this raises the question: *"If we build it, will they come?"* Time will certainly tell, but one thing is clear; in the face of this storm, Osaka businesses, both domestic and global, continue to fight their way across the bridge. As we continue to learn at our Foreign Business Network gatherings, there are indeed some great things happening in our city. But first, we need to get across this bridge.

Paul Dupuis, Adviser to Osaka City & Chair of FBNC

Osaka's Economic Potential

Where can we draw inspiration when it seems that all around us are crumbling with no end in sight? When once-mighty companies, such as Lehman, are no longer with us, it is understandable for people to question the ground upon which they stand. And to ask, "How safe is my business if even companies that seemed to "rule the world" have gone down, leaving very little trace?"

If you are an Osaka-based business a good

place to start would be the Urban Industry Promotion Center, under the leadership of Tokuda Yuhei, which continually takes the pulse of the Osaka economy.

On July 1st, 2009, Mr Tokuda shared with members of the Osaka Foreign Business Network Club, held at the Osaka City Mayor's Mansion, some of the insights from his research and his professional opinions about the potential of

the Osaka economy. He also touched on what businesses in the Osaka area can do, not just for the sake of survival, but in fact, to thrive.

In the next few pages, please take the time to acquaint yourself with some of these key findings; you are certain to feel something of the rush of confidence that you once felt, in regards to your business or industry and in your choice of Osaka as the place to set up.

AUTHOR

Osaka City has commissioned Paul Dupuis to author this series of newsletters.

Paul Dupuis, Director of West Japan for Wall Street Associates, is a business development adviser to Osaka City, Osaka Prefecture and is a key member of the Kansai Economic Federation roundtable.

He is also an Adviser to Osaka City. Questions & suggestions about these articles may be directed to him at:

 paul.dupuis@wallstreetjapan.com

Tokuda Yuhei: Insights from the Urban Industry Promotion Center**Introduction**

The Urban Industry Promotion Center in Osaka supports the growth and success of small and medium-sized businesses through the presentation of seminars and workshops, as well as the development of incubation programs. The organization, under the leadership of Tokuda Yuhei, bases its activities upon solid ongoing research focusing primarily on the Osaka area but also, encompassing the whole of Japan when need be. The Center publishes a monthly bulletin that highlights some of their key findings and has a number of publications, including one that captures “The Economy in Figures.” This particular publication is available only in Japanese.

Trend-line of the Recession

Research from the frontlines of business, including retail stores, restaurant managers, travel agents, taxi drivers and corporate executives, indicates that the peak of business activity in recent years was March 2006. From that point, however, there was a steady decline till January 2009, after which some steady signs of recovery began.

Though the economic picture has seemed bleak in recent months, in terms of real value, there were some perceptible signs of strength and growth along the way, driven by two key factors that is, the digital revolution and the fluctuations in the price of crude oil in 2008. The keen-eyed would have noticed that one company that seemed to defy all the odds was Nintendo, which continued to make a profit, thanks to the large number of people who choose to remain at home and partake of the so-called “Nesting Consumption” or cocooning.

Understanding the Consumer Base

It is important to note that consumers are really the creators of demand. On the domestic front, the three groups of consumers may be characterized as high income, middle income, and low income. The low income group includes the unemployed, whose numbers have been on the rise since the recession. It is obvious that too much supply of labour in the marketplace means that wages, such as those for daily dispatch workers go down along with total income.

For those in the middle income bracket, the overall decrease in business activity means that workers cannot count on overtime rates and bonuses, both of which are considerably decreased. Restructuring of the workplace in response to the dire economic conditions, also means that some of these workers may end up at the lower levels, after they have been laid off. Because of the limited number of positions at the higher rungs, minimal company profits, and decrease in the price of stocks, income goes down, forcing people at this level to dip continually into their savings.

When conditions become such that a company goes bankrupt, those at the higher levels, including managers, directors, and other executives, find themselves falling straight down to the low income level.

...continued on page 3

Creating New Demand at Home and Abroad

In such a climate, you can imagine how difficult it would be to sell high quality materials. Not surprisingly, many enterprises begin to focus on lower cost private brands (PB) and other low-priced materials. The result is further shrinking of domestic demand. Considering that the recent recession was worldwide in scope, the conditions described above similarly apply to many overseas markets.

The “usual suspects,” Canadian, Austrian, and Australian cities, ranked the highest with Osaka being ranked 13th while Tokyo was ranked 19th.

To be sure, the subprime crisis that hit in 2008 did not help Osaka’s situation. And the energy crisis at the beginning of 2008 did further damage, bringing Osaka down in the rankings for potential investment, below Tokyo and Singapore.

Osaka, however, remained on a par with Beijing and Guangdong and maintained a higher ranking than Bangkok, Auckland, Manila, and Jakarta.

To put matters into perspective, it seems that one of the key reasons for Osaka’s position was the relatively low cost of living. From that point of view alone, someone coming to do business in Japan may consider Osaka over Tokyo.

Japanese Business Executives’

View of Osaka

A survey conducted by Mr Tokuda Yuhei two years ago revealed some interesting elements about the image that some of the most influential business people in Japan have of Osaka and its people, both in terms of personal and business characteristics.

...continued on page 4

A lot of companies have chosen to downsize, and maybe that was the right thing for them. Our belief was that if we kept putting great products in front of customers, they would continue to open their wallets.

- Steve Jobs (Apple CEO)

Breaking the Impasse

If both the domestic and foreign markets seem to be suffering, how can companies make their much-needed breakthrough? To recover a more vibrant economy, it is necessary to look for new demand both in the domestic and foreign markets.

Where Osaka Fits In

Before the widespread recession, Osaka managed to garner interest, in 2007, for example, as the leading target for investment in Asia. In fact, Osaka came in first, ahead of Tokyo and Shanghai in this regard. This survey was based on a survey conducted by the *Economist* Intelligence Unit (EIU), a part of the leading British magazine, which surveyed 140 cities around the world in terms of the quality of medical services, safety, cultural environment, economy, and infrastructure.

**Fall seven
times;
stand up
eight.**

- Japanese proverb

Assessing the Current Situation and Charting a Way Forward

Among the specific items listed on the survey were the following:

- Strong willed
- Powerful
- Aggressive
- Friendly
- Strong interpersonal skills
- Marketing ability
- Flexibility
- Information gathering skills
- Reliability
- International outlook

It emerged that Osaka people were considered “highly independent and strong-willed.” Next was being powerful and aggressive; this special character of Osaka people was recognized by both executives in Osaka and those in Tokyo.

Concerning friendliness, the ability to form personal relations, Osaka people also scored high. While Tokyo people were ranked higher with respect to overseas business and information gathering ability, Tokyo and Osaka people were rated about the same in terms of marketing expertise.

It must be noted that in tough times, marketing ability and exerting a powerful presence are critical, which puts Osaka on a good footing to get out of the recession faster than some other cities.

In the restaurant and personal services business sectors, which are high growth areas in Osaka, the consensus among executives was that Osaka rated higher than Tokyo. Besides, regarding the processing and assembling industries or metal-related manufacturing businesses, however, it was the view of executives from Osaka and the Kansai area that Osaka’s prospects were better than that of Tokyo.

Osaka: Steady as She Goes

In 2008, there was an indication of an inflow of young people to Osaka. The influx has involved mostly people in their 20s, which translates into a city that is getting younger and younger in its outlook.

While about 2000 people in their 30’s have been leaving Osaka yearly, this is balanced somewhat by an influx of people in their 40’s and over. Happily, those in their 40’s and 50’s have become a good market base for condominium construction companies in the city. Clearly, the high purchasing power of people in these age brackets is a boon to the city of Osaka.

Accumulation of Companies

Currently, products that are attracting the greatest attention of consumers and hold promise of being globally competitive include liquid crystal or plasma flat screen television sets. After 2002, there was a big increase in exports of these products. There was a decline in 2004, however, shortly after hitting a peak. Also, digital cameras and video cameras made in Japan make up more than half of the world’s production. Unfortunately, there was a decrease in the export of these products in 2008.

Japan has maintained a strong position in the automobile export sector, and of late, energy related products such as solar and lithium ion batteries are showing accelerated production in line with increased demand around the world. These high-demand products, that is, solar and lithium ion batteries, as well as other high technology products, which are the main target for investment in the future, are concentrated mostly in the Osaka/Kansai area.

Companies such as Sanyo Electric Company, Panasonic Energy Company, Sharp, Kyocera, GS Yuasa, Kaneka, and other leaders in the field are contributing to this worldwide revolution from their Osaka/Kansai base. There are indications that there is going to be increased cooperation between energy companies in the Osaka/Kansai area and automobile companies centered in Nagoya area.

...continued on page 5

Osaka City

Yoshio Bono, Manager for
International Promotion,
Office of the Mayor

Tel: 06 6208 7276

Fax: 06 6227 9871

Email: y-bouno@city.osaka.lg.jp

We're on the Web!

Visit us at:

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

Port Activity: International Trade

Between 2004 and 2007, among five major ports in Japan, including Osaka, Tokyo, Yokohama, Nagoya, and Kobe, the rate of use of these ports in terms of total export amount increase roughly 10%. In 2008, however, there was a slide across the board into the negative. Only Osaka maintained positive growth at 3%.

The difference between Osaka and the other ports, in terms of shipments to Asian countries, is quite significant. In fact, Osaka came in at the top in 2007, ahead of China and other foreign ports, and has continued to go from strength to strength. The Port of Osaka is the largest export port for product exports to Korea. Osaka's share of exports to Taiwan is also higher than those of the other major ports in Japan. Furthermore, Osaka enjoys a comfortable share of exports to China and Hong Kong. Even compared with the Port of Kobe, also in the Kansai area, the Port of Osaka enjoys a considerable advantage. This explains why Osaka was able to maintain relatively high exports in 2008 despite the worldwide economic crisis. This close connection that Osaka has with the Asian economy is a clue to why Osaka will get out of the recession faster than other cities.

Osaka's Economy and How You Can Win!

The Osaka economy depends highly on outside customers. The Osaka economy is tied both to the Japanese economy and the international economy. In the foreseeable future, one might reasonably expect growth in Osaka to be between -2 and -3%.

Mr Tokuda Yuhei suggests that one cannot win in the current climate if companies remain Herbivorous in their outlook, which is to say, passive. Companies need to take a more Carnivorous attitude and train their employees to be bold and aggressive. It is the only way to win in these fallow times.

About Us...

Since 2003, **Osaka City** has been seeking to attract individuals, businesses, and educational institutions that can contribute to the dynamism, creativity, and vibrancy of the Osaka area. Contact us with feedback and suggestions at: y-bouno@city.osaka.lg.jp