

# **The Economy of Osaka City, at a glance**

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<This manuscript is a part of the material of lecture extended by us IBPC on October 27, 2009 to the overseas trainees of the Seminar titled as “ Small & Medium Enterprise Development Policies (A) JFY2009 “ held by the Pacific Resource Exchange Center, Japan, and the description of Articles 1.through 3. of (B) History and General Overview of Osaka City in this manuscript is based on the “The Osaka Economy (2009)” issued by the Osaka City Economic Affairs Bureau, with some extracts, modifications, and additions by our lecturer .>

**Osaka International Business Promotion Center**

**[IBPC Osaka Network Center]**

## **(A) Current Status of Japan**

In the middle of this so-called global recession, which was triggered by the sub-prime loan issue that started in the U.S., it seems that there is still a long way before recovery as Japan suffers from dramatic declines in corporate earnings, mainly due to a sharp decrease in exports, subsequent deterioration in employment, financial constraints, failed business operations, etc. The new Hatoyama government, which came into existence reflecting the expectations of Japanese citizens who craved a “change” to break through this sense of stagnation, has now announced, and started working on, drastic reviews in various areas including politics, economy, society, education, environment, and others, aiming to boost the economy not only by the promotion of exports but also by the expansion of domestic demand and to secure budgets to create jobs. We think we may say that these movements are progressing nationwide, along with active discussions involving local public authorities, government officials, the business sector, etc.

In consequence, we can also point out that the Kinki economic bloc, which includes Osaka City, is looking for an economic recovery while faced with its own regional, historical and structural issues amidst a nationwide wave of changes of this sort.

IBPC provides advisory and support services to promote trade, primarily targeting small- to medium-sized enterprises in Osaka (or the Kinki region). In carrying out these services, we need to offer advice and plans that allow for factors such as the size of Osaka’s economy, industrial composition, trends in major industries, and so on.

For this reason, we would like to review the economy of Osaka City as outlined below. In doing so, we also plan to mention such aspects as the positioning of Osaka City in Japan and its notable characteristics.

## **(B) History and General Overview of Osaka City**

Osaka City has long functioned as a core city in western Japan. Even after the 17th century, when the center of politics moved to Tokyo, Osaka was nicknamed the “kitchen of the realm” as a Capital of Commerce and continued to play the role of a center of industry, economy and distribution, producing a number of the *zaibatsu* conglomerates. Osaka Port is one of Japan’s major outer ports. Furthermore, Osaka is convenient in terms of air travel both domestically and internationally with three airports located nearby, including Kansai International Airport. The City has approximately 2,650,000 people in 24 wards.

Economic activities of Osaka City continued to expand along with the expansion of the Japanese economy through the high-growth period following the 1950s. After this period, the major industries which had led the economic growth faced a number of difficulties, such as the oil crises, the drastic appreciation of yen after the Plaza Accord, and collapse of the bubble economy. However, Osaka City managed to overcome these

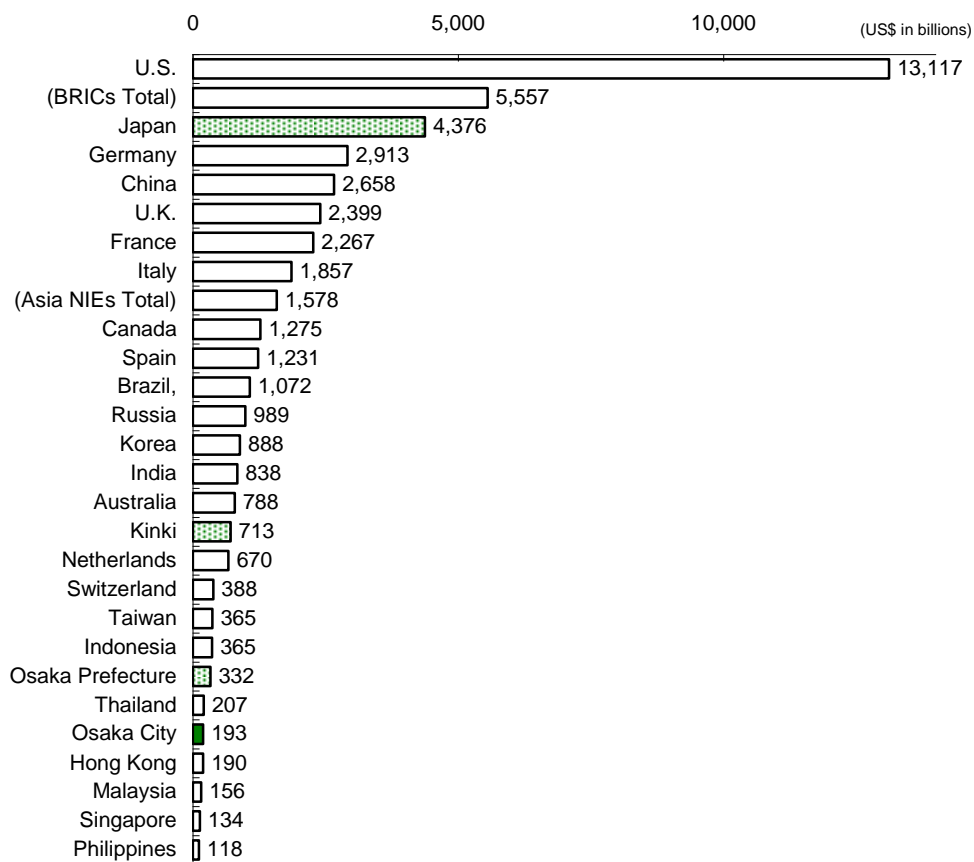
difficulties by plenty of entrepreneurship and creativity as well as its enterprising spirit. The size of the economy of the Kinki region, centering on Osaka City, is larger than Australia and the Netherlands and has high potential and strengths in trade, especially with Asia.

These economic activities are achieved not only by some of the major enterprises, but also by approximately 200 thousands of small- to medium-sized enterprises which represent 98,7% of total number of enterprises in Osaka City.

## 1. Size of the Economy

The nominal gross domestic product (GDP) of Osaka City, the center of the Osaka metropolitan area, was JPY21,863.2 billion (US\$193 billion) in the 2005 fiscal year, which accounts for 4.34% of Japan's GDP and two consecutive years' of increases in share. In comparison with other countries, the economic power of Osaka City (2,630,000 people in population) is greater than that in Hong Kong (6,860,000 people), Malaysia (23,520,000 people) and Singapore (4,350,000 people). On a population basis, the City's economic power is more than 2.5 times greater than that of these countries (see Figure 1).

**Figure 1: National GDP (Nominal) for Selected Countries 2006 (Unit: US\$ in billion)**



**Note:**

- ① “Asia NIEs”.....refers to the total amount for the four countries/regions of Korea, Taiwan, Singapore, and Hong Kong
- “BRICs”.....refers to the total amount for the four countries of Brazil, Russia, India and China.
- “Kinki” .....refers to the six prefectures of Osaka, Hyogo, Kyoto, Wakayama, Nara, and Shiga.
- ② Amounts shown for Kinki, Osaka Prefecture, and Osaka City represent a fiscal year starting on April 1.
- ③ Prefecture, and Osaka City is based on the simple monthly average in the Tokyo foreign exchange market.

**FY2005: US\$1 = JPY113.26 FY2006: US\$1 = JPY116.94**

**2005 (Calendar Year): US\$1 = JPY110.16**

**2006 (Calendar Year): US\$1 = JPY116.31**

**Sources:**

**OECD “National Accounts of OECD countries” for OECD member countries.**

**“Overseas Business Information” by the Japan External Trade Organization (JETRO) for other countries.**

**“Prefectural Economic Calculation” of each prefecture for Kinki and Osaka Prefecture**

**“City Economic Calculation” for Osaka City**

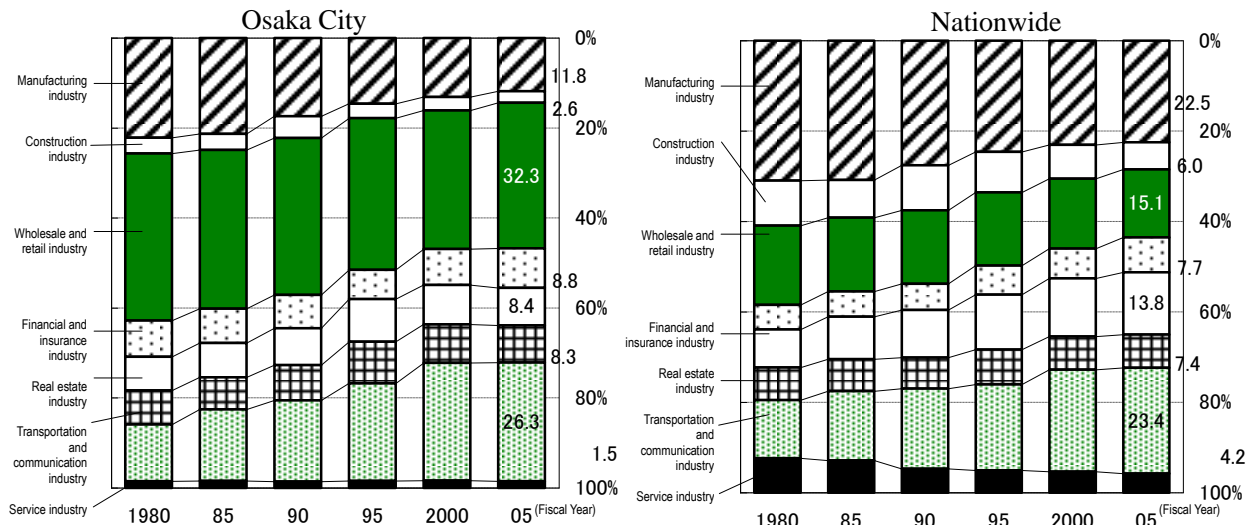
Looking at many of the statistical indicators pointing to the scale of economic activities, Osaka City is ranked second after the 23 Wards of Tokyo. In terms of the number of business and employees, the City accounts for nearly 4% nationwide, which is at a level almost twice as great as its population share of 2.1%. Osaka City has an especially high national share in the sales amount of wholesale businesses and imports, which represents 10% and 5% respectively. Focusing on changes over the years, there are many indicators which show that the national share of Osaka City took an upward turn after 2003 when the economy bottomed out. We can say that the City’s economic vitality is on a recovery trend despite the accelerating concentration of businesses in the Tokyo area.

## **2. Industrial Composition**

Looking at long-term trends in the City’s GDP from the viewpoint of the supply side per industry (in the private-sector), it is clear that its composition ratios have been steadily changing. Specifically, in FY1980, the secondary industries such as manufacturing and construction represented 26% while the wholesale and retail sectors and the tertiary industries such as the service sector constituted 37% each. After that, looking at the trend towards FY2005, the secondary industries continued to lose their share, which dropped to 14% in FY2005, almost half of that of FY1980. Although the wholesale and retail sector followed a similar trend of losing market share towards 2000, the sector’s share took an upward trend after a period of leveling-off, recovering to 32% by FY2005. The remaining tertiary industries continued to increase their share,

boosted by remarkable growth centering on the service sector. The sector's share reached close to 50% by FY1995, and increased to 53% by FY2000 (see Figure 2).

Figure 2: Changes in GDP Composition Ratio by Industry



Note: Only industrial categories are included. Others include agriculture, forestry and fishing, mining, and utilities (electricity, gas, water).

Sources: "Prefectural Economic Calculation" by the Cabinet Office  
 "City Economic Calculation" by Osaka City

### 3. Trends in Major Industries

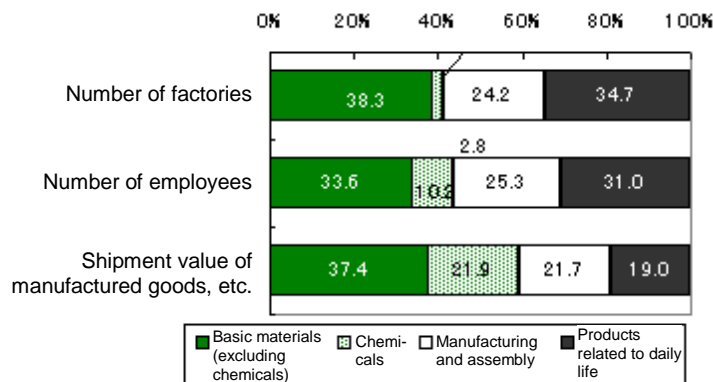
Next, we would like to touch upon the characteristics of major industries in Osaka City.

#### 1) Manufacturing

##### a) Composition by Category

If we divide the manufacturing industries in Osaka City into the three categories of basic materials such as chemicals, metals, etc., manufacturing and assembly such as machineries, etc., and products related to daily life such as clothes, printing, etc., then basic materials including chemicals accounts for the highest portion, with a 40% to 60% share (see Figure 3).

Figure 3: Composition of Manufacturing by Category in Osaka City (2007)



#### Basic materials

Timber and wood products (excluding furniture), pulp, paper and paper products, chemicals, petroleum products, plastic products, rubber products, ceramics, soil and stones, iron and steel, nonferrous metals, and metallic products.

#### Manufacturing and assembly

General machinery equipment, electric machinery equipment, information and communication machinery equipment, electric components and devices, transportation machinery equipment, and precision machinery equipment.

#### Products related to daily life

Food, beverages, feed, and tobacco, textile, clothes and other textile products, furniture and fittings, printing and printing-related, leather, leather products and fur, other manufacturing

Note: Businesses with four employees and more are included. Preliminary figures.

Source: “Summary of Industries in Osaka City (Preliminary Figures)” by the Osaka City Planning and Coordination Bureau

With regard to the basic material industries, it is clear that metal products account for a high proportion in terms of the number of factories, while the chemical industries, centering on large-scale factories, account for a significant part in terms of shipment value and added value amount. In addition, general machinery equipment in manufacturing and assembly, and printing and printing-related in the products related to daily life also comprise a large portion, respectively. Comparing the composition ratio of shipment value by category with that of other cities, it is evident that Osaka City has an extremely high ratio of chemical industries and that basic materials account for a large portion. <On the other hand, the 23 Wards of Tokyo have a higher ratio of products related to daily life such as printing and printing-related, etc. while Nagoya City and Yokohama City have a higher ratio of manufacturing and assembly centering on transportation equipment such as automobiles.>

#### b) Distinct advanced technologies

In recent years, in Japan nanotechnology, biotechnology, environmental and new energy, robot related areas, and so forth have been in the limelight as the growth industries of the next generation after IT. In light of this, a wide range

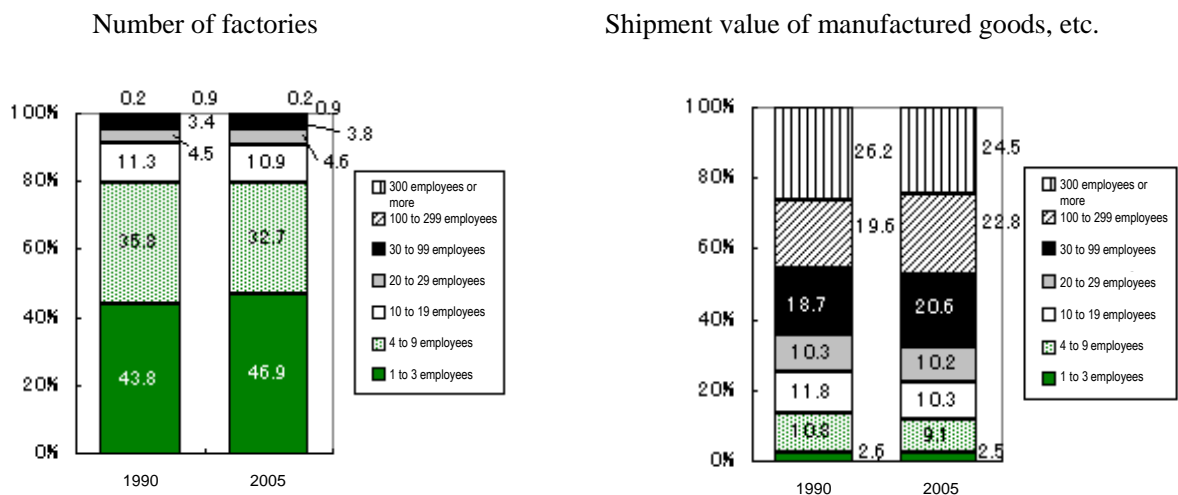
of cutting-edge industries which are expected to lead these areas, including the high-tech material industry and the information and communication industry, exist in large numbers in Osaka City. Furthermore, as a unique characteristic, Osaka City has a deep layer of core industries which are necessary for supporting these new-generation industries.

The number of patent applications by companies in Osaka Prefecture was 54,685 in 2007, which accounted for 16.4% of the national total. Osaka Prefecture's share in the number of applications for design rights is 21.9%, which is even higher.

**c) A number of small-scale factories spread around the region**

As Osaka is called the “city of small- to medium-sized enterprises,” in manufacturing industries, small-scale factories with 9 or fewer employees (13,475 factories) accounted for 79.6% of the total number of factories in Osaka City (16,923 factories) in 2005 (see Figure 4). However, the value of shipment from these small-scale factories was 11.6% of the total amount of the City. On the other hand, the number of large-scale factories which have 300 or more employees accounted for merely 0.2% while its shipment value was 24.5%. <As you can see here, the structure whereby small- to medium-sized factories make up the majority of the number of factories is the same in other major cities such as the 23 Wards of Tokyo and Nagoya City.>

(Figure 4) Composition Ratio of Manufacturing by the Number of Employees in Osaka City

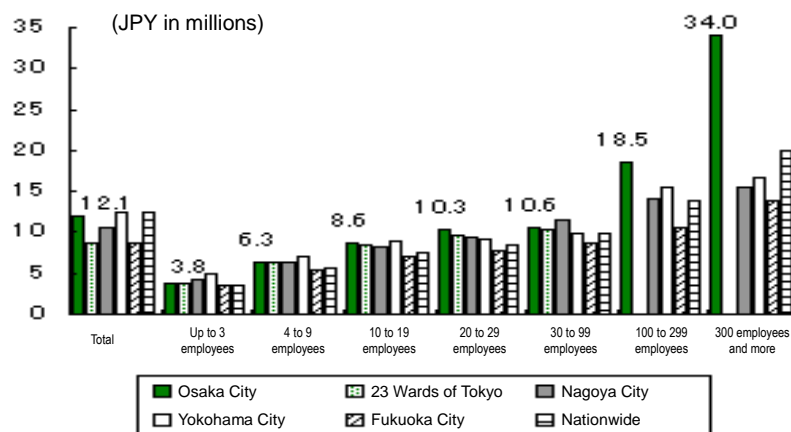


Note: All businesses are included.

Sources: “Industrial Statistical Survey” by the Osaka City Planning and Coordination Bureau  
 “Industrial Statistical Chart (Summary Edition)” by the Ministry of Economy, Trade and Industry

Looking at the added value amount per employee by the size of the business in Osaka City, the smaller the size is, the less the value amount is. Compared with the national average, the 23 Wards of Tokyo, etc., it is clear that Osaka City stands at a (relatively) high level in any size of business based on the number of employees, and that production activities are creating high added-value even in the small- to medium-sized manufacturing industries (see Figure 5).

(Figure 5) Added Value Amount per Employee by Size of Business: Comparison with Other Cities (2005)



Note: All businesses are included.

Data from the 23 Wards of Tokyo on businesses with 100 employees and more is confidential.

Refer to the note under Figure II-1-1 for notes for the statistical data

Sources: “Industrial Statistical Survey” by each city  
 “Industrial Statistical Chart (Summary Edition)” by the Ministry of Economy, Trade and Industry

## 2) Wholesale trade

### a) History

Osaka has long been known as the Capital of Commerce and has been playing a significant part in the economic growth of Japan as the country’s main center of distribution. This is attested to by the fact that Osaka accounted for about 27% of the total annual wholesale value of Japan in 1960, when the country was right in the midst of its dramatic economic growth.

However, recent years have seen year-to-year declines in the position of Osaka City within the Japanese wholesale market due to many different reasons, such as the weakening of the textile industry, relocation of the headquarters of many major Osaka-founded general trading companies to Tokyo and the dire state of local small- and medium-sized retailers, who have long been major business partners for the city. Consequently, the percentage dropped to 10.1% in 2007.

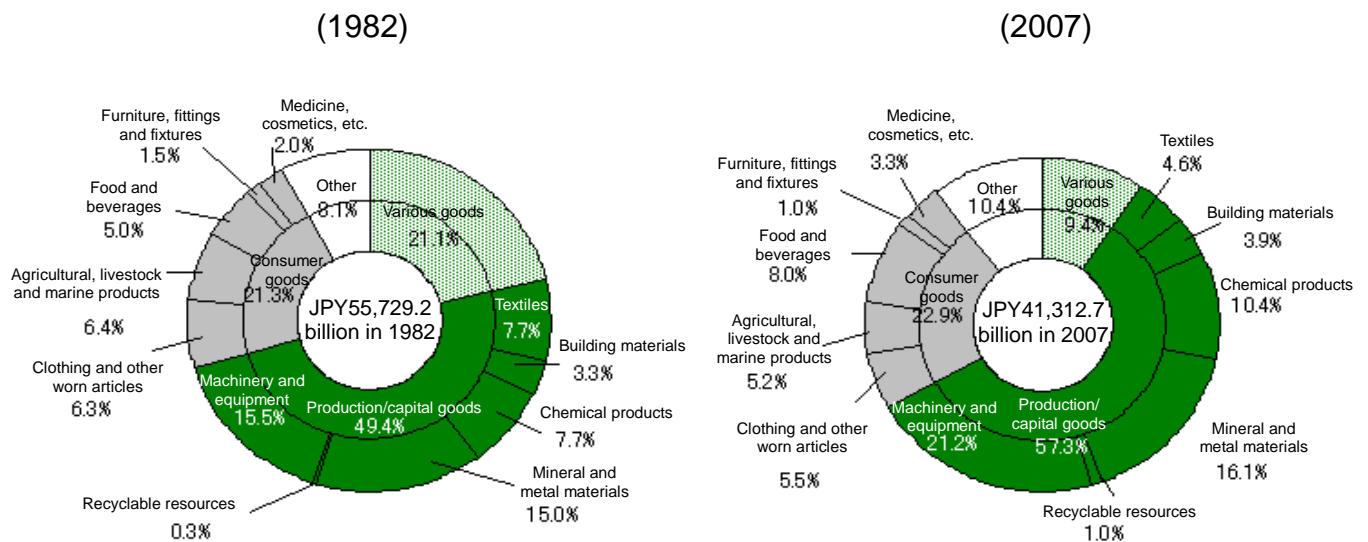
## b) Wholesale trends by industry

A look at the industry-wise composition of the wholesale trade in Osaka City reveals that the value of production goods and capital goods, such as “Machinery and Equipment” and “Mineral and Metal Materials,” exceeds that of consumer goods, such as “Clothing and Other Worn Articles” and “Agricultural, Livestock and Marine Products.” For example, in 2007, “Machinery and Equipment” accounted for 21.2%, the largest percentage, followed by “Mineral and Metal Materials (16.1%)” and “Chemical Products (10.4%).”

Osaka used to be known as the City of Textiles. However, as the textile manufacturing industry in Japan declined, textile products began to account for less and less of the total wholesale value of the city.

(1982: 7.7% ⇒ 2007: 4.6%) (see Figure 6)

(Figure 6) Industry-wise Compositions of the Wholesale Values of Osaka City (1982 and 2007)



Note: Numbers for 2007 are preliminary figures.

Source: “Commercial Statistics” by the Ministry of Economy, Trade and Industry

## 3) Retail trade

The Japanese retail industry is facing an influx of low-priced products produced in Asian countries and other parts of the world, increasingly sophisticated and diverse consumer needs, ever expanding shopping spheres resulting from motorization, and other changes. This is resulting in many Japanese retail stores becoming larger in size, moving to the suburbs, or turning into shopping complexes, specialized shops, or home

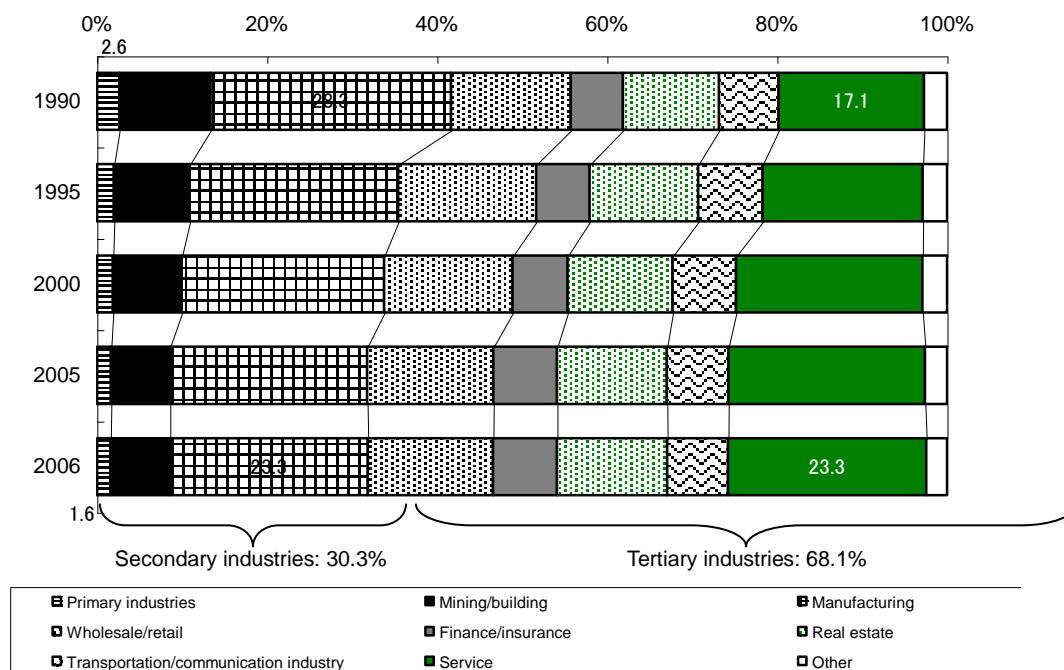
centers, while more and more small-sized retail stores, which are often situated on local shopping streets, are going out of business.

This is the background against which the total number of retailers in Japan, which peaked in 1982, has been steadily decreasing while the total area of selling floor space has kept on increasing. In fact, large-scale retail stores with an area of no less than 1,000m<sup>2</sup>, which account for less than 1% of the total number of retailers in Osaka City, make up about 40% of the total annual retail sales of the city. Moreover, this percentage is on the increase. This trend is seen also in Kyoto City and Nagoya City.

#### 4) Service industry

Japan has gone through dramatic economic growth and become one of the world's major economic powers. While demand for goods has already reached saturation point within the country, demand for services is still increasing. This is what is called a service-oriented economy. The service industry accounted for only 17.1% of the gross domestic product (GDP) of Japan in 1990. This percentage rose to 23.3% in 2006, and the tertiary industries, which consist of the service, commerce, real estate, and other industries, account for nearly 70% of the GDP of the country (see Figure 7).

(Figure 7) Changes in the Economic Activity Composition of the GDP



Note: Industrial categories only

Source: "Annual Report on National Accounts" by the Cabinet Office

A look at the changes in the number of people engaged in different industries in Osaka City reveals that the Japanese economy is also becoming increasingly service-oriented in terms of employment, suggested by the fact that number of people working in the

service-related industries, including telecommunications, medical care, welfare, education and learning support, has increased by about 372,000 while the number of those engaged in the manufacturing industries has decreased by about 218,000.

## **5) Finance and securities**

### **a) Overall financial situation**

The recent financial uncertainty and global economic downturn are also affecting the finances of Japan. Although Japanese banks have suffered fewer direct losses than their counterparts in Western countries, due to the losses caused to Japanese banks due to the collapse and financial difficulties of American financial institutions, combined with the poor business performance of Japanese companies stemming from the global economic downturn, it is apprehended that the bank loans to the domestic companies, particularly smaller ones should be getting decreased .

### **b) Financial state of Osaka**

Osaka City continued to experience serious declines in its financial functions throughout the 1990s as the city suffered from the dropping land prices and the collapse of one financial institution after another following the bursting of the economic bubble. Although the Japanese economy has recently entered a recovery phase, Osaka Prefecture is accounting for less and less of the total value of outstanding loans of Japanese banks. This percentage, which was 14.6% in 1980, dropped to 9.8% in 2008 and continues to decrease while outstanding loans are increasing at a national level and in many other prefectures.

### **c) Securities market situation and the Osaka Securities Exchange**

The Osaka Securities Exchange had a 4.3% share of the total securities (cash securities) trading in Japan in the first half of 2008, showing a sharp decline from 1996's 20.0%. This suggests that stock trading in Japan is increasingly concentrating in the Tokyo Stock Exchange. However, the trading value of cash securities at the Osaka Securities Exchange in the first half of 2008 was JPY14,256.8 billion, with a year-on-year increase of 9.4%.

## **6) International trade**

### **a) Overall situation of international trade**

Japan exported and imported a total of JPY41,920.4 billion (a 3.8% year-on-year increase) and JPY38,985.7 billion (a 10.6% year-on-year increase) of goods respectively in the first half of 2008. While the import value of the country continues to increase due to the high prices of raw materials, the decline in the export of cars and auto parts to the US has slowed down the increase of its export value. However, more and more products are being

exported to Russia, the Middle East and other natural resource-producing countries, which have increasing purchasing power thanks to the skyrocketing prices of crude oil and other resources. This is expected to make up for the decrease in exports to the US.

#### **b) Characteristics of international trade at Osaka Port**

As for international trade at Osaka Port, the export value was JPY1,804.6 billion (an 18.6% year-on-year increase) and the import value was JPY1,996.0 billion (a 6.8% year-on-year decrease). This means that while the export value reached another record high, the import value decreased for the first time in 11 terms. The increase in the value of exports is due mainly to the rise in the value of exports to the Middle East and the increase of chemical products exported to Western countries. The decrease in the value of imports is mainly because imports from China, the largest exporter to Japan, decreased for the first time in 18 terms and Japan also imported smaller amounts of crude oil and other mineral fuels, which were skyrocketing in price. In the first half of 2008, 4.3% of the total exports from Japan and 5.1% of the total imports to Japan were handled at Osaka Port.

Osaka Port has long acted as a node in the international network of economic exchanges. It has particularly close connections to Asian countries, which are close to it both geographically and historically.

In fact, the great majorities of exports from and imports to the Osaka Port are to and from Asian countries, accounting for 65.3% of all exports and 81.9% of all imports (first half of 2008). Comparison with the proportions of exports to and imports from Asian countries at the national level reveals that the Osaka Port concentrates particularly on international trading within Asia.

For exports, South Korea has replaced China as the largest importer from Japan, accounting for 18.5%. The second and third largest importers from Japan are China (16.6%) and the United States (13.2%) respectively. As for imports, China is by far the largest exporter to Japan, with a 59.0% share (see Figure 9).

Osaka Port imports more goods from China than any other port in Japan, particularly clothing and other worn articles, as well as toys and play items.

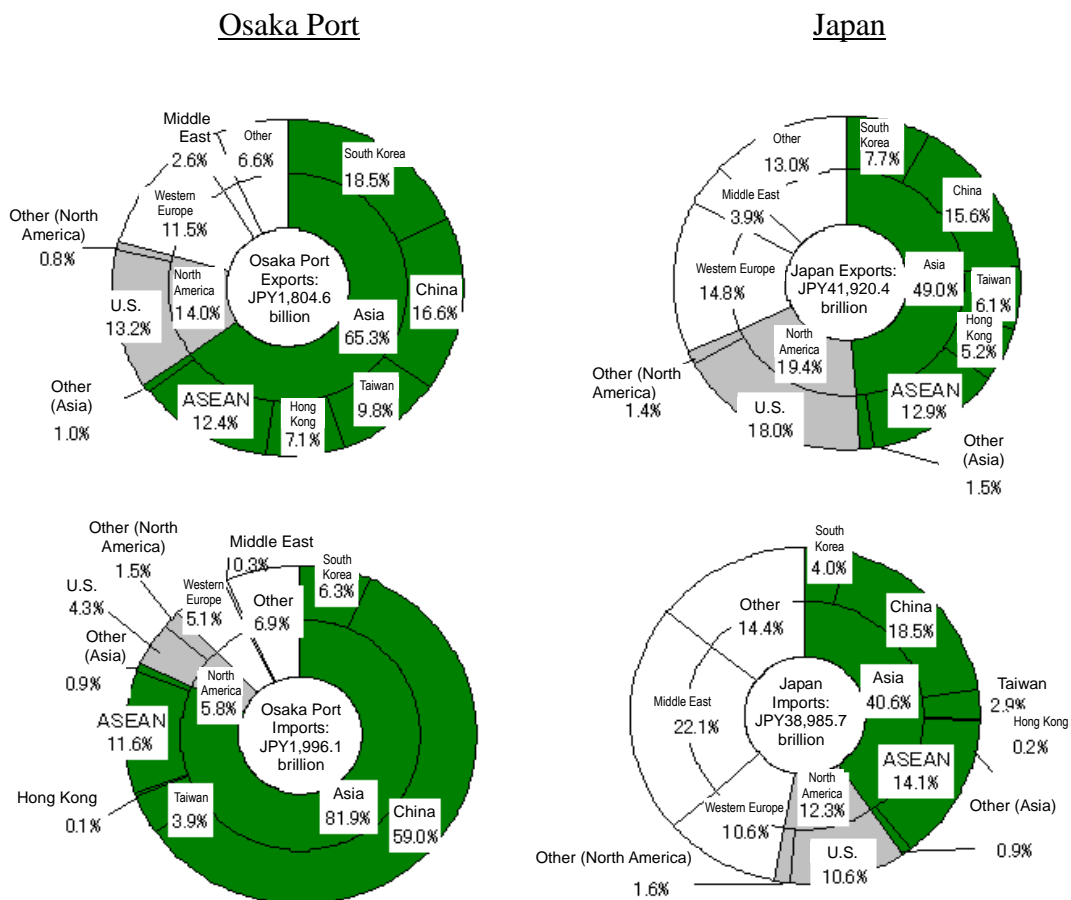
As regards the composition of exports from the Osaka Port, “Machinery and Equipment” accounts for 52.4% (2008), more than half the total amount in monetary terms. Compared with other ports in Japan, Osaka Port exports higher proportions of “Chemical Products” and “Material Products,” which include metal products, glass, and glass products.

In terms of changes from the same period of the preceding year, “Chemical Products” and “Iron and Steel” show particularly large increases, the former

reflecting the industrial characteristics of the local region and the latter the increase in demand for cars and construction work in emerging economies.

As with exports, “Machinery and Equipment” accounts for the largest proportion of the total amount of imports to Osaka Port, with 30.4% (2008). Compared with other ports in Japan, it imports a smaller amount of “Material Products and Mineral Fuels” and a larger amount of “Clothing and Other Worn Articles.”

(Figure 9) Makeup of Importers to and Exporters from Osaka Port and Japanese Ports as a Whole in Terms of Monetary Amounts (first half of 2008)



Source: Osaka Customs and Finance Ministry Statistics

Note: data for Osaka Customs are preliminary ones

## 7) Environment

### a) Formation of a desired recycling society

Public pollution produced from various industrial activities, such as air pollution and water pollution, has been regarded as a major issue because of its threat to citizens living in big cities, and various measures have been taken by

both administration and the private sector. As global warming worsens, the environmental issue is now an issue for the entire globe, beyond the boundaries of any single region.

According to the Kyoto Protocol, which requires advanced countries to achieve a set regulatory warming gas emission reduction target, Japan is obligated to reduce greenhouse gas emissions, including CO<sub>2</sub>, by 6% relative to 1990 levels in the period from 2008 to 2012. As you may know, Hatoyama, the new Japanese prime minister, announced to the international society that Japan aims to reduce its greenhouse gas emission by 25% compared with the 1990 level by 2020, with the prerequisite condition of consent on the highly motivated target by and of all main leading countries in the world.

The reduction of greenhouse gas requires both citizens and businesses to achieve a society where limited resources are effectively used and repeatedly reused (a “recycling-based society”) by promoting energy- and resource-saving, as well as refuse reduction and recycling.

#### **b) Corporate effort to reduce environmental impacts**

Activities to reduce the environmental impacts of individual business establishments are becoming the social responsibility of those establishments. Nowadays those activities have a large impact on corporations’ economic activities, as evidenced by the fact that whether or not a corporation is engaged in such an activity or what level of activity a corporation is engaged in influences how that corporation is evaluated in commercial dealings or in the marketplace. Under these circumstances, there are increasing number of establishments that acquire ISO14001 certification to obtain international recognition as having an environmental management system designed to reduce environmental impact.

#### **c) Environment-related business getting more attention**

Efforts to reduce environmental impacts are generally considered a cost factor for corporate activities, but there is an active movement toward entry into environment businesses among those corporations who see the social demand for global environmental conservation as a new business opportunity.

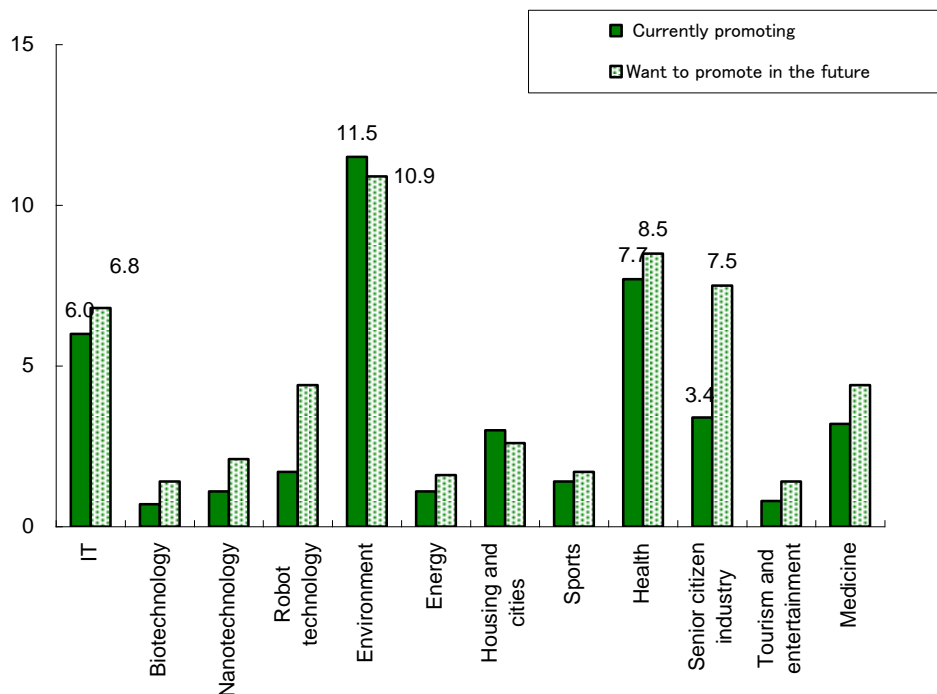
According to the 2004 Environment White Paper published by the Ministry of the Environment, the market scale of the Japanese environment business is estimated to grow from JPY29,900 billion in 2000 to JPY58,400 billion in 2020, while the number of employees is estimated to grow from 769,000 in 2000 to 1,236,000 in 2020.

Take Osaka for instance. Environment-conscious activities are being promoted in R&D and new business development, such as use of materials that are easier to recycle or the development of products with less environmental impact by giving them forms that can prevent them from being easily creating waste. A

questionnaire survey conducted to manufacturing businesses also shows that the largest number of respondents chose “environment” as the field either currently promoted or that they want to promote among the various new promising fields in the future (see Fig. 10). This indicates a high level of interest in environmental businesses among manufacturing corporations in Osaka City.

We may say that environment businesses with the theme of reducing environmental impact or ensuring environmental conservation are a promising field where new business opportunities will be born beyond the conventional concepts of industrial categorization.

(Figure 10) Interest of Osaka City Manufacturing Businesses in New Fields (2006)



**Note:** The questionnaire survey was conducted in August 2006, targeting 3,400 business establishments hiring 4 or more employees in four wards in Osaka city: Higashinari, Ikuno, Joto and Hirano. 2,740 respondents answered.

**Source:** Survey on the Status of Factory Concentration in Osaka City, the Osaka City Economic Affairs Bureau

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