

Japan Inc. faces 'tectonic changes': analysts

April 2 2012, by Harumi Ozawa



Japanese electronics giant Sharp's newly appointed president Takashi Okuda announces the company's tie-up with Taiwan's Hon Hai Precision as part of a LCD panel tie-up, as Sharp looks to reverse recent losses, at a press conference in Tokyo on March 27, 2012.

Sharp's announcement that it will team up with Taiwan's Hon Hai Precision on a liquid-crystal display deal is the latest example of the "tectonic changes" rippling through hard-hit Japan Inc.

Once the world's top makers of [home appliances](#) and electronics, Japanese producers have lost much of their lustre as they bleed red ink in the face of a fearsome attack from rising Asian rivals.

Top names including Sharp, Panasonic and Sony, which had little trouble staying ahead of US rivals in decades past, "are now exposed to great

tectonic changes", Daiwa Institute of Research economist Satoshi Osanai told AFP.

"[Japanese manufacturers](#) are facing a structural challenge in making products by themselves," he added.

"No matter how sophisticated the technologies they have, Asian rivals with a great price advantage keep catching up."

Japanese firms have suffered deep losses, partly due to their unprofitable television units as the strong yen makes their products more expensive abroad and as tough competition from foreign rivals, including South Korea's Samsung, lowers prices.

They are also beset by Japan's relatively high cost of labour, electricity, imported fuels and raw materials.

Their own mis-steps have not helped. Sony, long the mightiest of Japan's post-war champions, is struggling to match the innovation of rivals such as Apple, which has also stolen a march by sewing up a huge range of content.

Japan's politicians are also blamed because of the paucity of free trade deals they have managed to sign, while regional powers such as South Korea have aggressively sought pacts that allow their exporters much greater reach.

"Asia is taking over the jobs that Japan had long claimed. It is a path that we walked," said Nobuo Kurahashi, analyst at Mizuho Investors Securities.

In a bid to stay alive, some firms are abandoning their traditional "vertical integration system", in which they commit themselves entirely

to the development, manufacturing and sale of their products.

"We have tried to do everything by ourselves, but the environment is tough," said Sharp's incoming president Takashi Okuda as he announced the Hon Hai deal last week.

Sharp, struggling with massive losses, will sell 121 million new shares worth about 66.9 billion yen (\$808 million) to Hon Hai, which will also take half of Sharp's 93.0 percent interest in a huge LCD plant in western Japan.

Hon Hai, parent of manufacturing giant Foxconn which makes products for major names including Apple, will own about 10.0 percent of Sharp stock after the sale, making it the Japanese firm's biggest shareholder.

The Taiwan firm agreed to take about half the LCD screens produced at the loss-making factory in Sakai in a partnership aimed at creating stable demand for the TV panels.

The deal, which saw Sharp shares jump over 15 percent the next day, was also unusual because Japan's big electronics makers have traditionally been reluctant to sell large chunks of their business to foreign companies.

"This deal indicates that the mindsets of Japanese enterprises are changing," said Mars Hsu, analyst at Grand Cathay Securities in Taipei.

"It will not be the last of its kind... as Taiwan needs advanced technologies from Japan while providing its Japanese partners with cheaper manufacturing (capabilities)."

The deal comes after Japan's struggling NEC Corp., which plans to cut about 10,000 jobs, merged its personal computer unit with China's

Lenovo, which itself purchased IBM's PC business in 2005.

Chinese appliance maker Haier bought the washing machine and refrigerator business of Panasonic subsidiary Sanyo, which allowed the Japanese conglomerate to focus on specialty areas such as high-end batteries.

For Hon Hai, the Sharp deal is a cheap buy because it means gaining access to a sought-after technology called active-matrix organic light-emitting diode (AMOLED), which is used in mobile phone displays by rivals including Samsung.

"The amount of the deal is not too much as it may enable Foxconn to obtain some core technologies developed by Sharp and long sought by Foxconn," said Jerry Wu, analyst at Capital Securities in Taipei.

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