
Osaka Renaissance News

No 10 November 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.

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This Issue: Osaka: An Asian Hub

This month’s issue is about how Osaka is becoming a hub for trade especially with China.

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

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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
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OSAKA: AN ASIAN HUB

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AUTHOR'S INTRODUCTION

The future I imagine for Osaka is coming to life in the intensification of trading links occurring between China and the Kansai region. The number of sailings into and out of the ports of Osaka and Kobe from China are the highest in Japan. The intensity of trade with China is greater in Kansai (which mainly means the Osaka-Kobe hub), than anywhere else in Japan; the ratio of Korean and Chinese people living in Osaka is higher than any other city in Japan. The government and business community have both recognised that the region's future is tied to China and Asia. They are calling this the "Age of Kansai".

For most of Japan's history trade with China dominated, centred on the area in and around Osaka. While history cannot be expected to repeat itself exactly it is clear that the growth of China, which is already a larger trading partner for Japan, as of this year, than the US, means that the economic landscape of Osaka is going to change drastically over the coming years. Just as Japan once imported American

culture, in a similar way the Asian influence will steadily make itself felt more and more I believe. As Japan and China acquire more confidence about their cultural identity and intertwined futures, those cities in Japan which adapt to the changes best should benefit the most.

Personally I can imagine Osaka as Japan's leading Asian city. In this case there will be a new dynamic in the city, which will draw with it tourism, business and investment. Once Free Trade Agreements between Japan, China and Korea are signed, the barriers which have inhibited exchange, notably restrictions on opening up markets to service industries and cheaper labour, will create the conditions for the true Asianisation of the economy to take place. Osaka is likely to embrace it further and faster than other parts of Japan, in part because it is seeking more than ever to acquire a new and powerful role both in Asia and in Japan.

Alex Stewart

OSAKA RENAISSANCE NEWS

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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

OSAKA: AN ASIAN HUB

In this issue we look at how Osaka is developing as an Asian hub.

(1) Hub Status

Hub signifies a place where both physical goods and information gather. In terms of Osaka's hub status it refers mainly to two things, the fact that it is the trade and information centre for the Kansai region – there is competition with Kobe, but there is also complementarity, since the existence of two major ports side by side creates a more powerful trading nexus, just like the Greater Seattle Port area, which groups together four independent ports in a 60-km area. The second indicator of its hub status is intensity of trading links with China, which is centred on Osaka and the greater Osaka area, including Kobe.

To expand as a hub however, Osaka must strengthen its position both vis-à-vis other hubs in Asia, and also in Japan, notably Tokyo-Yokohama, and increasingly Nagoya, which will have its own 24-hour international airport ready in Spring 2005. To succeed its main opportunity is to lower cargo transaction rates further and simultaneously strengthen trade ties with China and the rest of Asia even further.

Osaka's potential as an Asian trade hub is strengthened by the fact that: 1) historically it has been Japan's gateway to trade with Asia; 2) its leaders have long desired to make Asia again the centre of Osaka's trading economy. The chances of Osaka realising this potential are greatly strengthened by two things: 1) the push for Free Trade Agreements with other countries in Asia; 2) the understanding that tourism can help Osaka to develop a more welcoming environment for trade and exchange. A further advantage is that Osaka is a gateway to a regional economy, which until recently, was larger even than China.

(2) Asian Orientation

Until the early seventeenth century, Osaka and the neighbouring port of Sakai, were the main centres of commercial exchange with China. Osaka became the main trading hub again when Japan's textile industry developed from the late nineteenth century up to the Second World War. When China closed its doors under Maoism the pattern of trade shifted from Asia to the Pacific, and the centre of trade shifted from Osaka to Tokyo. Recently the pendulum has clearly

been swinging back, notably this year when China once again became Japan's largest trading partner, overtaking the US.

The Kansai economy, especially Osaka, have a much greater orientation to trade with Asia than Tokyo and the rest of Japan. Nearly 60% of the Kansai region's exports go to Asia, compared with the national average of 46%. Similarly, over 56% of imports are from Asia compared with the national average of 44.5%. The main export item is electrical machinery (32%, national average is 24%) and the major import item is textiles (14%, compared with a national average of 6%).

The biggest reason for this difference in trade patterns between Kansai and the rest of Japan is the intensity of trade with China. Nearly 18% of exports are destined for China, and 31% of imports originate from China, compared with the national average of 12% and 20% respectively. The Kansai region accounts for 30% of all Japan's trade with China. This is why the leaders of the Kansai business community are calling the 21st Century the "Age of Kansai".

Asia is also the major field of Japanese overseas investment. Over 59% of all overseas investment is into Asia (64% in the case of Kansai). Again China accounts for the largest share of investments from the Kansai at 24%, compared with the national average of 18.5%. The biggest investment by Kansai companies is in trade and wholesaling (31%). Manufacturing as a whole accounts for around 50% of total investment. The scale of Japan's investment in Asia, especially China, has led to the integration of Asia into the Japanese manufacturing system, by turning it into an offshore manufacturing base. Osaka used to

serve this function in the Japanese economy. When its major customers, such as the consumer electronics companies which were the earliest investments in China, moved their assembly operations to China, they were forced to follow. In the new system, large and small companies manage basic manufacturing and assembly offshore but maintain control from head office in Osaka.

(3) Asian Vision

Osaka began enunciating a long-term vision to be an Asian hub in the mid 1980s when China started to enter the world economy [see Osaka Renaissance News, October '04]. In fact, it signed one of the earliest Friendship City Agreements with Shanghai in 1974. Shortly before relations between Japan and China were officially restored in 1972, it built a pier for China shipping lines which was intended to stimulate commercial trade again. More recently, in the 1990s, it built the Asia-Pacific Trade Centre on the reclaimed island of Sakishima as an Asian trade zone [see ORN, August '04].

Another major initiative the city took was the establishment of the Business Partner Cities Network, which now numbers a total of 12 Asian cities. The secretariat is in Osaka, and meetings are held every year in a different city for two days to discuss a specific theme and to promote new investment proposals. Various other channels with Asian centres have been established by government agencies, NPOs, and the private sector. These include management training programs for Asian government officers which are especially effective in building long-term relationships in the region.

The current efforts to strengthen ties with Asia will experience a

magnitudinal expansion once Free Trade Agreements are signed with Asian nations, including China. This is now a top priority of Japan's foreign policy. It is also an area of major interest for Japan's business leaders, such as the Federation of Major Private Companies in the Kansai, known as Kankeiren.

The opening up of labour markets will help Osaka to experience the internationalisation of the economy, which countries in Europe have been experiencing for 40 years. The sense that this is positive is now widely shared within government and business circles.

Osaka should be better prepared than other parts of Japan for such a magnitudinal shift. Not only is there the historical relationship with Asia, tied in with the desire to develop a stronger Asian orientation, Osaka also has the highest ratio of Asian residents in Japan. Perhaps for these reasons, Osakan people are more Asian as well in their way of thinking: they like to bargain (which is a great surprise to Tokyo-ites who take a fixed price to mean a fixed price); they tend to dress in louder colours; to use more jewellery, and to restrain less their commercial instincts.

(4) Tourism

This Asian characteristic should also appeal to Asian visitors. Last year, approximately 1.3 million foreign visitors entered Osaka (out of the total of 5 million who visited Japan), 70% of them from China, Taiwan and Korea. China has relaxed slightly in the last two years its restrictions on overseas travel for non-business purposes, but the numbers able to travel is still only a trickle compared to demand, especially in the Chinese coastal belt, where there

are 300 million people with growing disposal incomes.

It is now recognised within government and business circles that tourism helps to prime trade rather than to substitute it. The city also understands the importance of broadening the base of the economy by promoting the tourist industry. This was a major reason for its decision to become the leading shareholder in Universal Studios Japan. The city has been steadily expanding its tourism program since then, targeting Asian tourists in particular [see Osaka Renaissance News, April 2004].

(5) Kansai International Airport KIX

To secure its position as an Asian hub, embracing both tourism as well as trade and investment, the successful development of Kansai International Airport is essential. The unique feature of KIX is its offshore location and 24-hour operations. A second runway, which could open in 2007 (subject to final budgetary approval), will permit uninterrupted 24-hour service. This is currently restricted to four nights a week to comply with runway maintenance requirements. No other airport in Japan will be able to offer a round-the-clock service, including Narita, which has severe restrictions on night-time flights.

KIX operates a total of 134 both-way cargo flights a week, including night-time slots. This compares with 11-12 cargo flights which Nagoya's new Centrair airport will offer when it opens next Spring. KIX offers lower cargo rates than Narita, and it has been working to streamline cargo procedures in order to provide quicker turn around services at lower costs. In 2003, it handled 36% of the cargo handled by Narita, but nearly 5 times more cargo than Nagoya. Business

from the Chubu region currently accounts for 20% of outbound and 10% of inbound business. It could lose much of this business when the new Centrair airport opens. However, KIX will continue to offer more flights and therefore more flexibility than Centrair, and it believes that growth in cargo demand will compensate for any loss in business to Chubu.

(6) Osaka Port

The outlook for port traffic is also strong, led by China. The volume of containerised cargo has more than tripled since 1990. In 2003, China accounted for over 50% of all container trade, up from 10% in 1990. Osaka has the second highest level of container trade with China just behind Yokohama, and three times more than Kita-Kyushu.

A High-Standard Container Terminal is being built on the newest reclaimed island, called Yumeshima. The first and second deep-water wharfs became operational in 2002 and 2003 respectively, while the third is due in 2008. From next fiscal year central government funds will be available to build a state-of-the-art logistics centre attached to the container terminals. The goal is to reduce ship entry fees and container loading and unloading fees to the same level as Pusan in South Korea, and to shorten loading and unloading times to one day, as in Singapore, from three to four days currently. In preparation for these changes, the central government also reorganised neighbouring ports into "Super Gateway Ports". Kobe and Osaka were unified, so were Tokyo and Yokohama, as well as Nagoya and Yokkaichi.

Osaka has a clear advantage over Tokyo and Yokohama in offering lower warehousing rates, due to

intense local competition. New investment is also going into the warehousing sector as companies like US logistics investment specialist, ProLogis, take advantage of openings in the sector to build more up-to-date container facilities.

(7) Foreign Freight Forwarder

Many foreign freight-forwarding companies maintain operations in Osaka; all of them have some business in China. One of the most aggressive is Clasquin, a mid-size French freight forwarding company. In the view of its Osaka-based manager, Fabien Giordano, "the opportunity in China is fantastic because there are many small and medium size companies in Osaka ready to do business there". Giordano visited China and found prospective Japanese customers, then recruited a Chinese person in Japan and placed her in the Osaka office. Clasquin already has several offices in China. As a result of its investment in Osaka it is able to offer a triangular trade service forwarding goods from China to Europe to over 30 Japanese customers.

As part of his strategy to stimulate more business for Clasquin, Giordano actively encourages medium-sized companies in Europe to set up operations in the Osaka area. Doing so he argues they can develop stronger trading links and new business opportunities more effectively. To persuade them he shows them not only Osaka but also the greater Kansai area, so they can see at first hand the attractions of Japan's culture, history and people. Understanding the deeper attractiveness of the market makes them more likely to invest.

(8) Asian Investment

The attractions of doing business with Japan need less explanation for Asian companies. The problem is the

relatively high cost of establishing a business directly in Japan, and invisible barriers, which tend to affect Asians more than westerners, such as difficulties in securing tenancy agreements from landlords. To compensate for these hidden difficulties the government has started helping Asian business people to secure office and rental accommodation in Osaka without having to pay key money or other kinds of hard-to-meet guarantees.

Companies from China, Korea and Taiwan in particular have been starting to establish operations in the city in the last three years. On average about 15 companies from China, Taiwan and Korea have set up operations each year. They include one of the largest bearing makers in China, one of the largest LCD display makers in Taiwan, and a leading China-based maker of pneumatic equipment. Thanks to faster customs and logistics management services it is possible for such companies to receive goods in Japan within 24 hours of despatch.

The growing convenience of trade and transport links suggests that in time there will be a steady advancement of Asian companies seeking to establish operations directly in Osaka, and more especially so after FTAs are concluded. Eventually there may be M&A activity too, although to date no acquisitions or bids have taken place in Osaka.

(9) Exchanges

There are a vast number of missions, seminars and conferences taking place between China and Osaka. The Osaka Chamber of Commerce has participated in 60 trade and investment related events since its China Department was established in April 2003. This works out on average at one event every 9 days. The city

government's trade and investment promotion arm, IBPC, also helps organise missions and events. Kankeiren is also active. For example, a high level mission to Shanghai in September, included the participation of the Osaka Stock Exchange, which agreed with the Shanghai and Shenzhen Exchanges. They agreed to promote mutual listings on each other's exchanges in order to help companies in China gain more access to capital, which is limited now as the authorities try to protect existing liquidity levels in the market.

The long-term future of China-Japan relations will depend ultimately on human exchanges and strengthened ties at institutional levels. Going as overseas students to study is one important way to achieve this. There are over 14,000 foreign students studying in the Kansai region, 70% of which are from China. This is about 18% of the total number of foreign students studying in Japan. Several private universities are now active in offering such students opportunities to work in Japanese companies on internship programs. The Kansai regional bureau of METI is also supporting this. Local companies can thereby recruit bilingual staff to help facilitate business with China.

Osaka city government is now planning to form a tie-up with Tongji University in Shanghai. At the end of October, the Vice-Chancellor of the University visited Osaka to discuss collaboration and attended a symposium on Urban Planning hosted by the Committee for Urban Revitalization.

(10) Future Challenge

Despite these very positive developments, Osaka still faces severe competition in becoming an Asian hub.

For example, the area off Incheon in South Korea is promoting even more aggressively trade and investment with China, citing its close geographical proximity. Even so, Osaka has powerful advantages, which are much more obvious from inside the region, as the manager from Clasquin noted. Firstly, it has a huge economic hinterland, which in GDP terms is larger than any Southeast Asian country. It has a stable political and business environment, and the depth of Japan's investment in China is considerable. What Osaka may have lacked up to now is the flexibility and pricing power to compete with more

aggressive port cities, but this is also changing as competition becomes more intense within the region as well as within Japan. Osaka is having to fight to keep investment from going to Tokyo in particular. The opportunity is for Osaka to forge a new kind of horizontal and vertical integration with China, especially Shanghai. This will produce a new kind of dynamic which will be attractive, not only to Asian investors, but to companies in Japan, since they will be drawn to Osaka to do business, because it offers the best opportunities with China.

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