
Osaka Renaissance News

No 12 January 2005

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. We are doing this in collaboration 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: KIX – Gateway to Asia

Kansai International Airport – KIX – is making a comeback. China is the reason to feel bullish about its long-term future.

Note: “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 Projects
 - Business stimulation (notably in knowledge-based industries)
 - Tourism and life-style services
 - Education – especially professional and life-time learning
 - Foreign direct investment
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KIX – GATEWAY TO ASIA

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AUTHOR'S INTRODUCTION

The future of KIX in my view lies with Asia, especially China: travellers from Asia account for 75% of international travellers and 20% of all users of the airport. Annual growth of passenger arrivals from this region is nearly 10%, led by China, which is growing at well over 20%. The importance of China is that there are 300 million people living in the coastal region that are no longer subject to travel restrictions to Japan. Since Japan is the nearest neighbour, especially to Shanghai, the impact over the long term is going to be significant. Osaka offers variety and easy access to the rest of Kansai. It is also a suitable access point for the many Asian visitors who want to experience the shinkansen ride between Tokyo and Osaka.

The coordinated efforts of the city to develop Osaka into a lifestyle and knowledge capital, built on urban regeneration projects, tourism, and foreign direct investment will support this growth. I expect the perception of

Osaka in ten years' time, when most of the downtown redevelopment work will be nearing completion, will be significantly more positive than it is now. The result will be even more visitors.

The economy in and around Osaka is developing ever-stronger trade and investment links with China and Asia, which is contributing to the expansion of passenger and cargo traffic. Expanding Free Trade Agreements, talk of an Asian Economic Community, the likelihood that Koreans followed by other Asian nations will be able to enter Japan without a visa, all point to the growth of travel. The second runway for KIX was approved at the end of December, and due to come into operation in 2007. The second runway will make it much easier for Osaka to become a major participant in the emerging Asian economic community.

Alex Stewart

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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

KIX - GATEWAY TO ASIA

In this issue we consider the improving fortunes of Kansai International Airport.

(1) Osaka as an Asian Hub

In December 2004 central government made the final decision to allow Kansai International Airport (short name: KIX) to complete its second runway on a second man-made island, already built, with completion scheduled for 2007. As a result, KIX will be one of the only airports in Japan capable of offering actual 24x7 flight scheduling. KIX now has to prove that it can fill this additional capacity. Its chance of doing so lies in the expansion of business and tourism with China.

In the Osaka Renaissance series of articles we have argued that Osaka has the potential to become a hub city in Asia, based on the direction it is taking to become a lifestyle city, built on urban regeneration projects, tourism, and the promotion of foreign direct investment. The success of the city's actions in these areas will create the means to attract more visitors from overseas, especially China. KIX will play both a major role in facilitating this expansion, as well as enjoy major benefits from it.

One of the long-term factors supporting Osaka's development as a

hub is the powerful movement towards an Asian trading community, built around Free Trade Agreements, which is supported by the stronger political will in the region to cooperate, and the emergence of China as a major force in the global economy – see in particular the article, “Osaka as an Asian Trade Hub” [ORN Nov 2004], in which we argue that China could become the dominant factor in the development of Osaka, both as a trade entrepot and as a tourist destination.

(2) Rising Tourist Visitors from Asia and China

Tourism is still a relatively fledgling activity for this city of merchants. The establishment of Universal Studios in 2001 was one of the first major investments by Osaka in its tourism infrastructure. Since then the city has been increasing its efforts to attract tourists by focusing especially on the fact that Osaka is a natural base from which to visit the Kansai region, at the same time as offering the best of a city lifestyle. According to a survey by the Nikkei newspaper, Osaka ranks fifth as the most attractive tourist destination in Japan among people from Shanghai, and is in the list of top ten destinations in Japan for people in all the other

major cities in NE Asia, including Hong Kong.

The Kansai International Tourism Promotion Center expects the number of visitors from China entering Kansai through KIX to keep growing by 20% annually for the foreseeable future. This is more than double the rate of growth forecast for international visitors. Currently mainland Chinese account for about 12% of foreign arrivals at KIX (total foreign passenger arrivals is around 1.1million). This is double the number in 1995. It would have increased much faster after travel restrictions on visiting Japan were lifted two years ago, but for the SARS epidemic in 2003. Stronger growth is likely from now because the restriction on tourist travel to Japan was lifted in September 2004 from almost all the coastal region of China (prior to that it was limited to the major cities of Beijing, Shanghai, and Guangdong). This means that a market of 300 million potential travellers has now opened next to Japan. Bearing in mind travel times from most coastal cities in China to KIX is 3 hours or less, then it seems clear that long-term this represents a major growth opportunity for both tourism and KIX.

The number of visitors from Asia is expected to increase faster too. One reason is that Japan is expected to do away with visa entry requirements in the next two years, thereby equalising its treatment of Asian travellers with visitors from western countries. Starting in May, travellers from Korea will not need a visa during the period of the Aichi Expo 2005, which ends in September. Koreans still account for the largest number of international visitors to KIX, around 35% of the total. The recent numbers of around 380,000 arrivals annually is 36% higher than in 1995.

(3) KIX's Come-back

While there is certainly potential for more visitors from overseas – especially tourists from China, KIX has to ensure that a rising number of them choose to enter or leave Japan via KIX rather than Narita. Currently Tokyo is still the major destination for Asian visitors, followed by Hokkaido, neither of which is near to KIX. Narita completed its second runway in 2002, but capacity at the airport is full, which has put pressure on some airlines to use KIX as their Japan hub. The high landing fees, which discouraged airlines from using KIX in the past, are no longer a factor, since they are now 13% lower than Narita's (Y825,550/ton for a B-747 aircraft, compared with Y948,000/ton at Narita).

The combination of lower landing fees, the rebound from SARS, and the better economy have all helped KIX report its first net operating profit for the half year ended September 2004, since the airport opened in September 1994. The full year projections to March 2005 are also expected to maintain the strong profit performance. Strongly contributing to this was the expansion in the number of international passenger aircraft movements (touch downs and departures) which increased 31% from the same period the year before. International cargo movements increased 13%. On the other hand, domestic aircraft movements fell 25%, but only accounted for 30% of total aircraft movements.

There was an increase of 50 weekly flights in the 2004 Winter Schedule compared with the year before (42 passenger and 8 cargo) making a current total of 686 flights (80% passenger and 20% cargo). This included an extra 21 flights to China alone. The number of weekly flights to

China (excluding Hong Kong) has more than doubled since 2000, from 68 to 143. Of this total, 89 (or 62%) are operated by Chinese carriers, with JAL, ANA and Cathay Pacific accounting for the rest. Following the addition of several new routes in 2004, KIX now services more cities in China than Narita (a total of 15 compared with 13 at Narita). Noteworthy is the fact that the first route between Japan and Shenzhen was opened in October 2004, via KIX. Also, Shanghai Airlines opened its first route to Japan in April 2004 via KIX. The growth in travel via KIX to China has increased the percentage of flights going to China to 34 percent of total flights (for comparison the USA is 15%, Europe, 8%, and the rest of Asia, 17%).

There are a total of 81 weekly flights to the US, including Detroit, Los Angeles and San Francisco. Given the importance still of the US, the re-inauguration of flights by United Airlines to Chicago in June 2004, after a gap of five years, was an important psychological as well as commercial event. Chicago is a sister city of Osaka and Chicago's O'Hare International is the most important hub in the US.

In addition to passenger aircraft movements, cargo traffic is expanding, supported by the better economy. Monthly cargo volumes through to September 2004 were significantly higher than in either of the previous two years, and on a half-year basis were only ever exceeded once, in 2000, when there was a short, but sharp economic recovery. International cargo movements account for 17% of all international aircraft movements and 12% of all aircraft activity. KIX added new storage facilities, totalling 5,000m² of floor area in October 2004 in order to meet the growing demand.

(4) Competition with Chubu Centrair International

KIX has the major advantage over Narita that it can operate night-time flights (although the runway has to close for runway maintenance for 3 nights each week). However, the new airport off Nagoya, Chubu Centrair, which will open in February this year, also enjoys this advantage. Furthermore, Centrair is aggressively offering lower landing fees, at least initially, set 20% below KIX and 30% below Narita. So far however this has only resulted in a small number of flights transferring from KIX to Centrair, notably JAL, which transferred four of its Paris-bound passenger flights, out of a total of 113 passenger flights operating from KIX. Besides this, two cargo operators, including JAL, have transferred six flights in total to Centrair as of the end of November 2004 (amounting to 4.4% of total cargo flights).

Until now KIX has handled approximately 20% of the Chubu area's export cargo and 10% of its import cargo (nb: Chubu is the region between Kansai and Kanto). KIX accepts that some of this business will inevitably move to Centrair, but is confident that it will continue to handle cargo from the Nagoya/Aichi area because of the much larger number of flights and destinations it offers, as well as its warehousing facilities, and advanced procedures to speed up the release of cargoes. A further reason for KIX's confidence is that it has noticed that major logistics companies, which maintain their own storage and warehousing facilities at the airport, are operating at full capacity. If cargo volumes continue to expand they will have to consider adding new storage facilities. For the time being though they are waiting to gauge the impact on demand after Centrair opens.

To some extent this amounts to a battle between the fortunes of the two regions. The area around Nagoya, called Aichi, has been growing more strongly than other parts of Japan, including even Tokyo, thanks largely to the continuing success of Toyota. However, Toyota and the local car industry tend to be the only major industries in Aichi. Kansai on the other hand has a much more diversified industry base, including even companies supplying parts to the car industry. Additionally, many industries in Kansai are coming through a period of restructuring and consolidation to focus on higher value-added goods, which avoid competition with China, while making use of lower operating costs in China to keep themselves competitive in more standard product categories.

Companies in consumer electronics, along with textiles, chemicals, and to a lesser extent food processing and IT, are establishing powerful operations on the China mainland. Matsushita in particular is expanding its presence aggressively, closely followed by Sanyo Electric. The result is that KIX (as well as Osaka Port) are carrying a significantly higher proportion of trade with China than any other airport (or port) in Japan. Another factor in Kansai's favour is that the Asian resident population in Osaka and Kobe is the highest in Japan, far exceeding Nagoya's, which also provides a natural base on which to build traffic flows with Asia.

Unlike Narita, which was privatized in April 2003, KIX has been privatized since its foundation in 1994. A former Matsushita Electric executive, Atsushi Murayama, was installed as president in June 2003. Under his leadership the airport is introducing many changes,

focusing notably on making the airport more visitor-friendly. One measure of its success is that Skytrax, a research company based in London which uses customer surveys to rate airports, improved KIX's ranking from 12th worldwide in 2003 to 9th for the year ending March 2004.

(5) Airport Access Issues

One remaining problem for KIX is the time and cost to reach the airport compared with the older Itami Airport. This is also a perception problem, since not everyone thinks that KIX is difficult or expensive to access. Many expats living on Rokko Island in Kobe find the one-hour airport limousine ride very straightforward and affordable. The connection from downtown Osaka is less than one hour by train, which is faster than many international airports. Itami looks nearer on the map to the main population centres, but requires several changes of public transport from most parts of Kobe and Osaka, and consequently takes up to an hour or more to reach from most areas.

Nevertheless, the common perception among most Japanese is that Itami is more convenient. One problem is that KIX is on the southern edge of Osaka Prefecture, whereas Itami is in the middle of the most concentrated population area. This has helped Itami to become the main feeder for commuter traffic to Tokyo's Haneda Airport. At the same time it has made the noise problem intolerable. As a consequence it was recently mandated that as from April this year four-engined jets will no longer be allowed to fly from Itami (the exception are B747-400s which will be allowed to fly until March 2006). This creates an opportunity for KIX to take over some of this shuttle traffic. However, according to newspaper surveys many

Japanese would rather use the Shinkansen train. KIX therefore has to persuade them to rethink.

Since April last year KIX has been experimenting with reduced tolls on the expressway using the Electronic Toll Collection (ETC) system, lower crossing fees on the bridge to the airport, and lower airport car parking fees, limited to ETC users initially. It is also planning a promotional offensive. A Promotion Discussion Forum, which the new management established in November 2003, has been upgraded to a Council. Also, the Kansai community has collected funds amounting to Y500mil from both local government and private sector sources to finance

promotional campaigns and related initiatives as part of the support for the second runway.

The successful promotion of KIX and the second runway is vital most of all to enable Osaka and the Kansai to participate further in the expansion of the emerging Asian economic community. For its part, Osaka will continue to turn itself into a lifestyle and “knowledge capital” which will attract the curiosity, interest and finally participation of people from Asia and around the world. The second runway will then provide the capacity to handle this future growth.

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