
Osaka Renaissance News

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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 issues within a common framework. We also collaborate 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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“Osaka Renaissance News” is distributed through multiple email channels to spread the word about important initiatives taking place in Osaka.

This Issue: China Logistics Hub

The port of Osaka is benefiting from the expansion of trade and investment with China, especially the powerful commercial nexus developing between Osaka and Shanghai. Competition for China business is driving investment and change in the port.

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The Osaka City Blue Print for Urban Revitalization addresses:

- Urban Regeneration
 - Business stimulation (notably in knowledge-based industries)
 - Tourism and life-style
 - Education – especially professional and life-time learning
 - Foreign direct investment
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CHINA LOGISTICS HUB

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AUTHOR'S INTRODUCTION

The shift from domestic manufacturing to offshore manufacturing, the increasing share of goods made at Japanese-controlled factories for import to Japan, and the rise of China as a consumer as well as producer are causing an expansion of trade between Asia, especially China, and Japan, especially the Kansai region. The main reason is the continuing importance of Osaka as a textile distribution centre, and the growth of the Kansai digital electronics industry, which is leading the organization of production around the Asian region, especially China.

Osaka also has the advantage of proximity: it is one hour closer than Tokyo by air, and one day closer by ship. More direct shipping services operate between Osaka and Shanghai than any port in Japan, and there are more flights to Shanghai than from Narita. Truly, there is a powerful axis developing between the two cities – Shanghai may be on the ascendant, but Osaka is losing nothing in the relationship – indeed in an inscrutable way it may be gaining more.

Another trend is inter-port competition within Japan, which is good for shippers. Central government is trying to accelerate the process in order to recapture long-distance shipping lost to Asian hubs like Pusan and Shanghai. Competition between airports is now intense and is a sign of what to expect.

Foreign investment funds specializing in port distribution facilities have expanded their investment in Osaka port rapidly over the last 18 months, with no fewer than six facilities now either completed, planned or under construction.

Pressure for change will continue, with benefits for all shippers. The port is planning to make itself super competitive. Its success will create another reason to locate investment in Osaka, which could become a powerful hub with Shanghai and China.

Alex Stewart

CHINA LOGISTICS HUB

Osaka port is enjoying a revival on the back of trade with China.

(1) Competition

Osaka opened its port for foreign trade in 1868. The first wharf for modern shipping was completed in 1903, on the opposite banks from Universal Studios Japan.

For international trade Kobe rather than Osaka was designated from the outset as the main port. Only after the Kobe earthquake in 1995 did shippers begin to consider Osaka as an alternative. Since then, Osaka has steadily increased its share of both imports and exports. On current trends it is likely to overtake Kobe to become the fourth largest port in Japan (after Tokyo, Yokohama and Nagoya).

The challenge for Japanese ports is the loss of long distance shipping to Asia's hub ports. Kobe has suffered most. It was once one of the largest ports in the world; now it is not even 30th.

(2) Kansai International Airport

Ports also have to compete with the fact that shippers want to deliver products faster. This is especially true for makers of consumer digital electronics, a field which is concentrated in the Kansai region. To compete with lower cost rivals they must ensure that their products appear before price competition erodes profits.

This competition has created increased demand for services through Osaka's international airport, Kansai International (KIX for short). With its offshore location it offers a near 24-hour air cargo service. It will offer

24x7 services once a second runway opens in 2007. It offers lower cargo rates than Narita, and has been working to streamline cargo handling procedures for even faster turnaround.

The existence of KIX offers shippers a choice of shipping options, which strengthens the role of Osaka as a distribution hub. To support this, the port offers customers a feeder service to the airport directly from the wharf to provide more intermodal transport choices.

Osaka, Kobe, and KIX together carried exports of Y11.2 trillion and imports of Y7.7 trillion in 2004. Kobe is still the largest port for exports (44% of total), followed by KIX (38%) and Osaka (18%). For imports, Osaka is the largest (40% of total), followed by KIX (31%) and Kobe (29%). The growing volume and value of goods shipped through KIX has caused its share of trade on a custom cleared basis to increase from 21% in 1998 to 35% in 2004.

Between 1998 and 2004, exports on a value basis through KIX grew 67%, compared with Osaka Port (up 14%) and Kobe (up 7%, while imports grew 51%, through KIX compared with Osaka (up 40%), and Kobe (down 4%). Generally therefore Osaka is consolidating its position as an import hub.

KIX has had more growth than either of the ports mainly owing to the fact high value goods like digital

electronics are now produced at different plants around Asia, especially China, or high value parts for digital electronics are produced in Japan and exported to plants in China for assembly. In every case speed is essential.

(3) Container trade

Port container trade is the fastest area of growth after air cargo. Between 1990 and 2004 it more than tripled. About 84% of trade in 2004 was with Asia, and 55% with China (including Hong Kong). Trade with China expanded nearly 17 times between 1990 and 2004. Trade with China has intensified as Japanese plant investment has expanded, and as Chinese domestic demand has grown. Before 1998 exports from the Kansai area consisted heavily of textile machinery and the major import item was finished textiles. Now trade in both directions is much more diversified. As a result, container trade through the port of Osaka has expanded faster than any of the major ports - up 341% over this period, compared with growth of 273% through Tokyo, 158% through Yokohama and 240% through Nagoya.

To become a powerful hub, where goods are consolidated for onward shipment, Osaka must offer a service which attracts shippers to use it in preference to near-by rivals. In the Kansai region, the main competition is from Nagoya, which has also recently opened an international airport. This means shippers in Mie and Shiga, which are both important centres for the production of IT-related materials and components, have more choice. Osaka offers the convenience, however of many more shipping lines to China and premium services, such as its regular ferry service to Shanghai and a higher number of "Hot Delivery

Services", which ensure priority to shippers leaving the container terminal gates (2-3 hours as compared with a next-day service).

(4) Osaka-Shanghai Axis

Trade with Shanghai on a TEU basis accounts for about 40% of all Osaka's trade with China (including Hong Kong) far ahead of any other port in China. As of 2005, 88 direct services a month operated between Osaka and Shanghai. This is the most of any port in Japan (for comparison Yokohama has 84 direct services/month, and Tokyo 62 /month. However, if sailings which leave Yokohama to transship at Shanghai for onward destinations are added, then Yokohama has more).

Ships take only two days to reach Shanghai from Osaka compared with three days from Tokyo. Some shippers import to Osaka and truck the cargo to the Kanto region for faster delivery. There are two weekly ferry services between Osaka and Shanghai. Sailing times are fixed making them especially popular (normal shipping services can be delayed so are not guaranteed). Shippers pay a slight premium for this, but it is cheaper than air.

Commercial links with Shanghai go back over 35 years when Osaka built a pier for China shipping lines in 1972. It then signed probably the earliest International Friendship City Agreement with a Chinese city, in 1974. Relations are maintained via numerous business and governmental missions, seminars and conferences. Since the flight time to Shanghai is only 2½ hours business people can return within one day.

Underlying the expansion of trade with China is an extensive division of production between the industrial hinterlands of Shanghai and Osaka.

The most important areas are textiles and digital electronics, supported by their integrated supplier bases. In the digital electronics field, R&D and high-end production are concentrated in the Osaka area, while standard production is carried out in China. This results in a flow of materials, equipment and people between the two centres.

Osaka is also the hub of a retail and distribution industry which serves a population of 20 million relatively affluent consumers. Indeed, economically the Greater Metropolitan area of Osaka (including Kobe and Kyoto) is one of the largest economic regions in the world. This is reflected in the scale of its distribution infrastructure. According to property consultants, King Sturge, Osaka has the 7th largest stock of distribution facilities in the world, on a par with Seoul, Shanghai, Singapore, and London/Southeast England,.

(5) Investment in logistics

The shift to offshore manufacturing, tied with the importation of cheaper consumer products from Japanese-controlled plants offshore, is fueling price competition and forcing companies to find ways to reduce costs throughout the supply chain. This has resulted in changes in the way goods are moved through the supply chain -, from storing goods at a series of warehousing points along the supply chain - to one where very large customers now expect logistics companies to provide repacking, labelling, and the final quality check inside the logistics facility, in order to reduce storage and delivery time to a minimum.

To enable this, major investment is occurring in new types of distribution facility so that logistics companies can

manage the receipt, unpacking, processing and re-packaging of goods at a port-side location. The first new style distribution centre in Osaka was completed in 2004 by US-owned specialist investment fund, Prologis. This facility now employs 600, mostly part-time workers, to unpack containers, process and repack goods for direct distribution to retail outlets or other end users. Prologis has three more facilities under construction.

Other foreign specialist property funds are also active. LaSalle Investment Management, part of the Jones Lang LaSalle property consulting group, is constructing a distribution facility. AMB, a US-based property investment fund is active, has built one facility and is building another next door to the port in Amagasaki. The company operates in Japan as a joint venture with Black Pine, a property investment advisory company, established by managers who worked at Prologis when it was setting up in Japan. In total, six large-scale (25,000m² to 78,000m²) facilities in the port are planned or under construction. Osaka port is clearly a major beneficiary of this competition.

(6) Super Gateway Port

Nevertheless, competition from ports in Asia, especially most recently China, and the general competition across the supply chain, as Chinese freight forwarders also join the market, mean that ports in Japan have to improve their mode of operation in order to remain competitive. Central government has responded to this challenge, with its proposal to create "SuperGateway Ports". This new category was established in April 2004 by grouping the ports of Osaka-Kobe, Tokyo-Yokohama, and Nagoya-Yokkaichi into new distribution hubs.

Under the new plan, Osaka will streamline port operations, shifting some existing container terminals to other uses and creating a super deep-water container terminal on the man-made island of Yumeshima. It completed the first terminal on the island in 2002; a second came into partial operation in 2003; and a third is due for completion in 2008. When completed it will accommodate super-sized container ships and offer over one kilometer of berthage.

Funds for constructing the terminal are being provided by central government and a private company, owned by existing private operators at the port, has been formed to run it. Specific targets are 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, from the current three to four days, which will match the efficiency of Singapore. This should make it attractive for shippers, say in Hiroshima (like Mazda cars) to export through Kobe or Osaka rather than Pusan.

A massive logistics centre will be built behind the container terminals, which will have state of the art information management systems to expedite customs clearance and processing, as well as facilitate access to other ports, including Kobe, and other modes of transport. The whole area will be designated as a Free Trade Zone.

The super gateway port can also help address the problem that historically imports have concentrated on Osaka and exports on Kobe, which has created an awkward imbalance. Ships for example often unload first in Osaka, then pick up from both Osaka and Kobe. However, they have to pay cargo tax twice at each port. Central

government is examining how to unify this, but faces opposition from bigger ports like Tokyo which fear more competition.

(7) Increased Change

Competition will continue to drive change. Competition is already intense between airports, especially following the opening of Chubu Air International. Airports have been turned into private corporations to help them compete more effectively, and they will eventually aim for public listings. A similar trend will occur in the port sector, with central government already indicating a desire to see ports under private management. As a result, Japanese ports are going to change further and faster than at any time in recent memory. As this happens, new investment opportunities will open up for private companies, including foreign ones.

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