

Part I

THE ASIA-PACIFIC REGION: CURRENT POLITICO-ECONOMIC SITUATION AND CHALLENGES

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Part I outlines the process of recovery and adjustment from the COVID-19 pandemic in major countries around the world. Since the start of the COVID-19 pandemic, the leaders of major countries and regions, such as Japan, the US, and the EU, have changed. These changes are attracting global attention. As the world is moving toward the post-pandemic era, efforts are being made to address climate change in parallel with efforts to deal with COVID-19. We analyze these efforts and their impact. We pay special attention to such efforts and policies in major countries in the Asia-Pacific region, and we elucidate the challenges they face in their recovery. Furthermore, we explain the various issues of the world economy's adjustment in response to the COVID-19 pandemic, including the international trade order (mega-FTAs), changes in the labor market, and the impact of China's overseas lending. These analyses serve as an important background for analyzing the economies of Japan and Kansai in Part II.

Section 1, entitled “**The Process of Recovery and Adjustment of the World Economy from the COVID-19 Pandemic**,” serves as an introduction to this year's Economic Outlook. It discusses developments in three dimensions. The first one is the economic impact of COVID-19, including how fiscal policies influenced the behaviors of consumers and firms in the US, and how the pandemic affected industries and regions in Japan. The second one is the vaccine rollout, including the cause of its delay in Japan, and overview of the vaccine distribution strategies of major countries. The third one is climate change, as it has become a top priority for governments around the world, in addition to the COVID-19 pandemic.

Section 2 presents an international comparison of the financial measures of major countries' responses to COVID-19, based on the analysis in the Fiscal Monitor, published by the International Monetary Fund (IMF) in April and October of 2021. It examines the challenges to achieving fiscal soundness. While such discussions are not on the official agenda in the government and the Diet in Japan yet, in Western countries strategies for achieving fiscal soundness, which had deteriorated while responding to COVID-19, are in full swing. The section stresses the need to consider such measures in Japan while paying close attention to discussions and trends in other countries.

Section 3 outlines the impact of the COVID-19 pandemic on the US economy and examines how the US government and Federal Reserve Board of Governors (FRB) are responding to it. The section also explains the intentions behind of the US government's the "American Rescue Plan", the "Infrastructure Plan", the "American Family Plan" and FRB's expansionary monetary policy. It discusses the current trends in the US economy as well as the controversy over the scale of economic policies. Lastly, it provides an outlook on the policies by the Biden administration and analyzes its impact on the Japanese economy.

Section 4 examines the recovery of the Chinese economy from the COVID-19 pandemic. It outlines China's anti-COVID-19 measures and its economic recovery policies, with a special focus on fiscal policy. It also discusses the economic challenges that China is expected to face in the future, noting that the Chinese economy, which achieved a V-shaped recovery in the wake of the pandemic, is changing its strategy from "great international circulation" represented by the Belt and Road Initiative (BRI) to the "great domestic circulation," which aims to develop the Chinese domestic market. Finally, it discusses the future direction of US-China frictions as well as China's increasing presence.

Section 5 is an analysis of the increasing dependence of developing countries on Chinese loans – a trend exacerbated by the COVID-19 pandemic, which made debt servicing a major challenge in many nations. The section outlines the historical background and the characteristics of Chinese overseas lending, focusing on the difference between its reported and its actual extent. It discusses the determinants and geographical distribution of Chinese lending, and provides an outlook for the future, touching on the roles of developed countries and international institutions in dealing with developing countries' increasing dependence on China.

Section 6 looks at the challenges faced by the "middle powers," the countries sandwiched between the U.S. and China, whose relationship has escalated from a trade war to a major power confrontation. The section discusses the impact of COVID-19 and of the US-China decoupling on GVCs, and explains the role and significance of RCEP. It addresses the necessity to maintain the international trade order, and discusses the role for international trade policies, including mega-FTAs, in addressing the consequences of the U.S.-China conflict in the areas of politics and security.

Section 7 outlines the labor market during the COVID-19 pandemic, with a special focus on the informal economy. It presents the trends in labor markets in Asia and the actual state of the informal economy. It then explains the impact of the pandemic on the informal economy. It notes that the recovery of people living in the informal economy is a precondition for a full-fledged recovery of the global economy as a whole, and discusses future challenges and prospects.