

# Part II

## KANSAI'S ROLE AND FUTURE CHALLENGES UNDER THE COVID-19 PANDEMIC

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In Part II, we shift our focus from the world and the Asia-Pacific to the Kansai region. Our analysis is conducted from various angles, but its underlying theme can be summarized as “Kansai’s role and future challenges seen through the lens of the COVID-19 Pandemic”. Below is a summary of Chapters 2,3 and 4, which comprise Part II.

### **Chapter 2**

Chapter 2 presents a macroeconomic analysis of the economies of Japan and Kansai, including both retrospective analyses and forecasts. The first half of the chapter presents a retrospective analysis of the economies of Japan and Kansai in FY2021 and the first half of FY2022. The second half presents the economic outlook for FY 2022 through FY 2024.

In Section 1, we analyze the Japanese economy, which has been alternating between negative and positive growth from the beginning of FY 2021 to the middle of FY 2022, and whose momentum of recovery has been weaker than that of other major economies. Our latest forecasts for the Japanese economy in FY 2022-24 presented here (+1.5% for FY 2022, +1.1% for FY 2023, and +1.4% for FY 2024) incorporate the second advance GDP estimate of GDP for 2022 Q3 as well as our new assumptions about exogenous variables. If no new constraints are imposed on economic activities during the forecast period, accumulated forced savings will be unleashed in the second half of FY 2022, and an ensuing recovery led by private final consumption expenditure, mainly through increased spending on services, can be expected in the second half of FY 2023. The contribution of private demand is expected to decelerate in FY 2023, and so will the overall growth rate. Real GDP is not expected to exceed the pre-pandemic peak until the 2024 Q1 or later.

In Section 2, we analyze the Kansai economy, which recovered somewhat from FY 2020 but continued to be lackluster in FY 2021 due to the increasing number of COVID-19 infections and new downward pressures, such as the shortage of semiconductors and the sharp rise in raw material prices. The current situation can be summarized by sector as follows. (1) The household sector recovered from the decline in the previous year, but growth was sluggish due to the resurgence of COVID-19 and the resulting two states of emergency. (2) The recovery in incomes

and employment has also been sluggish. (3) Although the corporate sector has generally recovered from the sharp deterioration in the previous year, both the manufacturing and non-manufacturing sectors are under strong downward pressure due to various risk factors. (4) In the external sector, the exports of goods to China, Europe and the U.S. all recovered, and the exports of services finally began to show signs of recovery as economic activity normalized. Imports increased substantially, partly due to the sharp rise in energy prices. (5) The public sector (public works), has outperformed the nation as a whole. Reflecting the dynamics of each economic indicator, the real GRP growth rate for Kansai is forecast to be +1.5% in FY 2022, +1.2% in FY 2023 and +1.5% in FY 2024. Our analysis features a discussion of the impact of China's zero-COVID policy on the Kansai economy.

In Section 3, we analyze the income distribution in the Kansai region. In Kansai, the number of low-income groups was increasing and the middle-class was shrinking even before the pandemic. In view of this trend, the section analyzes the impact of the worsening economic conditions caused by the COVID-19 pandemic on incomes, focusing on the middle class.

Finally, in Column 2-A, we analyze the direct and indirect effects and risks facing the economies of Japan and Kansai from the perspective of international trade. The possibility of an economic slowdown in the EU is increasing due to economic sanctions against Russia as well as Russia's retaliation for energy-related goods. A deceleration in the EU economy will exert downward pressure on the economy of China through the channel of international trade. Since China and Japan have deep trade relations, with Kansai being particularly dependent on trade with China, there is a risk of economic slowdown in Kansai due to a slowdown in exports to China.

### **Chapter 3**

In Chapter 3, we analyze the main issues of the Kansai economy in the wake of the COVID-19 pandemic.

Section 1 discusses the issue of population decline in the Kansai region. Specifically, we analyze the demographic and population movement dynamics using data from the 2020 National Population Census. It is predicted that the population of Kansai will decrease at a faster pace than that of the rest of Japan, and it will be an urgent task for each local government to take measures to cope with this situation.

Column 3-A summarizes the impact of the COVID-19 pandemic on local government finances. Although prefectures play a major role in the measures taken to deal with the pandemic, there are large disparities among regions arising from differences in the financial strength of local governments. There should be a de-

bate on what kind of local fiscal infrastructure in order to achieve higher levels of decentralization and to improve the capability of taking timely economic measures in times of crisis.

Section 2 discusses the state of digital transformation (DX) in Kansai and Osaka. We analyze what kind of change is required in the “human process” associated with DX in order to (1) build long-term relationships with customers, and (2) build structures that can create new value. We conclude that in order to be able to use digital technology in line with the “human process,” the “process of things” has to be innovated in a way such that these two processes can advance one another toward achieving the optimal combination of things and people.

In Section 3, we review the dynamics of tourism in the Kansai region in FY 2021, and we analyze the measures for attracting tourists taken by Destination Management/Marketing Organizations (DMOs) in the prefectures of Kyoto, Wakayama, and Nara. The DMOs in the three prefectures had steadily developed tourism promotion strategies and achieved certain results before the pandemic, but the spread of COVID-19 infections forced them to make major changes in their tourism strategies.

In Column 3-B, following the discussion in Section 3, we focus on brand power, which is important in the development of tourism regions. We pay particular attention to place branding efforts in Kansai.

## **Chapter 4**

In Chapter 4, we analyze economic ripple effects of Expo 2025 Osaka-Kansai using a newly developed inter-regional inter-industry input-output table for the Kansai region.

Section 1 discusses the possibility to leverage Expo 2025 and integrated resorts (IR) in order to put the Kansai economy on a trajectory of positive growth. We show that the cause of the long-term stagnation of the Kansai economy is a lack of investment. We estimate that an additional investment of about 1 trillion yen would boost the economic growth rate of the Kansai region by about 0.54 percentage points. The key issue to be addressed in the future is how to attract sustained investment from both domestic and foreign sources.

Section 2 outlines the current state of infrastructure development in the lead-up to the Osaka-Kansai Expo 2025. We explain the economic effects of infrastructure development as an introduction to the analysis in Section 3. The infrastructure development in the Kansai region is lagging behind that of other regions in terms of efficiency. The future of the Kansai economy depends on the implementation of the “Osaka-Kansai Expo Infrastructure Development Plan”.

In Section 3, we estimate the economic ripple effects of the Expo based on the new inter-regional inter-industry input-output table for the Kansai region developed by APIR, and on our new assumptions about final demand. In addition, we introduce the concept of a 'Greater Expo', which refers to expanding the Expo in terms of theme, time, space, and other aspects, in a way that the entire Kansai region can function as a pavilion. We estimate the economic impact of a potential 'Greater Expo' and we compare it with the impact of the conventional Expo.

Finally, Column 4-A discusses the methodology of how the Kansai region as a whole can make the most of the opportunities presented by the Expo. Using insights from the case of the Edinburgh International Festival, the concept of a 'Greater Expo' is discussed. We hope that the formulation of this concept will contribute to spreading the attractiveness of the Expo to other places throughout the Kansai region, thereby generating positive spillover effects.