

Part II

TOPICS IN KANSAI: A CROSSROADS FOR ITS ECONOMIC TURNAROUND

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In Part II, we shift our focus from the world and the Asia-Pacific to the Kansai region. Our analysis was conducted from various angles based on the theme of 'Kansai's role and future challenges as revealed by the COVID-19 pandemic. The following is a summary of the chapters in Part II.

Chapter 2

Chapter 2 presents a macroeconomic analysis of the economies of Japan and Kansai, including both retrospective analyses and forecasts.

For the Japanese economy to grow sustainably in the future, a virtuous cycle of rising prices and wages is indispensable. This process was especially noteworthy in 2022. Section 1 presents a theoretical framework of the virtuous cycle mechanism for later analysis.

Section 2 focuses on the Japanese economy, which in FY 2022 showed a gradual recovery mainly in service consumption expenditures due to the normalization of socioeconomic activities. However, the economic recovery has been slow due to downward pressure on external demand caused by the stagnation of world trade and the deteriorating income environment caused by soaring domestic prices. Our latest forecasts for the Japanese economy in FY 2023-25 presented here (+1.7% for FY 2023, +1.4% for FY 2024, and +1.1% for FY 2025) incorporate the second advance estimate of GDP for Q3 2023 as well as our new assumptions about exogenous variables. With the normalization of socioeconomic activities, the forced savings accumulated due to the COVID-19 pandemic are spent in service consumption expenditures. However, since the acceleration and persistence of high consumer price inflation suppresses the growth of real disposable income, spending on goods consumption becomes selective. For this reason, growth in real disposable income is essential for a continuous recovery in household consumption.

In Section 3, we analyze the Kansai economy. In FY 2022, the economy in the Kansai region generally recovered as socioeconomic activities normalized. The current situation can be summarized by sector as follows. (1) The household sector showed a moderate recovery. However, real wages continued to deteriorate as households faced rising consumer prices due to price hikes in many items. (2) In the corporate sector, the manufacturing sector was weak, while the non-manufac-

turing sector generally recovered, especially in face-to-face services, as economic activity resumed. (3) In the external sector, both exports and imports of goods increased for the second consecutive year, while exports of services showed a remarkable recovery due to the easing of border control measures. (4) The public sector (public works) remained steady compared to the nation as a whole. Incorporating each economic indicator, real GRP growth in the Kansai is forecasted to be +1.3% in FY 2023, +1.6% in FY 2024, and +1.4% in FY 2025. Advance estimates of FY 2020-23 GRP for the six prefectures in Kansai are also presented, and a comparison of the recovery process from the COVID-19 pandemic is made for each prefecture.

In Section 4, we analyzed the impact of accelerated inflation in 2022, focusing on households in the Kansai region. The results showed that the high prices were mainly caused by basic expenses such as food and energy, and that low-income households, which have a high rate of these expenses, bore a large burden. We also estimated the effects of sudden fluctuations in electricity and gas prices.

Column C discusses the regional economic ripple effects of the 2023 Hanshin-ORIX championship. Specifically, the economic impact of the league championship, the Climax Series, the Japan Series, and the subsequent victory-related sales and the victory parade were analyzed using the APIR interregional input-output table.

Chapter 3

In Chapter 3, the industrial structure of the Kansai economy is summarized based on basic data, growth industries (profitable industries) are identified, and the future industrial structure is examined.

Section 1 identifies growth industries using basic data in order to identify profitable industries. Specifically, we used the Economic Census of Japan to compare the industrial structure and productivity of the Kansai region with those of other regions in order to clarify the characteristics of the Kansai economy.

In Section 2, based on the analysis in Section 1, we examined strategies for attracting investment and human resources, and considered industries that will become new strengths of the Kansai region. In doing so, we identified “profitable businesses” that do not match existing industry classifications by combining problem-solving businesses and industries in the Kansai region with the DX business concept.

Section 3 discusses the current state of the labor market in the Kansai region and the challenges it faces. The labor market in the Kansai region, which was hit hard by the COVID-19 pandemic, is slowly recovering, but the degree of recovery differs by gender and age group. A recent issue is a growing labor shortage in the non-manufacturing sector, and there are concerns that supply constraints may be

occured in the future due to labor shortages. The introduction of new technologies is important to overcome these issues, and improvements in the working environment can increase the employment rate and retention rate in the industry.

Chapter 4

In Chapter 4, we review the past tourism strategies, shed light on the rapid recovery of inbound tourism demand since the COVID-19 pandemic and the recovery of the tourism industry as a whole, including domestic tourism, and analyze the issues that have become apparent.

In section 1, we review tourism strategies in 10 years from the viewpoints of the national government and the private sector, and clarifies the challenges of tourism strategies for the future. Specifically, we clarified the characteristics of the past strategies based on the past budget trends of the Japan Tourism Agency and organized the trends of large-scale hotel construction in the Kansai region on a micro basis.

In section 2, we analyze the rapidly recovering inbound tourism demand and domestic travel demand using the latest major statistics. The section points out that the following issues must be addressed in future tourism strategies: (1) increasing and sustaining per capita consumption, (2) attracting more visitors to local regions and promoting sightseeing tours, and (3) improving the profitability of the tourism industry and improving labor supply constraints.

Chapter 5

In Chapter 5, we analyzed the economic impact of the Greater EXPO and the development of DX at the Osaka-Kansai Expo.

Section 1 updates the economic impact of the Greater EXPO estimated last year and introduces specific initiatives being undertaken by local governments in line with the concept of the Greater EXPO, and estimates the economic impact of highly value-added trips around regions.

Section 2 discusses the use of DX in Kansai and Osaka from two aspects: “quantitative improvement effects” and “qualitative business transformation.” It examines the economic effects of DX, taking up the case of “MaaS” such as Yumeshima Construction and Virtual Space (Metaverse).