

Part II

THE COVID-19 PANDEMIC AND KANSAI ECONOMY'S ADJUSTMENT PROCESS

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Having discussed the major issues facing the Asia-Pacific region in Part I, in Part II we shift the focus to the Kansai region and Japan. We analyze the impact of COVID-19 and the adjustment of the economy to the pandemic from various angles. The following is a summary of the contents of each chapter in Part II (Chapters 2 to 4).

Chapter 2 consists of four sections.

In Section 1, we discuss the characteristics of the adjustment of the household sector to the pandemic. As a state of emergency was declared in April 2020 in response to the increasing number of COVID-19 infections, consumer spending declined significantly. We analyze this decline using high frequency data on human flows and household consumption.

In Section 2, we examine the adjustment of the corporate sector. We focus on the deterioration of corporate earnings and on employment adjustments. In Kansai, employment in accommodation and food services had been increasing due to the strong demand by inbound tourism. However, the pandemic caused a major employment adjustment, particularly affecting women many of whom work as non-regular workers in these industries.

Sections 3 and 4 provide a retrospective overview of economic conditions for fiscal years 2020 to mid-2021, followed by our forecasts for FY 2021 to FY 2023.

Section 3 focuses on Japan, whose recovery has been slower than that of other major economies. We present our forecast for the economy, which incorporates the second official advance GDP estimate for 2021 Q3, as well as our latest assumptions concerning exogenous variables, such as fiscal and monetary policies and variables related to the global economy. Our real GDP growth forecast for Japan is +2.7% in FY 2021, +2.6% in FY 2022, and +1.7% in FY 2023. A baseline assumption in our forecasts is that although the possibility of a pandemic caused by the new Omicron variant is increasing, both the number of deaths and the severity of the condition of infected people are likely to be curbed considerably due to progress in vaccination. The highlights of our forecast are the expected rapid increase in consumption due to forced savings by households on the one hand, and the impact of supply constraints on industrial production on the other.

Section 4 focuses on Kansai, where the economic impact of the emergency states in FY 2020 was greater than in other regions, and the recovery of many economic indicators was delayed substantially. Our real GDP growth forecast for Kansai is +2.8% in FY 2021, +2.8% in FY 2022, and +1.8% in FY 2023.

Chapter 3 analyzes the major issues in the Kansai economy, which crystallized in the wake of the pandemic.

Section 1 examines the dynamics of migration movements during the pandemic, focusing on Osaka Prefecture. The disappearance of demand by inbound tourism affected many employees in their 20s, especially those from western Japan, who had moved to Kansai to work in tourism-related industries.

Section 2 deals with the issues of healthcare service provision. The COVID-19 pandemic revealed the vulnerabilities of Japan's healthcare system, and it necessitated an analysis of the measures that need to be taken so that the system can respond more quickly and flexibly in the event of an emergency.

Section 3 provides an overview of the digital transformation (DX) of Japan and Kansai, emphasizing that a global perspective and a focus on sustainability are essential in order to boost the effectiveness of DX investments. Ensuring security on the one hand, and addressing the ethical, legal, and social issues (ESLI) associated with the introduction of new technologies on the other, will play important roles in increasing the sustainability of DX investments.

Chapter 4 provides an overview of the tourism industry in Kansai in FY 2020, and analyzes its strategies and *status quo*. We conduct a quantitative analysis of the influence of the tourism industry on the economies of Japan and Kansai based on Input-Output tables.

In Section 1, we analyze trends in inbound demand that evaporated due to the COVID-19 using major statistics. In addition, we review the trends of domestic tourism, and discuss the impact of the "Go To" travel campaign, a government measure to stimulate demand. As a background to the analysis in the next section, we review the analytical framework necessary for the success of future inbound tourism strategies, including brand power, innovation, regionalization and the "safety, security, comfort" concept introduced in last year's Economic Outlook.

In Section 2, we interview the tourism departments of Kansai prefectures about the situation of inbound tourism and the state of tourism administration. We find that the tourism promotion strategies differ greatly by prefecture, both in terms of scale and strategies. Considering this diversity of tourism strategies, we emphasize the importance of Destination Management /Marketing Organizations

(DMO).

Section 3 builds on the previous section by discussing the activities of DMOs in the prefectures of Kansai. We conclude that a successful post-pandemic strategy should be focused on marketing and public relations and based on the culture and history of the region.

Section 4 provides a quantitative overview of the tourism industry in Japan based on the travel and tourism satellite accounts. In addition, we conduct an original analysis of the tourism industry using the extended 2017 Input-Output table. We clarify the position of the tourism industry in the national economy in terms of the employment and income it generates, and of its impact on other industries. Finally, we compare the impact of the COVID-19 pandemic on the economies of Kansai prefectures.

In Section 5, we conduct an inter-industry relationship analysis of the pandemic impacts on the tourism industry in 2020. We estimate the decrease in consumption by foreign visitors as well as the decline in domestic travel, including the ripple effect of the “Go To” travel campaign. Our analysis shows that the campaign mitigated of the decline in consumption by foreign and domestic visitors by about 8%.