

Section 2

CHARACTERISTICS OF RECOVERING INBOUND TOURISM DEMAND

NOMURA, Ryosuke; INADA, Yoshihisa

Section 2 reviews the dynamics of tourism in the Kansai region in 2022/23.

Subsection 2.1 focuses mainly on inbound tourism demand, analyzing trends in the number of foreign visitors to Japan and the expense by foreign visitors. Subsection 2.2 focuses on domestic tourism demand in the Kansai region, analyzing domestic travel consumption and the total number of Japanese overnight stays. Finally, Subsection 2.3 addresses future issues of the rapid recovery in tourism industry.

1. Rapidly recovery of inbound tourism demand

This subsection discusses the rapid recovery of inbound tourism demand. Specifically, we will examine the recovery in the number of inbound foreign visitors and the expense by these visitors since the COVID-19 pandemic.

(1) Number of foreign visitors

In response to the global spread of COVID-19, the Japanese government implemented strict border control measures after February 1, 2020¹⁾. As a result, the previously strong inbound tourism demand disappeared, striking a very serious blow to the tourism industry.²⁾ The number of inbound foreign visitors to Japan from the “Statistics on Foreign Visitors to Japan” of the Japan National Tourism Organization (JNTO) (Figure 4-2-1) shows that the number of inbound foreign visitors reached only 1,663 in May 2020, a record low since the statistics began, due to the strict border control measures. The number of cases recovered somewhat to 58,673 in December 2020, partly because the infection calmed down in the second half of 2020, and people were allowed to enter Japan only for business and study purposes. In January 2021, however, a new strain of COVID-19 led to another strict border control measure, causing the number to decrease to 7,355 in February 2021. In July, the number of visitors temporarily increased to

1) For a detailed description of the border control measures taken by the government, see Asia Pacific Institute of Research (2021), pp. 242.

2) The impact of the loss of inbound tourism demand on the tourism industry is analyzed in Chapter 5, Section 1 of Asia Pacific Institute of Research (2022).

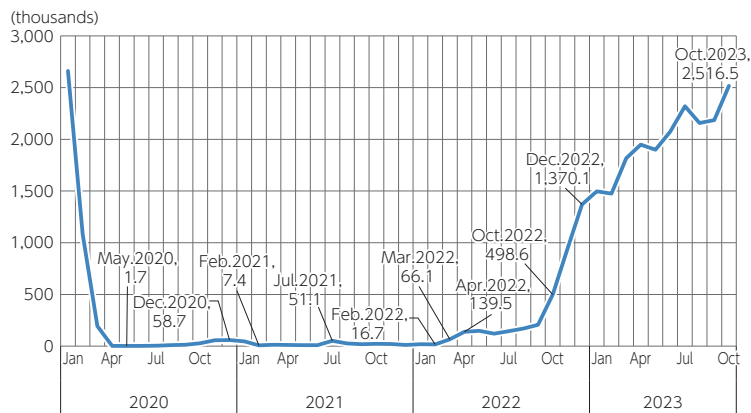


Figure 4-2-1

Trends in the number of foreign visitors to Japan: January 2020-October 2023

Source: Compiled from Japan National Tourism Organization (JNTO), "Statistics on Foreign Visitors to Japan

51,055 due to the Tokyo Olympics and Paralympics but, again, remained at low level after the games.

Inbound tourism demand showed a recovery trend in 2022 as the government gradually relaxed border control measures in preparation for the recovery of international traffic. In March 2022, the number of visitors sharply increased to 66,121 (compared to 16,719 in February), possibly because the entry limit was raised from 5,000 to 7,000 people per day. In April, the limit was further raised to 10,000, and the number exceeded 100,000 for the first time since the pandemic began, reaching 139,548. As border control measures were lifted in October, the number of visitors greatly increased to 498,646, and to over 1,370,114 in December, exceeding 1 million.

Since the beginning of 2023, the number of foreign visitors to Japan has remained above the one-million mark, and reached 2,516,500 in October, exceeding the two-million mark and recovering to the pre-pandemic level. The pace of recovery, however, varies by country and region and will be discussed in the following subsections.

Figure 4-2-2 compares the number of inbound tourism visitors to Japan by country and region in October 2023 with the pre pandemic level of October 2019. The number of visitors from South Korea and the United States exceeded the pre-pandemic level, while the number of Chinese visitors, who had previously accounted for 30% of all visitors to Japan (average for 2019), was only at 35% of the pre-pandemic level. The slowdown of Chinese economy and the deterioration of Japan-China relations might be the reasons for the slow recovery,

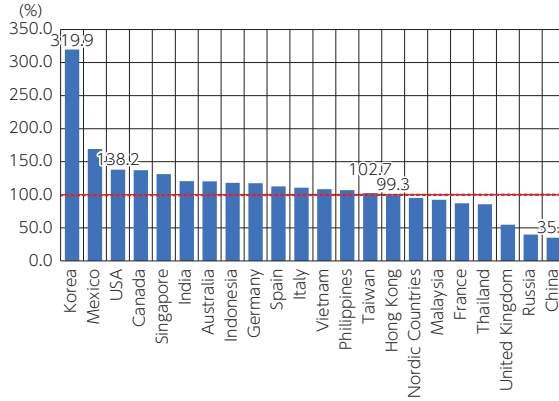


Figure 4-2-2

Comparison of recovery from before the COVID-19 pandemic by country/region: October 2023

Source: Compiled from Japan National Tourism Organization (JNTO), "Statistics on Foreign Visitors to Japan

despite all border control measures have been lifted. Thus, while the overall number of foreign visitors to Japan was steadily recovering, the pace of recovery differed by country and region. As will be discussed later, however, the recovery of consumption exceeded that of foreign visitors to Japan.

(2) Trends in the expenditure by foreign visitors to Japan

Let us look at trends in the amount spent by foreigners visiting Japan (all purposes) on a quarterly basis using the Japan Tourism Agency's "Survey of Trends in Consumption by Foreign Visitors to Japan" (Figure 4-2-3)³⁾.

Before the COVID-19 pandemic, consumption by foreign visitors in 2019 was generally above JPY 1 trillion (on a quarterly basis) and was approximately JPY 4.8 trillion for the entire year of 2019. However, due to the pandemic, it decreased to JPY 707.1 billion in Q1 2020, and has continued to decrease⁴⁾.

As mentioned above, border control measures were gradually relaxed since 2022 and, as a result, consumption by foreign visitors has steadily recovered since the Q1 period. During the Q4 period, border control measures were fully lifted and consumption amounted to JPY 594.9 billion, approximately 50% of the level for the same period in 2019.

3) The figures for 2019, Q1 2020, and Q4 2022 are revised figures. Those for Q4 2021 through Q3 2022 are estimated figures. Those for Q1 and Q2 of 2023 are second preliminary figures and those for Q3 2023 are first preliminary figures.

4) As the survey was suspended from Q2 2020 to Q3 2021 due to the spread of COVID-19, data on inbound travel spending during this period is missing.

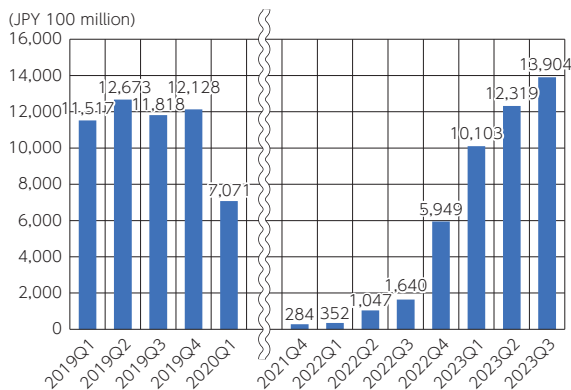


Figure 4-2-3

Trends in Foreign Visitors Expenditure in Japan: from Q12019 to Q32023

Source: Compiled from Japan Tourism Agency, "Survey of Foreign Visitor Consumption Trends in Japan"

In the current Q3 of 2023, as inbound tourism demand rapidly recovered, the consumption value increased JPY 1,390.4 billion, up 17.7% from the same period in 2019, surpassing the pre-pandemic level. A steady rise in the per-consumption price might be why number exceeds the pre-pandemic level. Regarding the per-unit expenditure and the average number of nights spent in Japan, according to the Japan Tourism Agency's "Survey of Trends in Foreign Visitor Expenditure in Japan," travel expenditures per capita for all purposes (Table 4-2-1) were JPY 218,110 in the Q3 of 2023, up 29.4% from the same period of 2019, exceeding the pre-COVID-19 pandemic level. By country and region, France was the highest at JPY 357,775 (+40.2%), followed by Spain at JPY 349,718 (+57.8%), Italy at JPY 341,870 (+63.6%), the UK at JPY 328,422 (+84.9%), and Australia at JPY 320,286 (+46.6%). The depreciation of the Japanese yen, increasing in the number of long-stay travelers, mainly from Europe, the U.S., and Australia, might have contributed to the rise in unit prices.

Next, looking at the average number of nights (Table 4-2-1), the overall average was 11.2 nights, an increase of 0.8 nights from the same period in 2019 (10.4 nights). By country and region, China increased to 14.6 nights compared to the same period in 2019 (7.7 nights). This was followed by the United Kingdom (14.6 nights) and Singapore (11.9 nights), both of which increased from the same period in 2019 (UK: 12.7 nights, Singapore: 9.1 nights).

(3) Kansai economy and inbound tourism demand

Next, let us examine the rapid recovery process of inbound tourism demand in the Kansai region using the number of foreign visitors to Kansai International

Airport (KIX).

Figure 4-2-4 shows the number of international arrivals to KIX, which reached a record low of 181 in May 2020.

In 2021, however, the number of arrivals in February was 1,879 and has remained at a low level since then, due to the tightening of border control measures.

From the beginning of 2022, border control measures were relaxed, and the number of arrivals started to increase. In March 2022, the number reached 10,284, the highest since December 2020. It reached 116, 658 in October, exceeding 100,000, and raised to 331,249 in December 2022, about 50% of the pre-pandemic level.

In 2023, the number of international arrivals continued to recover, reaching 655,571 (+0.6% over the same month in 2019) in October, approaching the

Table 4-2-1

Comparison of pre-unit expenditure and average number of nights spent by inbound foreign visitors by country/region: Q3-2019 vs. Q3-2023

| Country/Region | 2023Q3 (JPY/person) | 2019Q3 (JPY/person) | Comparison with 2019(%) | Country/Region | 2023Q3 (number of nights) | 2019Q3 (number of nights) | Comparison with 2019 |
|----------------|---------------------|---------------------|-------------------------|----------------|---------------------------|---------------------------|----------------------|
| Total | 210,810 | 162,860 | 29.4 | Total | 11.2 | 10.4 | 0.8 |
| Korea | 110,686 | 87,032 | 27.2 | Korea | 4.9 | 7.6 | -2.7 |
| Taiwan | 177,823 | 114,360 | 55.5 | Taiwan | 7.5 | 6.7 | 0.8 |
| Hong Kong | 233,887 | 153,544 | 52.3 | Hong Kong | 7.6 | 6.7 | 0.9 |
| China | 284,934 | 203,576 | 40.0 | China | 14.6 | 7.7 | 6.9 |
| Thailand | 180,543 | 149,850 | 20.5 | Thailand | 16.0 | 20.0 | -4.0 |
| Singapore | 256,496 | 153,238 | 67.4 | Singapore | 11.9 | 9.1 | 2.8 |
| Malaysia | 215,478 | 133,041 | 62.0 | Malaysia | 10.2 | 16.8 | -6.6 |
| Indonesia | 201,116 | 135,682 | 48.2 | Indonesia | 18.5 | 19.7 | -1.2 |
| Philippines | 166,434 | 95,811 | 73.7 | Philippines | 24.6 | 25.6 | -1.0 |
| Vietnam | 188,835 | 181,017 | 4.3 | Vietnam | 30.4 | 36.3 | -5.9 |
| India | 215,085 | 148,328 | 45.0 | India | 22.7 | 21.7 | 1.0 |
| UK | 328,422 | 177,608 | 84.9 | UK | 17.7 | 12.7 | 5.0 |
| Germany | 274,691 | 189,867 | 44.7 | Germany | 14.6 | 12.4 | 2.2 |
| France | 357,775 | 255,267 | 40.2 | France | 20.4 | 24.5 | -4.1 |
| Italy | 341,870 | 208,944 | 63.6 | Italy | 11.8 | 12.7 | -0.9 |
| Spain | 349,718 | 221,568 | 57.8 | Spain | 16.2 | 16.1 | 0.1 |
| Russia | — | 188,173 | — | Russia | — | 24.6 | — |
| US | 291,537 | 198,736 | 46.7 | US | 12.8 | 14.1 | -1.3 |
| Canada | 261,416 | 170,991 | 52.9 | Canada | 13.2 | 12.1 | 1.1 |
| Australia | 320,286 | 218,474 | 46.6 | Australia | 13.4 | 11.9 | 1.5 |
| Others | 314,812 | 224,345 | 40.3 | Others | 23.3 | 18.5 | 4.8 |

Source: Compiled by Japan Tourism Agency from "Survey of Foreign Visitor Expenditure Trends in Japan

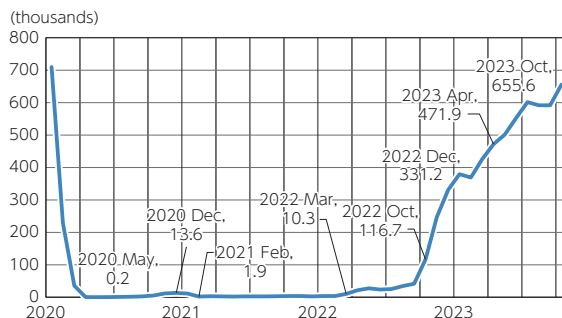


Figure 4-2-4 Trends in the number of visitors to KIX: Jan. 2020-Oct. 2023

Source: Compiled from Ministry of Justice, "Immigration Statistics."

pre-COVID-19 pandemic level. Similar to the national trend above, the number of international arrivals to the Kansai region is rapidly recovering, but the pace of recovery differs by country and region.

Table 4-2-2 compares the number of foreign arrivals at KIX in 2019 and 2022 by major country and region. As the table shows, before the pandemic, the number of arrivals from China was the highest, especially in Kansai, with a share of 39.4%. However, looking at 2022, China's share has declined significantly to 3.6%, while Korea's has greatly increased to 38.1%. In addition, the shares of Hongkong and Vietnam are also higher than the pre-pandemic level at 10.1% and 8.9%, respectively.

Figure 4-2-5 show the number of visitors to KIX of the top 5 countries and regions in Q3-2023 and compare them to Q3-2019 level. Korea was the highest at 555,000 (+98.6% compares to Q3-2019), China was at 404,000 (-58.0%), Taiwan was at 295,000 (+5.7%), Hongkong was at 160,000 (+15.9%), and US was at 49,000 (-2.8%).

While inbound tourism demand is rapidly recovering in Japan and Kansai, inbound visitors from China, which accounted for a large portion of the total number before the pandemic, is still lagging behind. Therefore, a full recovery will require more time. In the next subsection, we will shift our analysis to domestic travel demand, which was hit as hard by the pandemic, and examine its recovery process.

Table 4-2-2

Comparison of the number of visitors to KIX by country/region: 2019 vs. 2022

| Country/Region | The number of international arrivals at KIX | | | |
|----------------|---|----------|---------|----------|
| | 2019 | Share(%) | 2022 | Share(%) |
| Total | 8,378,039 | 100.0 | 885,470 | 100.0 |
| China | 3,302,710 | 39.4 | 32,291 | 3.6 |
| Korea | 1,510,776 | 18.0 | 337,644 | 38.1 |
| Taiwan | 1,098,555 | 13.1 | 85,002 | 9.6 |
| Hong Kong | 604,787 | 7.2 | 89,693 | 10.1 |
| US | 220,341 | 2.6 | 21,201 | 2.4 |
| Thailand | 310,615 | 3.7 | 34,026 | 3.8 |
| Australia | 94,752 | 1.1 | 10,875 | 1.2 |
| Philippines | 198,265 | 2.4 | 30,411 | 3.4 |
| Malaysia | 150,760 | 1.8 | 16,595 | 1.9 |
| Vietnam | 148,247 | 1.8 | 79,204 | 8.9 |
| Singapore | 114,459 | 1.4 | 34,161 | 3.9 |
| UK | 59,632 | 0.7 | 6,765 | 0.8 |
| Indonesia | 85,643 | 1.0 | 21,164 | 2.4 |
| Canada | 55,437 | 0.7 | 5,497 | 0.6 |
| France | 61,340 | 0.7 | 9,219 | 1.0 |
| Germany | 35,255 | 0.4 | 3,648 | 0.4 |
| India | 21,599 | 0.3 | 4,020 | 0.5 |
| Italy | 24,571 | 0.3 | 2,723 | 0.3 |
| Spain | 28,072 | 0.3 | 2,130 | 0.2 |
| Russia | 9,496 | 0.1 | 1,027 | 0.1 |
| Mexico | 4,574 | 0.1 | 303 | 0.0 |

Source: Compiled from Ministry of Justice, "Immigration Statistics."

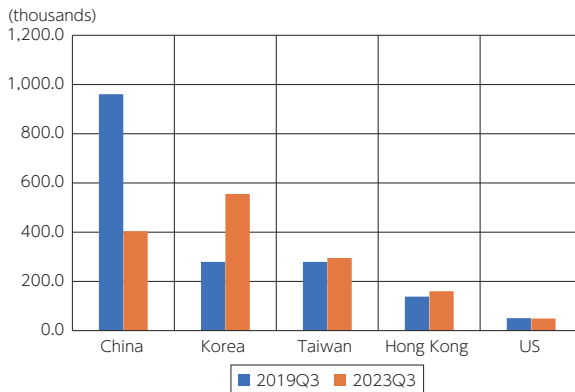


Figure 4-2-5

Comparison of the number of visitors to KIX by country and region: Q3 2019 vs. Q3 2023

Source: Compiled from Ministry of Justice, "Immigration Statistics."

2. Recovery of domestic travel demand

In this subsection, we focus on domestic travel demand in the Kansai region⁵⁾ and examine its recovery process from the COVID-19 pandemic.

(1) Trends in the Total Number of Japanese Overnight Stays

We use the “Overnight Travel Statistics Survey” conducted by the Japan Tourism Agency to examine the recovery process of the total number of Japanese overnight stays in Kansai. As shown in Figure 4-2-6, the number of overnight stays declined sharply by 82.5% in May 2020 compared to the same month in 2019. As the “Go to Travel” program started in July, the decline was reduced to -8.1% in November compared to November 2019. However, the decline increased again in January 2021 to -51.1% due to another wave of COVID-19 infection and the suspension of the “Go to Travel” program. The pace of recovery was slow but steady, declining at -20.5% and -7.2% in October and November, respectively, comparing to the same month in 2019. In December, the number of Japanese overnight stays steadily recovered and exceeded the pre-pandemic level by +5.2%.

Due to the government’s measures to prevent infection in 2022, however, the number of Japanese overnight visitors decreased by -14.1% in January, and -35.1% in February. Then, it started to recover from March to September, and turned positive in October with +10.8%. The increasing trend continued and

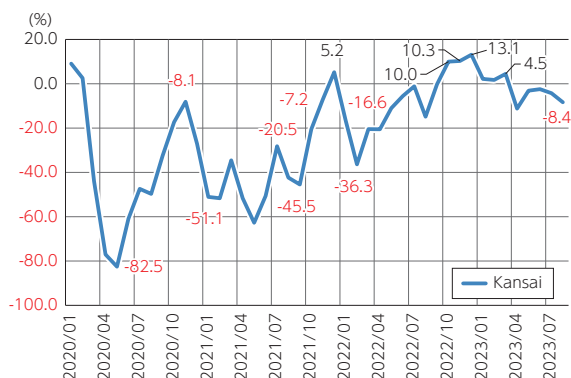


Figure 4-2-6

Total Number of Japanese Overnight Stays in 2019 % Change from the Same Month in 2019: Kansai: Jan 2020 - Aug 2023

Source: Compiled from the Japan Tourism Agency, “Overnight Travel Statistics Survey”

5) Greater Kansai here is based on Fukui, Mie, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama, Tottori and Tokushima prefectures.

reached 11.2% in November and 12.7% in December.

The number of Japanese overnight stays had been on a recovery trend from January to March since the beginning of 2023, but has shown a downward trend since April, and in August, it has been below the pre-COVID-19 pandemic level for five months in a row, at 8.4%.

(2) Domestic Travel Consumption

Figure 4-2-7 shows the quarterly trend of domestic travel consumption in the Kansai region. Domestic travel consumption declined sharply to JPY 202.8 billion in the Q2 of 2020 due to the declaration of a state of emergency⁶⁾. In Q3 and Q4, the consumption recovered as the government launched the “Go to Travel” program.

In 2021, however, domestic travel consumption for Q1 totaled JPY 315.6 billion since the infection situation got worse and the “Go to Travel” program got suspended, and the pace of recovery slowed thereafter. In Q4, the consumption rose sharply to JPY 751.4 billion as the pandemic slowed down, and local governments stimulated travel demand with their own policies⁷⁾.

In 2022, domestic travel expenditure in Q1 was JPY 475.9 billion due to the worsening infection situation and the government’s priority measures to prevent

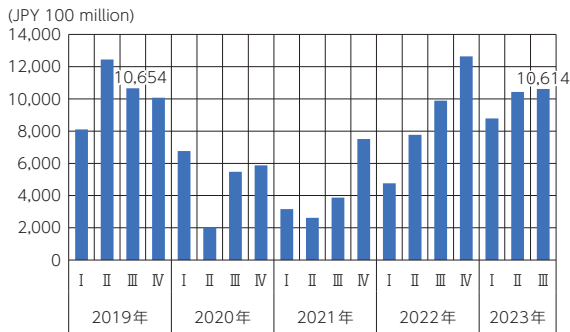


Figure 4-2-7

Trends in domestic travel expenditure: Kansai: Q1 2019-Q3 2023

Note: The data from 2019 to 2022 are revised figures. 23 years are preliminary figures.

Source: Compiled from Japan Tourism Agency, “Travel and Tourism Consumption Trends Survey”

- 6) The period of emergency declarations and priority measures to prevent the pandemic spread are as follows. Emergency declaration (1st: April 7 to May 25, 2020; 2nd: January 7 to March 21, 2021; 3rd: April 25 to June 20, 2021; 4th: July 12 to September 30, 2021). Priority measures to prevent the pandemic spread (April 5 to September 30, 2021; and January 9 to March 21, 2022).
- 7) See Chapter 5 Section 1 of Asia Pacific Institute of Research (2022) and COVID-19 Chronology for the Kansai prefectures’ own measures to stimulate travel demand.

pandemic spread. In Q2, the consumption recovered, reaching JPY 1,263.6 billion and exceeding the pre-pandemic level, due in part to the “National Travel Support Program” that was initiated on October 11, 2023.

In Q1 of 2023, although the consumption totaled to JPY 834.9 billion, exceeding the pre-pandemic level for two consecutive quarters, it dropped in Q3 to somewhat lower than the pre-pandemic level at JPY 1,061.4 billion (-0.4% from the same period in 2019).

As described above, since the latter half of 2022, domestic travel expenditure and the number of Japanese overnight stays in the Kansai region have been steadily recovering to pre-pandemic levels, partly because of the subsided pandemic and because of government measures to stimulate demand. In the future, it is important to maintain a sustained growth of both inbound tourism demand and domestic travel demand. In the following subsection, we will identify some future issues in the tourism industry.

3. Future issues

As we have seen, both inbound tourism demand and domestic travel demand are recovering from the COVID-19 pandemic.

Looking at the recovery of inbound tourism demand, it is particularly interesting to note that both the unit consumption price and the average number of nights spent have increased. This point has also been addressed in the Japan Tourism Agency’s Tourism Nation Promotion Plan. In anticipation of the recovery in inbound tourism demand, the Japan Tourism Agency revised its new Tourism Nation Promotion Plan in March 2023⁸⁾. Table 4-2-3 compares the targets for inbound tourism in the previous plan with those in the revised plan.

Table 4-2-3 Contents of the Newly Revised Tourism Nation Promotion Plan

| | Foreign visitors | Expenditure by foreign visitors | Unit price for foreign visitor | Number of overnight stays per foreign visitor in local areas |
|---------------|---------------------|---------------------------------|--------------------------------|--|
| 3rd Revision | 40 million people | JPY 8 trillion | — | — |
| Target values | Until 2020 | Until 2020 | — | — |
| 4th Revision | 2019 level exceeded | JPY 5 trillion | JPY 200,000 | 2 nights |
| Target values | Until 2025 | at an early date | Until 2025 | Until 2025 |

Source: Compiled from Japan Tourism Agency, “Tourism Nation Promotion Plan

8) The specific measures that the Japan Tourism Agency will take in 2023 are detailed in the Japan Tourism Agency (2023).

The fourth revision of the plan aims to increase the number of inbound visitors to Japan to exceed the 2019 level by 2025, and to achieve JPY 5 trillion in consumption as soon as possible. A new target of JPY 200,000 by 2025 has also been set for the per-unit expenditure. As mentioned above, per-unit expenditure was approximately JPY 210,000 in Q3 2023 and, thus, the JPY 5 trillion target is achievable, but it is important to maintain and improve the per-unit expenditure.

The recovery of Chinese visitors to Japan is also important for the Kansai economy, which was severely damaged by the pandemic. Before the pandemic, Chinese visitors to Japan accounted for 39.4% of all arrivals at KIX, but by 2022, they accounted for 3.6%. In addition, there is still a high degree of uncertainty about the future due to deteriorating Japan-China relations and the slowdown of the Chinese economy.

After the pandemic, issues regarding future tourism strategies became clear. These are: (1) improving and sustaining the per-unit spending of foreign visitor, (2) promotion of regional tourism, and (3) improving the profitability and labor supply constraints in the tourism industry.

Regarding (1), as mentioned above, the per-unit expenditure of foreign visitors to Japan is steadily increasing, maintaining it will be important in the future.

Regarding (2), from the perspective of the “tourism regionalization” that APIR has been emphasizing, it is necessary to eliminate the overtourism phenomenon concentrated in Osaka and Kyoto prefectures in the Kansai region, and to attract visitors to other prefectures. In this case, the tourism strategy of each municipality and the role of DMOs will become even more important.

Regarding (3), the recovery and productivity improvement of female non-regular employees, who have been supporting the tourism industry, is a challenge. In Kansai particularly, the number of female non-regular employees has been hit hard by the pandemic⁹⁾ and has yet to recover to its pre-pandemic level.

Although the face-to-face service industry is recovering from the pandemic, the pace of recovery of female workers in the Kansai region varies by industry. Figure 4-2-8 shows that the index of female workers in the face-to-face service industry in the Kansai region in Q3 of 2023 (2019 average = 100) declined by 2.2 points in the “wholesale and retail industry”, 8.6 points in the “accommodation and food services industry”, and 3.0 points in the “lifestyle-related services and

9) The impact of the COVID-19 pandemic on female part-time workers in the Kansai region is analyzed in detail in Chapter 3, Section 5 of Asia Pacific Institute of Research (2021). The current state of labor supply constraints in the Kansai region is discussed in detail in Chapter 3, Section 3 of this report.

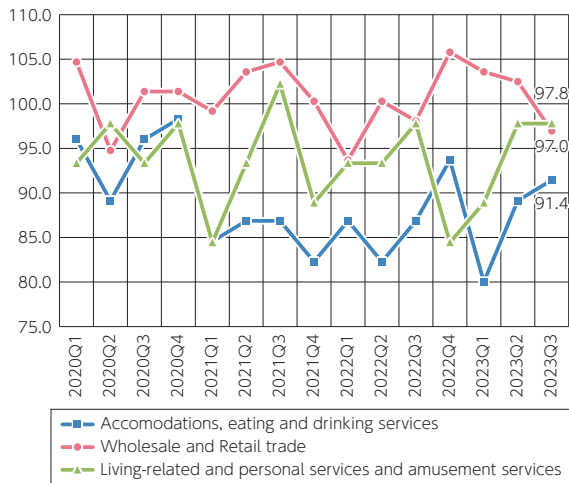


Figure 4-2-8

Trends in the index of female workers in face-to-face service industries: Kansai: from Q1-2020 to Q3-2023

Note: Index for each industry with 2019 average number of workers as 100
 Source: Compiled from Ministry of Internal Affairs and Communications, 2Labour Force Survey"

entertainment”, all are below the pre-pandemic level, indicating a slow recovery. Thus, the future issue for the Kansai region is how to resolve the labor supply constraint.

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