

# Part II TOWARD THE SUSTAINABLE DEVELOPMENT OF THE KANSAI ECONOMY: THE IMPACT OF THE DECELERATING CHINESE ECONOMY AND HOW TO RESPOND

*INADA, Yoshihisa; NOMURA, Ryosuke*

In Part II, we shift our focus from the world and the Asia-Pacific to the Kansai region. The analysis presented in Part II was conducted from various perspectives under a common theme entitled “Toward the Sustainable Development of the Kansai Economy: The Impact of the Decelerating Chinese Economy and Responses to it.”

As pointed out in Part I, the slowdown of the Chinese economy is exerting a major impact on global value chains (GVC). In consideration of the fact that China is an important trading partner for Kansai, in Part II we outline and analyzed the impact of the recent slowdown in the Chinese economy on the economies of Japan and Kansai, with a special focus on the exports of goods and services. The following is a summary of the contents of the chapters in Part II.

## Chapter 2

Chapter 2 provides a retrospective analysis and a forecast for the economies of Japan and the Kansai region. In Section 1, we looked at the impact of the economic slowdown in China on the Japanese economy, and in particular on the economy of the Kansai region, from the perspective of trade.

Section 2 and Section 3 provide retrospective analyses of the economies of Japan and Kansai in FY 2023, followed by our forecasts for FY 2024-2026. In Section 2, we focus on the Japanese economy.

In Q3 2024, Japan's real GDP (second provisional estimate) expanded quarter-on-quarter growth for the second consecutive quarter. Japan's recovery, however, remained weak, with GDP remaining below its pre-pandemic peak (Q3 2019) for the fifth consecutive quarter. While private final consumption expenditure and private business investment remained lackluster, the exports of services exceeded their pre-pandemic peaks for the seventh consecutive quarter due to a sharp recovery in inbound tourism. On the other hand, the imports of services exceeded their pre-pandemic peak for nine consecutive quarters, resulting in a negative contribution of net exports of services to GDP growth.

We have revised our outlook for the Japanese economy for FY 2024-2026, incorporating some new assumptions regarding exogenous variables. Our latest forecast for Japan's real GDP growth rate is +0.3% in FY 2024, +1.2% in FY 2025, and +1.3% in FY 2026.

Section 3 covers the Kansai economy, which in FY 2023 showed signs of a pickup following the normalization from the Covid-19 pandemic. In FY2024, the economy continued to gradually recover overall. By sector, FY 2023 can be summarized as follows: (1) The household sector recovered moderately with the normalization of economic activity. However, the income and employment environment remained weak and did not achieve a strong recovery. (2) In the corporate sector, the speed of recovery varied by industry. In the manufacturing sector, both production and business confidence were weak due to a slowdown in exports. On the other hand, the non-manufacturing sector was generally robust as economic activity normalized. (3) In the external sector, both the exports and the imports of goods declined for the first time in three years. The exports of services continued to recover steadily, exceeding the pre-pandemic level, due to an increase in the number of foreign visitors to Japan. (4) The public sector (public works) remained steady, with year-on-year growth continuing to accelerate.

Reflecting the latest economic indicators, we forecast real GRP growth in the Kansai region to be +0.9% in FY 2024, +1.1% in FY 2025, and +1.4% in FY 2026.

In Column A, we analyze the impact of the slowdown in the Chinese economy on the Kansai economy in 2023, using the APIR Interregional Input-Output Table. Specifically, we focus on the top three items that contributed to the decline in Kansai's exports to China in 2023 and we measure their economic impact on the individual prefectures in Kansai.

## **Chapter 3**

In Chapter 3, we focus on inbound tourism, which has been steadily recovering since the Covid-19 pandemic, and discuss strategies for the post-Expo period.

Section 1 analyzes trends in the numbers of guests at lodging facilities in the Kansai region since the Covid-19 pandemic. In addition, we discuss the operation of foreign-brand hotels in the Kansai region and analyze their management styles on a micro basis.

In Section 2, we analyze the recurring problem of overtourism in Kyoto. Specifically, we review the measures taken by Kyoto City to date and we analyze how the city's residents evaluate these measures. We also examine the characteristics of overtourism in Kyoto based on existing literature, and we discuss the ideal form of tourism in Kyoto with an eye toward the post-Expo period.

In Section 3, we estimate quantitative benchmark indicators (overall satisfaction, intention to refer and intention to return) based on a web survey conducted by APIR, and we analyze the characteristics of tourist destinations. Based on our analysis, we propose the concept of wide-area sightseeing tours of the Kansai re-

gion which could meet tourists' travel objectives, an improvement over existing itineraries which simply connect popular destinations.

Column C outlines the impact of the Chinese economic slowdown on outbound tourism from China. Some of the main characteristics of Chinese outbound travel since the Covid-19 pandemic are that group travel has decreased, spending per trip has declined, tourists' preferences have shifted from consuming to experiencing, and travel destinations have diversified. We point out that easing visa requirements and harnessing the role of social media in the selection of overseas travel destinations are the keys to attracting Chinese tourists in the future.

## **Chapter 4**

Chapter 4 analyzes and discusses the medium- and long-term challenges facing the Kansai economy.

Section 1 analyzes the impact of the population decline since 2010 on the structure of employment and wages in the Kansai region. Specifically, we compare and analyze trends in the number of employed persons and salaries along four axes (by gender, age, industry, and region) in Kansai, in Kanto, and in Japan as a whole.

In Section 2, we analyze examples of digital transformation (DX) at various companies, focusing on the lodging industry, nursing care service industry, and food manufacturing industry. The case studies indicate that management judgment is an important determinant of DX, and that personnel with extensive experience and knowledge of the company's internal operations are indispensable.

Column B introduces recommendations for the ideal urban operating system (urban OS) that should be pursued in the future. It concludes that two important and indispensable mechanisms for realizing the recommendations are (1) a regional information infrastructure such as ORDEN, the data collaboration platform of the Osaka Super City Concept, and (2) the development of a management organization, a third-party organization, and/or a funding scheme in which the government, businesses, and citizens can all participate.

## **Chapter 5**

In Chapter 5, we examine various ways to ensure the sustainable development of the Kansai economy in the wake of the Osaka-Kansai Expo.

Section 1 estimates the economic ripple effects of the Osaka-Kansai Expo based on the latest data, and reiterates the importance of realizing the concept of a 'Greater Expo'.

In Section 2, we use basic statistics to identify industries that are expected to grow in the Kansai region in the future. Specifically, the storage battery industry

and hydrogen-related industries related to the so-called green transformation were taken up and analyzed. These industries are also featured in the demonstration project to be held at the Expo, suggesting that Kansai has an important role to play as an industrial cluster.

Section 3 discusses measures for institutional development and deregulation aimed at attracting human resources and investment in the wake of the Expo. In Kansai, in addition to the shortage of human resources in the IT and consulting sectors, the language barrier remains an issue. We conclude that in addition to the business environment, it is important to strengthen human resource matching services and English language skills in order to secure human resources.