



APIR

**Part II : Kansai and the Asia  
Pacific Economic Outlook 2022-23**

**by Yoshihisa Inada**

28<sup>th</sup> April 2023

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”.

- ◆ **Chapter 2 The Economies of Japan and Kansai: A Retrospective and Outlook**
- ◆ **Chapter 3 Challenges and Prospects for the Kansai Economy**
- ◆ **Chapter 4 The Economic Impact of the Expo 2025 Osaka-Kansai: An Analysis Using the 2015 Kansai Inter-Regional Input-Output Table**

# Part II Kansai's Role and Future Challenges Under the COVID-19 Pandemic: Contents

<b>Part II: Kansai's Role and Future Challenges Under the COVID-19 Pandemic</b> .....	93
Introduction .....	97
Chapter 2 The Economies of Japan and Kansai: A Retrospective and Outlook .....	101
Section 1 The Japanese Economy: Recent Developments and Short-Term Forecasts .....	101
Section 2 The Kansai Economy: Recent Developments and Short-Term Forecasts .....	119
Section 3 Income Distribution: A Major Challenge for Kansai's Economy .....	137
Column A The Economic Impact of Russia's Invasion of Ukraine on Japan and Kansai: A Trade Perspective .....	151
Chapter 3 Challenges and Prospects for the Kansai Economy .....	162
Section 1 Challenges Posed by the Population Decline in the Kansai Region .....	162
Column A The Impact of the COVID-19 Pandemic on Local Government Finances .....	179
Section 2 The Utilization of DX in Kansai and Osaka .....	186
Section 3 Tourism in Kansai: Measures to Attract Visitors Implemented by DMOs in the Kansai Region .....	197
Column B Place Branding in Kansai .....	220

Today, mainly focus on Chapter 2 Sec.1 & 2, Chapter 3 Sec.3 & Column B and Chapter 4 Sec.1 & 3

Chapter 4 The Economic Impact of the Expo 2025 Osaka-Kansai: An Analysis Using the 2015 Kansai Inter-Regional Input-Output Table .....	233
Section 1 How the Expo 2025 Osaka-Kansai and the Osaka Integrated Resort can help revitalize the Kansai economy .....	234
Section 2 Expo 2025 Osaka-Kansai: Infrastructure Development in View of the Opening of the Osaka Integrated Resort .....	246
Column A The Legacy of Expo 2025 Osaka-Kansai and Co-Creation Innovation .....	260
Section 3 The Economic Impact of the Expo 2025 Osaka-Kansai and the Possibility of a 'Greater Expo' .....	272

- ◆ Japan's direct dependence on trade with Russia is low, so the **direct impact of the escalation of the situation in Ukraine** (through Japan-Russia trade) **will be small,**
- ◆ **but the indirect impact of the high trade dependency between Russia, the EU, China, and Japan (Kansai)** cannot be ignored.

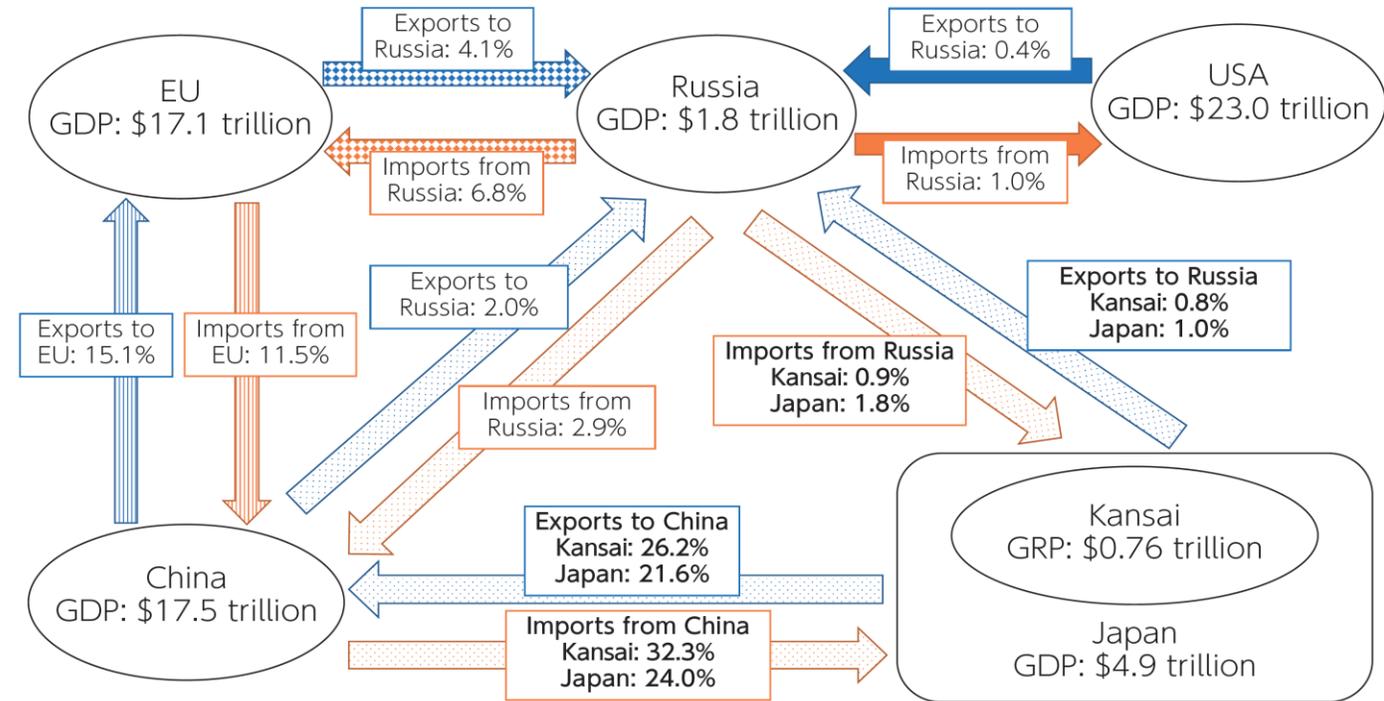


Figure 2-0-1 Economic Scale and Trade Dependency of Russia and Countries/Regions

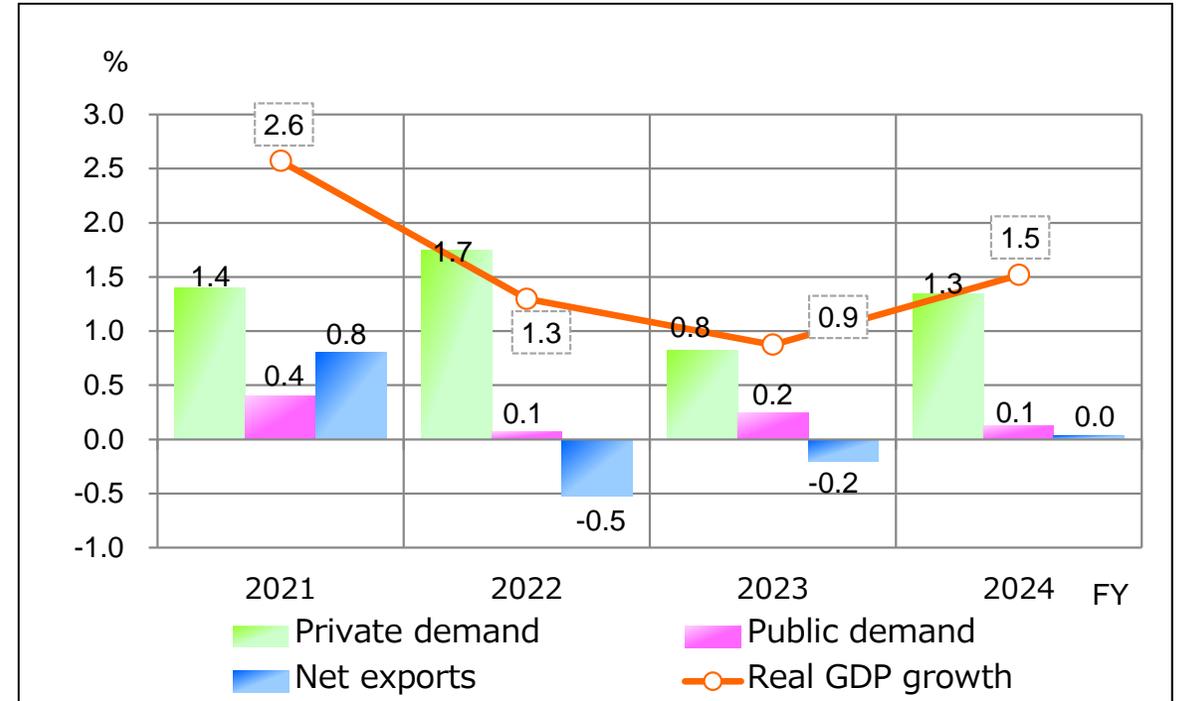
# Slow recovery from the COVID-19 pandemic

- ◆ Looking at the recovery process from the pre-Corona peak (Jul-Sep 2019), the level of GDP in Oct-Dec 22 is still 1.9% below the peak.
- ◆ The recovery of private final consumption expenditure (-2.8%), private capital formation (-5.7%) and exports of services (-9.4%) has been noticeably slow.
- ◆ **Slow recovery of the Japanese economy due to a combination of various factors.**

	GDP	Goods imports	Services import	Private final consumption expenditure	Private capital investment	Government spending	Goods exports	Services exports
19Q3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
19Q4	97.3	98.7	95.8	96.6	94.7	100.3	98.3	100.3
20Q1	97.7	93.9	95.1	97.3	95.3	100.4	95.7	88.4
20Q2	89.9	94.8	88.9	89.1	91.6	101.2	78.1	76.6
20Q3	95.0	87.1	84.9	94.0	88.5	103.1	88.9	73.3
20Q4	96.8	94.3	83.9	95.8	88.9	104.0	98.8	75.1
21Q1	96.6	96.3	85.9	94.2	92.2	103.9	100.9	78.3
21Q2	96.9	99.2	93.5	94.3	92.9	105.1	104.4	79.7
21Q3	96.6	98.3	90.4	93.3	92.9	105.5	103.8	80.2
21Q4	97.7	99.2	88.9	96.0	92.4	104.0	104.5	79.5
22Q1	97.2	102.9	92.5	95.1	95.3	103.7	106.6	77.2
22Q2	98.3	104.9	89.8	96.7	95.3	104.5	107.5	81.2
22Q3	98.1	106.8	107.6	96.7	96.8	104.5	109.4	86.1
22Q4	98.1	108.4	100.5	97.0	94.0	104.9	110.1	90.6

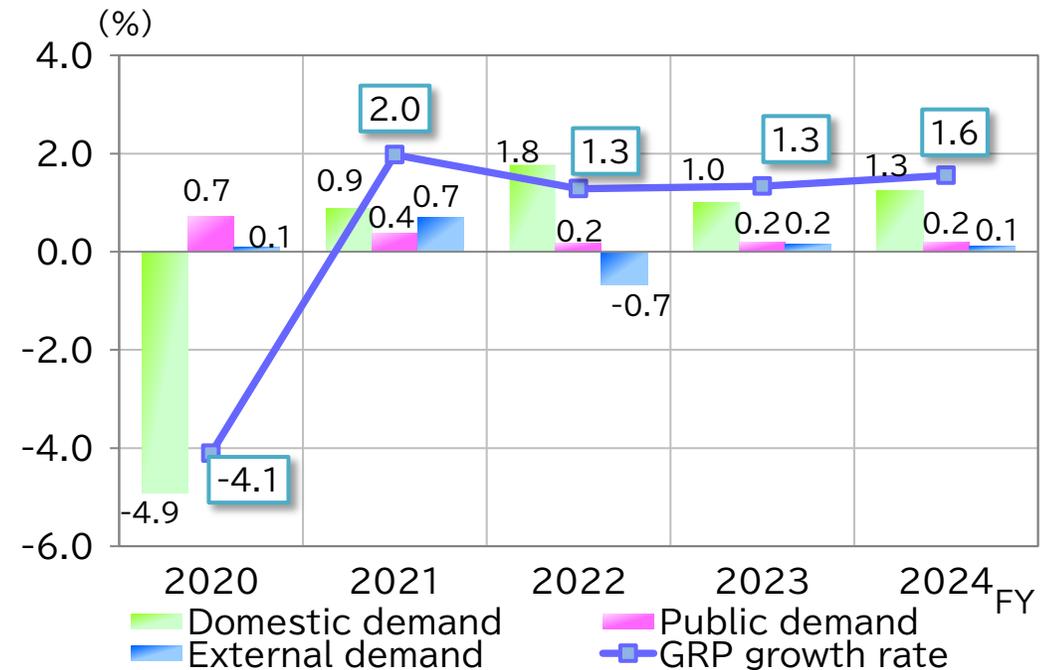
# Real GDP growth forecast results and contribution by category

- ◆ FY2022: contribution of private demand +1.7 %pts, public demand +0.1 %pts, **net exports** -0.5 %pts.
- ◆ FY2023: private demand +0.8 %pts, public demand +0.2 %pts, **net exports** -0.2 %pts.
- ◆ FY2024: private demand +1.3 %pts, public demand +0.1 %pts, **net exports** +0.0 %pts.



# Comparison of Baseline Forecasts for Kansai and Japan

- ◆ **Real GRP growth in the Kansai region is forecast at +1.3% in FY2022, +1.3% in FY23 and +1.6% in FY24.**
- ◆ After two consecutive years of negative growth in FY19 and FY20, positive growth of 1-2% will follow from FY21 onwards.
- ◆ **The GRP level before the Corona pandemic will not be restored until FY24.**



Source : APIR "Kansai Economic Insight Quarterly No.63"

# APIR's economic forecast: Kansai vs. Japan

- ◆ Different growth pattern of GDP/GRP components:
- ◆ Public investment & exports
- ◆ Thanks to Expo 2025 demand and China's recovery

FY	Kansai					Japan				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Private final consumption expenditure	▲ 5.4	1.9	2.1	1.1	1.3	▲ 5.1	1.5	2.5	1.0	1.3
Private residential investment	▲ 3.0	▲ 3.4	▲ 4.9	0.9	0.7	▲ 7.6	▲ 1.1	▲ 4.6	▲ 0.2	0.0
Private non-residential capital investment	▲ 6.8	1.7	3.3	3.0	2.8	▲ 5.7	2.1	2.8	1.8	3.1
Government final consumption expenditure	2.8	3.0	1.1	1.0	0.9	2.7	3.4	1.3	0.9	0.4
Public fixed capital formation	8.0	▲ 1.5	0.8	1.5	2.1	4.9	▲ 6.4	▲ 3.7	1.0	0.9
Exports	▲ 2.1	7.0	1.2	1.3	2.5	▲ 10.0	12.3	4.6	▲ 0.4	3.1
Imports	▲ 2.4	5.7	3.5	1.3	2.9	▲ 6.3	7.0	7.4	0.6	2.8
Real GRP/GDP	▲ 4.1	2.0	1.3	1.3	1.6	▲ 4.1	2.6	1.3	0.9	1.5
Private demand (contribution)	▲ 4.9	0.9	1.8	1.0	1.3	▲ 4.3	1.4	1.7	0.8	1.3
Public demand (contribution)	0.7	0.4	0.2	0.2	0.2	0.8	0.4	0.1	0.2	0.1
Net exports (contribution)	0.1	0.7	▲ 0.7	0.2	0.1	▲ 0.6	0.8	▲ 0.5	▲ 0.2	0.0
Nominal GRP/GDP	▲ 3.3	1.9	2.0	3.9	2.5	▲ 3.5	2.4	2.2	3.6	2.6
GRP/GDP deflator	0.8	▲ 0.0	0.7	2.5	0.9	0.7	▲ 0.1	0.9	2.7	1.1
Consumer price index	▲ 0.3	0.0	3.1	2.1	1.5	▲ 0.4	0.0	3.1	2.2	1.3
Industrial Production Index	▲ 8.3	5.2	▲ 0.6	1.4	1.8	▲ 9.6	5.8	0.3	1.3	2.0
Unemployment rate	3.1	3.0	2.9	2.7	2.7	2.9	2.8	2.5	2.4	2.3

- ◆ **In Chapter 4,**
- ◆ Section 1 discusses the possibility to leverage Expo 2025 and integrated resorts (IR) in order to put the Kansai economy on a trajectory of higher growth. First, we show that **the cause of the long-term stagnation of the Kansai economy is a lack of investment.**
- ◆ In Section 3, we analyze **economic ripple effects of Expo 2025 Osaka-Kansai** using a newly developed inter-regional input-output table for the Kansai region.

# The Sinking Kansai Economy: “The 15% Economy”

- ◆ The share of the Kansai economy peaked at **19.3% in FY1970** and then declined rapidly to **16.2% in FY1989** after two oil crises.
- ◆ Due in part to the bubble economy, it once reversed to 17.1% in 1991, but the increase was only temporary.
- ◆ **In the late 1990s, it declined, falling below 16% in FY2000, and has remained stagnant at around 15%.**

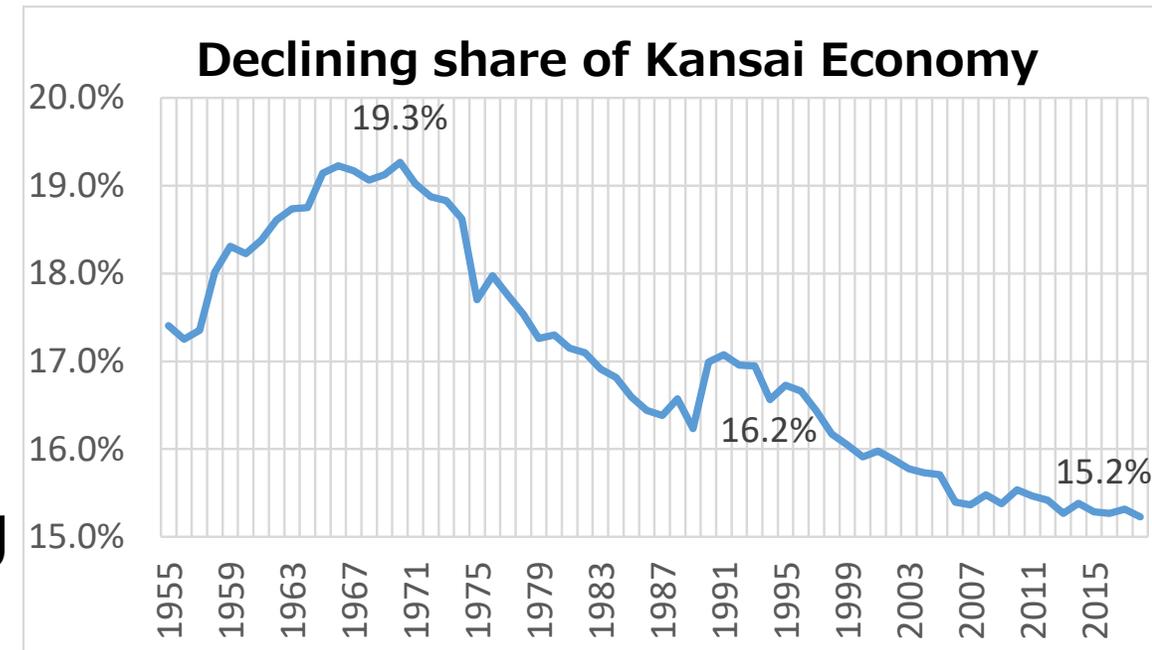


Figure 4-1-1 Share of the Kansai Economy

Source: Prepared by the author based on the System of Prefectural Accounts and the System of National Accounts published by the Cabinet Office

# The reason behind Kansai's ailing economy: a lack of investment

- ◆ **Investment** is a major factor in determining the rate of **economic growth**
- ◆ **Economic growth** ( $\Delta Y/Y$ ) = investment rate ( $I/Y$ ) / marginal capital coefficient ( $\Delta K/\Delta Y$ )
- ◆ The rate of economic growth is proportional to the rate of investment
- ◆ Kansai's investment rate declined after the 1970 Osaka Expo until the mid-1980s, remaining 2-3% pts lower than the national average.

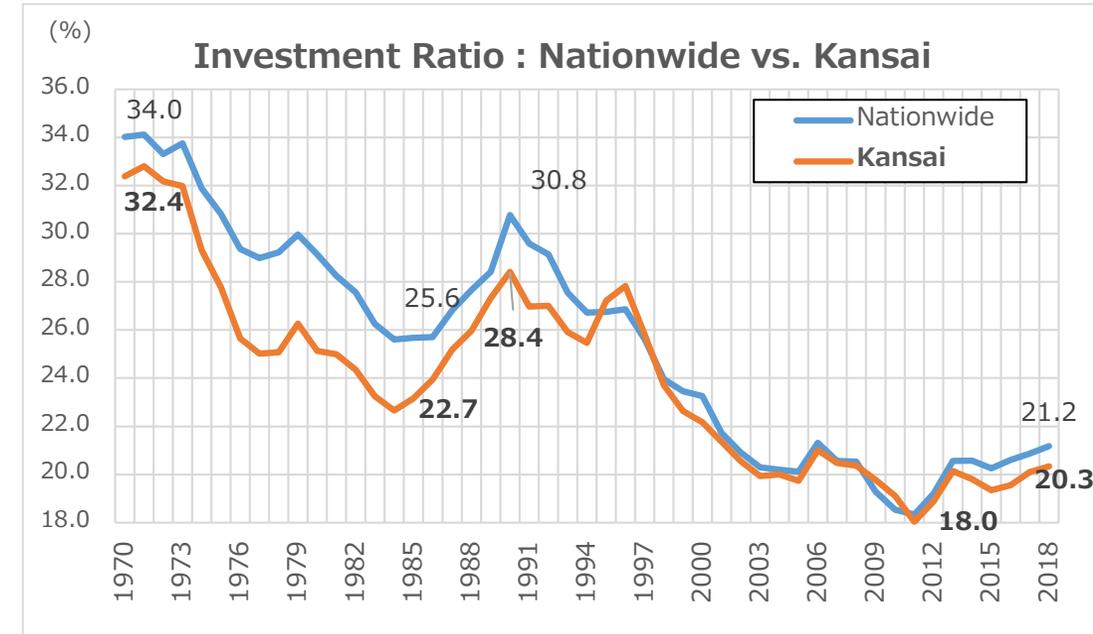


Figure 4-1-3

Comparison of investment rates: non-housing

Source: Prepared by the author based on "Prefectural Accounts," Cabinet Office, Government of Japan

# The case for an acceleration in growth in the Kansai region

- ◆ We estimate that an additional investment of **JPY 1 trillion** would boost the **economic growth rate of the Kansai region by 0.54% pts.**
- ◆ From 2022 onwards, **the Japanese economy** grows at a **potential growth rate of 0.5%** and we simulated the future share of the Kansai economy.
- ◆ Thanks to an acceleration of 0.5% pts from Japan's potential growth rate, **Kansai economy's share** rises to 16.2% in FY2030 and 17.1% in FY2040. Resulting in a **recovery to the early 1980s** (Fig. 4-1-4).

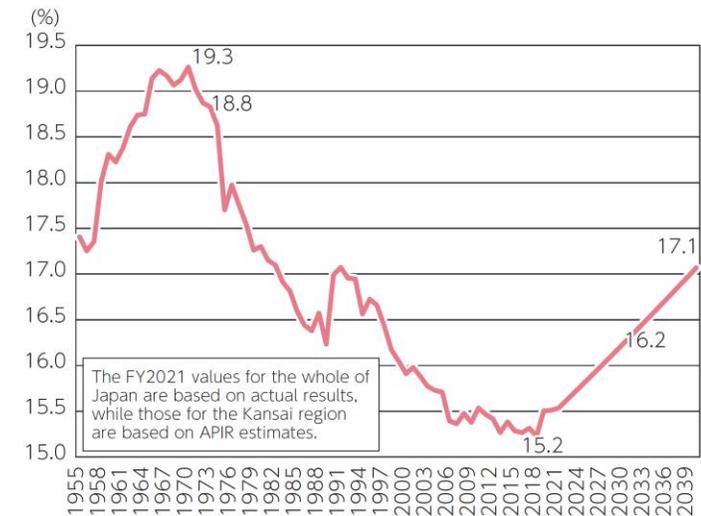


Figure 4-1-4

Scenario for Kansai Economic Reversal: Case of 0.5 percentage point growth acceleration in Kansai

pp.241

# Implications of the analysis

- ◆ **The key point is how to attract investment from inside and outside the country on a sustained basis.** Another important point is **how to attract "profitable industries"**.
- ◆ It is important that the world recognize the attractiveness of Kansai as a legacy of the Osaka-Kansai Expo, resulting in a **virtuous cycle of human resources and funds.**

## 2 years to go before Expo 2025 Osaka, Kansai, Japan opens

On Thursday, April 13, we marked the **two-years to go** anniversary of Expo 2025 Osaka, Kansai, Japan.



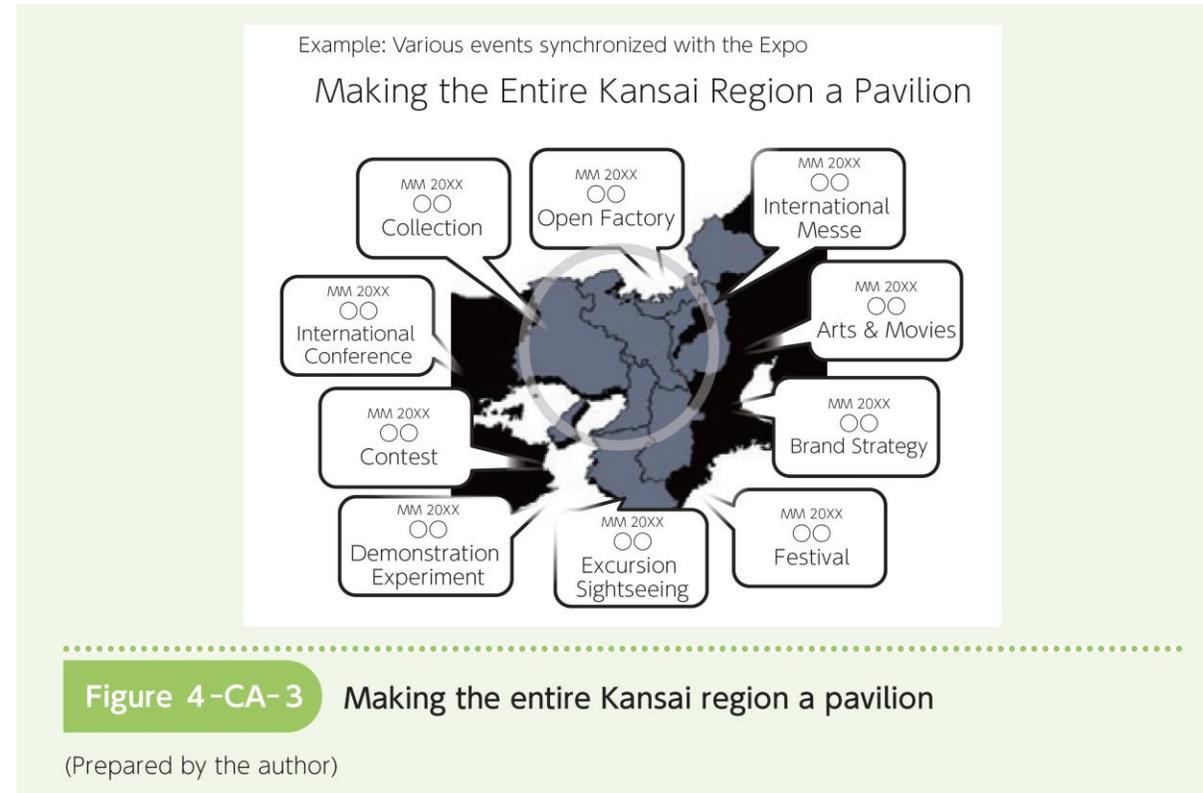
**Join 2025**  
**2 Years to Go!**



Source: Japan Association for the 2025 World Exposition Website

# What is the Greater Expo ?

- ◆ Taking a cue from the Edinburgh International Festival, the basic idea of an '**Greater World Expo**' was proposed (Fig. 4-CA-3).
- ◆ **Making the entire Kansai region a pavilion**
- ◆ It not only **produces economic impact** but also **fosters pride among local residents** by achieving synergies.



# How to measure the economic impact of Greater Expo

- ◆ We estimated **the economic impact of the Osaka-Kansai Expo in three cases, using the 2015 Kansai Interregional Input-Output Table newly prepared by APIR.**
- ◆ The economic impact of the Expo being held mainly at the Yumeshima site is estimated as
  - ◆ (1) **conventional Expo case,**
  - ◆ (2) **the economic impact of the Greater Expo,**
  - ◆ (3) and the possibility of a virtual World Expo are discussed.

# Assumed final demand in the base case

## ◆ (1) Investment expenditure of constructing venues, exhibiting, and related projects, including railroads and roads, (2) consumer spending by visitors

1-1. Venue construction expenses (organizer) (JPN 100 million)

Infrastructure development (civil engineering construction, pavement, landscaping, etc.)	130
Infrastructure development (electricity, water supply and drainage, etc.)	285
Parking lot, entrance	171
Pavilion facilities, service facilities	1,103
Rendering at the venue	50
Other (research and design expenses, administrative expenses)	108
<b>Total</b>	<b>1,847</b>

1-2. Venue construction expenses (exhibitors)

Pavilion facilities, service facilities	495
Rendering at the venue	49
Other (research and design expenses, administrative expenses)	106
<b>Total</b>	<b>650</b>

<b>Total construction expenses</b>	<b>2,497</b>
------------------------------------	--------------

3. Related infrastructure development

Railroad development, etc. (extension of the subway Chuo Line and expansion of the transportation capacity)	610
Road improvements, etc. (widening of Konohana Bridge and Yumemai Bridge, etc.)	250
Expense for reclamation, etc.	89
Other	179
<b>Total</b>	<b>1,128</b>

<b>Total related infrastructure</b>	<b>1,128</b>
-------------------------------------	--------------

2-1. Operating expenses (organizer)

Planning business, transportation business, etc.	565
Venue management, administrative personnel expenses, etc.	146
Advertising, promotion, etc.	58
Planning, project coordination, etc.	39
<b>Total</b>	<b>809</b>

2-2. Operating expenses (exhibitors)

Venue management, administrative personnel expenses, etc.	876
Advertising, promotion, etc.	350
Planning, project coordination, etc.	234
<b>Total</b>	<b>1,460</b>

<b>Total operating expenses</b>	<b>2,269</b>
---------------------------------	--------------

<b>Total</b>	<b>5,894</b>
--------------	--------------

Source: Prepared based on the Basic Plan by the Japan Association for the 2025 World Exposition and the website of the Osaka City

## Visitor consumption expenditure: conventional vs. Greater Expo case

- ◆ **Visitor consumption expenditure: number of visitors x consumption expenditure per visitor**
- ◆ **Estimated number of visitors in the conventional Expo case: 24.7 million domestic visitors**, 15.6 million from Osaka Prefecture and the greater Kansai area, 9.1 million from domestic areas outside the Kansai region and **3.5 million from overseas**, for **a total of 28.2 million**.
- ◆ Visitors from the Kansai region will make a one-day trip, while those from other domestic regions will spend one night in Kansai. Visitors from overseas are assumed to stay 3 nights and 4 days.

# Visitor consumption expenditure: conventional vs. Greater Expo case

- ◆ In the Greater Expo case, we assumed **an increase in repeaters** and additional participation in various locations outside of the Yumeshima site. **Two cases** are considered:
- ◆ **Case 1** in which the number of overnight stays increases, domestic guests will increase from one to two nights, and from three to five nights for international guests.
- ◆ **Case 2** in which the pavilionization of the Kansai prefectures would increase the number of domestic day-trippers by an additional 20%, and they would visit areas outside of Osaka.

Conventional Expo Unit:JPY 100 million

	Domestic day visitors	Domestic overnight visitors	Overseas
Transportation expenses	1,196	738	198
Lodging expenses	0	838	562
Food and drinks expenses	540	404	412
Shopping expenses	832	357	633
Entertainment services expenses	777	303	76
<b>Total</b>	<b>3,344</b>	<b>2,640</b>	<b>1,881</b>

**Greater Expo Case1**

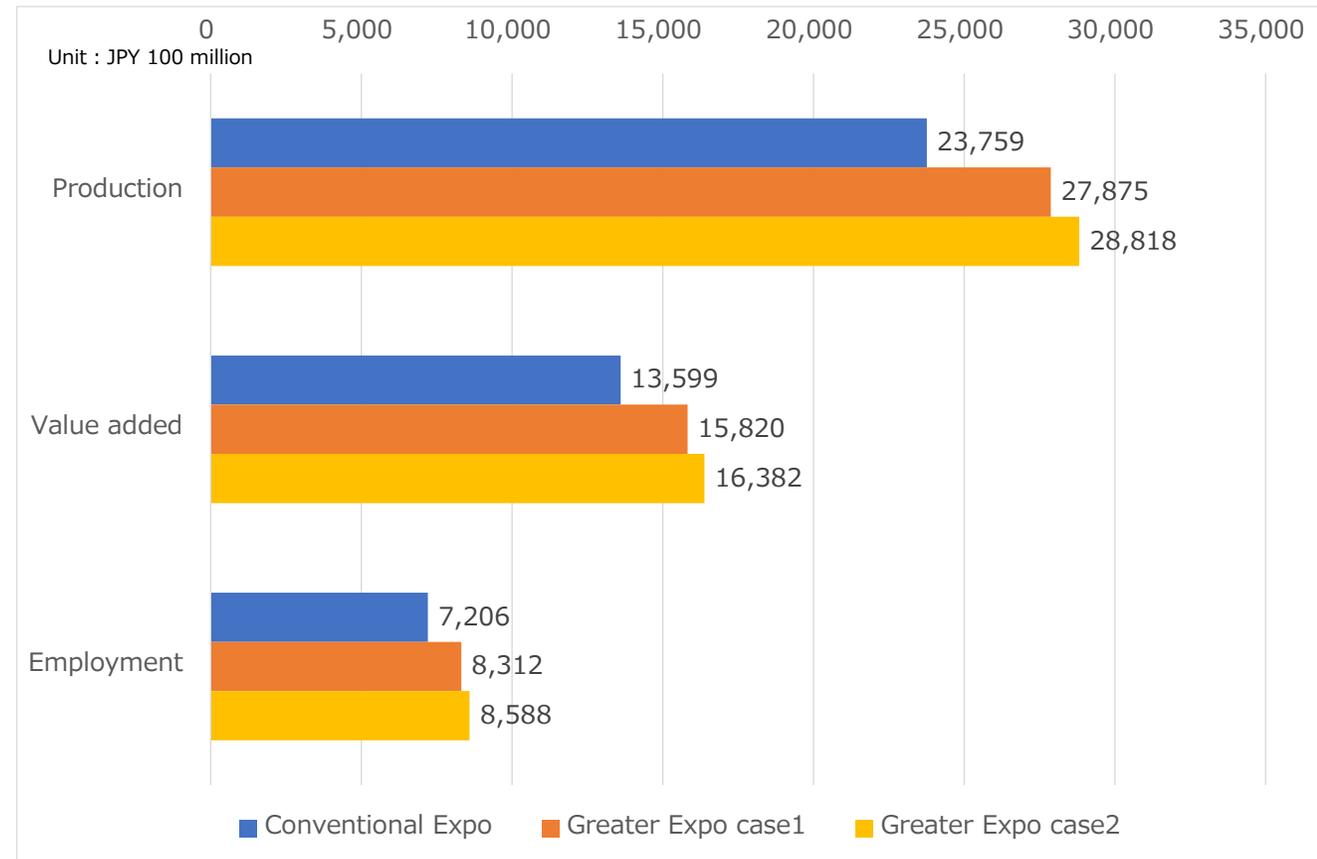
	Domestic day visitors	Domestic overnight visitors	Overseas
Transportation expenses	1,196	1,107	297
Lodging expenses	0	1,676	937
Food and drinks expenses	540	606	619
Shopping expenses	832	357	633
Entertainment services expenses	777	454	114
<b>Total</b>	<b>3,344</b>	<b>4,201</b>	<b>2,599</b>

**Greater Expo Case2**

	Domestic day visitors	Domestic overnight visitors	Overseas
Transportation expenses	1,435	1,107	297
Lodging expenses	0	1,676	937
Food and drinks expenses	648	606	619
Shopping expenses	832	357	633
Entertainment services expenses	932	454	114
<b>Total</b>	<b>3,847</b>	<b>4,201</b>	<b>2,599</b>

# The economic impact: Conventional vs. Greater Expo case

- ◆ **The economic impact in terms of induced production is estimated to be JPY 2.4 trillion in the conventional Expo case, JPY 2.8 trillion in the Greater Expo Case 1, and JPY 2.9 trillion in the Greater Expo Case 2.**
- ◆ **If the effects of the Greater Expo are taken into account, the economic impact is expected to be approximately JPY 400 to 500 billion higher.**



# Comparison of spillover effect : Conventional vs. Greater Expo case

- ◆ Spillover effects of the Greater Expo on each prefecture will be higher than in the conventional case.
- ◆ The increase in extra nights and day-trippers associated with the development of the Greater Expo will also increase the relative economic impact in areas outside of Osaka Prefecture.

	Conventional Expo	Greater Expo case1	Greater Expo case2	Greater Expo1- Conventional	Greater Expo2- Conventional	Greater Expo1- Expo2	Conventional Expo share	Greater Expo case1 share	Greater Expo case2 share
Unit	JPY 100 million	JPY 100 million	JPY 100 million	JPY 100 million	JPY 100 million	JPY 100 million	%	%	%
Fukui	70	251	288	181	218	37	0.3	0.9	1.0
Mie	313	664	795	351	482	131	1.3	2.4	2.8
Shiga	183	399	469	216	286	70	0.8	1.4	1.6
Kyoto	223	1,618	1,779	1,395	1,556	161	0.9	5.8	6.2
Osaka	17,707	17,927	17,974	220	267	46	<b>74.5</b>	<b>64.3</b>	<b>62.4</b>
Hyogo	684	1,318	1,532	634	848	214	2.9	4.7	5.3
Nara	97	169	216	72	119	47	0.4	0.6	0.8
Wakayama	177	343	383	166	206	40	0.7	1.2	1.3
Tottori	28	151	183	123	155	32	0.1	0.5	0.6
Tokushima	75	182	205	107	130	23	0.3	0.7	0.7
Other regions	4,201	4,854	4,994	652	792	140	17.7	17.4	17.3
Total	23,759	27,875	28,818	4,116	<b>5,059</b>	<b>943</b>	100.0	100.0	100.0

Using the 2025 Osaka/Kansai Expo as a catalyst for a turnaround and sustainable growth

Background

- EXPO '70 did not lead to economic growth in Kansai. However, infrastructure is now in place and ready for Kansai's economic turnaround ("**Ready to Go**")

Goal

- To attract growth industries (innovative industries), investment and human resources

Vision

- Introduction of a sense of belonging to "Kansai" ("**We are Kansai**") (residents and local governments)

Strategy

- A chance to pioneer a society where men and women, young and old, locals and foreigners can lead vibrant lives
- A chance to build on Kansai's strength: Kansai more open to the world
- Establish the strengths of the Kansai region as the "**Kansai Brand**" and disseminate it to the world

**Kansai Brand**

**An innovation-friendly region**

**A livable region rich in history, culture, and nature**

# Place Branding in Kansai

- ◆ A **DMO** is a corporation whose purpose is to drive "tourism destination management" that brings out the "**earning power**" of the region and fosters "**pride and attachment**" to the region.
- ◆ The key for DMOs is "**Place Branding**". The concept of Place Branding: the attractiveness of a region is not formed solely by the tourism industry, but also by fields and factors other than tourism, such as the local landscape, culture, architecture, people's lives, as well as local industries.
- ◆ It is important for DMOs to take the lead in Place Branding.

# Measures to attract visitors implemented by DMOs in the Kansai

## 【 Case studies of **Kyoto DMOs** 】

- ◆ Kyoto Prefecture is promoting a wide-area tourism project in order to aim cooperation with Kyoto City.
- ◆ The share of foreign guests by nationality shows that Taiwan's share has increased, partly due to the effect of promotions conducted by *the Kyoto by the Sea* (Fig. 3-3-4).

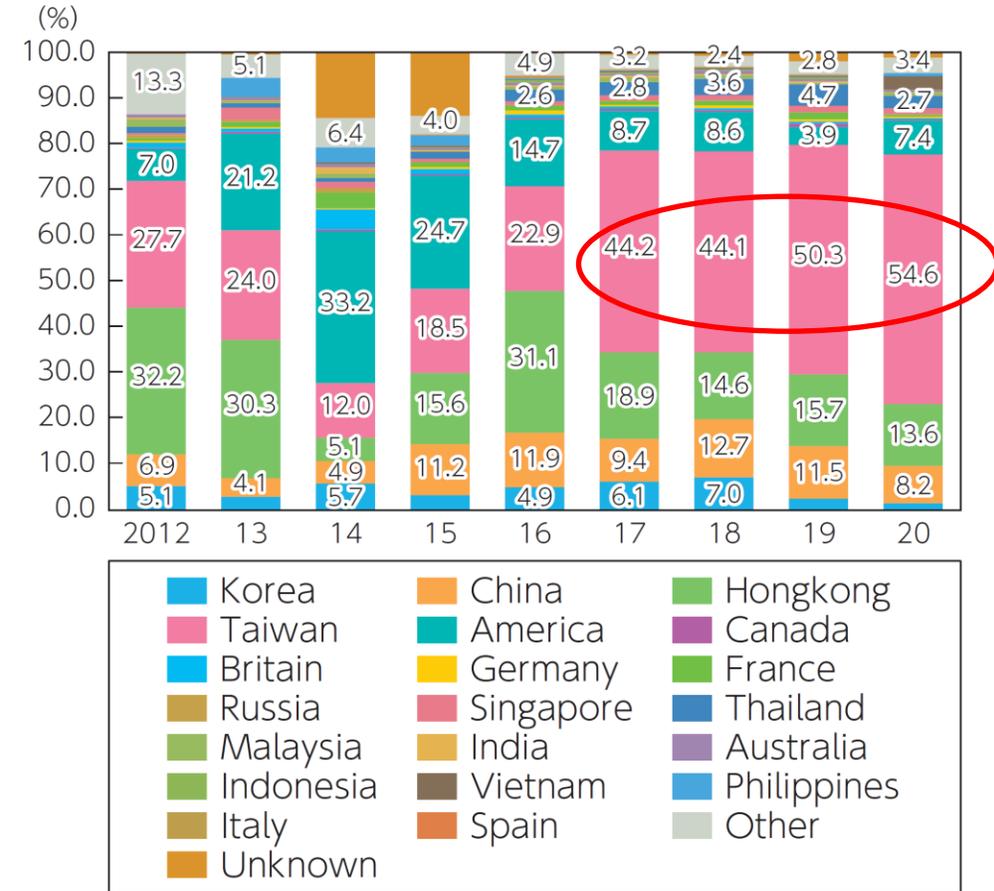


Figure 3-3-4 Trends in the rate of international overnight visitors by nationality: "Kyoto by the Sea"

Note: Data are collected from facilities with 10 or more employees.  
Source: Prepared based on individual data from the Japan Tourism Agency's Overnight Travel Statistics Survey

# Measures to attract visitors implemented by DMOs in the Kansai

## 【 Case studies of **Wakayama DMOs** 】

- ◆ **The Tanabe City Kumano Tourism Bureau (TKTB)** is actively working to attract visitors, particularly from Europe, the US and Australia.
- ◆ Looking at its ***Kumano Kodo route***, in particular, visitors from **Australia and Spain** have a relatively large share of the total number of visitors (see Fig. 3-3-6).

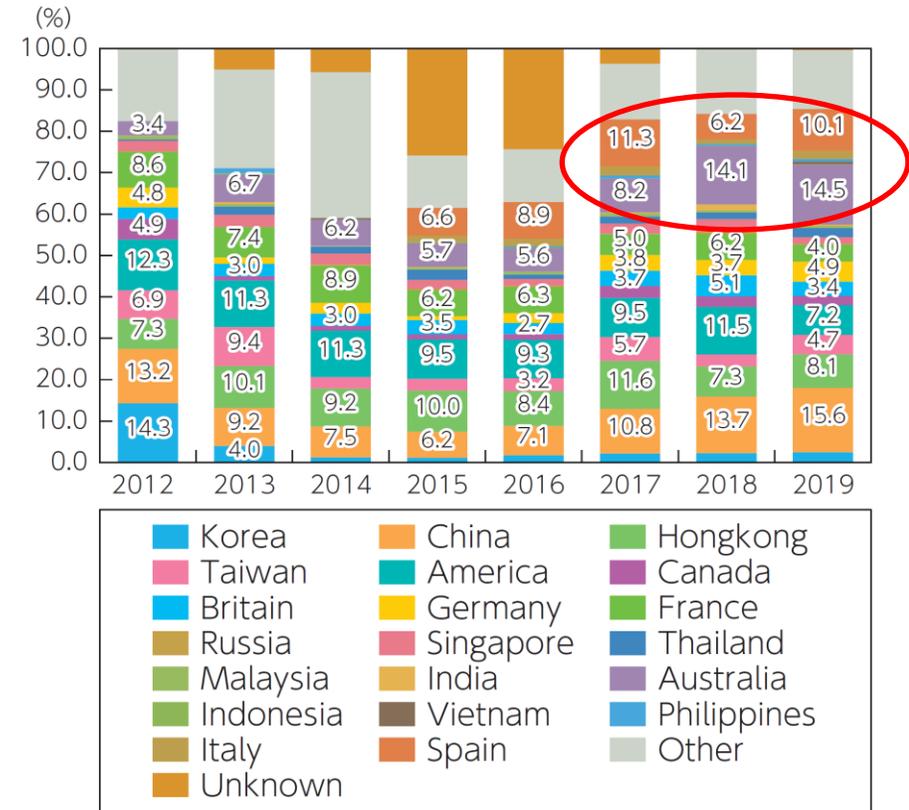


Figure 3-3-6

Trends in the rate of international overnight visitors by nationality: Kumano area of Tanabe City focusing on the Kumano Kodo route

Source: Prepared based on individual data from the Japan Tourism Agency's Overnight Travel Statistics Survey



**Thank you for your  
attention!**

*APIR*