

# Part II TOWARD SUSTAINABLE DEVELOPMENT OF THE KANSAI ECONOMY: SUPPLY CONSTRAINTS AND PRODUCTIVITY ENHANCEMENT

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In Part II, the focus shifts from the global and Asia-Pacific perspectives discussed in Part I to the Kansai region. Under the theme “Toward Sustainable Development of the Kansai Economy: Supply Constraints and Productivity Enhancement,” this part analyzes the Kansai economy from various perspectives.

As noted in Part I, changes in U.S. tariff policy are likely to exert restraining effects on trade and supply chains, with a high degree of uncertainty regarding the scope of their impact. In addition, the indirect effects on business and household sentiment are expected to be significant. Against this backdrop, Part II examines the Kansai economy as it faces supply constraints, identifies key challenges to achieving sustainable development with a particular focus on productivity enhancement, and provides an in-depth analysis. The following sections summarize the contents of each chapter in Part II.

Before undertaking a detailed analysis of the Kansai economy, Chapter 3 provides a review and outlook of the Japanese and Kansai economies. This chapter examines the current economic conditions in Japan and the Kansai region and presents a short-term economic outlook.

Section 1 closely examines trends in exports from Japan and the Kansai region between the periods of “Trump 1.0” and “Trump 2.0,” in relation to the macroeconomic performance of the U.S. and Chinese economies. This section is positioned as a preliminary analysis for assessing the future outlook of both the Japanese and Kansai economies.

Sections 2 and 3 review developments and current conditions in the Japanese and Kansai economies during FY2024 and FY2025 in the first half, and then present economic outlooks for FY2026–FY2027 in the latter part of each section.

Section 2 focuses on the Japanese economy. According to the second preliminary estimate of GDP for the July–September quarter of 2025, real GDP growth stood at  $-0.6\%$  QoQ,  $-2.3\%$  on an annualized basis, marking the first negative growth in six quarters. In addition to the usual revisions from the first to the second preliminary estimate, the provisional figures for FY2024 were revised to annual estimates in this release. As a result, the level of nominal GDP in FY2024 was revised upward to 642.4 trillion yen, an increase of 26.9 trillion yen ( $+4.4\%$ ) from 615.5 trillion yen in the first preliminary estimate.

Incorporating revised assumptions for exogenous variables, real GDP growth is newly forecast at +0.9% in FY2026 and +1.2% in FY2027. Relative to this baseline forecast, two risks are envisaged. The first is the potential negative impact of a deterioration in Japan–China relations on exports, particularly service exports (inbound tourism demand). The second is the possible adverse effects on global trade and private business investment stemming from a decline or adjustment in U.S. equity markets, which have so far been supported by strong demand related to AI and semiconductors. While these developments pose new sources of concern for Japan’s economic recovery, there are also rising expectations for, and growing attention to, the economic policies of the new administration, both in the short term and over the medium to long term.

Section 3 analyzes the Kansai economy. In FY2024, the Kansai economy as a whole recovered at a moderate pace. However, the recovery lacked strength, and some weak movements were observed. Entering FY2025, the economy rebounded and remained firm, supported by favorable factors such as the opening of the Osaka–Kansai Expo. In the latter half of the fiscal year, however, uncertainty has intensified due to factors such as the dissipation of Expo-related demand and the deterioration in Japan–China relations. Reflecting developments in various economic indicators, real GRP growth in the Kansai region is forecast at +0.9% in FY2026 and +1.2% in FY2027.

For the Japanese economy, while risks such as a deterioration in Japan–China relations and adjustments in U.S. financial markets have been highlighted, there are also expectations that the economic policies of the Takaichi administration will provide some support. In Kansai, given the relatively high share of inbound tourism demand from China, the impact of worsening Japan–China relations may be more pronounced than at the national level.

Under the theme “Toward Sustainable Growth under Supply Constraints,” Chapter 4 analyzes and discusses the medium- to long-term challenges facing the Kansai economy. As population decline is progressing more rapidly in Kansai than at the national level, labor supply constraints are becoming increasingly severe. This year’s analysis estimates future labor supply–demand gaps in major industries and clarifies the nature of the supply constraints confronting the Kansai region.

Section 1 outlines the characteristics of Kansai by examining trends in employment rates and, using basic statistical data, estimates the labor supply–demand gap in Kansai through 2050. Particular attention is given to “Construction”, “Accommodation, eating and drinking services”, and “Healthcare and Welfare”, where labor supply constraints are especially pronounced.

Section 2 reviews the current situation of foreign workers in Kansai and pres-

ents projections of the future foreign workforce based on basic statistical data. It also analyzes whether the projected number of foreign workers can help alleviate the labor supply–demand gaps identified in Section 1 across the relevant industries.

Chapter 5 examines both the demand-side and supply-side aspects of inbound tourism and provides an analysis aimed at developing a sustainable inbound tourism strategy.

Section 1 analyzes the sluggish performance of domestic travel demand in contrast to the strong recovery in inbound tourism. While the number of inbound visitors has exceeded pre-pandemic levels, the recovery in the number of domestic travelers has lagged behind. This section points out that this divergence can be attributed to factors such as: (1) rising travel costs due to higher prices, and (2) a decline in real wages.

Section 2 reviews the government’s tourism strategy and examines the feasibility of achieving the government’s target of attracting 60 million inbound visitors by 2030, considering not only demand-side factors but also supply-side constraints. It further analyzes three imbalances surrounding inbound tourism: (1) the imbalance between inbound and outbound tourism; (2) the imbalance between inbound tourism and domestic tourism; and (3) the imbalance between inbound tourism in urban areas (urban tourism) and rural areas (rural tourism).

Through an examination of these three imbalances, this section identifies the challenges that have emerged and explores strategies for achieving sustainable inbound tourism.

Section 3 estimated the economic ripple effects of the 2025 Osaka-Kansai Expo using the APIR Kansai Interregional Input-Output Table, based on actual data available as of 2025 (visitor numbers and average spending per visitor), and verified these effects. The analysis revealed that this Expo succeeded in capturing greater economic ripple effects. However, it did not reach the scale anticipated for the Greater EXPO scenario. This indicates that challenges remain for tourism across the broader Kansai region, highlighting the need to further refine regional tourism strategies.

Chapter 6 examines recent changes in the Kansai economy from the perspectives of industrial structure and consumption.

Section 1 uses the APIR Kansai interregional Input–Output Table to analyze the economic structures of each prefecture in Kansai and inter-prefectural trade relationships, thereby clarifying the current state of Kansai’s “earning” industries. In particular, it examines which industries generate interregional trade surpluses for Kansai and whether these patterns have changed in recent years.

Section 2 examined the “earning” industries (those with substantial interre-

gional surplus) in Osaka prefecture, Tokyo metropolis, and Aichi prefecture by comparing their interregional balances by industry. It also analyzed the background of growth rate disparities among these three regions, focusing on the labor productivity of these “earning” industries based on data from sources such as the Economic Census.

Section 3 analyzes how consumer behavior changed during the COVID-19 pandemic and in the post-pandemic period, using data from a web-based survey conducted for the compilation of the 2020 Kansai Interregional Input–Output Table. Specifically, it finds that service consumption expenditure by Kansai residents has recovered from pandemic-era levels, whereas spending by visitors to Kansai has declined compared with levels observed during the pandemic.

As shown in the analysis in Chapter 4, Section 2, even if foreign workers are actively accepted, this alone would not be sufficient to close the labor supply–demand gap. In other words, improving productivity is of critical importance. As noted in Chapter 6, Section 2, this issue is closely related to fostering “earning” industries with high labor productivity.

Furthermore, as discussed in Chapter 6, Section 3, service consumption in Kansai has gradually recovered since the COVID-19 pandemic; however, the pace of recovery differs between residents and visitors. In particular, spending by visitors to Kyoto prefecture has declined, suggesting the emergence of a persistent imbalance between inbound tourism demand and domestic tourism demand, as pointed out in Chapter 5, Section 2.

Such imbalances between inbound tourism and domestic tourism represent a significant challenge from a medium- to long-term perspective. In order to achieve sustainable inbound tourism, a well-balanced tourism strategy is essential.

The above summarizes the main highlights of Part II in this year’s White Paper.