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An Economic Forecast for the Kansai Region in Fiscal 2003
— Exports to Asia Providing the Pulling Power for the Kansai Economy —

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Overview

1. In fiscal 2002, the economy of the Kansai region showed signs of recovery, largely on the strength of the upturn in exports that lasted into the first half of the year. However domestic demand was slow to recover as the business sector maintained a cautious stance on capital investment and consumer spending remained sluggish and as exports slowed in the second half of the year, the economy began to show signs of losing momentum.

Export growth is important if the Kansai economy is to achieve sustained growth but although the performance of the Chinese economy remains firm, the deceleration of the US and EU economies is becoming more pronounced and the future of exports is increasingly uncertain.

2. Closer examination of the trend of exports from the Kansai region reveals that exports bottomed out and began to recover in the fourth quarter of 2001, led by exports to Asia. Among the reasons for the healthiness of exports to Asia are (i) expectations of a recovery in demand for IT and the completion of inventory adjustments and (ii) a rise in exports of raw materials such as chemical products and capital goods such as general machinery, as more Japanese companies transfer their production activities to Asia.

Strong links with Asia are a feature of the Kansai region's trade. A breakdown of the value of exports by destination reveals that Asia accounts for as much as 52% of the value of exports from the Kansai region, well above the national average of 40%. Moreover a breakdown of the value of exports from the Kansai region by goods category reveals that electrical equipment, general machinery and chemical

products account for a substantial share, a share that is growing rapidly especially among exports to Asia. These goods categories account for a larger proportion of exports from the Kansai region than of the national average, indicating that the Kansai region is exercising its strengths.

A key factor in any examination of the specific destinations of exports to Asia is the trend towards greater autonomy of the Asian economies. In the past the Asian economies have depended chiefly on exports to the United States for their growth, but in recent years the degree of autonomy within the economy of the Asian region has increased and dependence on the United States has declined. In fact a survey of the trend of real exports from the Kansai region by destination reveals that exports to Asia are drawing ahead of exports to the United States.

In fiscal 2003, although the Kansai region's exports to the United States are likely to remain sluggish, exports to Asia are expected to remain firm. As a result exports are likely to see only a slight overall deceleration in fiscal 2003, and continue to underpin the Kansai economy.

3. Like the national economy, the Kansai economy is likely to suffer the impact of weak domestic demand (household, business and public sectors alike) during fiscal 2003.

Turning to external demand, the Asian economies with which the Kansai has strong links are becoming increasingly autonomous and although the US economy is likely to decelerate in fiscal 2003, are likely to see growth on a par with that registered in fiscal 2002. For this reason, firm exports to Asia are set to underpin the Kansai economy, in which exports to Asia have a considerable weight.

Consequently although the Kansai economy will be unable to avoid negative growth in fiscal 2003, the decline is likely to be slight in comparison to the national average.

4. The authors have identified three key issues that must be resolved if the Kansai region is to sustain and improve its economic vitality.

(i) Response to the high growth potential shown by the Chinese economy. It is vital that the Kansai region should sustain and develop stronger links and cooperative relationships with China and respond to China's strength in market and capital terms. To this end, it is vital that the Kansai region should transform and improve itself.

(ii) Approach to urban regeneration. A large number of projects have already been proposed in the Kansai region and it is important that these be implemented without delay. The government should also support NPO activities in relation to public services and environmental improvement.

(iii) Promotion of collaboration between industry and academia. To sustain and enhance the economic vitality of the Kansai region, it is vital that the region should develop research & development-based and knowledge-intensive industries by promoting collaboration between industry and academia. It will also be necessary to speed the process and improve support systems.

The expertise of former members of companies could undoubtedly make a valuable contribution in all three areas above.