

Review Article

Why Has Japan Mooted The Supply Chain Resilience Initiative

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ABSTRACT:

This article discusses Japan's proposed Supply Chain Resilience Initiative (SCRI), developed in response to the disruptions caused by COVID-19 and ongoing trade tensions between China and the United States. The initiative, which includes India and Australia as key partners, aims to diversify supply chains to reduce dependency on a single country, thereby mitigating risks associated with unanticipated events like natural disasters or economic coercion. Japan's move to initiate this trilateral strategy, despite India opting out of the Regional Comprehensive Economic Partnership (RCEP), underscores the heightened importance of supply chain resilience in ensuring economic stability. The article highlights Japan's significant reliance on imports from China, particularly in sectors like electronics and machinery, and the potential economic vulnerabilities exposed when these supply chains are disrupted, as evidenced by a sharp decline in imports during the COVID-19 pandemic.

KEYWORDS: COVID-19, Economic Coercion, Japan, Supply Chain Resilience Initiative (SCRI), Trade Diversification.

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INTRODUCTION

The story so far: With COVID-19 and trade tensions between China and the United States threatening supply chains or actually causing bottlenecks, Japan has mooted the Supply Chain Resilience Initiative (SCRI) as a trilateral approach to trade, with India and Australia as the other two partners. The initiative is at the strategy stage and has some way to go before participants can realise trade benefits.

What does supply chain resilience mean?

In the context of international trade, supply chain resilience is an approach that helps a country to ensure that it has diversified its supply risk across a clutch of supplying nations instead of being dependent on just one or a few. Unanticipated events — whether natural, such as volcanic eruptions, tsunamis, earthquakes or even a pandemic; or manmade, such as an armed conflict in a region — that disrupt supplies from a particular country or even intentional halts to trade, could adversely impact economic activity in the destination country.¹

What is Japan proposing?

It is significant that Japan has taken the initiative to include India and Australia, and potentially other Asian and Pacific Rim nations later, in a strategic dialogue, despite India having pulled out of the Regional Comprehensive Economic Partnership that Japan helped stitch together. What was already known — that when assembly lines are heavily dependent on supplies from one country, the impact on importing nations could be crippling if that source stops production for involuntary reasons, or even as a conscious measure of economic coercion. While Japan exported \$135 billion worth of goods to China in 2019, it also imported \$169 billion worth from the world's second-largest economy, accounting for 24% of its total imports, according to data from trade.economics.com. Electrical and electronic gear, and machinery, nuclear reactors and boilers were sectors that clocked up significant imports into Japan.² So, any halt to supplies (as it happened when China had to shut down factories in regions hit by the SARS-CoV-2 virus that has caused the COVID-19 pandemic) could potentially impair economic activity in Japan. A Bloomberg report said that Japan's imports from China fell by half in February, a period when the latter was battling the peak of the virus impact. In addition, the U.S.-China trade tensions have caused alarm in

Japanese trade circles for a while now. If the world's two largest economies do not resolve their differences, it could threaten globalisation as a whole and have a major impact on Japan, which is heavily reliant on international trade both for markets for its exports and for supplies of a range of primary goods from oil to iron ore. A Reuters poll of 32 economists published in August showed a majority 80% expect Japan's growth and Japanese companies' productivity growth to be affected if Washington and Beijing move towards creating their own economic zones. As part of the country's economic stimulus package, the Japanese government recently earmarked \$2.2 billion to incentivise its companies to move their manufacturing out of China. This was not a protectionist move — the manufacturing could, but did not have to, return to Japan. This was a nudge to diversification of risk — where those manufacturing lines could be relocated out of China to other third countries.³

What is likely to have spurred Japan to eye India as a partner for the SCRI?

Japan is the fourth-largest investor in India with cumulative foreign direct investments touching \$33.5 billion in the 2000-2020 period accounting for 7.2% of inflows in that period, according to quasi government agency India Invest. Exports from India to the world's third-largest economy stood at \$4.9 billion that year, data from the agency showed. The corporate stand-offs between the Tatas and Japan's DoCoMo or the Ranbaxy-Daiichi Sankyo case notwithstanding, trade experts point out to the almost 1,400 Japanese companies operating in India as a clear reflection that the two countries are unlikely to allow individual cases to cloud an otherwise long-standing and deepening trade relationship.

Where does Australia stand?

Australia, Japan and India are already part of another informal grouping, the Quadrilateral Security Dialogue, or the Quad, which includes the U.S. Media reports indicate that China has been Australia's largest trading partner and that it counts for 32.6% of Australia's exports, with iron ore, coal and gas dominating the products shipped to Asia's largest economy. But relations including trade ties between the two have been deteriorating for a while now. China banned beef imports from four Australian firms in May, and levied import tariffs on Australian barley. In June, China's education Ministry warned its students

aspiring to study or already studying in Australia, of 'rising racism' in that country, urging them to re-assess their aspirations. Prior to that, China's Ministry of Culture and Tourism had said its citizens should by 'no means travel to Australia' on account of rising 'racist incidents'. China's chagrin stems from Australia's push for an enquiry into the origins of the SARS-CoV-2 virus.⁴

What does India stand to gain, or lose?

Following the border tensions between the two highly populous Asian neighbours, partners such as Japan have sensed that India may be ready for dialogue on alternative supply chains. Earlier, India would have done little to overtly antagonise China. China's share of imports into India in 2018 stood at 14.5%, according to an impact analysis by the Confederation of Indian Industry in February 2020.⁵ In areas such as Active Pharmaceutical Ingredients for medicines such as paracetamol, India is fully dependent on China. In electronics, Chinese supplies dominate segments of the Indian economy. Sectors that have been impacted by supply chain issues arising out of the pandemic include pharmaceuticals, automotive parts, electronics, shipping, chemicals and textiles. Over time, if India enhances self-reliance or works with exporting nations other than China, it could build resilience into the economy's supply networks.

While India appears an attractive option for potential investors both as a market and as a manufacturing base, trade experts point to the need for India to accelerate progress in ease of doing business and in skill building. Tax incentives, as the one recently announced to compete with the likes of Vietnam and the Philippines for investments in manufacturing, alone may not suffice.

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