

Japan's Supply Chain Resilience Initiative

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India, Japan and Australia have said an **initiative to build resilient supply chains in the Indo-Pacific region** could be launched later this year, as they seek to **reduce dependence on China following its hostile political and military conduct**. The trio aims to create a **free and transparent trade and investment environment**. India, Japan and Australia had begun discussions on launching a trilateral Supply Chain Resilience Initiative to reduce dependency on China. The initiative, first proposed by Japan, is now taking shape.

Supply Chain Resilience Initiative

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.

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 has changed now is that the COVID-19 pandemic has brought into sharp focus 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. Electrical and electronic gear, and machinery, nuclear reactors and boilers were sectors that clocked up significant imports into Japan. 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.

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**. 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**.

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. **China's chagrin stems from Australia's push for an inquiry into the origins of the SARS-CoV-2 virus**.

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.** 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.**