

Japan's New Trade Strategy Focuses on Supply Chain Resilience and Trade Liberalization

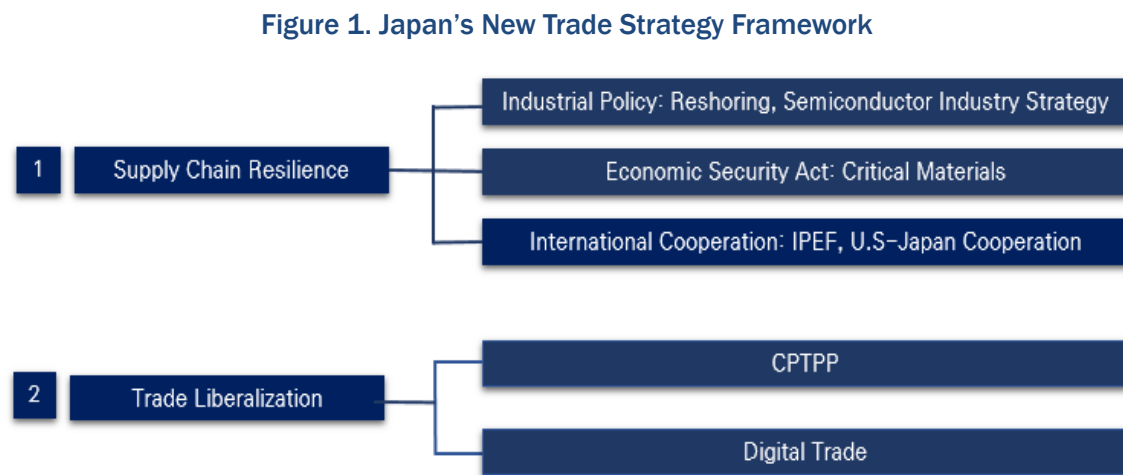
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I. Introduction

Since the inauguration of the U.S. Trump administration in January 2017, Japan's trade strategies have been shifting from trade liberalization to protectionism, emphasizing the strengthening of supply chains. The Kishida cabinet, which was launched in October 2021, is strengthening economic cooperation with the United States through bilateral dialogue as well as multilateral cooperation frameworks such as IPEF. It also enacted the Economic Security Promotion Act in May 2022, and strengthened industrial policies for strategic industries such as the semiconductors. However, the Japanese government's new trade strategy is not limited to supply chain strengthening measures and industrial policies. It is aiming to take the lead in digital trade, which is a new trade issue, and bolster its leadership in CPTPP.

This brief is structured as follows. In the following section we will examine Japan's new

trade strategy in terms of supply chain resilience, focusing on industrial policies represented by reshoring policy and national semiconductor strategy, and supply chain policies of critical materials outlined in the Economic Security Promotion Act enacted in May 2022. And we look at bilateral cooperation between the U.S. and Japan, and key negotiation agenda on supply chains at the Indo-Pacific Economic Framework (IPEF). The third section reviews the Japan's trade liberalization strategy focused on the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), and Digital Trade Agreements. In particular, we derived the direction of Japan's free trade policy through an analysis of the characteristics of the CPTPP as a 21st-century trade norm, and a comparative analysis of major regulations related to e-commerce in the CPTPP, US-Japan Digital Trade Agreement, and RCEP.



II. Supply Chain Resilience

1. Supply Chain Resilience Policy

1) Supports for Re-shoring from China

In April 2020, the Japanese government announced measures to strengthen supply chains as part of emergency economic measures against COVID-19. The Ministry of Economy, Trade and Industry (METI)'s supply chain resilience projects were divided into two main projects: Domestic Investment Promotion Project and Overseas Supply Chain Diversification Support Project. The former is a support project for the Japanese government to transfer its production base from China back to Japan with the goal of strengthening the manufacturing supply chain and minimizing the risk of supply chain disruption. METI held a total of three public tenders, starting with the first

public one in May 2020 and the last in May 2022. As a result, a total of 439 companies were determined to be eligible for reshoring support. (Total subsidies of 612.1 billion yen). Not only did companies related to medicines and medical devices tackling COVID-19 benefit, but also those across varied sectors such as semiconductors, chemical products, batteries, materials, electronic devices, rare earth elements, aircraft engine components, and information and communication devices. The latter is a project to support the relocation of production facilities of Japanese companies based in China to ASEAN and other countries. Starting with the first public offering in May 2020, JETRO held a total of six public offerings until August 2022. Tables 1 shows the results of domestic investment promotion projects and overseas supply chain diversification support projects, respectively.

Table 1. Japanese Government' Support Projects for Re-shoring and Near-shoring from China

Re-shoring from China				Near-shoring from China		
Public Offering Time	Subsidization rate ¹⁾	No. of Assisted Projects (subsidies)	Budget	Public Offering Time	No. of Assisted Projects	Destination Country
May 2020	Large Enterprise 1/2, SMEs 2/3	203(305.2 billion yen)	521.8 billion yen ²⁾	July 2020	30	Vietnam: 15, Thailand: 6, Malaysia: 4, Philippines: 3, Indonesia: 1, Laos: 2, Myanmar: 1
March 2021	"	151(209.5 billion Yen)		December 2020	30	Vietnam:15, Thailand:6, Indonesia:5, Philippines:4, Malaysia:2, Myanmar:2, Cambodia:1
March 2022	Large Enterprise 1/2~1/4, SMEs 2/3~1/4	85(97.4 billion Yen)		June 2021	11	Malaysia:3, Indonesia:2, Vietnam:2, Thailand:3, Philippines:2
Note:1) The subsidy rate refers to the ratio of government subsidies to the amount of facility investment by companies. 2) The total amount of subsidies was 612.1 billion yen, exceeding the total budget of 521.8 billion yen. Source: Ministry of Economy, Trade and Industry (METI)				June 2022	11	Thailand:3, Vietnam:2, Malaysia:3, Indonesia:3
				December 2022	6	Thailand:3, Vietnam:2, Cambodia:1

Source: JETRO

2) National Semiconductor Strategy

In June 2021, the METI unveiled the National Semiconductor Strategy. Since then, the Japanese government has focused on attracting TSMC in Japan and establishing advanced logic foundry Rapidus.

First, the Kishida Cabinet is working hard to attract foreign high-tech semiconductor companies by enacting a semiconductor support law. The Japanese government amended the so-called '5G Promotion Act' to allow semi-

conductor manufacturers to receive government support for domestic facility investment. In December 2021, the government created a so-called Semiconductor Fund worth 617 billion yen within NEDO along with the enactment of the Semiconductor Support Act. As a result, semiconductor manufacturers can receive a government subsidy (subsidy rate up to 1/2) if they receive approval for their facility investment plan from the METI. However, the Semiconductor Support Act restricts the support to advanced logic semiconductors and

memory semiconductors. Table 2 lists domestic semiconductor investment projects approved by the METI as of October 2022. It can be seen that Kioxia (Memory Semiconductor)

and Micron Technology (Memory Semiconductor) decided to make new investments in Japan in addition to TSMC (Logic Semiconductor).

Table 2. The Japanese Government's Subsidy Projects for Semiconductor Investments

(As for October, 2022)

Corporation	Time of Approval /Start of Operation	Investment Plan	Government Subsidy
JASM ¹⁾	June 2022/Dec. 2024	TSMC constructs a new logic semiconductor plant in Kumamoto Prefecture, Japan	up to 476 billion yen
Kioxia, Flash Forward, Flash Alliance and Flash Partners	July 2022/March 2024	Kioxia and Western Digital collaborate to expand a memory semiconductor plant in Yokkaichi, Mie Prefecture, Japan	up to 92.9 billion yen
Micron Technology Japan	Sep. 2022/Feb. 2024	Micron Technology expands its DRAM plant in Hiroshima prefecture, Japan	up to 46.5 billion yen

Note: 1) JASM: TSMC's joint venture in Kumamoto.

Source: Ministry of Economy, Trade and Industry (METI) of Japan.

Second, METI announced Japan's next-generation semiconductor project blueprint in November 2022. The significance of this plan lies in the fact that LSTC (Leading-edge Semiconductor Technology Center) as Japan's semiconductor R&D hub will acquire next-generation process technology (GAA beyond 2nm) from IBM in the United States and develop state-of-the-art logic semiconductors in Japan in cooperation with Japan's manufacturing equipment and material industries. In November 2022, it was announced that Toyota Motor Corporation, NTT, Sony Group, NEC, Softbank, Denso, Kioxia, and Mitsubishi UFJ Bank invested a total of 7.3 billion yen to estab-

lish a logic semiconductor company called Rapidus. It aims to develop logic semiconductor manufacturing technology through joint R&D with NSTC (in U.S), IBM (in US), and IMEC (in Belgium), and establish a mass production system in the late 2020s. Around 2030, it plans to enter the business of consigning manufacturing from companies that design and use semiconductors. The Japanese government allocated approximately 350 billion yen in the 2022 second supplementary budget for the US-Japan joint R&D project, and in October 2022, decided to provide Rapidus with a government subsidy of 70 billion yen for R&D Investment.

2. Economic Security Promotion Act: Critical Materials

The Economic Security Promotion Act enacted by the Kishida Cabinet in May 2022 complements the economic security measures that the Japanese government has so far championed. It contains four key policies: securing the supply chain of critical materials, stable supply of key infrastructure services, support for the development of critical & emerging technologies, and disclosure of patent applications. The Kishida Cabinet specifically introduced the supply chain resilience policy with the rationale that a disruption in the supply of certain critical materials could lead to a situation profoundly impacting the survival of the people or the economic activities. In particular, it emphasizes the need for Japan to take countermeasures as the US, EU, China, and S. Korea are competitively providing large-scale support for critical materials whose demand is expected to increase significantly in the future.

The policy to secure the supply chain of critical materials under the Economic Security Promotion Act consists of four pillars: supply chain survey, specification of critical materials, government fiscal and financial support, and special measures by the government.

First, the supply chain survey is distinguished by the provision that the minister responsible for critical materials is entrusted with the authority to conduct supply chain investigations. Initially, the Japanese government considered imposing a fine of up to 300,000 yen if a com-

pany did not comply with the government's request, but it was not included in the bill due to objections from the business community.

Second, in September 2022, the Japanese government presented four key criteria for specifying critical materials, including importance, external dependence, probability of supply chain disruption due to external actions, and necessity. In December 2022, the government of Japan has classified semiconductors, batteries and nine other resources as "strategically critical materials" for which to strengthen supply chains, reducing dependence on countries such as China. Among the "critical materials" identified by the Japanese government, there were also antimicrobial substances, permanent magnets, rare metals, and machine tools & industrial robots, liquefied natural gas, fertilizers, components for ships (including engines and turbines motor, marine equipment, propeller) and airplanes (engines, airframe components) and cloud applications.

Third, the minister in charge of critical materials provides financial support such as subsidies via the public entities such as NEDO, JOGMEC, two-stage loan through the JFC, and credit guarantees for SMEs.

Fourth, it authorizes the government to take special measures to secure stable supply chain, such as stockpiling, and transfer or lending of critical materials at standard prices before price spikes when it is determined that securing stable supply is difficult only with the above support measures for private companies.

3. International Cooperation for Supply Chain Resilience

1) IPEF

In September 2022, the Biden administration of the U.S announced the negotiation objectives for the four pillars - trade, supply chain, clean economy, and fair economy - of the Indo-Pacific Economic Framework for Prosperity (IPEF) and agreed to commence negotiations for each pillar. Currently, 14 countries are participating in IPEF, including the United States, Japan, Australia, New Zealand, seven ASEAN countries (Indonesia, Thailand, Philippines, Malaysia, Singapore, Vietnam, and Brunei), India, Fiji, and S. Korea. However, India has opted out of participating in the first pillar, which is trade.

IPEF's negotiation goals in the supply chain pillar include establishment of criteria for critical materials, expansion of investment in critical materials, establishment of information sharing system and risk response mechanisms, strengthening of supply chain logistics, strengthening of the role of workers, and improving transparency in supply chain.

First, participating countries jointly draft regulations and initiatives to highlight areas vital to national security, public health, and economic resilience. The critical areas include related raw materials, manufacturing and processing facilities, logistics infrastructure, and storage.

Secondly, recognizing the crucial role private

companies play in fortifying the supply chain's resilience, regulations and initiatives concerning the augmentation of investment in critical materials are drafted in specific areas such as: Identification of choke points within the supply chain, Enhancing investment in social infrastructure, notably digital infrastructure, Initiatives to diversify regional raw material supply, Boosting investment in advanced manufacturing technology, and Backing for the circular economy.

Third, regulations and initiatives regarding the establishment of information sharing and risk response mechanisms are prepared in the following specific areas while emphasizing the importance of timely information sharing between the government and the private sector: the establishment of cooperation mechanisms (including crisis response measures) in the event of supply chain disruption, Preparation of information sharing, Designation of crisis response bases, and Development of measures to mitigate supply chain disruption.

Fourth, regulations and initiatives in relation to strengthening supply chain logistics are prepared in the following specific areas: land, air, waterway, ocean, and shipping and port infrastructure.

Finally, when considering the improvement of supply chain transparency, it is crucial to visualize corporate supply chain risks and advocate for ESG management, and prepare regulations and initiatives in the following specific areas: Measures to enhance transparency across the supply chain in critical materials

and strengthening cooperation with private companies to mitigate and resolve supply chain risks.

2) Japan-U.S. Cooperation

The METI of Japan and the U.S. Department of Commerce inaugurated Japan-U.S. Commercial and Industrial Partnership (JUCIP) under the auspices of the US-Japan Competitiveness and Resilience (CoRe) partnership established by the heads of state of the two countries in November 2021, and agreed to cooperate in four areas: semiconductors, export controls, digital economy, and trade and investment. At the first JUCIP ministerial meeting in May 2022, the US and Japan concurred on the fundamental principles for semiconductor cooperation. This principle underscores that US-Japan bilateral semiconductor supply chain cooperation is founded on open markets, transparency, and free trade, and promotes the strengthening of semiconductor supply chains not only between the US and Japan but also among nations with similar values. In particular, both the U.S and Japan have earmarked, development of semiconductor manufacturing capabilities and labor force, enhancement of transparency, and joint response in supply chain emergency, and research and development as areas of cooperation.

The Ministers of the United States and Japan held the Economic Policy Consultative Committee Meeting (the Economic “2+2”) in January 2022 following up on the agreements at

JUCIP meeting in May 2022. At the 'U.S.-Japan Economic “2+2” meeting held in July 2022, they agreed to establish a next generation semiconductor R&D Center in Japan by the end of 2022, and deliberated on a plan to produce logic semiconductors by 2025 in Japan. In November 2022, the METI of Japan announced measures to establish manufacturing basis for next-generation logic semiconductors. This measure involves designating the next generation semiconductor R&D Center as LSTC and positioning Rapidus as the base for mass production of logic semiconductors in the future.

III. Trade Liberalization

1. CPTPP

The Japanese government expects that the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will significantly enhance stability in the Indo-Pacific region by forging a free and fair economic order with countries that share basic values such as freedom, democracy, basic human rights, and the rule of law. In particular, the Japanese government emphasizes the features of the CPTPP as a 21st-century trade norm in a wide range of chapters, including tariffs on goods, liberalization of services and investment, and e-commerce, state-owned enterprises, and intellectual property. (See Table 3)

Table 3. CPTPP as the 21st Century Trade Norms

Chapter in CPTPP	Rules
Investment	Prohibition of the government for requesting technology transfer from the investment company
Trade facilitation	Expedition of customs clearance within 6 hours for high-speed cargo
E-commerce	Free transfer of information (data) across borders, prohibition of imposition of customs duties on digital content, prohibition of request for transfer and access to source code (blueprints of software), prohibition of request for data localization
State-owned Enterprises	Prohibition of the government non-commercial assistance that adversely affects the interests of other counterpart countries
Intellectual Property	Strict regulations on imitation and counterfeit products

Source: Ministry of Foreign Affairs (MOFA) of Japan.

Originally, the US-led TPP was signed by 12 countries in February 2016, but after the withdrawal of the Trump administration in January 2017, it was transformed into the TPP11 Agreement (CPTPP) under the leadership of Japan. Negotiations began with the TPP Ministerial Meeting in November 2017, leading to the signing of and the CPTPP Agreement in March 2018. As of November 2022, the CPTPP has entered into force between nine countries. The tariff elimination rate (based on the number of tariff lines) was about 95% in Japan and about 99~100% in other countries (99% in Canada, Mexico, and Peru, and 100% in the rest of the participating countries).

After 2021, five countries, including the UK, China, and Taiwan, officially applied for membership in the CPTPP. As the chair country of the TPP Committee in 2021, Japan led discussions on the deepening of the CPTPP and the expansion of participating countries. Japan welcomed the UK's request to join the CPTPP, saying it holds great potential as the first step in regionally expanding the CPTPP

beyond Asia-Pacific. Eventually, in March 2023, the UK was allowed to join the CPTPP.

China officially applied for CPTPP membership in September 2021. However, in order for China to join the CPTPP, it is necessary to allow a high-level market access and comply with advanced standards. Furthermore, the United States has the ability to exert pressure on Canada and Mexico to oppose China's accession to the CPTPP based on the non-market FTA provisions of the United States-Mexico-Canada Agreement (USMCA).

2 Digital Trade

Among the 21 FTAs and digital trade agreements that Japan has signed, the first agreements in which an e-commerce chapter is included is the Japan-Swiss FTA. Six FTAs and US-Japan digital trade agreements concluded later also include e-commerce chapter. Table 4 compares major regulations related to e-commerce in the CPTPP, US-Japan Digital Trade Agreement, and RCEP.

Table 4. Digital Free Trade Regulations in Major FTAs/Digital Trade Agreements in Japan

	CPTPP	U.S.-Japan Digital Trade Agreement	RCEP
	Enforcement in Dec. 2018	Enforcement in Jan. 2020	Enforcement in Jan. 2022
Non-discriminatory Treatment of Digital Goods	Non-discriminatory treatment of digital products (Article 14.4) - NT for only electronic transmission - Excluding the application of non-conforming measures established in other chapters - Excluding broadcasting service	Non-discriminatory treatment of digital products (Article 8)	N. A
Tariffs	Tariffs (Article 14.3)	Tariffs (Article 7) - non-tariff measures for electronic transmission	Tariffs (Article 12.11)
Cross-border Transfer of Information	Cross-border transfer of information by electronic means (Article 14.11)	Cross-border transfer of information by electronic means (Article 11)	Cross-border transfer of information by electronic means (Article 12.15)
Installation of Computer-related Facilities	Installation of computer-related equipment (Article 14.13)	Installation of computer-related equipment (Article 12) - Including financial services (Article 13)	Installation of computer-related equipment (Article 12.14)
Source Code	Source Code (Article 14.17)	Source Code (Article 17) (including algorithms)	N. A

First of all, it's apparent that the norms of digital trade-related agreements championed by Japan have become more rigorous and advanced both in terms of quality and volume within the CPTPP. In addition to the general principles of MFN, market access, and non-discrimination, the CPTPP's e-commerce chapter includes the so called 'the three principles of TPP, namely the freedom of cross-border data transfer, prohibition of requiring the installation of computer-related facilities, and prohibition of requesting source code. Furthermore, the US-Japan Digital Trade Agreement, which took effect in January 2020,

prohibits financial service providers from requiring installation of computer-related facilities, prohibits disclosure of algorithms and passwords, and indemnifies providers and users of interactive services using computers. However, RCEP does not mention the principle of non-discrimination in digital trade and fails to strictly implement the three principles of TPP.

IV. Conclusion

First of all, in the context of Japan's supply chain resilience strategy, this brief suggests

three policy implications for S. Korean government as follows.

First, the S. Korean government's reshoring policy appears to need a reassessment of the existing U-turn Support Act, taking into account the U.S.-China competition for technological supremacy and the U.S.'s policy of decoupling from China. Since the S. Korean government enacted the Act in August 2013, only about 20 companies every year since 2019 have returned to Korea, in contrast to Japan's reshoring results. The Japanese government's purposeful pursuit of reshoring support projects is particularly noteworthy.

Second, in light of Japan's enactment of the Economic Security Promotion Act, it is necessary to discuss how to improve the effectiveness of S. Korea's Basic Act on Supply Chains currently being proposed by the National Assembly. The purpose of the law and the government support system bear resemblance to Japan's Economic Security Promotion Act, but it is characterized by the introduction of an early warning system to check supply chain risks and provisions for cooperation between countries. However, when the government intends to designate and manage critical materials, it is uncertain how to induce cooperation from private companies without infringing on the function of market. Furthermore in-depth discussions and measures are needed on how to build a cooperative system in terms of supply chains with other countries.

Third, it is necessary to seek cooperation measures that can promote the stabilization of

the supply chain between Korea and Japan in within the framework of the US-led IPEF. Among IPEF's supply chain negotiations agenda, the co-designation of critical materials that will lead the next-generation growth industries such as semiconductors, batteries, and rare metals, is expected to contribute to supply chain resilience between two countries.

Finally, regarding Japan's trade liberalization strategy, this brief recommends concluding a Korea-Japan Digital Partnership Agreement. The digital trade agreement promoted by Japan is characterized by high-level 21st-century norms such as acknowledgment of interoperability, and inclusion of cooperation clauses. It is necessary to confirm the Korea-Singapore DPA (Digital Partnership Agreement), which was signed in November 2022, contains most of these provisions concluded by Japan. **KIEP**