

**May 2020 Report**

## **Japan Government boosting supply chain reform as emergency economic measure**

Peter Navarro, a trade adviser to President Donald Trump in a February interview with the Financial Times, said the outbreak of the virus would reduce the US's reliance on imports of medicines and medicines from China and other countries and this would be a "wake-up call" for. In an ISM report in March, we acknowledged this importance but explained that Japan's actions were delayed and that this coronavirus caused confusion. The spread of the new coronavirus has had a major impact on the supply network of parts and etc. Weaknesses in the supply chain have become apparent, with the supply of masks and automobile parts being delayed from China due to the spread of the coronavirus. For this reason, the Japanese government intends to subsidize the costs of companies that return their production bases to Japan or move them to Southeast Asia for products and parts whose production is concentrated in a specific country such as China. Finally, the government of Japan made a budget of about \$2.45 billion for relocation support measures as an emergency economic measure in the Cabinet meeting on April 7. The amount of domestic return is \$2.2 billion, and the remaining \$0.25 billion will be prepared for transfer to a third country.

Points:

1. When returning the production base to the domestic market, SMEs subsidize 2/3 of the cost and large companies 1/2.
2. When distributing production bases in Southeast Asia, we plan to subsidize 2/3 for small and medium enterprises and 1/2 for large enterprises.
3. Especially for highly urgent products such as masks, ventilators, and protective clothing, which are in short supply in Japan, the subsidy rate will be increased to 3/4 for SMEs and 2/3 for large companies.

Japan's Prime Minister Abe said on March 5, "Amid high concern over the impact on Japan's supply chain due to a decrease in product supply from Japan to Japan, products that depend heavily on one country have high added value. We have already made strong commitments to return production bases to Japan, and for those that do not depend on one country, we will try to diversify our production bases to ASEAN countries".

According to the 7th annual “Reshoring Index” announced by global manufacturing consulting company Kearney on April 7, the share of domestic manufacturing in the United States in 2019 will increase the share of manufactured goods in 14 Asian countries including China. It shows that imports from China decreased and distribution of domestically produced products increased.

U.S. producers moved production, manufacturing and procurement to China 30 years ago due to high domestic costs, but they are at high tariff risk due to the US-China trade war. Also, as coronavirus epidemics threaten a state of emergency, US companies began to respond to unpredictable economic shocks.

Kearney's annual report notes that the spread of viral pneumonia originating in China is accelerating the shrinking and withdrawal of Chinese companies' production activities and trade, and is unlikely to return to the pre-pandemic state. Companies that were hit hard by the effects of the pandemic would be "seriously rethinking their purchasing strategies and supply chains" in order to spread their risk and escape their dependence on the Chinese market and its supply base.

China produces not only automobile parts, toys and electronic products in the world, but also many pharmaceuticals and medical products such as penicillin, antibiotics, painkillers, surgical masks and medical devices.

### 【ISM Japan's comments】

In the March ISM report, we touched on the diversification of China's procurement concentration, which has not progressed in the past even with the support of the Japanese government's incentive funds. However, under the leadership of Prime Minister Abe, the Japanese government made a big step towards diversifying the concentration of Chinese procurement by investing a specific direction and a huge amount of money.

This action by the Japanese government may also have an impact on the decentralization of the centralization of China's procurement by the United States and other countries, which until now has been progressing only slightly at the private level.