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Impact of Indo-Pacific Economic Framework (IPEF) on Japan

The priority is economic security rather than benefits

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Summary

- The Indo-Pacific Economic Framework (IPEF) was launched in May 2022 to strengthen supply capacity during emergencies as the spread of COVID-19 infections highlights the vulnerability of the global supply chain. Its major characteristics are a low threshold and immediate effectiveness, which do not involve a reduction in tariffs, but they have also been pointed out as ineffective. Another major feature is the U.S.-led anti-China coalition, which could have a major impact on the Japanese economy by encouraging member-countries to leave China.
- When we analyze the key issues that are expected to be discussed by the IPEF, if Japan incorporates foreign demand resulting from IPEF member countries leaving China, exports of semiconductors and other products can be expected to increase. On the other hand, exports to China may decline due to worsening Japan-China relations, and there is also a possibility that a decline in imports from China would necessitate the procurement of substitutes for important goods. The sum of these impacts and domestic economic ripple effects suggest that the direct impact of participating in the IPEF on the Japanese economy could be limited. Nevertheless, the true value of the IPEF is its use during times of emergency. Given the magnitude of opportunity losses incurred by the outbreak of COVID-19, the benefits of ensuring a stable supply with low likelihood of economic costs are greater than the numbers.

Attention

This report is a summary translation. The official document is only in Japanese, included in the DIR Research Quarterly Review (Vol.48).