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A Comparative Study of Investment Environments in Japan and South Korea amid US Supply Chain Restructuring: The Role of Political Systems and Governance Models (2021-2026)

Zhen-yu Yang

School of Ocean Science, National Sun Yat-sen University, Kaohsiung, China
yzy94407154@gmail.com

Abstract. Amid US-led supply chain reconfiguration and rising geopolitical and economic uncertainty, Japan and South Korea are both seeking to strengthen industrial and investment resilience. Although the two countries face similar external pressures, differences in their institutional structures and government-industry relations have resulted in distinct industrial policies and corporate investment patterns. Thus, have developed significantly different investment and industrial landscapes amid US-led supply chain restructuring. This paper examines how governance models influence industrial policies and corporate responses in the two countries. Through literature review and case studies of the semiconductor and new energy industries, it analyzes differences in their investment environments. The study finds that Japan relies on coordinated governance between bureaucratic institutions and industrial organizations, thus fostering stable policies and long-term domestic investment. In contrast, South Korea's rapid coordination between government agencies and conglomerates enables efficient resource mobilization and policy responses, while also promoting greater reliance on overseas production capacity. These differences suggest that the two governance models shape investment environments characterized by stability and flexibility, respectively, with neither being absolutely superior or inferior.

Keywords: US supply chain restructuring, Japan-Korea investment environments, national governance models, industrial policies, semiconductors and new energy

1. Introduction

From 2021 onward, global supply chains have undergone accelerated restructuring, with strategic industries such as semiconductors and new energy becoming the focus of competition and industrial policy adjustments in various countries [1, 2]. The United States (U.S.) has sought to reshape global manufacturing networks by encouraging the relocation of critical production capacities to the U.S. and allied economies through industrial subsidies, technology restrictions, and localization policies, thus affecting the investment decisions of Japanese and South Korean firms [3, 4]. Existing studies mainly examine U.S. supply chain strategies, industrial subsidies, and firms' global expansion. Yet,

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comparative research on how governance systems shape policy implementation and investment environments remains limited. Therefore, this paper explores Japan and South Korea's investment environments amid U.S. supply chain restructuring. From a comparative governance perspective, it analyzes the differences between the two countries in industrial policy formulation, implementation mechanisms, and corporate investment responses. Furthermore, it explores how political systems, state-enterprise relations, and resource allocation approaches shape strategic industry investment choices. Employing literature review and case studies, this study compares Japan and South Korea's supply chain policy responses based on policy documents, international data, and cases from the semiconductor and new energy sectors. Through this analysis, it also highlights the role of policy stability, coordination, and adaptation costs in shaping investment environments.

2. Institutional foundations of national governance models in Japan and South Korea

2.1. Political system and policy making methods

The differences between the political systems of Japan and South Korea are mainly reflected in the formation process and implementation mechanism of industrial policies [5]. Under its parliamentary cabinet system, Japan formulates industrial policies through coordination among the ruling party, the bureaucracy, and industry. The long-standing dominance of the Liberal Democratic Party (LDP) has fostered a policy network through which ministries, firms, and stakeholders engage in policy formulation and adjustment. Among them, the bureaucracy is responsible for policy implementation and plays a crucial role in industrial planning, policy design, and cross-departmental coordination. Therefore, Japanese industrial policies are usually characterized by gradual adjustments and strong continuity in policy direction [6, 7]. Under a presidential system, South Korea's industrial policies are primarily directed by the president and central administrative agencies and implemented through centralized administrative mechanisms. The government can quickly develop industrial plans based on presidential economic priorities and mobilize fiscal, financial, and infrastructure resources for key sectors. However, the policy direction and implementation methods are also more susceptible to changes in the president, party competition, and changes in the government's policy priorities [8, 9]. Therefore, Japan's policy making relies more on institutional coordination, while South Korea relies more on the centralized promotion of the administrative departments.

2.2. State-business relations and industrial policy implementation

Both Japan and South Korea have a tradition of government involvement in industrial development, but the ways in which the government influences corporate investment differ significantly. Japan's industrial policy emphasizes long-term coordination among the government, industry organizations, and enterprises. The government supports corporate development via industrial planning, financial subsidies, R&D assistance, and institutional frameworks, whereas enterprises participate in policy implementation via existing supply chain relationships, industry organizations, and technological accumulation. Under this model, a relatively stable communication mechanism exists between the government and enterprises, and industrial policy is more of a combination of government guidance and enterprise self-adjustment [6, 7]. South Korea's industrial policy, on the other hand, relies more on direct cooperation between the government and large conglomerates. The government mobilizes resources via tax incentives, financial support, infrastructure development, and industrial planning, with major firms such as Samsung and SK leading investment and technological expansion [9-11].

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This model enables resource concentration in strategic industries but also increases dependence on the investment capabilities and policy cooperation of large enterprises.

2.3. Governance model differences and corporate behavior patterns

The differences in governance models ultimately manifest in companies' assessments of investment risks, policy stability, and resource acquisition methods [4, 5]. Japanese policy formation depends on long-term coordination among the government, industry organizations, and firms, with corporate investment decisions largely shaped by stable institutional expectations and industrial networks. Even with changes in the policy environment, companies typically adjust their investment direction according to existing industrial relationships rather than making significant strategic shifts [6, 7]. By contrast, South Korea advances industrial development through close coordination between the government and major conglomerates. Companies can rapidly expand their investment scale with the help of policy support and concentrated resources, but their investment decisions are also more susceptible to changes in government policy priorities and industrial support methods [9, 10]. Thus, Japanese companies emphasize long-term cooperation, technology accumulation, and supply chain relationship maintenance, while South Korean firms prioritize policy opportunities, scale expansion, and market responsiveness. Amid U.S. supply chain restructuring, this difference is further reflected in Japanese firms' tendency to strengthen domestic industrial linkages, while South Korean firms leverage the global capabilities of major corporations to reposition their investments [4, 12].

3. Investment environment shifts in Japan and South Korea amid U.S. supply chain reconfiguration

This section examines how U.S. supply chain restructuring has affected Japan and South Korea's investment environments through policy, corporate, and FDI changes [1, 3, 4].

3.1. Changes in U.S. semiconductor and new energy industry policies

In recent years, the U.S. has adjusted its semiconductor and new energy industry policies, which have imposed new constraints on companies in terms of production location selection, supply chain configuration, and investment direction. The industrial layout, which was originally based on global division of labor, has gradually shifted to the U.S. domestic and allied system, and Japanese and South Korean companies have therefore needed to rearrange their related industrial investments.

In the semiconductor field, the Chip and Science Act provides around $52.7 billion in support and sets a 25% tax credit for advanced manufacturing investment. Meanwhile, it strengthens export controls on advanced chips, manufacturing equipment, and related technologies, while also placing restrictions on the expansion of advanced semiconductor production capacity [3]. These measures have increased the attractiveness of building semiconductor production capacity in the U.S. and increased the pressure on global companies to adjust their supply chain layout. Since 2025, the U.S. has further adjusted investment incentives and related restrictions to continue to promote the concentration of advanced manufacturing in the U.S. [1, 3]. In the new energy field, the Inflation Reduction Act supports the production of batteries, critical minerals, and new energy components in the U.S. and its partners through Section 45X production tax credits and supply chain sourcing requirements [13]. Since 2025, the U.S. new energy policy has further strengthened the use of trade tools such as tariffs, affecting companies' investment choices in different regions [14].

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3.2. Investment layout of semiconductors and new energy in Japan and South Korea

After the U.S. promoted the adjustment of the supply chain of key industries, both Japan and South Korea increased their investment in the semiconductor and new energy fields, but the investment paths of the two countries are different. Japan seeks to enhance domestic manufacturing capabilities and rebuild its advanced manufacturing foundation via technology inflows and the strengthening of domestic industrial chains; in contrast, South Korea maintains its domestic industrial advantages, while expanding production capacity to the U.S. [4].

Japan's investment layout focuses primarily on the restoration of domestic industrial capabilities. The Japanese government promotes the implementation of semiconductor manufacturing projects via industrial policies, financial support and economic security measures. The Kumamoto JASM project, in which TSMC, Sony and Denso participated, connects advanced process technology with Japan's automotive chip, image sensor and materials equipment industries; Rapidus promotes the research and development and production of 2-nanometer advanced logic chips with government support [7, 15]. In the field of new energy, Japan supports investment in energy storage, renewable energy and low-carbon manufacturing through the GX strategy.

At the same time, South Korea's investment layout is characterized by the parallel development of domestic industrial clusters and overseas capacity expansion. The South Korean government supports domestic industrial development through initiatives such as the K-Semiconductor Strategy, the K-Chips Act and the Semiconductor Super Cluster Plan, while expanding overseas investment. Samsung Electronics is advancing its Taylor Semiconductor project in Texas, SK Hynix is building advanced packaging and R&D facilities in Indiana, and battery companies such as LG New Energy are also setting up production bases in the U.S. [4, 9, 10].

3.3. Foreign investment and market environment in Japan and South Korea

U.S. supply chain adjustment has reshaped the structure and industrial flow of foreign investment in Japan and South Korea, but has not directly promoted the continuous growth of foreign investment in the two countries. Its impact is mainly reflected in capital reallocation toward strategic industries and the reassessment of investment costs, foreign investment environment and industrial supporting conditions by enterprises. According to UNCTAD data, Japan's foreign direct investment decreased from US$34.29 billion in 2021 to US$14.32 billion in 2025, and South Korea's decreased from US$22.06 billion to US$15.8 billion. Both countries rebounded in 2025 after reaching a low level in 2024 [16]. During the same period, Japan's outward direct investment in 2025 was about US$186.1 billion, and South Korea's was about US$41.2 billion. The relevant data show that the supply chain restructuring has not increased overall FDI in Japan and South Korea, but has redirected capital toward key sectors such as semiconductors and new energy.

In addition, exchange rate changes also affect the investment costs of enterprises. From 2021 to 2025, the annual average exchange rate of the U.S. dollar against the Japanese yen rose from 109.84 to 149.57, while that against the Korean won rose from 1144.89 to 1421.40 [17]. The depreciation of the local currency reduced the U.S. dollar cost for foreign investors to enter the Japanese and Korean markets, while increasing the local costs for domestic firms to invest overseas and expand production capacity. Since Korean companies have invested heavily in the US semiconductor and battery industries in recent years, the depreciation of the Korean won has a more significant impact on their overseas investment costs. In addition, the foreign investment regulatory environment and industrial base also affect the investment attractiveness of the two countries. The OECD Foreign Direct Investment Regulatory Restriction Index shows that Japan's score was 0.048 and South

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Korea's 0.105 in 2024, with lower values indicating fewer restrictions on foreign investment [18]. Japan imposes relatively few restrictions on foreign investment access and has a well-developed semiconductor materials, equipment and precision manufacturing supply chain, which helps attract technology investment [19]. South Korea has formed a semiconductor and battery industry clusters based on major firms like Samsung, SK, and LG. However, while foreign capital can enter quickly, the investment environment depends more on large firms' investment cycles.

4. The impact of political systems and national governance models on the differences in the investment environments of Japan and South Korea

U.S. semiconductor subsidies, technology controls, and localization policies have imposed similar pressures for Japan and South Korea, yet their investment responses differ due to variations in governance models. Japan emphasizes institutional coordination and policy continuity, while South Korea depends on administrative support and corporate resource allocation. This section examines how governance models shape industrial investment environments [1, 4, 5].

4.1. Policy continuity and industrial investment stability in Japan

Long-term industrial policy continuity defines Japan's investment environment. From 2021 to 2026, despite several changes in Japan's prime ministership, political shifts primarily occurred within the LDP, and the policy direction in key areas related to economic security remained largely unchanged. Changes in government primarily involved adjustments to policy instruments and implementation approaches rather than a fundamental shift in industrial development objectives [7, 20].

This policy continuity also relies on a relatively stable implementation mechanism. Government departments like the Ministry of Economy, Trade and Industry, industrial review mechanisms, and institutional arrangements such as special funds enable policies to be continuously implemented through long-term budgets, government-supported projects, and industrial planning [6, 7, 20]. In key industrial sectors, successive governments have largely maintained existing policies by expanding fiscal support, adjusting financing mechanisms, and broadening project scopes, rather than changing industrial objectives [7, 20]. Since related industrial investments typically involve long cycles and large capital investments, a stable policy environment can reduce companies' concerns about policy changes and increase their willingness to invest in the long term. However, Japan's policy-making requires coordination among government agencies, local governments, and businesses, which can slow resource mobilization and project implementation. Yet, its stable policies and institutions support firms' long-term R&D and production planning.

4.2. Policy adjustment and industrial investment flexibility in South Korea

Compared to Japan, South Korea's industrial policy adjustments rely more heavily on the president and central government. From 2021 to 2026, South Korea experienced changes in government from Moon Jae-in to Yoon Suk Yeol and Lee Jae-myung, accompanied by shifts in the ruling party. But the overall development direction of strategic industries, including semiconductors, batteries, and artificial intelligence, remained consistent. The differences between successive governments mainly lie in support levels, policy instruments, and industrial approaches rather than in strategic industry priorities. For example, the Moon Jae-in administration introduced the K-Semiconductor Strategy, the Yoon Suk Yeol administration expanded semiconductor support and the Yongin cluster, while the Lee Jae-myung administration continued support for the semiconductor and AI industries [8, 9].

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The policy adjustment mechanism enables South Korea to respond quickly to changes in the external industrial environment. The government advances key projects through financial support, infrastructure, and industrial clusters, while leveraging major firms like Samsung Electronics, SK Hynix, and LG to expand industrial investment. This approach shortens the policy implementation cycle and improves the speed at which companies can respond to adjustments in the US supply chain. However, at the same time, South Korean corporate investment is also more susceptible to changes in policy tools and government implementation priorities. Large enterprises can participate in policy projects by leveraging their capital, technology, and global operating networks, while SMEs rely more on the supply chains of large enterprises to obtain development opportunities and face higher adaptation costs when leading enterprises adjust their investment directions [9-11].

4.3. Governance models and investment environments in Japan and South Korea

U.S. supply chain restructuring has provided similar industrial opportunities for Japan and South Korea, but their governance models have influenced how policy resources reach businesses, further shaping different investment environments. Japan promotes industrial policy through coordination mechanisms between the government, bureaucracy, and industrial organizations. Policy support relies more on long-term planning, fiscal arrangements, and the implementation of institutionalized projects; thus, corporate investment places greater emphasis on policy stability and supply chain synergy. South Korea, on the other hand, relies on rapid coordination between the executive branch and large conglomerates, using tax incentives, industrial cluster development, and policy support to drive project implementation. Companies in South Korea can respond quickly to changes in the external supply chain, but investment decisions are more dependent on government support and the strategic positioning of leading companies [4, 5, 7, 9].

From the corporate perspective, the Japanese governance model is more suitable for R&D and manufacturing investments that require long-term accumulation, with companies typically making gradual adjustments based on stable expectations. The South Korean governance model, however, is more conducive to large capital rapidly entering key industries, expanding market share through large-scale investment. Neither model is inherently superior; rather, they differ in policy continuity, resource allocation efficiency, and investment risk, as shown in Table 1 [4, 10, 20].

Table 1. Governance models and investment environments in Japan and South Korea

Comparison	Japan	South Korea
Policy Formation and Continuity	Once incorporated into laws, budgets, and local plans, projects are less likely to be disrupted. Policy changes are typically gradual, ensuring stable corporate expectations.	The overall strategic industry direction will remain unchanged, but policy tools, fiscal scale, and key areas may be adjusted with changes in government.
Policy Implementation and Project Advancement	Relies on coordination among the government, bureaucracy, and industry organizations, providing stability but involving longer coordination and approval processes.	With the president and executive branch taking the lead, resources can be mobilized quickly, and major projects can be implemented more easily and rapidly.
Industrial resource allocation methods	Through long-term budgets, special funds, and government-business coordination, we guide the integration of foreign technology, local enterprises, and supply chains.	The government will provide concentrated support to large enterprises and key projects through tax incentives, policy-based financing, and infrastructure construction.

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Table 1. (continued)

Corporate Investment Expectations	The policy has strong continuity and is suitable for long-term R&D, production layout and supply chain investment.	Strategic industry support remains stable, but firms must consider policy adjustments caused by government changes.
Investment Environment Characteristics	The system is relatively stable, but the project's progress is relatively limited.	The policy response capability is strong, but the concentration of resources and policy adjustments bring some uncertainty.

5. Conclusion

This paper analyzes the differences in investment environments between Japan and South Korea against the backdrop of U.S. supply chain restructuring, examining the impact of political systems and national governance models on industrial policy implementation and corporate investment behavior. The study finds that Japan, relying on a relatively stable policy coordination mechanism and industrial support system, emphasizes domestic industrial capacity recovery and supply chain integration in sectors like semiconductors and new energy. Its investment environment advantages lie in policy continuity and stable long-term expectations. In contrast, South Korea relies on rapid coordination between government departments and large enterprises, possessing strong resource mobilization capabilities in responding to external supply chain adjustments, and tends to enhance industrial competitiveness via overseas production capacity deployment. Neither governance model is inherently superior; they differ in policy stability, resource allocation, and corporate investment approaches. This paper primarily analyzes policy documents, statistical data, and existing studies, while providing limited insight into firms' micro-level investment decisions. Future studies could use corporate interviews and investment cases to examine how governance models shape firms' location choices and strategic decisions during supply chain adjustments.

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