

How Japan Defines Economic Security

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Summary:

Japan's post-war economic strategy had focused on growth and expansion into international markets. The rise of China as a security threat as well as an economic rival, however, has led the Japanese government to fundamentally reevaluate its approach to national security by implementing policies intended to shore up economic security. There was a sea change in 2014 under the Liberal Democratic Party, which then accelerated in 2017, and culminated in 2022 with the development and passage of the Economic Security Promotion Act together with a new National Security Strategy.

Japan's initiatives focus on four key areas deemed vital for success in competing against China. The Japanese government is focusing on 1) securing the stable supply of critical commodities, 2) ensuring the safety of key infrastructure, 3) supporting the development of cutting-edge critical technologies, and 4) a secret patent system.

Although challenges remain, particularly Chinese threats in the cybersecurity realm, the United States and Japan are committed to enhancing their economic security.

Policy Implications:

- The United States and Japan are increasingly aligned on the need to compete with China in the realm of economic security. For Tokyo, this represents a seismic shift in thinking and embrace of national security considerations. Although challenges remain, both countries should rest assured that they can rely upon each other to secure their economies from China.
- The United States and Japan should strengthen cooperation in the field of cyber defense to protect our key technologies, which are the source of our national strength.
- Both countries should cooperate to protect critical infrastructure, which is the foundation of national security and economic activities, from Chinese cyberattacks.
- Washington and Tokyo should work together to reduce vulnerability to disruption of strategic goods and supply chains.

The May 2023 G7 Hiroshima Summit attracted much attention with the participation of Ukrainian President Zelensky and the wreath-laying ceremony at the Hiroshima Peace Memorial Park by the heads of state. From the perspective of economic and national security policies, however, the fact that economic security was featured at the G7 summit was particularly noteworthy. Moreover, the G7 leaders adopted the statement, “Economic Resilience and Economic Security.”³⁹

Although the Summit communiqué avoided addressing China by name, it confirmed that the G7 would work together in approach to economic resilience and economic security based on diversification, deepening partnership, and “derisking,” rather than decoupling.⁴⁰ The term “derisking” is used primarily in the financial sector,⁴¹ and it is rapidly gaining attention in a geopolitical sense.⁴² It is not clear what kind of negotiation process led to the adoption of this term in the communiqué, but given that it appeared in a speech given by EU Commission President von der Leyen on March 30,⁴³ it is reasonable to assume that it was included at the strong request of the European countries.

Even if the concept of economic security has been softened in expression from decoupling to derisking, the implications are clear. The conclusions that can be drawn from the Summit are that first and foremost of all, the advanced economies including Japan and the United States have recognized that China is a country with different values from those of the West and is attempting to change the current international order. Second, even if they do not sever economic, social, and political ties with China, they are trying to take a different and tougher approach toward China. Finally, they are trying to win the geopolitical competition with China by strengthening economic security.

The G7 leaders noted that “ensuring economic resilience and economic security globally remains our best protection against the weaponization of economic vulnerabilities,”⁴⁴ identify five measures to strengthen economic security, namely: 1) building resilient supply chains, 2) enhancing security and resiliency in critical infrastructure particularly in the digital domain, 3) responding to non-market policies and practices to secure global economic resilience, 4) addressing economic coercion to explore coordinated responses, deter and, counter economic coercion, 5) countering harmful practices in the digital sphere, 6) cooperating on international standards setting, 7) preventing leakage of critical and emerging technologies.⁴⁵

This new framework of economic security proposed at the G7 Summit is

somewhat complicated, combining the old concepts of economic statecraft and the use of economic tools in national security. The concept of economic security had been gaining attention rapidly in Japan not only because of Japan's geographical location at the forefront of competition with China, but also because of the fact that Japan was the first country to face restrictions on rare earth exports from China in 2010, when foreign policy tensions between the two in the East China Sea became acute.

The rise of the economic security debate

Behind the emergence of the debate over economic security in Japan are major structural changes in international politics.

During the four decades of the Cold War from 1946 to 1989, a “strategic competition” for survival existed between the socialist camp led by the Soviet Union and the democratic and free economic camp led by the United States. The perception of great power competition⁴⁶ was shaped by Churchill's Iron Curtain speech⁴⁶ and George Kennan's X Article.⁴⁷ This great power competition continued for almost 40 years, a period during which the logic of security took precedence over the logic of economics in international relations.

From the end of the Cold War in 1989 to around 2019 was an era of globalization during which major tensions in international politics subsided, economic logic took precedence over the logic of security, and people, goods, and money moved actively across borders.

However, this era of prioritizing economic logic came to an end with the rise of China. Discussions of “economic security,” such as economic statecraft and stricter trade controls, have been gaining momentum in other countries because the rise of China is shaping the narrative that international politics is once again moving toward “strategic competition.”

US Vice President Mike Pence's October 2018 speech suggested that the US should be prepared for great power competition with China and clearly stated adopting a new approach to China.⁴⁸ The US media determined that Pence's speech implied the start of a new Cold War between the US and China.⁴⁹ In 2021, an article corresponding to Kennan's “X Article” was published on the website of the Atlantic Council.⁵⁰ The article, titled “Longer Telegram: Toward a new American China strategy,” was written anonymously by a former US government

official in reference to Kennan's "Long Telegram," and called for a new US strategy toward China to counter Beijing's long-term strategy to surpass the United States and be implemented together with its allies.

The Chinese economy is projected to overtake the US economy to become the world's largest around 2030 and continue to develop until around 2050,⁵¹ when the US economy will again overtake the Chinese economy, which is slowing down due to population decline.⁵² Therefore, for at least the next 30 years, a "strategic competition" between the authoritarian camp, which combines Chinese-style socialism and a digital surveillance society, and the liberal democratic camp, led by the United States, is likely. The next 30 years will be the era of the "New Cold War," during which the logic of security will take precedence over the logic of economics, just as it did during the Cold War.

Based on this recognition of the strategic environment, the debate on economic security in Japan has been shaped as follows.

The road to Japan's Economic Security Promotion Bill

Looking back at the evolution of the economic security debate, since the establishment of the National Security Secretariat in the Cabinet of Japanese Government in January 2014, the issues of land acquisition by foreigners, technology transfer through investment and acquisition of Japanese companies by foreign capital, and technology outflow from universities and companies by foreigners have emerged.

The "Diet Members Caucus for Rule Formation Strategy" of the ruling Liberal Democratic Party (LDP) was established in 2017, chaired by H.E. Akira Amari, a member of the House of Representatives and a former Minister of State for Economic and Fiscal Policy, to address these issues of security concern, next-generation technologies, and the need to formulate international standard rules. The Diet Members Caucus released a policy proposal titled "Establishment of a National Economic Council (Japanese version of NEC)"⁵³ on March 20, 2019, and submitted the proposal to Prime Minister Abe.

The proposal presents the following as its recognition of the situation: 1) intensifying competition between the United States and China has developed into a confrontation over technology, resources, and rule-making; 2) high-tech friction and the struggle for data (digital) supremacy are occurring between the US and

China, and intelligence activities are becoming more active; and 3) economic statecraft (pursuing national interests through economic means) is becoming more intense. In order to counter China's economic statecraft, the proposal proposed the necessity of establishing a "National Economic Council" (a Japanese version of the NEC). Specifically, it is necessary to create a "National Economic Council" to formulate strategic foreign and economic policies, strengthen restrictions on exports of cutting-edge technologies, tighten investment monitoring of foreign companies, impose economic sanctions, manage intellectual property, and formulate rules for international standards.

Reflecting these recommendations, the Economic Security Unit was established within the National Security Secretariat on April 1, 2020. The Economic Security Unit focuses on: 1) technology security, including export control, foreign direct investment regulations, technology transfer regulations, supply chain risks, etc., 2) cyber security, including the security of the next-generation mobile communication infrastructure, cyber security, cyber security information sharing, data security, etc., 3) International cooperation, including international coordination for infrastructure development in each country, international coordination for the development of high-tech technologies.

Following a series of discussions on the issues of technology transfer through investment and acquisition of Japanese companies by foreign capital, the Foreign Exchange and Foreign Trade Law was revised in June 2020, and the related ministerial ordinances and public notices were fully applied. The amendment to the Foreign Exchange Law lowered the threshold, from 10 percent to 1 percent, for prior notification at the time of acquisition of national security sensitive industrial companies, such as defense, aircraft, space exploration, nuclear power, cyber security, and critical infrastructure. The prior notification system was introduced for the appointment of directors, auditors, and other officers, the transfer or abolition of businesses in industries designated as important to national security.

Regarding to the discussion on the issues of land acquisition by foreigners, the Act on the Review and Regulation of the Use of Real Estate Surrounding Important Facilities and on Remote Territorial Islands was passed by a Diet and enacted in June 2021. Under the Act, the Prime Minister designates Monitored Areas, the land and surrounding areas of 1) defense facilities, nuclear facilities, and other facilities of national security importance, and 2) remote border islands, conducts

a review of the use of real estate in monitored areas, and prohibits the use of real estate of national security concern.

Serious discussions within the ruling LDP led to the Economic Security Promotion Bill in 2022. In response to the activities of the “Diet Members Caucus for Rule Formation Strategy” mentioned earlier, Policy Research Council of LDP established the “Strategic Headquarters on the Creation of a New International Order” on June 4, 2020, under the direction of then Policy Research Council Chairperson of LDP, now the Prime Minister H.E. Fumio Kishida.

On December 22, 2020, the Strategic Headquarters issued a recommendation titled “Toward Developing Japan’s ‘Economic Security Strategy.’”⁵⁴

The recommendation consists of five chapters: the need to develop Japan’s “Economic Security Strategy”, fundamental principles and definition of economic security, economic security environment surrounding Japan, basic policy on economic security, and priorities and measures to be taken. This recommendation is an important text for understanding Japan’s concept of economic security.

In Chapter One of the recommendation, “need to develop Japan’s Economic Security Strategy,” presents the following perception: 1) some countries are using economic means as “weapons” to pursue their own interests, 2) strategic thinking is needed to ensure national independence and survival, and maintain universal values, and 3) economic security strategy formulation is necessary. In Chapter two, economic security is defined as ensuring Japan’s independence and prosperity, protecting an international order based on fundamental values of freedom, democracy, and rule of law, and ensuring “strategic autonomy and strategic indispensability,” which are presented for the first time as the basic concept to achieve the economic security. Chapter 4 presents the basic policies to ensure economic security: 1) to identify vulnerabilities, improve robustness, and reduce dependence in order to maintain and strengthen strategic autonomy; 2) to create an environment for the maintenance and development of industries with advantages in order to acquire strategic indispensability; and 3) to identify, preserve, and foster technologies with autonomy and indispensability.

This recommendation is characterized by the need for an overarching, comprehensive response in a wide range of 16 areas to achieve economic security. Specifically, the proposal addresses the following areas: securing resources and energy, ocean development, strengthening food security, financial infrastructure

development, information and telecommunications infrastructure development, space development, strengthening cyber security, utilizing data, diversifying and strengthening supply chains, securing and maintaining technological superiority, improving innovation, land transactions, large-scale infectious diseases counter-measures, infrastructure exports, involvement in international rule-making, and strengthening economic intelligence capabilities.

Economic Security Promotion Bill of 2022

In response to the LDP's recommendations, the Cabinet Secretariat established the "Expert Panel on Economic Security Legislation" on November 26, 2021. The Panel proposed the final report on February 1, 2022.⁵⁵ While the LDP's proposal suggested initiatives in 16 areas, the recommendations of the government's Expert Panel were significantly reduced to four areas. The recommendations identified four areas that should be addressed first through legislative measures: 1) strengthening supply chains for critical goods and raw materials, 2) ensuring the safety and reliability of key infrastructure functions, 3) a framework for fostering and supporting key technologies in the public and private sectors, and 4) preventing the outflow of sensitive inventions by secret patents.

Then, the House of Councilors passed by majority vote the Economic Security Promotion Bill on May 11, 2022, which came into effect on May 18. The bill consists of four pillars, as the Expert Panel proposed: 1) securing the stable supply of critical commodities, 2) ensuring the safety of key infrastructure, 3) supporting the development of cutting-edge critical technologies, and 4) a secret patent system. A document released by the Cabinet Secretariat explains the purpose of the bill as the establishment of a basic policy and system to comprehensively and effectively promote economic measures to ensure security in light of the increasingly complex international situation.

Conclusion and Future Perspective

Although the Economic Security Promotion Act was enacted following the process described above, there are several challenges that need to be resolved for the future.

One of the challenges is the enhancement of policies in cyberspace. In the field

of cyber security, the second pillar of the Economic and Security Promotion Act aims to ensure safety and reliability related to the maintenance of Japan's core infrastructure with attention to cyber security. However, the bill does not include any cyber security measures to prevent the cyber theft of intellectual property. It is hoped that the bill will be revised in the future to provide for proactive cyber defense and legislation to prevent state-sponsored cyber theft.

In cyberspace, cyber theft against companies listed as priority areas in "Made in China 2025,"⁵⁶ announced by China's State Council in May 2015 as the 10 key areas necessary for China to rise to the leading position of a manufacturing powerhouse, are on the rise. Chinese cyber attackers are targeting the following industries that have been identified as key areas of development in "Made in China 2025": 1) next-generation information technology, 2) new energy automobiles, 3) aerospace, 4) marine engineering, 5) new materials, and 6) power equipment.

Such cyber theft threatens the technological superiority of developed countries by resulting in the unfair forced transfer of technology possessed by them as a result of the attacks. It also poses not only a security problem but also a major threat to the free trade regime. There have been cases of Chinese companies manufacturing and exporting products for developing countries using technology obtained through such unfair means, which could shake confidence in the free trade system based on free and fair rules.

It can thus be claimed that these cyber-espionage activities are linked to China's long-term strategy for seeking technological and economic supremacy. There is a risk of long-term and strategic "technology leakage," which would ultimately damage Japan's industrial competitiveness. Thus, it is clear that the cyber domain has become a real battleground over economic security between China and developed Western countries, including Japan. In order to protect industrial competitiveness, preventing cyberattacks by China is now an urgent and important issue.

Both Japan and the United States have revised their national security strategies in 2022. The Biden administration's new National Security Strategy⁵⁷ focuses on integrated deterrence as a means of achieving security. This concept encourages a shift from traditional security, which has traditionally focused on diplomacy and the military, to a security that makes full use of all means, including economic and intelligence, and means mobilizing all "DIME" to play a serious game in the interregional competition for survival.⁵⁸ The revision of Japan's National Security

Strategy also marks a major turning point in Japan's post-World War II national security policy.⁵⁹

It is important that the United States and Japan cooperate in the area of economic security in order to compete with China. The following areas for cooperation are particularly important: 1) Strengthen cooperation in the field of cyber defense to protect our key technologies, which are the source of our national strength, 2) Both countries should cooperate to protect critical infrastructure, which is the foundation of national security and economic activities, from cyberattacks, 3) Both countries should work together to reduce vulnerability to disruption of strategic goods and supply chains.

The views expressed are the author's alone, and do not represent the views of the U.S. Government or the Wilson Center.

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