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**Japan's burgeoning economic
security strategy: Navigating amidst
US-China competition**

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Abstract

This conference paper describes the burgeoning economic security policies taken by the Japanese government since the late Abe administration. It argues that the main factor for this shift is politically driven as opposed to being bureaucratic driven. Policy recommendations for Japanese domestic policies as well as foreign policy regarding various potential international collaboration on economic security is also presented.

Keywords

Japan; United States; economic security; economic statecraft.

Japan's burgeoning economic security strategy: Navigating amidst US-China competition*

Former Prime Minister Abe Shinzo vowed to reinvigorate Japan after two decades of stagnation and he made important progress. While he was applauded for his diplomatic activism and revamping the national security bureaucracy, little attention has been paid to the rise of economic statecraft in Japan's foreign policy and national security calculus. This new emphasis is poorly understood both within Japan and among its diplomatic partners. It has the potential, however, to be as if not more important and impactful than Abe's other changes.

Walking the US-China tightrope

Japan's key foreign and security policy challenge is managing its relationships with the United States and China. While Tokyo must navigate between Washington and Beijing, there are no serious questions about its commitment to the alliance with the United States. Japanese decision-makers know there is no substitute for partnership with the US, a fellow democracy, market economy and its only treaty ally. There are periodic ripples and tensions in the bilateral relationship, but Japanese politicians, security specialists and the public know that their country is safer and more secure as a US ally. This is especially true given China's rise.

China's presence and geopolitical heft cannot be wished away. It is a geographical neighbour with which Tokyo has a territorial dispute, a historical rival for regional leadership and a driver of the Japanese economy (a consideration for every country in the Indo-Pacific region). Japan has internalised this bifurcation for decades, attempting to engage Beijing and moderate its behaviour while simultaneously recognising that China will not change its culture or nature and will continue to seek regional pre-eminence.¹ Tokyo backs a US strategy that confronts Chinese attempts to revise the status quo, and supports the 'great power competition' that frames the US national security strategy.

At the same time, Japan's economic relationship with China looms large in the minds of Japanese decision-makers. China overtook the United States as the largest purchaser of Japanese exports in 2002.² Moreover, preliminary findings by the Inter-Parliamentary Alliance on China (IPAC) show that Japan has "strategic dependence" on China for over 700 imported goods, one of the highest numbers among industrialised countries according to the Henry Jackson Society Strategic Dependency Index.³ While the United States regained its position as Japan's largest export destination in 2019, China remains Japan's number one trading

* This is an earlier draft of: Akira Igata and Brad Glosserman. "Japan's New Economic Statecraft." *The Washington Quarterly*. Vol. 44, Issue 3, 2021: 25-42. <https://www.tandfonline.com/doi/pdf/10.1080/0163660X.2021.1970334>. For quotation or citation, please refer to The Washington Quarterly completed manuscript.

1 Y.A., "The Virtues of a Confrontational China Strategy," *American Interest*, April 10, 2020, <https://www.the-american-interest.com/2020/04/10/the-virtues-of-a-confrontational-china-strategy/>.

2 Ministry of Finance of Japan, "Yunyu aitekoku jyoui 10 kakoku no suii (nen be-su) [Trends of top 10 import countries (yearly basis)]," Trade Statistics of Japan, Accessed 26 July 2021, <https://www.customs.go.jp/toukei/suii/html/data/y5.pdf>

3 Inter-Parliamentary Alliance on China, "Strategic Dependence on China: Japan," Draft document, December 2020. This document uses the Henry Jackson Society Strategic Dependency Index, which considers a country is "strategically dependent" on China for certain products if three conditions are met: (1) More than 50% of the country's imports of the product come from China; (2) A country is a net importer of that product; and (3) China has a greater than 30% market share of global trade in that product.

partner, a position it has held since 2007.⁴ China has also been critically important to the Japanese tourism sector, vying with South Korea for the most annual visitors to Japan.⁵

These competing structural interests – security concerns on the one hand pushing Tokyo to take a harder line as economic factors prioritise cooperation on the other – have prevented Japan from forging a consistent and coherent China strategy. This is manifested in divergent views of China within the ruling Liberal Democratic Party (LDP). Significantly, Secretary General Nikai Toshihiro, a party powerbroker who is close to Prime Minister Suga, favours the softer line. These splits are replicated throughout the bureaucracy, with debates occurring in key parts of it such as the Ministry of Foreign Affairs (MOFA), the Ministry of Economics, Trade and Industry (METI) and the National Security Secretariat (NSS) attached to the Prime Minister's Office (PMO, or Kantei).

Despite a lack of clear direction, internal debates in the Japanese government have slowly shifted toward policies that address security concerns. The Abe administration modernised Japan's national security in its first years by consolidating leadership in the Prime Minister's office, increasing resources and loosening restraints on international security engagement. Abe created the National Security Secretariat, produced a National Security Strategy and pushed his vision of a reinvigorated Japan that would be more assertive on the international stage. Most of these efforts focused on national security as traditionally defined, particularly the operation and use of Japan's self-defence forces, although another important change was the establishment of the Development Cooperation Charter in 2015 through a revision of the Overseas Development Assistance (ODA) charter, which allows Japan to use funds for security capacity-building among regional partners, a use that had previously been prohibited.

Strengthening economic security through restructuring

More recently, Japan has, like the US, awakened to other dimensions of the national security challenge, particularly those involving economic security and high technology. Japan's 2019 Diplomatic Bluebook highlighted the increasing complexity of inter-state competition and the growing role of technologies in determining international status and standing. Japanese officials and analysts have become increasingly alarmed about China's efforts to acquire intellectual property by any means and the country's military-civil fusion programme, which, elevated to a national military strategy by President Xi Jinping, is systematically reorganising the country's science and technology enterprises to ensure that innovations advance both economic and military development. The scope and significance of various Chinese initiatives to acquire technology have forced responses in Washington, Tokyo and other like-minded capitals.

For Tokyo, the most important change was the establishment of the Economic Division at the National Security Secretariat (NSS). Previously, there had been six divisions – general affairs, intelligence, strategy planning, and three policy planning divisions each for a different region – but none focused on economic statecraft. A preparatory office in the Economic Division was set up with a limited number of personnel in October 2019 to create a seventh division that focuses on economic statecraft and emerging technologies. Following its launch in April 2020

4 Ministry of Finance of Japan, "Yushutsu aitekoku jyoui 10 kakoku no suii (nen be-su) [Trends of top 10 export countries (yearly basis)]," Trade Statistics of Japan, Accessed 26 July 2021, <https://www.customs.go.jp/toukei/suii/html/data/y4.pdf>. Ministry of Finance of Japan, "Boueki aitekoku jyoui 10 kakoku no suii (Yushutsunyuu sougaku: nenbe-su) [Trends of top 10 trade countries (Total imports and exports: yearly basis)]," Trade Statistics of Japan. <https://www.customs.go.jp/toukei/suii/html/data/y3.pdf>

5 Japan National Tourism Organization, "Kokuseki /mokutekibetsu hounichi gairaisuu (2004nen-2019nen) [Number of foreign visitors by nationality/purpose of visit (2004-2019)]." https://www.jnto.go.jp/jpn/statistics/tourists_2019df.pdf

the division has since grown to having a staff of about 20 people, which makes it the largest of the seven NSS units. The FY2021 budget request by the Cabinet Secretariat includes a further increase of four full-time staff at the NSS, all of whom will be working in the Economic Division.

The division is providing direction and coordination throughout the Japanese government, including in divisions that focus on technology and economic security that were recently set up in ministries to accommodate the restructuring of the NSS. These include: the Emerging Security Challenges Division, later renamed the Economic Security Policy Division at MOFA; the Economic Security Division at METI; and various new positions including the Economic Security Information Planning Officer post at the Ministry of Defence, which will be set up in FY2021.

A similar development is underway in the intelligence community. The Second Foreign Affairs Division of the Public Security Bureau at the Metropolitan Police Department used to focus on both China and North Korea. In the first restructuring in almost two decades, the division will be split in two from April 2021. The new Second Division will not only focus on China but it will also get an increase in personnel. This change is reportedly prompted by the need for Japan to strengthen responses to China's increasing intelligence-gathering activities, industrial espionage and other means of illicit transfer of high-tech and emerging technologies.⁶ The Public Security Intelligence Agency (PSIA) is also actively raising awareness of risks related to economic security – especially illicit transfers of emerging technologies – in the private sector and academia by engaging Keidanren (the federation of Japanese industry groups) and universities.

Defending Japan from economic statecraft

In addition to organisational changes, Japan is sharpening other defensive tools of economic statecraft through new legislation and policies. Last year, Tokyo responded to concerns about rising levels of Chinese investment by revising the Foreign Exchange and Foreign Trade Act. The law is designed to ensure that the government can assess investments that threaten national security by lowering the threshold for regulatory approval of foreign investments from ten percent of a company's shares to one percent. For companies operating in strategically sensitive industries, the new regulations require scrutiny of investments that impact corporate governance: share purchases that exceed 1 percent of a company's total voting rights are subject to the law, as are investments that give foreign investors a say in the appointment of directors or proposals to sell certain operations.

Another important change is scrutiny of foreign land acquisition. The Japanese government has for years been discussing the creation of a law that restricts the acquisition of land relevant to national security by foreign entities, yet there has been no meaningful progress. This conversation began in 2013 after reports of land acquisitions near Self-Defence Force facilities and critical infrastructure such as airports that were considered to be problematic. Prime Minister Suga announced in January 2021 that he will submit legislation that allows the government to receive information on the ownership and use of land from various ministries and municipalities to allow them to acquire a better understanding of the problem. This is a small but important step toward the inclusion of sensitive real estate as targets of the new investment screening mechanism.

⁶ "Kawaru gajji keisatsu: Soshiki saihei no haikai wa," *NHK*, October 15, 2020, <https://www3.nhk.or.jp/news/html/20201015/k10012662661000.html>

The Japanese government has adopted other defensive economic security policies. It has banned the use of high-risk vendors in government telecommunications networks. It is providing incentives for the development of secure networks and supporting a 'made in Japan' alliance for 5G network infrastructure, equipment and base stations.⁷ METI created guidance for Japanese universities to develop policies to control the use and export of nuclear, radar and other high-level technologies with military uses. Cybersecurity regulations are being strengthened to better protect data and prevent hacks: nearly 100 entities, such as the Government Pension Investment Fund, the Japan Atomic Energy Agency and designated corporations such as the Japan Pension Service, will be covered.

More is to come. Japan looks set to create a new think tank, a Japanese version of RAND which would focus on ways to use emerging technology such as quantum and artificial intelligence (AI) for security purposes. The LDP is calling for the creation of a new security clearance system for the private sector and a secret patent system that would not make public patents related to technologies adaptable for military use. There are moves to strengthen Japan's economic security intelligence-gathering capacity through budget increases and to beef up positions that deal with the resolution of international economic disputes. The Foreign Ministry has set up the Economic Dispute Settlement Division under the International Legal Affairs Bureau. Finally, economic security is likely to become one of the three thematic pillars in Japan's new National Security Strategy, which is currently under revision.

A politician-driven process

Many of these initiatives are being driven by politicians, not the bureaucracy. 'The Strategic Headquarters on the Creation of a New International Order' – a grandiose title for a function within the LDP Policy Research Council – last December published 'Towards the establishment of an "Economic Security Strategy."' ⁸ This recommends that Japan should focus on 16 policies related to economic security such as diversifying and increasing the resilience of supply chains, fostering innovation, maintaining technological advantage and strengthening food security, in addition to many of the initiatives mentioned above.

This awakening among politicians to the importance of economic security is not limited to the LDP. A non-partisan parliamentary group with members from all the main parties (except Komeito, part of the ruling coalition and the Japan Communist Party) called the Japan Parliamentary Alliance on China (JPAC) was established as a counterpart to the multinational Interparliamentary Alliance on China (IPAC) in July 2020. JPAC has been pushing for the creation of new tools to deal with challenges posed by China, many of which concern economic statecraft. One of its primary initiatives is to create a Japanese version of the Magnitsky Act, which will give the Japanese government a new tool to invoke economic sanctions against egregious human rights violations around the world.⁹ Other initiatives include strengthening human rights due diligence of global supply chains by Japanese companies and stipulating

7 Wataru Suzuki, "NTT and NEC Eye 'Made-In-Japan' 5G as US-China Tensions Grow," *NikkeiAsia*, 25 June 2020, <https://asia.nikkei.com/Spotlight/5G-networks/NTT-and-NEC-eye-made-in-Japan-5G-as-US-China-tensions-grow>.

8 Strategic Headquarters on the Creation of a New International Order, Policy Research Council, Liberal Democratic Party of Japan, "Recommendations Toward Developing Japan's 'Economic Security Strategy'," December 16, 2021, https://jimin.jp-east-2.storage.api.nifcloud.com/pdf/news/policy/201021_5.pdf

9 Tatsuya Sato and Yuki Nikaido, "Jinken shingai ni seisai, giinn rippou mezasu ugoki, kaihiwo unagasu seifu [Diet members are leading the initiative to pass human rights violations sanction law – the government is mounting pressure to shelve the issue]," *Asahi Shimbun*, February 7, 2021.

the need for Japan to strengthen economic security policies based on human rights principles within the new National Security Strategy.

Japan's business sector is beginning to accommodate this new mentality as well. Japanese companies with a global reach in various industries have been setting up corporate divisions to better incorporate economic security developments in their planning. Most notable is Mitsubishi Electric, which in September 2020 announced the creation of a 'Corporate Economic Security Division' in charge of "researching and analysing the rapidly changing economic security policies and legal systems of countries worldwide."¹⁰

The range and intent of these changes should defuse the complaint that increasing the weight of economic factors in Japanese decision-making is a way to go easier on China. Initially, there was some resistance to the expansion of the NSS as ministries traditionally associated with national security – Defence and Foreign Affairs – feared a loss of influence or a reordering of priorities. Critics charged that the move would result in the downplaying of concerns about Chinese behaviour to protect business ties. They pointed to the government's reluctance to postpone Xi Jinping's scheduled April 2020 visit, the first state visit to Japan by a Chinese president since 2008, as proof. These criticisms have dissipated as the need for government coordination on economic security issues has become apparent, especially in the light of the Covid-19 pandemic. In fact, the reorganisation is designed to get a better fix on economic threats to Japanese security and fashion a whole-of-government response, not provide excuses to ignore them.

Many of the Japanese measures will look familiar to US experts and that speaks to one of the objectives of the reforms – to ensure that Tokyo is closely aligned with Washington and to reduce or eliminate any daylight between the two governments' positions on issues such as telecommunications infrastructure and restrictions on potential illicit technology transfers. The structure of the NSS Economic Division was shaped by conversations with US counterparts in the NSC and the National Economic Council and is designed to provide a ready partner for bilateral dialogues. Indeed, shortly after the launch of the new division, it was announced that the two governments would commence an economic security conversation and the new head of the Economic Division would lead the Japanese delegation.

FOIP continues to guide thinking and policy

A second enduring pillar of Japan's economic statecraft is the concept of the Free and Open Indo-Pacific (FOIP). While 'economic statecraft' and 'economic security' are not explicitly used in discussions of this approach, they are very much embedded in the thinking and policies behind FOIP.

Japan is deeply committed to this framework, which was first articulated by Prime Minister Abe in 2007 in a speech to India's Lok Sabha during his first term in office.¹¹ In that address, Abe emphasised the respect for democracy that linked Japan and India and insisted that it, along with the security of sea lanes, was a cornerstone of regional peace and prosperity. While he did not call out China by name in the speech, it was plainly a non-democratic threat to those sea lines of communication that prompted Abe's remarks.

10 Mitsubishi Electric Corporation Public Relations Division, "Mitsubishi Electric to Change Executive Officer's Duties and Organization," September 16, 2020, <https://www.mitsubishielectric.com/news/2020/pdf/0916.pdf>

11 Shinzo Abe, "Confluence of the Two Seas," 22 August 2007, speech at the Parliament of the Republic of India, <https://www.mofa.go.jp/region/asia-paci/pmv0708/speech-2.html>.

Abe updated that vision in a 2016 speech to African governments at the Sixth Tokyo International Conference on African Development (TICAD VI), but its core components – an expanded geographical space that links the Pacific and Indian oceans, the promotion of connectivity and the rule of law – were unchanged.¹² Japan has been gratified to see other governments adopt its Indo-Pacific framework. Tokyo has been especially pleased to see the United States recognise the fundamental challenge that China poses to the regional order and its embrace of the FOIP policy.

FOIP is intended to address a range of Chinese misbehaviours, from the hard security challenge posed by Beijing's territorial disputes with its neighbours to the attempt to rewrite regional rules evidenced by its island-building in the South China Sea, to the attempt to expand its influence through the multi-trillion-dollar Belt and Road Initiative (BRI), which will be used to underwrite a diplomatic campaign to rewrite international rules and restructure institutions in ways that favour Chinese interests. While BRI has captured international attention, China's domination of the regional narrative is as much a product of Japan's inability to tell its own story as it is a function of China's success. While the conventional wisdom is that China is prevailing in this massive building effort, Beijing is really playing catch-up. Prime Minister Abe beat Xi to the punch on regional infrastructure investment, launching what would become the High Quality Infrastructure Initiative some six months before the Chinese leader articulated his initial formulation of the BRI.

Even more significantly, while the funds associated with the BRI dwarf those in Japanese plans, Japanese investment in southeast Asia is substantially greater than that of China, with Japan's direct investment in ASEAN countries between 2013 and 2018 totalled at \$102.3 billion, nearly twice China's \$52.8 billion. Japan sees infrastructure exports as an important source of economic stimulus. It received 23 trillion yen (\$214 billion) in overseas infrastructure orders in the fiscal year ending March 2018, an increase from 15 trillion yen just four years earlier, and the government hoped to reach 30 trillion yen by the end of 2020. METI's recent policy to give subsidies to Japanese companies that are considering diversification of their supply chains is also framed in the context of investing in southeast Asia. The Japanese government is not arguing that it is subsidising companies to partially decouple from China. According to the grant application, the objective is "increasing resilience in supply chains" through "investing in southeast Asia."¹³ To address the problem from another angle, Japan has joined with Australia and India to develop a Supply Chain Resilience Initiative to help reduce exposure to economic coercion through the manipulation of international production networks.

Japan as a 'rule-maker'

Central to Abe's promotion of FOIP was diplomatic activism. He was a tireless traveller, visiting over 80 different countries and regions during his second administration. It is unlikely that Suga can maintain that pace but he will continue to champion international engagement and institution-building. In his first trip overseas as prime minister, Suga visited Indonesia and Vietnam, where he promoted the FOIP vision and strengthened security ties with both governments.

12 Shinzo Abe, "Address by Prime Minister Shinzo Abe at the Opening Session of the Sixth Tokyo International Conference on African Development (TICAD VI)," 27 August 2016, speech at the Kenyatta International Convention Centre (KICC), Nairobi, Kenya, https://www.mofa.go.jp/af/af2/page4e_000496.html

13 Ministry of Economy, Trade and Industry, "'Kaigai sapurai che-n tagenka tou sien jigyou' no koubo nit suite [On the applications for "overseas supply chain diversification support project"]," May 26, 2020, <https://www.meti.go.jp/information/publicoffer/kobo/2020/k200526001.html>

Suga has built on Abe's resuscitation of the Trans-Pacific Partnership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and concluded Asia's other main trade deal, the Regional Comprehensive Economic Partnership (RCEP). One critical test of Suga's administration will be the degree to which it seeks to expand the CPTPP, for example by enticing the Biden administration to reconsider membership and help other like-minded nations become members. Japanese diplomats have worked especially hard to promote acceptance of the FOIP concept, blunting its sharper edges – for example downgrading it from 'a strategy' to 'a vision' and eventually even dropping the word 'vision' – to facilitate acceptance (or diminish opposition) among southeast Asian governments.¹⁴ The uproar in the Japanese policy community that followed Prime Minister Suga's use of the phrase "peace and prosperous Indo-Pacific" – which was quickly abandoned – evinces the Japanese government's commitment to this framework and the considerable diplomatic investment it has made as it walks a tightrope between being neither too harsh nor too accommodating as it pushes its regional strategy.

In advancing the FOIP framework it is critical to exploit opportunities created by the drive to connect, which is one of the most powerful forces in the region. Japan has worked closely with ASEAN to do just that since the announcement of the Master Plan on ASEAN Connectivity in October 2010. At the 2019 Japan-ASEAN summit, Prime Minister Abe and his regional counterparts agreed on a 'connecting the connectivities' approach that would find synergies among the many connectivity initiatives of recent years.¹⁵ The joint statement released at the summit emphasised the use of best practices to ensure sustainable infrastructure development and highlighted the promotion of digital connectivity in general, and 'smart cities' in particular.

When Japan was chair of the G20 in 2019, Abe used the Osaka summit to push a new framework for digital commerce, another increasingly central element in economic statecraft. This was an expression of the Japanese government's intent to be a 'rule maker' and also part of the drive to shape regional infrastructure by setting standards for such projects. Tokyo, Washington and Canberra have joined together in a Blue Dot Network to identify and put their stamp of approval on quality infrastructure projects in the region. This campaign will be a powerful tool in the promotion of Japanese and US interests throughout the Indo-Pacific region.

In the context of FOIP and economic security, Japanese policymakers should focus on four inter-related sets of initiatives to advance their – and the US's – strategic objectives.

The first is cybersecurity. Infrastructure projects are often thought of as exercises in pouring concrete – building roads, harbours, airports or sewers – or assembling the communicative tissue of societies – telecommunications and power grids. As digital capabilities are more deeply embedded in physical infrastructure and the internet of things (IoT) emerges, the inadequacy of many, if not most, cybersecurity practices and protocols has become clear. Tokyo should aggressively push for adoption of high cybersecurity standards throughout the Indo-Pacific as part of its ODA program and incorporate them into the build-in process to ensure the safety and security of critical infrastructure equipment and systems.

14 On the shift from using the word 'strategy' to 'vision,' see "Indo taiheiyō, kieta "senryaku": Seifu ga "kousou" ni shuusei ["Strategy" has disappeared from the Indo-Pacific: the government has amended it to a 'vision']," *Nihon Keizai Shimbun*, November 13, 2018, <https://www.nikkei.com/article/DGXMZ037648990S8A111C1PP8000/>. The government occasionally uses the phrase 'Free and Open Indo-Pacific (FOIP)' without using the word 'vision,' as can be seen in the MOFA document that explains FOIP. Ministry of Foreign Affairs, "Free and Open Indo-Pacific Basic Thinking Material." <https://www.mofa.go.jp/files/000430632.pdf>

15 "Joint Statement of the 22nd ASEAN-Japan Summit on Connectivity," 22nd ASEAN-Japan Summit in Bangkok, Thailand, 4 November 2019, <https://asean.org/storage/2019/11/FINAL-ASEAN-Japan-Joint-Statement-on-Connectivity-.pdf>

Second, intelligent infrastructure as part of ‘smart cities’ should be another Japanese priority. The Abe administration first articulated its plans in 2015 in the Fifth Science and Technology Basic Plan. This document identified Society 5.0 as the next phase of human existence, a “world-leading super smart society” that would embrace digital transformation enabled by AI, the IoT and blockchain technologies. (Other thinkers and governments have similar plans, often referred to as the ‘Fourth Industrial Revolution.’) There are over 200 smart-city projects underway across Japan to prepare the country for the wrenching adjustments engendered by an ageing shrinking population – Japan is already the ‘greyest’ nation in the world.

Smart cities are another potential economic boost for a stuttering economy. It is estimated that the global smart city market will be worth about 20 trillion yen by 2023, doubling in size in just five years. Japan has been working with ASEAN governments to promote their development since 2018. (The US launched its smart cities partnership with ASEAN in 2018). In 2019 Yokohama hosted the first ASEAN-Japan Smart Cities Network High Level Meeting, which developed plans for cashless payment systems and traffic congestion and disease surveillance, to name a few of the offerings. A ‘Super City Initiative’ that was adopted in October 2018 and an amendment to the National Strategic Special Zones Law that was passed in the Diet in May 2020 should make it easier for Japanese cities to embed new technologies in their city planning. These experiences give Japan an advantage in regional and global efforts to disseminate these models.

Third, digital projects will generate and run on immense amounts of data, and data security will be critical to their success. However, overly restrictive rules can prevent data-driven systems from working effectively. As chair of the G20, Prime Minister Abe championed ‘data free flow with trust’ to reconcile these competing objectives. The concept remains a work in progress but it is a priority for Japan. Japan has also developed the ‘information bank’ concept to allow consumers to protect their personal information and permit it to be used to facilitate the operation of smart cities.

A fourth area of emphasis is disaster mitigation. Between 2014 and 2017, 650 million people in the Asia Pacific region were impacted by 55 earthquakes, 217 storms and cyclones, and 236 cases of severe flooding. 33,000 people died as a result. In 2019 the UN Economic and Social Commission for Asia and the Pacific (ESCAP) reckoned that natural disasters cost the region nearly \$675 billion a year, about 2.4 percent of its gross domestic product. Climate change and environmental degradation mean that bigger losses are coming. Japan has extensive experience of all elements of disaster planning to share: fostering resilience, mitigating impacts and promoting recovery. Many of the initiatives identified above, particularly those that address smart infrastructure, can help promote these objectives.

These areas of emphasis overlap since they all exist at the intersection of technology and development. However, each engages different actors and involves different ministries. Coordination and direction are needed, both within the Japanese government and within the public and private sectors. As they all address economic and security issues, they underscore and reinforce the need for ‘an economic security command post’ in the Tokyo government, which is the role of the new Economic Division in the National Security Secretariat.

Helping Japan, helping the alliance, helping the region

Understanding the importance of Japan’s new economic statecraft is vitally important as the US adjusts to new Indo-Pacific realities. Every Japanese government in the post-war era has grasped the necessity of stable, productive and forward-looking relations with regional

governments. This imperative has become more pressing with the rise of China and intensified competition with Beijing for regional leadership. Strategists in Tokyo recognise that the alliance with Washington is also evolving. Japanese policymakers are looking for ways to forge an appropriate and workable division of labour with the US that allows each government to play to its respective strengths as they pursue shared strategic objectives. Japan intends to make national economic statecraft one of these strengths. Prime Minister Abe Shinzo laid the foundation for the project during his record-setting tenure in office; Yoshihide Suga and his eventual successors will promote, develop and refine the project as well.

Tokyo is paying close attention to members of the Biden administration's approach to and thinking about economic security. The preliminary indications are encouraging. The appointments of, for example, Peter Harrell and Tarun Chhabra to the NSC, Elizabeth Rosenberg to the Department of the Treasury and David Cohen to the CIA have been noted and applauded. Japan's economic statecraft awakening and renewed attention to this issue in the Biden administration create an opportunity for the two countries to work together to bolster the economic security aspects of the Japan-US alliance. They should:

Create a Japan-US Economic Security Consultative Committee.

Economic security issues are increasingly central to bilateral discussions and are too important to be side or secondary agenda items in conversations. Regular bilateral discussions on economic security at the ministerial level analogous to the Japan-US Security Consultative Committee – a Japan-US Economic Security Consultative Committee (ESCC) – focusing on economic security should be held to share intelligence on economic security issues, seek areas of potential cooperation and push for multilateral coordination. Equally important are the various working-level dialogues that would be needed to make the ESCC happen – regularised meetings between foreign policy, economic and intelligence agencies to further deepen the Japan-US alliance.¹⁶

Establish an economic security version of the Shangri-La Dialogue.

There are various major multilateral fora focusing on traditional security issues such as the Shangri-La Dialogue and the Munich Security Conference, but none focus on economic security issues. An annual conference that gathers key policy-makers from each country (and other like-minded countries) tasked with the economic security-related portfolio would serve an important role in connecting key individuals, identifying issues and forging solutions.

Double down on the Blue Dot Network.

Japan, the US and Australia should invest more political capital and funds in the Blue Dot Network. Many ASEAN countries are in dire need of high-quality infrastructure to continue their economic growth, but the only viable option that they have is often Chinese aid. The Blue Dot Network sought to fill this gap, but its potential remains unfilled. The International Development Finance Corporation (DFC) was formed to strengthen US capacity by consolidating various US agencies tasked with overseas aid in December 2019. The Biden administration should task the newly-formed DFC with taking the lead in reinvigorating the Blue Dot Network.

Cooperate with democracies to reduce dependence on authoritarian countries.

¹⁶ For further details on Japan-U.S. cooperation on economic security, see Akira Igata and Brad Glosserman, "Japan is indispensable again: The need for economic security is reviving Washington's alliance with Tokyo," *Foreign Affairs*, 15 July 2021, <https://www.foreignaffairs.com/articles/united-states/2021-07-15/japan-indispensable-again>

China has proven too ready to use economic coercion by exploiting economic dependence. Reducing dependence on supply chains, imports, exports, tourism and foreign students will weaken Chinese leverage. Democratic countries should assess the extent of their reliance on China in various fields, identify and implement ways to reduce long-term strategic dependence on China and incentivise the private sector and the public to do so.

Develop deterrent economic statecraft capabilities.

While many countries are economically dependent on China, China is also dependent on the rest of the world. Japan and the US should work with like-minded countries to identify the areas – again, supply chains, imports, exports, tourism and foreign students – in which China needs foreign support or supplies. An example is the most advanced semiconductor manufacturing equipment, for which three countries – Japan, the US, and the Netherlands – have the majority of the market.¹⁷ A strategy that identifies Chinese vulnerabilities and warns of potential countermeasures in the event of Chinese misbehaviour will help deter Beijing from employing coercive economic statecraft. A broad-based multilateral approach is essential for success, and Japan and the US should be leading this effort.

Foster economic recovery and innovation.

Economic recovery after the Covid-19 outbreak and fostering innovation more generally are critical. Economic statecraft can only be effective when a country's economy is strong. Both Japan and the United States should prioritise economic recovery from Covid and then cooperate to foster an environment that encourages innovation to maintain their technological competitiveness for long-term growth. A core element of this effort is a shared understanding of emerging and foundational technologies, so that the two governments can facilitate their development while protecting the intellectual property that is created.

Finding the right balance between these two imperatives – like most of the items identified above – will require close coordination. It will also require trust and, ultimately, a new understanding of the roles and responsibilities that the two countries have in their alliance. Japan's embrace of national economic statecraft creates a rich menu of options and opportunities. Tokyo and Washington must now work together to make them real.

¹⁷ Saif M. Kahn, "Maintaining the AI Chip Competitive Advantage of the United States and its Allies," *CSET Issue Brief*, December 2019, <https://cset.georgetown.edu/publication/maintaining-the-ai-chip-competitive-advantage-of-the-united-states-and-its-allies/>

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