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Configuring the U.S.-Japan Alliance To Cooperate on Economic Security And Emerging Technologies

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Introduction: The Rising Prominence of Economic Security in U.S.-Japan Ties

The central role of economic sanctions in the international response to Russia’s recent invasion of Ukraine has focused renewed attention globally on the importance of economic security and its relationship to national security and international stability. Suddenly, both European Union (EU) and Russian leaders find themselves concentrating intensely on how to maximize and defend their economic security, while undermining the economic security of their adversary. Using its superior financial and technological resources, Europe aims to best a Russia that relies on control of natural resources and a willingness to commit violence to pursue its zero-sum aims.

In the Indo-Pacific region, the importance of economic security, and the pivotal position of economic strength in the region’s slow-burn geopolitical rivalries, has long been acknowledged. Over the past half decade, the United States has explicitly defined China to be its “pacing threat,” posing dire challenges to U.S. regional prestige and security across multiple dimensions including diplomacy, as well as military capabilities and deployments, but also in the arenas of business competition and emerging technologies. Increasingly, Japan has come to hold a parallel worldview to the United States, as it worries about China’s aggressive foreign relations outreach, rapid military buildup, and growing domestic authoritarianism.

Over the past couple of years, given the strong shared economic capabilities and increasingly congruent competitive mindsets of the United States and Japan, Washington and Tokyo have elevated economic security issues like supply chain security and technology protection to the very center of high-level bilateral discourse. The United States recognizes that even as it girds itself for long-term “responsible competition” with China—including on economics and technology—no partner nation is a more indispensable, capable, or like-minded than Japan.

When former Japanese Prime Minister Yoshihide Suga visited Washington in April 2021, his headline announcement with President Joe Biden (along with a statement on Taiwan policy) was a new Competitiveness and Resilience (CoRe) Partnership cataloguing bilateral cooperation in several critical technological areas. Later, following their first substantive videoconference in January 2022, President Biden and new Japanese Prime Minister Fumio Kishida exponentially intensified this effort by announcing the organization of a minister-level Economic Policy Consultative Committee. Known as the “Economic 2+2” channel, it tasks the foreign and commerce ministers of both nations with building the close policy and operational teamwork already enjoyed by the “Security 2+2” channel, comprised of the two nations’ foreign and defense ministers.

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No doubt, in the coming months Tokyo and Washington will focus discussion on military budgets, equipment, and planning. Japan has signaled an increased willingness to invest in its own defense and to seek more advanced over-the-horizon deterrent capabilities that will work in concert with U.S. assets to fend off belligerent territorial threats from China (as well as provocations from North Korea).

With the arrival of the CoRe Partnership and the Economic 2+2, however, the two governments have now explicitly recognized that—beyond military security—a parallel and equally urgent area for concentrated near-term effort by Tokyo and Washington will be reinforcing the two nations’ economic security. The two governments will attempt to achieve this objective by crafting policies that help the United States and Japan maintain secure and resilient supply chains, vibrant economies, and a technological lead over China that allows for efficient and effective national defense.

Quite distinct from military planning and acquisition, the twenty-first century tools of economic security must include complex policy approaches such as high-technology export controls, the monitoring of investment flows to prevent technology leakage, the bolstering of cybersecurity and prevention of intellectual property theft—as well as keeping an eye on emerging technologies like artificial intelligence (AI), digital currencies, and advanced telecommunications software and hardware, which can have a major impact on national security.

At the same time, economic security policy planning and cooperation will be uniquely challenging, particularly for market-oriented democracies like Japan and the United States, where technological innovation and the creation of national security-critical supply chains and markets is largely controlled by private sector investors and corporations. Governments can find it difficult even to just understand how technologies and related markets work, much less develop policies that can truly have a positive impact on economic national security.

Moreover, both Washington and Tokyo seek to enhance their individual and shared economic security, especially vis-à-vis China, without comprehensively rupturing their broader trade and economic ties with China’s important and growing companies and markets.

So, what is the best way for the United States and Japan to structure and pursue the complex enterprise of government-to-government cooperation on economic security? This paper aims to address this question with some specific recommendations.

To get to that point, however, the paper will first: define and identify the key economic security-related issues that the U.S. and Japanese governments can and should focus on; describe the relevant governmental structures, institutional considerations, interest groups, and legal frameworks that need to be considered in designing any plans for joint action; analyze recent trends in law and policy in both capitals that set the context for cooperation; and lay out in short form the history and past practice of U.S.-Japan cooperation on economic security—all before turning to specific recommendations for Washington and Tokyo.

Defining the Economic Security Problem: A Focus on Protecting Technology

There are numerous definitions for “economic security,” including: 1) ensuring national access to sufficient food supplies and key natural and mineral resources; 2) safeguarding the stability of financial markets and the integrity of critical infrastructure against physical or digital attack; 3) creating and maintaining resilient and reliable supply chains; and 4) establishing and maintaining technological advantage in comparison to geopolitical adversaries.

This paper will focus primarily on the third and fourth issues above, and particularly the fourth, because these are the aspects of economic security that would most benefit from international cooperation among allies and like-minded partners.

Regarding supply chain coordination, for example, there is increasing interest in Washington, Tokyo, and other aligned nations to find ways to ensure that—collectively—the most important and strategic technological supply chains operate uninterrupted and free of coercion by adversaries. Covid-19 has created shortages and supply chain disruptions, particularly in the semiconductor industry and its downstream consumer industries, and focused a harsh spotlight on important vulnerabilities in global manufacturing chains—which have become complex, sophisticated, and mutually inter-dependent—and are characterized by narrow margins for both profit and delivery timing.

Concerned about this situation, in June 2021 the Biden administration released a comprehensive report outlining ideas for strengthening the resilience of supply chains in four critical product areas: 1) semiconductor manufacturing and advanced packaging; 2) large capacity batteries, such as those for electric vehicles; 3) critical minerals and materials; and 4) pharmaceuticals and active pharmaceutical ingredients (APIs). Japan is recognized as a key partner for “ally-sourcing” and ally-shoring” for such products, especially the first two items—creating fertile ground for U.S.-Japan government-to-government cooperation in this area, particularly if that cooperation can also find a way to include meaningful input from the private sector.

As for protecting technological advantage, Japan, as a core military ally of the United States and a developer of key advanced technologies in electronics, robotics, materials, aviation, software, AI, and other areas, is a key partner for cooperating to ensure that technologies are held and controlled among friendly nations and kept out of the hands of strategic adversaries such as China. As a practical matter, it would be a policy failure if the United States denied certain technologies to nations such as China or Russia, if in turn those nations were subsequently successful in sourcing, acquiring control of, or stealing that same technology from Japan or other advanced technology nations.

The rapid teamwork shown by the United States, Japan, the EU, and other nations regarding technology export controls toward Russia following Moscow’s February 24 invasion of Ukraine shows that coordinated technology denial is not impossible—at least toward a target economy that represents only 3 percent of global GDP.

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But technology denial is inherently difficult. Aligning divergent export control rules and investment restrictions so that various aligned nations may all pull in the same direction is an involved and complex process. Each nation must simultaneously balance its national economic security interests with the legal and natural rights of its private enterprises to pursue profits in attractive markets such as China. Moreover, technological advantage is inherently ephemeral and difficult to sustain, as new technological processes and items are rapidly and continuously developed. Therefore, for all these reasons, international cooperation on matters such as export controls and investment restrictions must not only be thoughtfully organized—it must also result in timely joint decisionmaking.

Finally, protecting technology from acquisition by adversaries and competitors using a variety of illegal and legal means—ranging from digital theft to personnel hiring or corporate takeovers—is also a challenging matter of national policy, which can likewise benefit from sharing of best practices, as well as the sharing of information regarding the tactics and aggressive practices of adversaries.

The potential agenda for U.S.-Japan teamwork on technology protection and denial is a target-rich environment. But such work must be well-crafted to be successful.

Setting the Stage for Cooperation: Institutional Considerations and Interest Groups in Japan and the United States

What, then, are the main institutional issues that should be considered when deciding how Japan and the United States can best organize themselves to cooperate on building resilient supply chains and sustaining technological advantage?

The institutional structure—and surrounding political environment—for how the United States and Japan handle export controls and investment restriction issues naturally have certain similarities, but there are also important differences.

Japan. The Foreign Trade and Foreign Exchange Act (FTFEA) governs export controls issues in Japan, and the law is implemented by the Ministry of Economy, Trade, and Industry (METI), which is exclusively in charge of issuing required licenses for designated sensitive materials.² Cabinet Orders are used to specify which items are to be controlled, while METI's own ministerial orders lay out the detailed categorizations. METI can issue either individual licenses or bulk licenses depending on the item to be exported and the country of export. As of September 2021, METI's restrictive "End-User List"—which lists companies that require specific METI approval before receiving Japanese goods—included 75 Chinese companies.³

METI bureaucrats also monitor and, in some cases, control instances of foreign direct investment (FDI) into Japan using the FTFEA. The Diet passed a significant revision of the FTFEA in 2020 that strengthens government oversight over inward foreign direct investment, requiring

² Center for Information on Security Trade Control (CISTEC), *Overview of Japan's Export Controls*, 4th ed., 2015, 11, www.cistec.or.jp/english/export/Overview4th.pdf.

³ Ministry of Economy, Trade, and Industry, "End-User List," 2021, www.meti.go.jp/policy/ampo/2_0917.pdf.

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government approval before a foreign investor can acquire more than one percent of a Japanese company engaged in businesses using certain categories of technology.⁴ The Japan External Trade Organization (JETRO), a public company reporting to METI, is meanwhile charged with promoting FDI into Japan.

Beyond METI, however, the Japanese government has in recent years seen a proliferation of legislative and executive entities focused on economic security. In 2019, the ruling Liberal Democratic Party (LDP) launched a “Strategic Headquarters for the Creation of a New International Order,” which provided political support for the April 2020 creation of an Economic Security Office in the National Security Secretariat, which sits in the Prime Minister’s Office and is modeled after the U.S. National Security Council. Soon thereafter, a Cabinet Office Economic Security Promotion Council was set up as a standing group that aims to coordinate related policies among all the relevant ministries and agencies. The Ministry of Defense (MOD) set up its own economic security team in July 2021, and similar liaison and policy teams have been organized at the National Police Agency and other bureaucratic agencies, as well as at public corporations such as the Japan Bank for International Cooperation (JBIC) and the Japan Oil, Gas, and Metals National Corporation (JOGMEC). Upon becoming prime minister in October 2021, Fumio Kishida appointed Japan’s first-ever Minister for Economic Security, Takayuki Kobayashi, who sits on the Cabinet and leads a team of bureaucrats attached to the Prime Minister’s Office. Kobayashi’s team were charged with drafting Japan’s new Economic Security Law, which will be approved by the Diet in the coming months (see more below).

As Japan moves toward a sharpened focus on economic security, organizational changes have become evident in private sector organizations as well. As encouraged by the provisions of the upcoming Economic Security Law, Japan’s largest corporations are establishing economic security divisions to track policy and work with the national government in implementing programs aimed at strengthening Japan’s key supply chains and preventing unwanted technology diffusion. Industry and business associations are doing the same, with the trend involving both sector-specific organizations as well as cross-cutting bodies like the Japan Business Federation (Keidanren).

Japan’s business community, however, is by no means uniformly or overwhelmingly enthusiastic about embracing national economic security as a public good. Concerned about possible policy moves that would impede the ability of Japanese companies to do business in and with China, Keidanren and other groups have lobbied to dilute Japanese government rules aimed at limiting technology flows (as well as associated legal penalties)—with some success. The ruling LDP and its policy councils have continued to take a hawkish approach on economic security policies, but Japanese business interests have sought and found allies for their specific concerns within the halls of METI, especially in the bureaucratic divisions engaged in the promotion of Japan’s advanced technology business lines.

United States. In the United States, the Department of Commerce’s Bureau of Industry and Security (BIS) establishes export controls over commodities, software, and technology based on

⁴ Kazuto Suzuki, “Economic Security in the Era of US-China Rivalry,” *Nippon.com*, July 28, 2021, www.nippon.com/en/in-depth/d00724.

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Export Administration Regulation (EAR) statutes that originally became law in 1979. Other agencies, such as the Department of Energy and the Department of State, have responsibilities over certain specific goods, such as nuclear technology and munitions.⁵ The EAR rules have international reach, and Commerce and other agencies are responsible for enforcing U.S. export controls with respect to reexported goods and transshipped goods, in addition to U.S. exports. In some cases, U.S. regulations impact other nations' ability to export their own products, such as when the Foreign Direct Product Rule bans sales of goods to certain countries like China if the proportion of content value that comes from the controlled U.S. technology exceeds a certain threshold.

The United States has in recent years become increasingly proactive in implementing export controls toward China, especially during the Trump and Biden administrations. The reasoning behind the controls has simultaneously broadened to encompass concerns such as human rights and general economic competitiveness, in addition to the erstwhile imperative of denying technology from being accessed by a threatening foreign military. The Trump administration also pioneered aggressive use of the Commerce Department's Entity List designations of specific Chinese companies to deny them U.S. technology. The Biden administration has continued that approach. The Biden team has also continued the Trump administration's policy of blocking U.S. financial investment in Chinese companies linked to the Chinese military, even as some members of Congress have proposed a comprehensive review mechanism for outbound U.S. investments in China. The United States has also imposed policies blocking certain technology imports from China, for example telecommunications equipment manufactured by Huawei, while simultaneously urging other governments worldwide to do the same due to concerns about information security.⁶

Regarding FDI flow into the United States, the Committee on Foreign Investment in the United States (CFIUS)—an interagency group chaired by the U.S. Department of the Treasury—reviews foreign acquisitions of U.S. companies to ascertain if there are any national security concerns that merit asking the president to block the investments. In most cases where CFIUS decides to take action, the committee approves the foreign investment in the end after the acquiring party agrees to mitigating steps such as the spin-off of sensitive assets or technology units. While the U.S. remains the world's number one target country for FDI, reviews by CFIUS have become more prominent in recent years, particularly for investments from China. Indeed, the reputation of CFIUS for being tough on Chinese investors has significantly chilled Chinese investment in the United States—a trend further exacerbated by the Chinese government's own steps to curb outbound capital flows.

In the United States, as in Japan, the national legislature is a major source of general hawkishness regarding policies on export controls and investment restrictions—although the U.S. Congress' divisive politics have hampered its ability to produce smooth policy outcomes. For

⁵ Richard Nephew, "Implementation of Sanctions: United States," in *Economic Sanctions in International Law and Practice* ed. Masahiko Asada, Routledge, 2020, 103.

⁶ U.S. Department of State, "Secretary Michael R. Pompeo at a Press Availability," April 29, 2020, <https://2017-2021.state.gov/secretary-michael-r-pompeo-at-a-press-availability-4/index.html>, (Accessed March 27, 2022).

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example, Congress used legislation to urge the Trump and Biden administrations to publish revised critical technology lists for use in policing the technology relationship with China, which helped accelerate the White House's release of a new Critical and Emerging Technologies List in February 2022.⁷ Congress also self-generated the Holding Foreign Companies Accountable Act of 2020, which threatens to force Chinese companies to de-list from U.S. stock markets within the next few years.

Meanwhile, in another parallel to the situation in Japan, the U.S. business community has generally tried to slow down technological decoupling of the U.S. economy from that of China to not lose opportunities to do business in China. Unlike the situation in Japan, however, the U.S. business community has had difficulty making counterarguments to national security policymakers in the country's Executive Branch, therefore leading them to focus their political energy on Congress. In relative terms, U.S. businesses are also less unified and vocal in advocating for continued business opportunities in China, compared to their Japanese counterparts. There are also significant divisions of opinion within the U.S. business community, and among the most prominent business and industry associations in Washington, regarding the best way forward.

Setting the Stage for Cooperation: Legal Considerations in Japan and the United States, and Japan's 2022 Economic Security Legislation

This section will take a brief look at recent legislation trends in the United States, before discussing how—and how much—Japan's new economic security legislation of 2022 might impact the landscape for economic security cooperation between the United States and Japan.

United States. Aside from the Executive Branch policies reviewed above, the United States Congress has also been active in recent years to strengthen national security-related legal authorities impacting U.S. participation in the international economy. The Foreign Investment Risk Review Modernization Act (FIRRMA) was passed in 2018 to strengthen CFIUS oversight, creating stricter criteria and allowing fewer exceptions to legally required reviews for inward foreign investments and corporate acquisitions. Significantly, companies headquartered in Japan—unlike those from Australia, Canada, or the United Kingdom—are not exempted from CFIUS reviews under FIRMMA rules. This no doubt is related to U.S. perceptions of relatively lax information security standards in Japan, among other concerns.

Beyond FIRMMA, the United States is increasingly leaning on the International Emergency Economic Powers Act (IEEPA) of 1977 to block technology transactions related to China. To use IEEPA, the president must declare a national emergency with respect to a given country or issue, and then implement economic sanctions in response to that situation. The advantage of this approach from the perspective of the national security community is that the president can change policy by executive order rather than seeking support from Congress. Similarly, the Immigration and Nationality Act (INA) of 1965 gives the president broad authority to refuse or nullify visas for foreign individuals who are deemed a security risk.

⁷ White House, "Critical and Emerging Technologies List Update," Feb. 2022, www.whitehouse.gov/wp-content/uploads/2022/02/02-2022-Critical-and-Emerging-Technologies-List-Update.pdf.

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Executive policies implemented under these laws can, however, be challenged by judicial review. For example, the Trump administration invoked the IEEPA to try to limit the reach of the Chinese-owned internet platforms WeChat and TikTok in the United States in 2020, but those executive orders ran into significant trouble in the courts, and the efforts have since been largely abandoned by the Biden administration.

Japan. As mentioned above, the Japanese Diet passed a revision of FTFEA in 2020 that strengthened government oversight of inward foreign direct investment, including by requiring government approval before an investor can acquire over one percent of a sensitive technology company. Prior to that, Japan's Law on the Protection of Specially Designated Secrets (SDS) took effect in 2014, allowing for heavy penalties for leaking information related to national security; this law is particularly important to the MOD for the protection of military technology secrets.⁸

In other legislative steps, Japan has used the Diet's budgetary authority, coupled with national economic security justifications, to provide significant subsidies to Japanese and foreign companies to prompt them to move key technology production facilities to Japan. In November 2021, it was announced that Japan would provide a huge subsidy of JPY 400 billion (about USD 3.4 billion) to bring a Taiwan Semiconductor Manufacturing Corporation (TSMC) facility to Kyushu in an attempt to match government support for semiconductor manufacturing in China, South Korea, Taiwan, and the United States.⁹ Earlier, METI awarded USD 513 million in subsidies to 160 projects that reduced consumption of rare earths, recycled rare earths materials, or diversified suppliers.¹⁰ In 2020, Japan's JETRO implemented two extensive subsidy projects to lure Japanese manufacturers away from China to invest instead in Southeast Asian countries or in Japan. Thus far, Japan has spent over USD 300 million supporting 92 Japanese firms to strengthen their Southeast Asia-focused supply chains.¹¹ It is also notable that during Japan-South Korea political disputes in 2019, Japan had legal authorities in place to weaponize its economic relationship by removing South Korea from its "White List" of liberalized destinations for export controls purposes, while also withholding certain important chemical items from South Korean buyers.¹²

Japan's 2022 Economic Security Legislation. Prime Minister Kishida assumed office in October 2021, vowing to strengthen Japan's economic security, and his team immediately set to work to formalize a legal framework that ensures Japan maintains a stable stream of critical

⁸ Mina Pollmann, "Japan's Controversial State Secrets Law: One Year Later," *The Diplomat*, December 9, 2015, <https://thediplomat.com/2015/12/japans-controversial-state-secrets-law-one-year-later/>.

⁹ Mayumi Hirose et al, "Japan Readies Multiyear Support Package for TSMC's New Chip Plant," *Nikkei Asia*, October 15, 2021, <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-readies-multiyear-support-package-for-TSMC-s-new-chip-plant>.

¹⁰ Mireya Solís, "The Big Squeeze: Japanese Supply Chains and Great Power Competition," *Joint U.S.- Korea Academic Studies*, 2021, 299.

¹¹ Francesca Regalado, "Japan Chip Suppliers Reap Benefits of 'China Exit' Subsidy," *Nikkei Asia*, January 25, 2021, <https://asia.nikkei.com/Economy/Trade/Japan-chip-suppliers-reap-benefits-of-China-exit-subsidy>; Ministry of Economy, Trade, and Industry, "Policy Speech by Minister of Economy, Trade and Industry HAGIUDA Koichi 'The Next Chapter of ASEAN and Japan Economic Cooperation in the Post-Pandemic Era,'" January 10, 2022, www.meti.go.jp/press/2021/01/20220110001/20220110001-4.pdf.

¹² Solís, "The Big Squeeze," 301.

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imports, protects against leaks of sensitive information and technologies, and reduces its reliance on foreign sources for strategic products. The resulting bill—which was approved by the Cabinet on February 25 and is currently being shepherded through the Diet by Kishida and Minister for Economic Security Kobayashi—is comprised of four main pillars: reinforcing supply chain stability and resilience; strengthening critical national infrastructures; facilitating private-public cooperation on cutting edge technology; and securing sensitive technology patents. Lawmakers are expected to fast-track the legislation through both chambers, with implementation to be phased in starting in April 2023.

Following are key provisions of the likely new law, under each of the four legislative pillars:

Supply Chains: The Japanese government will closely monitor the availability of “critical goods”—a category that will most likely include semiconductors, pharmaceuticals and health care supplies, and rare minerals—to ensure supply chain resiliency, with a Cabinet order to determine later what materials and parts will be covered. Within nine months of the bill’s passage, the government will accept applications for financial subsidies for research and development (R&D) or production facilities at Japanese companies developing semiconductors, large-capacity batteries, and other key materials. Assistance will be approved based on whether companies can guarantee production for a certain period, ensure proper technological protections, and guarantee supplies for the domestic market.

Key Infrastructure: The Japanese government will mandate that companies from 14 sectors report on their plans to install critical infrastructure management systems and identify suppliers of those systems. A screening process will survey where those companies procure their parts and devices, with an eye toward mitigating vulnerabilities such as by preventing use of parts from overseas that could pose security threats. The 14 covered sectors are gas, petroleum, power, water, railways, trucking, airlines, airports, international freight, communications, broadcasting, postal services, financial services, and credit card providers. The legislation expects this review process to take about three years.

Public-Private Technology Cooperation: The national government will establish a JPY 500 billion (USD 4.3 billion) R&D fund to support innovation in key technological fields. A new committee of private and public experts, meanwhile, will provide industry leaders and academic researchers information on advanced technologies, including potential security concerns, and a new national think tank will research overseas technology developments. Notably, the pending legislation does not include proposed provisions to create a security clearance system for private individuals working on defense-related projects, but the Kishida Cabinet will look to pass such legislation in this year’s autumn Diet session.

Secret Patents: The new law will also introduce regulations allowing for national security-critical patents to remain secret, particularly targeting nuclear and defense-related technologies. Under Japan’s current law, all Japanese patents become public 18 months after approval; Japan, Mexico, and Argentina are the only G-20 countries without a patent non-disclosure system. Under the new system, starting in April 2024, Japan’s patent office will provide an initial assessment to

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determine if a technology is worthy of “protection designation,” then MOD personnel and experts will ultimately determine whether the technology is critical enough to remain secret. The patent office says it anticipates that restrictions will apply to fewer than 10 patents a year.

Companies and government officials that file false reports or leak information covered by the new law will be subject to punishment of up to two years in prison or fines up to JPY 1 million (USD 8,700). During the drafting process, business groups including Keidanren, while acknowledging the need for the legislation, expressed wariness about new reporting requirements and confidentiality regulations. In the end, they successfully removed some penalty provisions, arguing that that the bill should not constrain Japanese companies’ global competitiveness. Keidanren chairman Masakazu Tokura publicly encouraged lawmakers to consider “predictability, freedom of economic activity, and compatibility with international rules” in their deliberations about the new economic security law.

Comparison of the U.S. and Japanese Environments for Economic Security Policy

Japan is a relative latecomer to tackling the question of national economic security in a technological sense, including the key matters of 1) ensuring technology denial toward adversaries and 2) fostering reliable technological supply chains that focus on political and strategic allies and exclude national adversaries.

Although Japan participated in the U.S.-led Coordinating Committee for Multilateral Export Controls (COCOM) arrangements aimed at containing the Soviet Union, Tokyo’s traditional post-1945 approach to building national economic security emphasized multi-directional globalization and economic interdependence, mixed with a fair degree of protectionism during Japan’s rapid “catch-up” economic growth phases in the 1950s to 1980s.

Now, however, Japan finds itself echoing the same demands that the United States made toward Japan in the 1980s and 1990s—for economic liberalization, high standards, and neoliberal rules for “fair” trade—with the consensus complaints of Washington and Tokyo directed at Beijing.¹³ Moreover, in the current context, this international economic friction involves two allies focusing on a political and strategic adversary, rather than a more manageable debate between friends and allies. This is the key reason for the new focus on economic security, beyond traditional trade and investment access concerns.

In this context—before making recommendations for Tokyo-Washington cooperation—it is useful to consider the comparative environment for economic security policymaking in Tokyo and Washington.

Private Sector and Business Attitudes. A potent wake-up call for Japan regarding the need to reshape its economic dependencies on China came in the 2010–12 period, when in response to various territorial incidents in the East China Sea, the Chinese government withheld rare earths exports to Japan and permitted angry Chinese protestors to destroy Japanese retail outlets throughout China. Subsequently, Japanese investment in China started to fall for the first time,

¹³ Saori Katada, *Japan's New Regional Reality: Geoeconomic Strategy in the Asia-Pacific*, Columbia University Press, 2020, 25-6.

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while Japanese industrial investment in Southeast Asia expanded under a new “China-plus-one” consensus whereby Japanese business decisionmakers started hedging their commitment to China as a production base.¹⁴ China’s recent increased assertiveness toward Taiwan and its political crackdown in Hong Kong only deepened the wariness of Japan’s business community toward over-reliance on China.

Even so, Japan’s economy remains closely linked to China—and Japanese corporate leaders remain more positive than their U.S. counterparts regarding China business opportunities. In 2020, some 22 percent of Japanese exports went to China, while 26 percent of Japanese imports came from China—the equivalent numbers for the United States were only 9 percent and 19 percent respectively.¹⁵ As a result, Japanese businesses are, relatively speaking, even more reluctant to burn bridges to China than U.S. companies. As noted above, Japanese business organizations are more unified and vocal than U.S. firms in encouraging moderation in their government’s steps toward technological or economic distancing from China.

Japanese business leaders also tend to be relatively more fearful of Chinese government retaliation. This is a subjective difference in perceptions, which can be difficult to nail down, but U.S. businesses have heard more threats from Beijing about designation under China’s Unreliable Entities List or targeting under China’s Anti-Foreign Sanctions Law—only to observe China generally pulling its punches when it comes to actual retaliation. China no doubt balks at substantive retaliation toward U.S. companies due to the negative implications of such punitive actions for specific Chinese interests, as well as in consideration of possible counterretaliation from the United States. In Japan, meanwhile, the memory of China’s 2010 rare earths embargo looms large, and Japanese businesses also worry that the power balance between China and Japan—compared to that between China and the United States—could work to their disadvantage if China decides to lash out in economic retaliation.

Overall, Japanese and U.S. businesses see increased U.S. and Japanese government activism on economic security issues bringing both risks and opportunities. Allied government policies of technology denial toward China could result in lost production and sales opportunities. But the U.S. and Japanese governments’ emphasis on secure supply chains raises the possibility of increased government financial support for advanced technology R&D and production.

Popular and Congressional Attitudes. Public opinion toward China is now overwhelmingly negative in both Japan and the United States, with the main difference being that Japanese attitudes are even more strongly held and Japan’s negative view of China emerged earlier. The change in Japanese attitudes appear to originate with the friction over the East China Sea early in the prior decade, while U.S. public opinion has been most deeply shaped by Trump era trade friction, China’s moves on Hong Kong and Xinjiang, and perceptions associating China with the

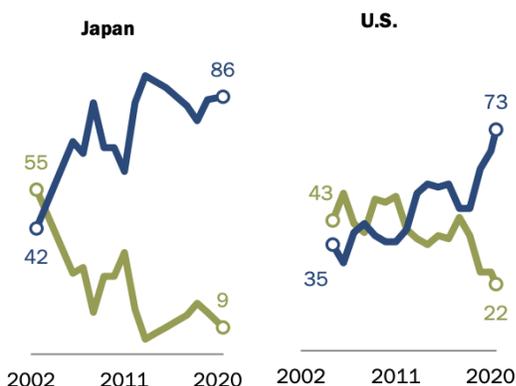
¹⁴ Kristin Vekasi, “The Geoeconomics of Critical Rare Earth Minerals,” *Georgetown Journal of International Affairs*, 22(2), 275; Stephen R. Nagy & Hanh Nguyen, “Asymmetric Interdependence and the Selective Diversification of Supply Chains,” *Journal of Contemporary Asian Studies* 20(2), 249.

¹⁵ Sandtander. “Japanese Foreign Trade in Figures,” March 2022, santandertrade.com/en/portal/analyse-markets/japan/foreign-trade-in-figures.

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2020 Covid-19 pandemic. Data from Pew Research shows the trends of negative versus positive views quite clearly:

Figure 1. Japanese and American Views of China, 2002–2020¹⁶
(blue = unfavorable, green = favorable)



Source: Pew Research Center

Given the prevalence of anti-China sentiment in both nations, it should come as no surprise that attitudes about economic competition with China, and the technology threat from China, run strongly negative and hawkish in both the Japanese Diet and the U.S. Congress. In Tokyo, the ruling LDP controls both the Diet and the Cabinet, leading to close coordination of policies between the two power centers. As a result, there is less public policy grandstanding with respect to China in Tokyo than there is in Washington—where the separation of powers between the White House and Congress encourages numerous public pronouncements by members of Congress. But Diet member attitudes in Tokyo toward China are indeed predominantly hawkish, producing a situation where a supposed China “dove” such as Prime Minister Kishida has actually made economic security a signature issue and is calling clearly for defense spending increases to counter China. In Washington, “tough on China” attitudes are a rare matter of bipartisan consensus on Capitol Hill, with differences of opinion between Democrats and Republicans mainly focused on specific tactics rather than the overall shared objective of “standing up to the China threat.”

Bureaucratic and Legal Regimes. Finally, it is necessary to consider the differences in the U.S. and Japanese legal systems and bureaucratic organization when thinking about how the two capitals can best cooperate on promoting their shared economic security.

U.S. law is generally more extensive and specific than Japanese law on matters related to export controls and investment restrictions, which are two key policy sets relevant to economic security. Using laws like the EAR, IEEPA, and FIRMMMA, U.S. regulations—if crafted in a way that is judicially sound—can reach far beyond U.S. borders and block a wide range of transactions

¹⁶ Pew Research Center, “Unfavorable Views of China Reach Historic Highs in Many Countries,” 2020, www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries.

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with the stroke of a presidential pen. Japan has similar laws, but they are generally less aggressive in scope and mandate.

In Japan, however, bureaucratic discretion can be much more wide-ranging than in the United States. METI has control over most of the key policy levers impacting export controls and investment restrictions, while staff at the Ministry of Foreign Affairs (MOFA) can have a big impact on overall policy approaches. Thus, decisions at METI and elsewhere in the bureaucracy regarding how to use the 2020 revisions of the FTFEA, or how to leverage the content of this year's new Economic Security Law, will be as important as the text of those laws in shaping what steps Japan implements in practice. The economic security policy staff in Japan's centralized National Security Secretariat will play a key role, but METI officials have considerable reach in promoting or blocking decisions. U.S. bureaucrats at the Departments of Commerce and State, relatively speaking, are bound by a complex inter-agency decisionmaking process, and therefore depend on guidance from an often-inattentive White House to make important directional decisions. The U.S. Department of Defense and intelligence community are also more involved in U.S. policymaking on economic security than are the equivalent entities in Japan.

Finally, with respect to budget, it is useful to note that the Japanese system can be quite flexible and rapid in making resources available for key policies. The LDP's unitary control of the Diet and Cabinet—tempered of course by fiscally conservative accountants at the Ministry of Finance—can result in quick decisions like the TSMC fab facility funding mentioned above. On the U.S. side, the national budget is much larger, but seeking and receiving specific funding from Congress can be extraordinarily cumbersome. This situation could make Japan a powerful partner for the United States in shaping shared supply chains to make them more secure and resilient.

Overall, a comparison of the U.S. and Japanese systems seems to indicate that the announced roster of agencies chosen for the “Economic 2+2”—Commerce, State, METI, and MOFA—is the right line-up for concerted bilateral government-to-government teamwork. But both teams of officials will need to build out strong cooperative relationships with the private sector and receive strong support from the White House and the Prime Minister's Office to be successful in their grand initiative.

Prior Bilateral Cooperation between the U.S. and Japan on Economic Security Policy

The history of explicit U.S.-Japan cooperation and coordination on national economic security policy is short and simple—and largely tied to multilateral coordination mechanisms. As noted above, Japan was a member of the COCOM regime that lasted from the 1960s until 1994, and it is part of the successor 1996 Wassenaar Arrangement limiting sales of munitions and certain dual-use goods and technology to nations outside the arrangement. Japan is also part of the 1974 Nuclear Suppliers Group (which includes China), as well as the 1985 Australia Group covering biological and chemical weapons materials and the 1987 Missile Technology Control Regime (which both exclude China).

More recently, in 2014 the United States, Japan, and the EU jointly lodged a World Trade Organization (WTO) complaint against China's export quotas on rare earth materials, after which

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China dropped the quotas in 2015.¹⁷ In 2018, with a goal of reducing the share of processed rare earth metal imports coming from China to less than 50 percent by 2025, the Japanese government teamed up with the United States and Australia to open a processing facility in Texas, and reportedly will fund similar ventures in Africa.¹⁸

In the Quad framework, which has been revitalized and elevated by the Biden administration, Japan has joined the United States, Australia, and India to launch a Critical and Emerging Technology Working Group to “convene dialogues on critical technology supply chains” and encourage telecom diversification through public-private partnerships.¹⁹ In September 2021, the Quad leaders committed to work on Covid-19 vaccine supply chains, clean hydrogen supply chains for shipping, and a joint semiconductor supply chain—although details regarding these initiatives remain scarce.²⁰ In December 2021, Japan, the United States, and Australia agreed to fund the construction of an undersea cable to serve the Pacific Island nations of Nauru, Kiribati, and Micronesia, with an eye toward denying China the opportunity.²¹

In the purely bilateral space, explicit cooperation on economic security is relatively new. The launch of the CoRe Partnership called for furthering economic security collaboration by cooperating on “sensitive supply chains, including on semiconductors”—a unique step forward at the time. The CoRe Partnership, however, has already been largely eclipsed by the decision of President Biden and Prime Minister Kishida to organize the “Economic 2+2” channel.

The “Economic 2+2” initiative is the focus of recommendations that follow in the next section.

Recommendations and the Path Forward

By launching the new Economic Policy Consultative Committee initiative in January 2022, President Biden and Prime Minister Kishida have set the stage for a grand and unprecedented effort by two allies to work together on technology denial and supply chain security in the modern era. Tokyo is reaching the end of a political transition period, with Prime Minister Fumio Kishida emerging firmly in charge. The United States, meanwhile, has two years to go until its next presidential election. So now is a good time for the United States and Japan to quicken their teamwork to bolster their shared national security.

If done right, the foreign and commerce ministers of the two nations can use the “Economic 2+2” channel announced by Kishida and Biden to build close policy and operational teamwork.

¹⁷ Ministry of Economy, Trade, and Industry, “Termination of China’s Export Duties on Three Raw Materials Including Rare Earths,” May 1, 2015, www.meti.go.jp/english/press/2015/0501_01.html.

¹⁸ Solís, “The Big Squeeze,” 300.

¹⁹ White House, “Fact Sheet: Quad Summit,” March 12, 2021, www.whitehouse.gov/briefing-room/statements-releases/2021/03/12/fact-sheet-quad-summit.

²⁰ White House, “Fact Sheet: Quad Leaders’ Summit, September 24, 2021, www.whitehouse.gov/briefing-room/statements-releases/2021/09/24/fact-sheet-quad-leaders-summit.

²¹ Colin Packham, “U.S., Australia and Japan to Fund Undersea Cable in the Pacific,” *Reuters*, December 12, 2021, www.reuters.com/article/usa-pacific/u-s-australia-and-japan-to-fund-undersea-cable-in-the-pacific-idUSL4N2SW076.

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Their goal should be defining joint policies that are selective and catalytic, and that accomplish a necessary degree of supply chain coordination and technology decoupling from China—without precipitating a fuller economic decoupling affecting trade and investment flows that could lead to negative economic results for the United States and Japan.

A successful “Economic 2+2” will have certain characteristics that are all specifically noted or implied in the analytic narrative above:

- ***Well-chosen agency leads:*** The president and prime minister did well to select Commerce, State, METI, and MOFA to lead the “Economic 2+2” program. This is a short enough roster of lead agencies to ease coordination, but these agencies also have the scope and experience, and networks inside and outside government, to do a strong job of orchestrating this effort.
- ***Strong private sector participation:*** Given the complexity of the technologies involved and the high stakes of the exercise for private companies, it is imperative that technology experts in private firms be closely involved from the start. This approach will help avoid politicization and mistakes in goal setting and ensure realistic framing for policy decisions.
- ***Political support:*** To be effective, the “Economic 2+2” initiative will require consistent support from the White House, Prime Minister’s Office, Congress, and the Diet. This implies strong internal and external communication about goals and objectives.
- ***Granularity and speed:*** Instead of viewing the Economic Policy Consultative Committee as a “dialogue,” it is important to see it as an “initiative” aimed at specific policy coordination outcomes in a defined timeframe. The goal should not be to just jointly study the problem of economic security, but rather to take action to enhance the shared economic security of the United States and Japan.

The U.S.-EU Trade and Technology Council (TTC) parallels the U.S.-Japan “Economic 2+2” in operating at a high level and including discussion of economic security policies. The TTC, however, has a heterogeneous scope involving ten working groups looking at a broad range of policy areas, including priorities such as global trade policy and environmental policy concerns. It is to be hoped that the “Economic 2+2” will focus more narrowly and specifically on technology policy and economic security.

When she visited Tokyo in November 2021, Commerce Secretary Gina Raimondo met with her counterpart Koichi Hagiuda and announced a “Japan-U.S. Commercial and Industrial Partnership (JUCIP).” Although that announcement mentioned supply chain resilience and the protection of critical technologies, the new initiative appears to be rather broad and shallow in scope, and not squarely focused on economic security challenges or other aspects of U.S.-Japan security cooperation vis-à-vis China. It is to be hoped that the JUCIP will be utilized as a general

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channel for promotion of investment and trade between Japan and the United States, and not duplicate nor distract from the work of the “Economic 2+2.”

To achieve the difficult goals above—and considering the urgency and complexity of the issues—it makes sense for the core elements of the “Economic 2+2” to emphasize results over form, and frequency over seniority. The following structure seems best:

- *Cabinet-level meetings twice a year* would address a two-part agenda:
 1. General economic policy coordination on matters such as the Indo-Pacific’s regional trade groupings, economic policy work with ASEAN, and strategizing regarding the U.S.-proposed Indo-Pacific Economic Framework (IPEF)
 2. Management of a *time-limited, two-year Economic Security Initiative*, with the ministers reviewing progress and breaking logjams. This second aspect will be the most important part of the “Economic 2+2,” as well as a historically unique contribution to U.S. and Japanese security policymaking capabilities.
- *Quarterly meetings would be held at the sub-cabinet level* involving the relevant Undersecretaries and Deputy Ministers from the four agencies, with the same agenda as the ministers. This group would comprise the core management committee for the Economic Security Initiative.
- *Six working groups* would be established, each chaired on each side by an official at the level of a bureau head (Assistant Secretary, Director-General) or deputy bureau head (Deputy Assistant Secretary, Deputy Director-General). Each working group would first define a planned set of shared policy coordination outcomes/targets for their two-year effort under the Economic Security Initiative, and then negotiate those specific outcomes in the form of bilateral Memorandums of Understanding (MOUs). The six groups would focus on the following policy sets:
 1. **Investment restrictions:** coordinating policies related to implementation of the U.S. FIRMMA and Japan’s FTFEA, seeking more congruent approaches.
 2. **Export controls:** setting shared standards regarding which technologies should be controlled, and to what degree, and using which policy tools.
 3. **Supply chain integrity and resilience:** defining shared action plans to strengthen the sharing of supply chain information and investment priorities, while coordinating government support activities regarding key technological supply chains. The initial emphasis for the group would be large capacity batteries, critical minerals and materials, and pharmaceuticals and APIs—three of the areas included in the White House’s June 2021 report on supply chains.

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4. **Semiconductor technologies:** pursuing the same agenda as the first three working groups, but in a cross-cutting manner and with a specific focus on semiconductor technology. This group's work would need to be closely coordinated with the first three groups.
 5. **AI:** studying what policies are needed for Japan and the United States to reinforce and maintain a lead in AI, while defining a shared action plan for accomplishing those objectives. The group would also reach bilateral understandings on the ethics of AI and push those ideas out to global forums like the G-20.
 6. **Cybersecurity and information security:** defining a shared action plan for cooperation in the civilian aspects of cyberdefense, including protection of critical infrastructure, while also setting out shared understandings regarding standards for allowing access to classified technology.
- *Each working group would have a separate private sector advisory panel to tap into the necessary technical expertise and advice that only resides in the private sector in the United States and Japan. In designing shared approaches to export controls, for example, it is very important to understand the subtleties of the technologies under consideration to avoid excessively tight restrictions that would prevent relatively harmless trade. Only private sector and academic personnel really understand which technologies of the future will have the greatest national security impact.*

In conclusion, then, through the “Economic 2+2” and the fostering of an action-oriented Economic Security Initiative, the United States and Japan can act fast and organize a suitable system for joint planning on economic security. The U.S.-Japan alliance is girding itself for truly difficult regional and global tests of leadership that loom in the years ahead. China's competitive challenge to our shared economic security is prominent among those concerns. It is to be hoped that we will see quick action in the coming weeks and months to launch an Economic Security Initiative along the lines of what is outlined above. President Biden's visit to Japan later this spring for a Quad summit meeting provides an excellent venue for such a launch.

Regional initiatives. One final consideration to note in this paper is how the U.S.-Japan Economic Security Initiative outlined above might relate to similar initiatives with other Indo-Pacific economies such as Australia, Taiwan, and South Korea, or be tied to U.S. efforts to coordinate with the governments of key European technology centers such as Germany, the Netherlands, France, and the United Kingdom.

Based on a recent Federal Register announcement, it appears that the U.S.-proposed IPEF may contain a “pillar” focusing on supply chain resilience and supply chain integrity. But given the heterogeneous economic structures and varied political outlooks of the dozen or so mooted members of the IPEF, it is unlikely that grouping would be able to replicate the depth of policy coordination envisioned for the U.S.-Japan “Economic 2+2.”

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Instead, what seems most sensible is for the United States to forge forward first with its closest and most important technological ally in Asia—Japan—then explore later whether the MOUs reached under the U.S.-Japan Economic Security Initiative could be expanded to include other like-minded and advanced economies in the Indo-Pacific or Europe.