Words in Japan

In confronting China, Japan is thinking beyond its military. The United States should follow suit.

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Japan made global headlines in December with its new National Security Strategy, which dropped the country's post-World War II pacifist posture to call for counterstrike capabilities.

Less visible but in many ways more instructive for U.S. policymakers are Japan's economic security policies, which aim to shore up its national interests from an economic perspective. These policies were initially conceived by Japan's Liberal Democratic Party in 2019, with a formal recommendation toward developing Japan's "economic security strategy" published by the party's Strategic Headquarters in late 2020. Implementation began over the last two years. It includes funding for supply chain resiliency, the promotion of critical industries of the future, and the involvement of the corporate sector. What is truly noteworthy about economic security in Japan is that it consists of nothing less than a reorganization of the government centered on this novel threat.

The United States has only recently awakened to the national security threat posed by its economic dependence on China. The United States is in many ways in an economic war with China, one that requires a more expansive conception of security than just the military security that the U.S. defense establishment was designed for. Conversely, policymakers are increasingly aware of what is known as the "China shock" and the loss of manufacturing jobs to China. However, they are only beginning to fully grapple with the national security implications of deindustrialization.

“Economic security” is now a buzzword in Japan, appearing on the nightly news as well as in government strategy documents. Its precise meaning varies; generally, it involves calls for reshoring or diversifying supply chains and promoting the growth of critically important industries—particularly ones where private investment alone might be inadequate. Many of these industries are dual-use, with both civil and military applications.

The country’s new National Security Strategy, its first in nearly 10 years, contains an entire section on “Promoting Economic Security Policies to Achieve Autonomous Economic Prosperity.” It reads, in part:

“Japan will curb excessive dependence on specific countries, … promote capital reinforcement of private enterprises with critical goods and technologies, and strengthen the function of policy-based finance, in pursuit of protecting and nurturing critical goods.”

Note that China is not explicitly mentioned. This is not uncommon in discussions of economic security in Japan. Nonetheless the context is obvious.

Two major factors account for the rise of economic security in Japan, according to Akira Igata, a project lecturer at the University of Tokyo’s Research Center for Advanced Science and Technology: “One is China. The other factor is critical emerging technology like quantum computing or drones that can be used for civilian purposes but also military purposes.”

Igata, who also advises the Inter-Parliamentary Alliance on China on economic security, points out that the Japanese government’s intense focus on the topic

chains, maintaining technological advantages, and strengthening telecommunications infrastructure. Many of these have been a focus of the current Kishida administration.

While its definition is sometimes nebulous, "economic security" is far more than a buzzword in Japan. It has led to the reorganization of the government, including the creation of a minister of economic security at the cabinet level; an economic division within the National Security Secretariat, which is responsible for planning and coordinating economic security policies; and dedicated economic security divisions in other major agencies or ministries, such as foreign affairs, defense, intelligence, and financial services. These divisions are charged with defensive actions such as tech controls, visa screening, cybersecurity, and more—but also with the enactment of industrial policies to grow critical new industries.

The culmination of Japan's economic security policies has been the Economic Security Promotion Act (ESPA), which Japan's parliament passed in May 2022 and will be phased in over the next two years. It has four core themes: securing supply chains of critical materials, nondisclosure of patents for security reasons, promoting the development of advanced technologies, and ensuring the security of infrastructure.

Economic security is clearly critical for Japan's defense industry. "Economic security is welcomed by the Ministry of Defense," said Ryo Sahashi, an associate professor at the University of Tokyo who is also a Japan scholar at the Wilson Center. "It will contribute to improving defense capabilities, and it may also help support the production base for defense equipment."

Economic security also plays a central role in the Kishida government's plans to revitalize Japan's economy. Japan has now suffered through many "lost decades" with almost no economic growth. Shihoko Goto, the director for geoeconomics and Indo-Pacific enterprise and deputy director for the Asia Program at the Wilson Center, described Japan's approach as "two-pronged."

semiconductors, it is much wider. “In Japan, it is looking at the domestic economy more broadly. It is an opportunity to think about how to make Japan economically competitive and relevant,” Goto said.

The private sector is incentivized to participate in economic security initiatives through subsidies. While these do exist in the United States and most other industrialized countries as well, what is singular about Japan is the flexibility in what can garner a government subsidy—namely, the presence of “specific critical materials.” These are ambiguously defined by the government, if at all. Igata explained that as part of the ESPA, “the private sector can submit a plan to the government about diversifying supply chains of ‘critical materials,’ however defined.” If the government decides it is important for economic security reasons, Igata said, it results in a subsidy.

But although economic security in Japan is comprehensive in approach, it is far too early to say how effective these policies will be at changing corporate behavior, especially concerning China. China remains Japan’s largest trading partner, and many companies continue to manufacture there. The new ESPA was only very recently enacted, and its subsidies haven’t yet taken full effect.

Still, there has already been one tangible success in Japan’s bid for economic security, in rare earths. Even before the new law, Japan had been investing in new suppliers and engaging in recycling efforts of these critical minerals. “Japan used to be over 90 percent dependent on China for rare earths. Now it is under 60 percent,” Igata said. The reduction was accomplished over the past decade.

The United States has not had to confront true issues of

economic security since, possibly, the War of 1812. The U.S. economy has always dwarfed those of its enemies since then—double the size of the German economy in World War I and nearly quadruple its size under the Third Reich. It did face oil shocks from OPEC, but it was never economically dependent on adversaries for manufacturing or critical technologies. The United States had almost no economic interdependence with the Soviet Union. Japanese

on which it is also dependent. The issue of economic security has not reached the public fever pitch it has in Japan, but the concept is becoming better known, at least within the government. The 2017 National Security Strategy stated that "economic security is national security." Both the 2022 National Security Strategy and National Defense Strategy continued with this theme, even if they didn't use the precise phrase "economic security."

Though implementation may not yet match the rhetoric of these documents, the United States has taken steps toward economic security in its tech competition with China. It has imposed tariffs on Chinese goods and export controls on critical technologies to China, particularly around semiconductors. U.S. President Joe Biden issued an executive order in September blocking Chinese investment in technology in the United States, with discussions now underway to address outbound investments in sensitive technologies in "countries of concern."

This strategic change, however, has not been accompanied by a strategic reorganization of the U.S. government. "Quite a few of the existing players—Defense, State, Commerce, NSC, NEC—are thinking about economic security, but no one has been given the explicit mandate above all others," said Michael Brown, who from 2018 to 2022 led the Defense Innovation Unit at the U.S. Defense Department. The U.S. government lacks a coordinating agency for economic security, let alone an economic security cabinet minister as in Japan.

There have been many legislative attempts to create new financing mechanisms to support the scale up and commercialization of critical new technologies in the United States, but these have mostly languished. Nor does the United States have the depth of expertise in industrial policy compared with, say, Japan, though the success of Operation Warp Speed does point to U.S. capabilities.

Pavneet Singh, who served on the National Security Council and National Economic Council during the Obama administration, points out that top U.S. economic officials have traditionally had a finance rather than a

Here again, there have been major shifts in policy under the Biden administration. The CHIPS and Science Act, the executive order on advancing biotechnology and biomanufacturing innovation, and the Inflation Reduction Act (which contains provisions to build a clean economy) are all designed to improve U.S. competitive and domestic manufacturing in these industries.

China's foundational industries—steel, glass, aluminum, cement, chemicals—dwarf those in the United States. But now China is pursuing dominance across advanced industries: robotics, space, medical devices, machine tools, high-speed rail, technologically advanced ships, ultra-high-voltage electricity transmission, jet engines, digital payments, telecommunications hardware including 5G, the hydrogen sector, smart cities, and smart manufacturing in general.

Semiconductors and bio- and clean technologies, favored by recent U.S. policies (all of which have strong domestic lobbies), are indeed critical technologies, but so are the hardware industries where China is becoming dominant. If the United States is serious about economic security, it will need to become competitive in these other technologies and implement a robust strategy for advanced manufacturing to rebuild its industrial base. A broader approach is required.

So far, the U.S. approach to pursuing economic security has been mostly technocratic, consisting of tariffs, export controls, and subsidies for semiconductors. The true value of the concept is primarily political. Economic security can unite disparate factions and interests across the political spectrum, enabling the broad policy response needed. Perhaps the main lesson from Japan's approach to economic security is not any one particular tool or policy but rather the political prominence given to the issue, as shown in major speeches by Japanese Prime Minister Fumio Kishida. He has characterized economic security and climate change as the two key pillars of his "new model of capitalism" growth strategy.

and the need for policies promoting job quality. Economic security can offer guidance (and cover) for those on the libertarian right previously skeptical of industrial policy but who realize that today's geopolitics requires a new approach. And it can help military strategists to more fully consider the Defense Department's industrial policy potential and ability to shape markets.

"In Japan, the [phrase] 'economic security' is a magic word," said Igata, in that it leads to immediate government interest in a project and perhaps a grant. The United States requires an economic and political realignment to respond to the challenge from China—so far, this hasn't happened. "Economic security" could prove to be magic words in the United States, too.

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