

Prospects for Strengthening US-Japan Through Economic Security

By Kotaro Shiojiri

Economic security remains underdefined as a concept. Nevertheless, it has emerged as an issue of priority for the United States, Japan, and the world's leading economies. In Japan, policymaking in the economic security sphere has concentrated on three major aspects namely: *protecting* industries and technologies deemed strategic, critical, or sensitive; *promoting* resilient supply chains and reducing critical dependencies; and *partnering* with like-minded countries and regions to confront non-market policies and practices and to counter efforts to dominate strategic

sectors.¹ From the perspective of these so-called “3 Ps,” understanding supply chain chokepoints and vulnerabilities is a necessary and foundational step to guiding policymaking, even as major limitations in available data have frustrated efforts to build real-time supply chain vulnerability assessment programs.² Recognizing such limitations as well as the reality that most economic activity is organized by the private sector, the need for a holistic economic security approach involving government, private companies, and research institutions is being recognized.³



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A central question within the broader field of economic security is how to effectively combat economic coercion. As with the concept of economic security itself, economic coercion too is a vague and expansive term, the definition of which varies across contexts. For example, the G7 defines economic coercion as “attempts to weaponize economic dependencies” by forcing target state(s) to comply and conform, a phrasing that could just as readily encompass non-transparent PRC efforts at coercion targeting countries such as Lithuania as the broader US financial sanctions regime anchored in the UN legal regime and targeting countries such as Iran.⁴ The kinds of efforts to wield economic incentives and disincentives to achieve strategic effect are not a new phenomenon even as their modern manifestations have certain distinct elements.⁵ From the perspective of maintaining the international rules-based order, the steady uptick in the frequency with which instances of economic coercion occur in the context of complex and interdependent modern supply chains represents an especially concerning trend that ultimately risk undermining global security and stability.⁶

Prospects for US-Japan Economic Security Partnership

Economic security has been a major priority for the United States too both under the Democrats as well as the Republicans. The Trump administration’s 2017 National Security Strategy emphasized that “[e]conomic security is national security,”⁷ while the Biden administration has been implementing robust economic security measures including the CHIPS and Science Act.⁸ Whether Kamala Harris or Donald Trump becomes the next US president, it is highly likely that economic security will be a continued focus of US policy in the next administration regardless of the actual election outcomes.⁹

As the United States considers how best to advance its economic security interests, Japan stands out as a natural partner, especially in the Indo-Pacific region.

First, as one of the earliest targets of economic coercion by China, Japan has accumulated substantial experience in deploying proactive measures to counter economic coercion. On September 7, 2010, a Chinese fishing boat collided with two Japanese Coast Guard vessels in the East China Sea and the Chinese captain of the fishing boat was detained by Japanese authorities.¹⁰ In response, Chinese customs officials halted shipments of so-called rare earth elements from China to Japan. Despite official PRC denials of a link to the detained Chinese fishing boat captain, the measures were a clear example of using coercive economic leverage in a non-transparent manner to pursue a political outcome.¹¹ Having been subjected to this early wake-up call, the Japanese government responded by implementing a policy package to enhance the resilience of its rare earth minerals supply chain. The package included efforts to diversify its rare earths supply network, develop and promote technologies to reduce the use of rare earths, stockpile rare earths to ensure reserves of critical minerals, among others.¹² Japanese dependence on Chinese rare earth remain relatively high but is significantly lower than what it was prior to the 2010 incident.¹³

Second, galvanized by the incident described above as well as subsequent instances of coercion and supply chain shocks during the COVID-19 pandemic, Japan embarked on the development of a more comprehensive economic security agenda that holds important lessons for the United States. Specifically, Japanese politicians and bureaucrats began to develop and implement policies designed to realize an economic structure that would better support the protection of Japan’s national interests, such

Prospects for Strengthening US-Japan Through Economic Security

as peace, security, and economic prosperity.¹⁴ A cornerstone of Japan's evolving strategy has been a whole-of-government approach to economic security guided by principles of strategic autonomy, strategic indispensability, and promotion of a free and open international order.¹⁵ This strategy is anchored in the Economic Security Promotion Act passed in May 2022, which is structured around four pillars including a framework for ensuring stable supply of key products, system for ensuring the stable provision of essential infrastructure services, and framework for enhancing development of advanced critical technologies.¹⁶ Additionally, Japan has enacted substantial additional measures to promote strategic industries and is developing a security clearance program that aims to both better protect critical Japanese technologies and enable deeper and more robust technology cooperation with like-minded countries.¹⁷

Third, Japan has emerged as a leader in fostering international consensus on economic security and countering economic coercion among like-minded countries, most notably during its G7 host year in 2023 which resulted in the first leader's statement on economic security and economic resilience. These efforts have been underpinned by strong US-Japan cooperation, with economic security becoming a major theme running through engagements including the US-Japan Leaders' Summit in May 2023 and the Economic "2+2" (Economic Policy Consultative Committee) in November 2023. Economic security and economic coercion were also key topics during Prime Minister Fumio Kishida's State visit in April 2024. Japan's perspective on economic security has also been important in helping to raise awareness of the issue in Europe and to foster a more unified G7 approach to the issue set, which has the potential to build a more

unified allied approach to economic security that can amplify the positive effects and mitigate the unintended consequences of national policies.

Finally, Japan has demonstrated both continuity in its desire for partnership with the United States and in its sustained focus on economic security. As the United States prepares for its upcoming election, Japan also anticipates an election in the fall, with Prime Minister Kishida's current term as leader of the Liberal Democratic Party (LDP) concluding in September 2024.¹⁸ Regardless of the outcome of the LDP presidential election, all the leading candidates have signaled they intend to maintain continuity in economic security policies and in seeking stronger partnership with the United States, ensuring a stable foundation for continuing to deepen US-Japan partnership on economic security.

US-Japan Schism Ahead

The United States and Japan are already positioned as "Global Partners for the Future," with strong alignment in their respective economic security interests and an expressed opposition to unlawful economic coercion in principle. However, they are still likely to encounter challenges in coordinating their efforts.¹⁹ For example, some Japanese policymakers regard certain US policies as too aggressive for Japan to fully align with or else risk triggering a coercive backlash from the target country.²⁰ Along with differences in the level of US and Japanese dependency on the PRC – both for specific goods and services and in the aggregate – the question arises whether Japan will fully align with these approaches or diverge at a certain point from US efforts. From my perspective, three major factors could potentially strain this partnership.

Prospects for Strengthening US-Japan Through Economic Security

First, the United States and Japan exhibit nuanced differences in their attitudes towards the rules-based international order, particularly concerning the World Trade Organization (WTO) system. While both countries agree that “economic coercion” undermines the rules-based international order and constitutes a unilateral attempt to change the status quo that ultimately risk undermining global security and stability, Japan maintains a firmer adherence to the rules-based international order including WTO norms and principles in general compared to the United States.²¹ If the United States were to turn further away from the rules-based international order and embrace more unilateral policies such as tariffs and far-reaching export controls, Japan would likely find it difficult to implement equivalent policies even if Tokyo were sympathetic to the overall policy objective.

Second, the upcoming US election has fueled economic nationalist sentiments in the United States that are narrowing opportunities for strategic economic cooperation, even with close allies such as Japan. This has raised concerns in Tokyo about the continuity of key economic security initiatives and favorable considerations for its partners. Similar to what occurred in the initial phase of the Inflation Reduction Act, excluding Japan from certain beneficial treatments under US subsidy programs – either deliberately or as the result of an oversight brought on by inadequate advance consultations – could lead to frictions in the relationship and reduce the opportunities for specialization within the US-Japan strategic economic partnership.

Third, Japan faces certain incentives to hedge in its international economic relations, particularly in terms of maintaining strong ties with China. Not only does the PRC remain Japan’s largest trading partner, but is a critical market for Japanese companies, a critical source of talent for Japanese research programs, and a critical

source of inbound tourist revenue and human capital, both of which are growing in importance. As a result, if the United States pressures Japan to curtail economic ties with China and other countries without considering the different economic dependencies, such actions may strain relations from an economic perspective.

These factors suggest that early efforts to promote cooperation are most likely to succeed if they start small in areas where it will be possible to achieve tangible victories that can serve as a stepping-stone to closer collaboration. Moving forward, robust dialogue and constructive communication across the Pacific are essential.

The Way Forward

Realizing the potential of allied economic security cooperation with Japan and other key partners will be in the interest of the United States. To that effect, Washington should consider adopting the following policies:

First, the United States should prioritize upholding freedom and rules-based international order as core values while also prioritizing national security. This includes defending free trade principles and the rule of law, responding to coercive measures, and protect smaller economies through international platforms.²² Arbitrary economic security measures should be condemned to avoid undermining the international rules-based order.²³ Strengthening US policies with a value-oriented approach could highlight these differences and appeal to smaller economies.

Secondly, the United States should collaborate closely with partners including Japan and other G7 countries, Quad members, Indo-Pacific Economic Framework for Prosperity (IPEF) countries, and others. As Prime Minister Kishida said during his address at a Joint Meeting of

the US Congress, while the global leadership of the United States is appreciated, it does not need to go it alone: operating within networks of trusted partners benefits the United States as well as its allies.²⁴ This takes advantages of one of the primary strategic advantages of the United States, namely that it has trusted and reliable partners. Given the complexity of the international economic system, no single country can address all issues alone. In countering economic coercion, for instance, joint measures could involve issuing condemnatory statements, imposing tariffs, travel or tourism restrictions, or imposing outright bans on certain exports. Enhancing the deterrent effect of such measures might involve exploring forms of “economic collective self-defense” similar to the collective self-defense provisions contained in Article 5 of the North Atlantic Treaty.²⁵ Initiatives like the G7 Economic Coercion Platform and IPEF workshops illustrate ongoing international cooperation. In addition to these mini- or multi-lateral efforts, any unilateral actions should be preceded by adequate consultations with partners.

Finally, open and candid domestic discussions on lost economic opportunities due to security-related measures should be fostered and strengthened as needed. Establishing a dedicated agency for economic security within the White House,²⁶ akin to Japan’s Council for the Promotion of Economic Security,²⁷ could enhance coordination among various agencies. Additionally, an Economic Security Strategy could serve as a tool for public diplomacy. The ripple effects of economic coercion are unpredictable and pose risks, especially for emerging and developing economies, while lost opportunities could harm the US economy. Balancing these concerns requires informed decision-making and commitment to combating economic coercion. Clear communication and deterrence of further actions are crucial, as will close coordination with the private sector to

both detect instances of coercion and develop nuanced policy responses that accurately reflect and respond to market realities.

Conclusion

Effectively deterring economic coercion and promoting economic security demands clear communication, credibility in defensive measures, and collaborative efforts among partnering countries and regions. By upholding values such as freedom and rules-based international order, working closely with partners, and engaging the private sector, the United States and Japan can strengthen global economic resilience and stability amid complex challenges, effectively enhancing their own economic security while also providing economic security as a public good. Continued dialogue and analysis are crucial for navigating these intricate issues effectively. It is essential to make continuous efforts to achieve escalation dominance to deter escalation in the first place, while also maintaining pathways for retreat and de-escalation. It is encouraging to observe the United States, Japan, and other countries accelerating their efforts to work together to accomplish these challenging goals, though there remains much work to be done. Detailed discussions, supported by both quantitative and qualitative analysis, must be continued.

Kotaro Shiojiri is the Japan Foundation Visiting Fellow for the Indo-Pacific Program at the Wilson Center.



Endnotes

- 1 See, e.g., <https://www.whitehouse.gov/briefing-room/statements-releases/2024/06/14/fact-sheet-the-2024-g7-summit-in-apulia-italy/>
- 2 See, e.g., https://www.meti.go.jp/policy/economy/economic_security/actionplan.pdf
- 3 See, e.g., <https://www.chathamhouse.org/2022/03/economic-security-need-renewed-global-effort>
- 4 <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/g7-leaders-statement-on-economic-resilience-and-economic-security/>
- 5 <https://www.britannica.com/topic/economic-statecraft>
- 6 <https://www.stimson.org/2024/fight-against-economic-coercion-for-japan/>
- 7 <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>
- 8 <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>
- 9 Different approaches? More unilateral if Republican including 232, 301 actions? How to treat partners is different?
- 10 <https://www.cfr.org/blog/chinese-fishing-boat-sets-sino-japanese-conflict>
- 11 <https://www.nytimes.com/2010/09/23/business/global/23rare.html>
- 12 <https://www.weforum.org/agenda/2023/10/japan-rare-earth-minerals/#:~:text=On%207%20September%202010%2C%20a,rare%20earth%20minerals%20to%20Japan>
- 13 Ibid.
- 14 <https://www.cas.go.jp/jp/siryou/221216anzenhoshou/nss-e.pdf>
- 15 Ibid.
- 16 https://www.cfr.org/sites/default/files/pdf/economic%20security%20promotion%20act%20%28summary%29%28English%29.pdf?utm_source=sendupdatelogo. See also <https://www.stimson.org/2023/understanding-japans-approach-to-economic-security/>.
- 17 See https://www.meti.go.jp/policy/economy/economic_security/index.html (only available in Japanese).
- 18 According to the Constitutional Law of Japan, Japanese Prime Minister is given the power to dissolve the lower house and thereby calling for a snap election. The lower house of Japan ended its session on June 23rd, but Prime Minister Kishida can still summon and dissolve the house before September if he wishes to. Despite this theoretical possibility, the option is being denied as for now. See <https://asia.nikkei.com/Politics/Japan-s-Kishida-faces-narrower-path-to-remaining-party-chief-in-September>. See also <https://www.yomiuri.co.jp/election/shugi-in/20230615-OYT1T50176/>.
- 19 See <https://spfusa.org/wp-content/uploads/2023/01/NAC-Dr.-Mireya-Solis.pdf>.
- 20 See <https://www.cfr.org/article/economic-security-trade-offs-abound>.
- 21 Both countries agree that the WTO needs to go through series of reforms and such efforts are underway.





Prospects for Strengthening US-Japan Through Economic Security

- 22 <https://www.rand.org/pubs/perspectives/PEA796-1.html>
- 23 In this sense, how to deal with WTO reform is one of the challenges. The interpretation and operation of national security exemption clause of the WTO law could be one of the legal matters to be discussed further.
- 24 <https://www.mofa.go.jp/files/100652749.pdf>
- 25 See, e.g., <https://foreignpolicy.com/2023/03/28/democracy-summit-china-bullying-economic-article-5-nato-sanctions/>; <https://www.csis.org/analysis/time-collective-push-back-against-chinas-economic-coercion>.
- 26 See The Committee on Economic Security (CES, <https://www.ssa.gov/history/reports/ces/cesbasic.html>).
- 27 See https://www.cas.go.jp/jp/seisaku/keizai_anzen_hosyo/index.html (only available in Japanese).






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One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
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