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Countering Economic Coercion and Safeguarding the Indo-Pacific's Economic Security

Shihoko Goto | Director of the Indo-Pacific Program at the Wilson Center

Lucas Myers | Senior Associate with the Indo-Pacific Program at the Wilson Center

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Introduction

The need to take economic interests into consideration in shaping national security is no longer in question. There is substantial alignment between the United States and Japan in prioritizing economic security considerations. Both countries share concerns, not only about protecting their economic advantages, but especially when it comes to defending their dominance on the technological front.

At the same time, the two countries are in alignment in acknowledging the risks of excessive dependence on China not only as a market, but also as a source of supplies vital for economic growth. The People's Republic of China (PRC) has not hesitated to leverage its economic dominance for political gain in the form of coercion. No country has been too large or too small to come under the attack of Chinese efforts to weaponize its economic hegemony. Wariness about China's weaponization of its economic strength is where like-minded countries see eye-to-eye.

There is a consensus in Washington and Tokyo that minimizing overreliance upon the PRC is a critical part of enhancing the economic security landscape bilaterally and across the region. As such, the United States and Japan should expand and accelerate efforts to update and reform the rules-based order into one that provides an attractive, alternative economic bloc to China for countries throughout the Indo-Pacific.

That said, there is no shortage of policy issues erecting barriers to this vision. While the PRC serves as the driving factor behind US-Japan bilateral economic cooperation, Washington and Tokyo are not in complete agreement in assessing the threat posed by China on their respective economic security circumstances. Indeed, differing levels of willingness to confront the PRC means that a NATO-style collective economic security response to Chinese coercion is off the table. The issue of how tall of a fence and how narrow of a yard to pursue are high priorities for consideration by the allied governments.

This report explores PRC economic coercion, provides a strategic-level policy agenda to address the issue over the long-term, and assesses several challenges facing US-Japan economic security. In particular, the report highlights three key policy objectives for US-Japan efforts to foster a rejuvenated Indo-Pacific economic structure resilient to coercion: 1) develop an economic latticework in the Indo-Pacific and beyond that can serve as an attractive alternative to dependence upon China; 2) deepen engagement with the Global South; and 3) expand the definition of economic security to include and amplify sustainable growth. It also discusses three challenges to that agenda, including questions about implementation and pace, differences in temperature regarding "derisking," and the difficulty of coordinating between friendly economies. Overall, this report aims to provide a strategic framework for an economic security agenda that can shepherd into existence a more resilient and sustainable rules-based economic bloc in the Indo-Pacific.

The Evolution of Indo-Pacific Economic Security Cooperation

Defined broadly, economic security is the securitization of economic issues and policy deployed to protect the economy from malign actors and transnational challenges. More specifically, economic security constitutes an effort to incorporate economic policy into national security considerations due to a growing recognition of the threat posed by both transnational challenges to global prosperity and the PRC's revisionist goals to challenge the rules-based order. From the Philippines¹ and Lithuania² to Australia and Japan,³ China has weaponized its global economic position to coerce and punish countries with which it has disputes.

While COVID-19 upending international supply chains at a critical moment jumpstarted the current push to ensure supply chain resiliency, the longer-term trend driving economic security is the need to defend against dependence on and economic weaponization by China. The global economy must be able to withstand disruptions caused by unexpected natural disasters and geopolitical risks, which includes coercive actions by authoritarian regimes. The sharp onset of COVID-19 in 2020 combined with the growing threat posed by the PRC to a free and open Indo-Pacific crystallized "economic security" in both Washington and Tokyo.⁴

In Washington, economic security has led to a turnaround from the traditional, free market approach to economic expansion. This means a more interventionist role for government via engaging in industrial policy, identifying sectors of strategic interest for public investment, and advancing protectionist measures providing resources and incentives to spur investment in key areas. The *CHIPS and Science Act*⁵ is a clear example of US efforts to promote and protect advanced technologies and the semiconductor industry through federal funds that in turn encourage private investments.

Japan, meanwhile, is no stranger to industrial policy. In fact, preexisting trade tensions between the United States and Japan had hitherto been over Japanese protectionism and industrial policy to protect its key industries. Since the 2010 rare earth minerals export ban by China, however, Tokyo's motivation for embracing industrial policy to promote critical sectors including semiconductor manufacturing has been precisely the same as that of the United States: to withstand unexpected disruptions and to protect against China weaponizing its economic might for political gain.⁶

While the pandemic brought economic security to the fore and kickstarted supply chain efforts, the rise of the PRC and its employment of economic coercion to achieve its political ends has driven bilateral cooperation since 2021. The United States and Japan now lie at the forefront of efforts to secure the Indo-Pacific and the global economy from these threats. Bilateral commitment to push back against coercion has strengthened the US-Japan alliance further still, as well as spurred domestic political changes in both.

The US-Japan economic security agenda is broad and ambitious. It includes joint investment in Indo-Pacific infrastructure;⁷ bilateral and unilateral engagement with regional allies and partners and minilateral groupings like the

Quad, the Squad, and the US-Japan-South Korea, US-Australia-Japan, and US-Japan-Philippines trilaterals; export controls on advanced semiconductor manufacturing equipment; cooperation in boosting defense manufacturing;⁸ and a host of other initiatives meant to protect their lead in technology. For example, the July 2024 “Joint Statement of the Security Consultative Committee” announcement highlighted the alliance’s efforts to boost their industrial base and technological development, which are economic policies with clear implications for national security.⁹

Although policymakers and thinkers in both capitals arrived at economic security separately,¹⁰ their approaches are now intertwined. Their shared goal is best articulated in the 2024 US-Japan Joint Leaders’ Statement: “At the core of our cooperation is a shared commitment to...address common challenges and to ensure a world that is free, open, connected, resilient, and secure.”¹¹ Revisionist actions and ends by China are the predominant threat to that goal. In response, the US-Japan alliance has evolved in unprecedented ways over the past half decade to the extent that the bilateral relationship is arguably the core foundation of the emerging “latticework” security architecture in the Indo-Pacific.¹²

Countering Economic Coercion

PRC economic coercion represents a troubling challenge to the international rules-based order. China overtook Japan as the world’s second largest economy in 2010, but it had already become the Indo-Pacific’s economic hegemon before then. Although its allure as a global manufacturing hub may have lost some of its luster since 2020 and there are undoubted fundamental risks facing the Chinese economy, it remains the single-biggest trading partner for all countries in the region. Beijing has become the indispensable development partner for many in the Global South, while its status as a massive market and source of manufactured goods is difficult for many countries to replace in short order. As a result of this imbalance, it has been leveraging its economic dominance for political gain, through both carrots and sticks, including economic coercion.

Its indispensability allows the PRC to wield access to its economy and investment as a cudgel against countries perceived as stepping out of line with its political desires. Punitive actions include “popular boycotts, administrative discrimination, empty threats, legal defensive trade measures, informal trade restrictions, investment restrictions, and limitations on tourism.”¹³ Targets have included individuals, multinational companies, and countries. A non-exhaustive list of high-profile cases includes Australia following its public call for an investigation into the origins of COVID-19,¹⁴ Marriott International over content on its website,¹⁵ the Philippines throughout its dispute with China over land features in the South China Sea, and South Korea regarding the deployment of US missile defense systems.¹⁶ Beyond publicly known examples, it is also apparent that Chinese actions carry a deterrent effect, and there are likely instances where both China and the victimized actor kept the situation private.

Responses to PRC economic coercion fall into two buckets: short-term offsets to disruptions caused by coercive actions and long-term restructuring to decrease dependence on China. On the short-term end, the United States and other key allies and partners have developed a playbook for supporting targeted economies, including by rerouting

embargoed goods, easing market access, and offering other offsets to minimize the damage.¹⁷ There are also a variety of other policy responses that could alleviate losses, such as expanding export credits for affected goods.¹⁸ Longer-term options include reshaping supply chains to reduce dependence upon China (such as through a “China Plus One” strategy), attempting to enforce international trade law, and encouraging more trade and investment between likeminded allies and partners.

As China has expanded the scope of its economic coercion, however, it has become clear that there are limits to Beijing’s weaponization of its economic hegemony. Beijing refrains from putting pressure on the trade of goods that are vital to its own economic well-being. Instead, its targets are “smaller economies and in sectors where asymmetric advantages are perceived in the supply chain.”¹⁹ For example, while it may impose punitive tariffs on non-essential goods such as Australian wine, no such action was taken against Australian commodities needed for its own industries. In fact, not only has China since lifted its restrictions on Australian imports, but the coercive measures that Beijing took ultimately did not have a significant impact on the broader Australian economy.²⁰ Meanwhile, Lithuania has become an oft-cited success for the United States, Japan, and European nations who moved quickly to support the country in the face of coercion from the PRC by providing economic assistance to offset its losses.²¹ Over the long-term, reducing dependence upon China will only limit its power further.

Yet, the risks posed by the PRC’s economic coercion remain, particularly its deterrent impact throughout much of the Global South and China’s dominant position controlling some of the world’s most important resources. While the United States and its allies, including Japan, have identified and advanced policies aiming to minimize exposure in areas of particular strategic importance, such as critical minerals,²² these efforts have not wholly been successful. As of 2024, China still mines 70 percent of the world’s rare earth minerals supply and controls 90 percent of refining,²³ particularly through its economic dominance in countries like Myanmar²⁴ and Indonesia.²⁵ Restructuring these supply chains and developing alternative sources will take significant time.

Crafting an Appropriate Response to Economic Coercion

Outrage against Chinese coercion has become more vocal across the world. At a time when differences in how to perceive the challenges that China poses to the global economy remain serious, frustration against Beijing weaponizing its economic dominance can be a force unifier in the Indo-Pacific. Nevertheless, crafting a coordinated response will not be as straightforward as identifying coercive actions and responding piecemeal.

One possibility for cooperation against coercion is to emulate some of the key tenets of collective defense mechanisms. To reduce the risk of economic coercion via mutual deterrence with China, some analysts have called for a more military-like approach to pushing back against Chinese coercion by adopting the equivalent of an Article 5 from NATO's alliance treaty, so that an attack on one country would be an attack on all that triggers collective action.²⁶

But, collective economic security is an unrealistic goal. Unlike violating national borders, gauging the cost of imposing punitive tariffs on products or the damage caused by banning exports of goods is not easy to measure. Moreover, establishing a fund into which member countries would pay to support countries suffering coercive action is also unlikely to gain much traction given the political realities within each potential participant country. For instance, domestic agriculture producers may question why they should lose market share to a foreign competitor to offset that competitor's losses against PRC coercion. Finally, with most countries in the Indo-Pacific dependent upon China economically, convincing them to sign up to a legally binding commitment to sanction or respond to PRC economic coercion is a tall order.

The more viable and sustainable approach to counter Chinese economic coercion is to build over the long-term an alternative free and open economic bloc with less dependence on China. This would limit exposure to economic coercion and facilitate alternative sources of key strategic resources that China currently controls. Fundamentally, the PRC's leverage in economic coercion is the imbalance in its economic relations with much of the world. Only by reducing dependence and diversifying trade and investment sources can the countries with an interest in a rules-based order mitigate the risk of Chinese coercion.

Three Objectives for the US-Japan Economic Security Agenda

Currently, the focus amongst the world's wealthiest nations is on protecting critical technologies, advancing innovation, and responding to individual instances of economic coercion. But, more can and should be done to offset dependence on revisionist actors, render the global economy more resilient to transnational threats, and create the conditions for lasting prosperity and growth. "Economic security" can and should be expanded as a concept to rethink and advance these issues and more.

Indeed, the need to develop resilience against Chinese economic coercion can be a unifying force not only between the United States and Japan, but also amongst the G7 and beyond, in advancing a more free and more open rules-based order. As US National Security Advisor Jake Sullivan argues, "this moment demands that we forge a new consensus."²⁷

That new consensus should include three key policy objectives: 1) develop an economic latticework in the Indo-Pacific and beyond that can serve as an attractive alternative to dependence upon China; 2) deepen engagement with the Global South; 3) expand the definition of economic security to include and amplify sustainable growth.

One, to address economic coercion and the tensions of existing economic security efforts, the United States and Japan need to ramp up efforts to forge an Indo-Pacific economic bloc centered on a free, open, and prosperous rules-based order. The US appetite to enter into comprehensive trade agreements has weakened in recent years and is likely to remain limited in the foreseeable future. However, that does not preclude Washington and Tokyo from working to craft economic relationships designed to facilitate fair trade and investment independent of the PRC. In essence, the two countries can ensure economic security by layering and expanding upon existing initiatives and arrangements to forge new rules of the road that incentivize free-flowing (but fair and high-standard) trade, investment, human capital, and research and development between likeminded allies and partners.

In the Indo-Pacific, this would be an economic twin to the emerging security latticework that Tokyo and Washington have pioneered in recent years.²⁸ Importantly, in recognition of diverging political realities and political-economies, this "economic latticework" structure avoids the pitfalls of traditional trade agreements like CPTPP by remaining more plug and play, while steadily building out over time through continued consultation and negotiation. It also avoids the pitfalls of a so-called economic Article 5 for countries wary of alienating China in the near-term, while accomplishing the goal of weaning off dependence upon the PRC over the long-term.

Two, both the United States and Japan must look to the Global South as partners for growth and as a target for inclusion in this new bloc. Both Washington and Tokyo will become ever more dependent on natural resources, human capital, and markets from South and Southeast Asia, Africa, and Latin America. In turn, these emerging markets require investment, infrastructure, and trade, which China has dominated in recent years. This mutual dependence offers an opportunity for both the United States and Japan to reimagine aid effectiveness and

development assistance more broadly to ensure that emerging markets are not simply providers of critical minerals, but rather that they can harness their resource wealth to move up the value chain.

Such a partnership approach is not part of Beijing's playbook and is ultimately its weakness. While it has expanded its economic footprint throughout key emerging markets to strategic effect, the downside risks of Chinese investments and dependence on Chinese capital have become clear. So, while Chinese companies may have built 90 percent of nickel smelters in Indonesia,²⁹ its investments into the Indonesian workforce and commitment to the longer-term growth of the broader Indonesian economy are unclear. Washington and Tokyo need to step up efforts not only to invest in critical mineral resources in the Global South, but they must also coordinate efforts to promote and articulate the longer-term benefits of their investments in critical resources and other areas. The private sectors of both the United States and Japan too must be an integral part of concerted efforts to build economic partnerships with the Global South.

Given limited recent US experience with hard infrastructure investments overseas, Washington will need to work closely with Japan and cooperate on a longer-term vision for infrastructure investment in particular. The recently announced Luzon Corridor,³⁰ part of the G7's Partnership for Global Infrastructure and Investment (PGII), is a step in the right direction. It is a chance to execute on what the United States and Japan have promised in terms of regional economic cooperation. The Development Finance Corporation's ability to harness the power of the US private sector and encourage greater corporate investments will test not only the longer-term success of the Luzon Corridor project, but also ensure US efforts to engage with the region economically provide tangible results through its new financial mechanism. Meanwhile, the Luzon Corridor will challenge Japan to bolster its standing as a provider of quality large-scale infrastructure projects that will lead to longer-term growth in the region, rather than competing head-on with China in pricing. If successful, the United States and Japan will need to scale up and out to better compete for other emerging markets in the Global South.

Three, there is a growing need to address what economic security and resilience means to the global economy. Amid efforts to develop an economic architecture that can weather the weaponization of economic dominance by an authoritarian regime, an opportunity exists to reimagine the global economic landscape. Yet, even amongst the world's wealthiest nations, wariness about future growth prospects and the possibility of maintaining, let alone improving current living standards, is pervasive. As Washington and Tokyo work together to protect critical technologies, they should not lose sight of the need to address daily economic security concerns including food and energy security.

The United States and Japan represent the biggest and fourth-largest economies in the world, respectively. Yet both countries grapple with growing concerns about the rules-based order not benefitting their own livelihoods, and that an increasingly borderless world has led more to a winner-takes-all approach to corporate governance. Washington and Tokyo can work together to ensure that the economic system that has taken global prosperity to unprecedented levels over the past eight decades is not broken, and that the system can continue to promise prosperity in the years ahead. Reinforcing faith in the rules-based order both at home and abroad is especially critical as the United States and Japan look to enhance their partnership with the Global South and push back against China's growing influence beyond its borders.

Continued US-Japan Friction Below the Surface

Although progress towards these three policy objectives is underway, there are several issues that remain challenging to the overall economic security agenda. These include 1) questions about implementation and pace, 2) differences in temperature regarding “derisking,” and 3) friendly competition potentially undermining economic security cooperation.

One, regarding policy implementation, the fundamental reality is that an economic security agenda takes time and remains difficult to sustain. For example, efforts via the G7 have been slow to get off the ground. The Hiroshima G7 summit meeting first brought the issue of economic coercion to the forefront and led to the establishment of a “coordination platform on economic coercion.”³¹ The G7 then committed at the following Apulia Summit to coordinate efforts to push back against coercive actions and also encourage other nations to join the platform. But, the PGII’s first project in the Indo-Pacific was only announced in April 2024,³² almost two years after its launch.³³ The timeline for this project, the aforementioned Luzon Corridor, is uncertain.

Relatedly, many key economic security agenda items require fine tuning and careful balancing, lest government-led efforts undermine the private sector and long-term growth and competitiveness. Protecting gains made in developing advanced artificial intelligence, promoting biotechnology innovation, and refining the emerging export control regime are areas rife with potential pitfalls if policy is not carefully calibrated. Striking a balance between efforts to protect critical technologies from the PRC on the one hand and winning the global innovation race on the other will be far from straightforward.

Two, differences in US and Japanese temperature when it comes to gauging the degree of the China threat presents an omnipresent issue. Although many US and Japanese businesses have fallen afoul of Chinese economic coercion,³⁴ the attraction of the Chinese market is difficult to replace, especially with the United States uninterested in entering international trade agreements in the Indo-Pacific. While the Biden administration has stepped away from suggesting a “decoupling” from China to focus on developing a “derisking” strategy, Tokyo has never sought to decouple from China.

In practice, this has resulted in the United States acting as the leading driver of economic security policy and then pulling Japan and other partners along for the ride. For instance, although Japan and the Netherlands joined on in 2023 to Washington’s initially unilateral 2022 export controls on high-end semiconductor exports to the PRC,³⁵ agreement required significant diplomatic capital and the looming threat of Japanese and Dutch companies running afoul of the US regime if they continued to export to China with American components. In 2024, the United States again approached Japan and the Netherlands for further restrictions on Chinese chips.³⁶

Even within the US and Japanese economies, different actors have differing levels of comfort with the economic security agenda. Much of the reticence within the business communities towards economic security fundamentally rests upon uncertainty as to how high the fence will grow and how wide it may become. While speaking with

stakeholders and policymakers in Japan, the authors of this report heard concerns about the ambiguity surrounding how far the United States aims to go in “derisking” from the Chinese economy. For instance, reports have emerged that the United States is considering expanding restrictions on technology exports to China, which would directly harm several allied multinational firms.³⁷

Three, although the economic security convergence between the United States and Japan points to a recognition that cooperation is vital for longer term security, the contradictions inherent to multiple free market economies cooperating to counter dependence on the PRC while remaining friendly competitors will always prove challenging. Their respective private sectors will continue to compete with each other. From investing in new semiconductor manufacturing to promoting closer cooperation in developing new technologies to enhance AI capabilities, advancements cannot be made without commitment and innovation from the private sector. Yet, efforts to coordinate sharing of cutting-edge technology and current supply chain resiliency are proprietary information that companies are rightly hesitant about sharing with the government, let alone their rivals.

Additionally, amid the rise of industrial policy and protectionist measures, the possibility of heightened rivalries and new trade wars that could discourage greater bilateral or multilateral cooperation cannot be ignored. The tension between protectionist measures to promote one’s own economy and the need to cooperate with competitors against the revisionist threat remains. Given the rise of industrial policy in both countries to boost their semiconductor manufacturing capabilities, the possibility of greater friction between the two sides in an attempt to protect their own companies may be inevitable.

That said, some industries will be more conducive to cooperation than others. Japan’s approach to chip manufacturing differs from that of the United States insofar that the focus is on the development of legacy chips, rather than the most advanced semiconductors. That paves the way for cooperation between the independent chip manufacturers between the two countries. Finding areas of congruence and mutual interest will pave the way forward in economic security cooperation.

Ultimately, the United States and Japan need to thread the needle between growth and security, or protectionism and collaboration with likeminded allied and partner economies. So far, these challenges under the surface have not derailed the economic security agenda. For example, at the same time as building up their own industries, they have jointly pursued export controls of dual-use technology and worked to secure their supply chains. The key requirement for the long-term structural changes needed to defang PRC economic coercion is to avoid letting these three challenges derail US-Japan coordination.

Conclusion

The emerging US-Japan economic security agenda developed out of a recognition that the bilateral alliance faces a serious and long-term threat from the PRC. Both countries need to safeguard their economic interests from authoritarian governments weaponizing their economic power for political gain. Both the United States and Japan share the need to enhance their supply chain resilience, decrease dependence on critical minerals from non-aligned countries and rivals, and protect their advanced technologies from abuse and manipulation. Above all, Washington and Tokyo both share a common goal of decreasing the economic vulnerabilities posed by authoritarian governments.

However, countering economic coercion and derisking from the PRC requires structural shifts and a bold, innovative policy agenda. It is not enough to react to instances of economic coercion piecemeal or to relocate a certain percentage of manufacturing to locales outside of China. Instead, the United States and Japan must take advantage of the synchronization of their strategic outlook on China and cooperate in forging a shared economic roadmap in the Indo-Pacific.

Yet, economic partnerships and alliances do not come naturally, especially when private companies are competitors, even within the same country. However, as the United States and Japan look to build up economic alliances amongst like-minded countries, including in the Global South, private sector participation is a must.

Building an economic latticework in the Indo-Pacific and ensuring prosperity and sustainable growth in an era of uncertainty and transnational challenges is the ultimate foil against economic coercion. While challenges abound, if they can effectively continue to deepen their cooperation on economic security, Washington and Tokyo can become the centerpieces of an emerging Indo-Pacific, and global, latticework of relationships safeguarding the rules-based order.

The views expressed are the authors' alone, and do not represent the views of the US Government or the Wilson Center.

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One Woodrow Wilson Plaza
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