
Economic Security: the Missing Link in EU-Japan Cooperation

POLICY PAPER - APRIL 2023



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Before 2024, the European Union (EU) will present “initial ideas” for a new “Economic Security Strategy”. This is what the President of the European Commission, Ursula von der Leyen, announced in a major China policy speech last March. Given the idea of “economic security” goes against the free-trade DNA of the EU, it is striking how fast and sudden it has chosen to assimilate the notion. It is a necessary adjustment to a deteriorating international environment and to China’s ongoing transformation into a techno-security state. Yet, the adoption of an economic security strategy will face challenges and resistance across the EU, as many will question the risk of excessive securitization of economic activity.

Japan was the first advocate of an economic security agenda. In May 2022, the Japanese Parliament adopted the “Act on the promotion of national security through integrated economic measures”, quickly incorporated the notion into its 2022 National Security Strategy, and created a new Ministerial position to oversee implementation. In practice, Japan is strengthening its controls over technology transfers and acting to reduce supply chain disruption risks to better protect Japanese critical infrastructure from hostile foreign action. Japan is also reconnecting with its long history of strong sector-specific industrial policies to revive its declining semiconductor sector. Finally, the country is leading an international effort among industrialized democracies to adopt economic security measures. This agenda will be central to the May 2023 G7 summit in Hiroshima.

Against this background, this paper sets out what an EU-Japan economic security cooperation agenda could look like.

Although there is still no consensus in Europe on the definition of economic security, many of the EU’s new policy instruments fall into an “economic security”-like category. The EU is strengthening its controls over technology transfers. It is working on a Critical Raw Materials Act to improve the security of Europe’s supply chains. It is introducing changes to anti-subsidy rules and public market access to counter China’s exploitation of the systemic

differences between its state-capitalist model and the EU's open economy. An anti-coercion instrument is also in the final stages of negotiations with the aim of deterring coercive threats against European states and companies.

There are several differences between the European and Japanese approach to economic security, which should inform the EU's planning of its future economic security strategy. There are important perception differences on how far the national security logic should expand into the economic domain. But there is also a lot of convergence between both approaches, for example over supply chain security, anti-coercion and controls over technology transfers.

These three areas are not properly addressed in the otherwise well-structured set of EU-Japan agreements and communication channels. This paper makes constructive recommendations on which existing diplomatic formats can be better used to improve EU-Japan cooperation in those areas.

One area where the EU and Japan differ in their approach is over industrial policy, which Japan currently embraces without reservation, unlike the EU. The EU's Chips Act, now adopted, provides a template for relaxing the EU's stringent competition rules that, until recently, prohibited state aid use for industrial manufacturing – but only for the semiconductor sector. The EU continues to worry about measures that could be seen as 'anti-market', or contravening the openness of its single market. Reaching a compromise between Japan's straightforward industrial policy and Europe's remaining worries will be challenging. Yet, the Japanese example should prompt Europe to rethink its reluctance towards industrial policy tools.

Overall, economic security is an important notion that provides strategic coherence and clarity to the set of defensive, pro-innovation and (so far timid) pro-industry steps that the EU has been taking. It could also provide a convincing selling point to gain wider support across the EU for bolder public policies, including in the area of trade, in a way to guarantee European prosperity and resilience.

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The joint statement of the last EU-Japan Summit (May 2022) could hardly have been any clearer: “We emphasise our determination to strengthen cooperation in promoting economic security”.¹ It appears again, with the status of a quasi-cornerstone for transatlantic cooperation, in the March 2023 joint statement by Presidents Biden and von der Leyen.² But what is meant by economic security? As President von der Leyen announced that the Commission would “present some initial ideas as part of our new Economic Security Strategy later this year”, discussions in Brussels suggest that “economic security” is not exactly consensual across the European continent, or even inside the European Commission.³ Many in Europe still see it as an attempt to undermine the multilateral trade system on which European prosperity relies. Others argue that there is an excessive expansion of the logic of national security to economic activity. In the lead-up to the 2023 G7 summit in Japan, where economic security will be at the heart of the discussions, the European position is clear that a distinction should be kept between trade and security. Importantly, the EU-Japan statement provides **a political starting point for intra-European discussions on economic security**, a notion which can have broad implications beyond trade diversification.

Yet “economic security” being on the agenda of EU-Japan and transatlantic relations is an unmistakable sign that the term is gaining wider acceptance in Europe. This policy paper explores what an economic security cooperation agenda could look like in EU-Japan relations. EU-Japan cooperation is well-structured by a set of agreements and communication

¹ European Council, *Joint Statement of the EU-Japan Summit, May 12, 2022*, <https://www.consilium.europa.eu/en/press/press-releases/2022/05/12/joint-statement-eu-japan-summit-2022/>

² European Commission, *Joint Statement by President Biden and President von der Leyen, March 10, 2023*, https://ec.europa.eu/commission/presscorner/detail/en/statement_23_1613

³ Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre, March 30, 2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

channels, **but it misses out four key issues: supply chain security, industrial policy complementarities, anti-coercion and controls over technology transfers.** Even though there are important differences between Europe and Japan regarding where to draw the line on the expansion of a national security logic in the economic domain, convergence clearly exceeds these differences on all four security issues. Each side agrees that more efficient institutional arrangements are needed in those areas, especially in the context of the Russian war in Ukraine which has exposed the strategic importance of offensive and defensive economic measures as a foreign policy tool.

The EU and Japan need an institutional set-up to discuss these issues. But which format can best accommodate the practical need to enhance bilateral cooperation on supply chain security, industrial policy complementarities, anti-coercion and technology transfer controls? Japan clearly favors linking the EU-Japan cooperation agenda with the agenda of the Trade and Technology Council. The EU is reluctant to “trilateralize” a transatlantic process which has yet to deliver tangible outcomes. The paper reviews the pros and cons and the feasibility of other possible options:

- expanding the scope of the EU-Japan Economic Partnership Agreement (EPA) or the EU-Japan Digital Partnership;
- empowering the EU-Japan high-level economic dialogue on the model of the US-Japan Economic Policy Consultative Committee (EPCC), also known as the “Economic 2+2” meeting;
- having the EU join the Indo-Pacific Economic Framework for Prosperity (IPEF) or other minilateral frameworks of which Japan is part, but not Europe;
- working through the G7;
- setting up an EU-Japan Trade and Technology Council.

After discussing the best institutional set-up, the paper concludes that economic security is more than a theoretical notion. It provides **strategic coherence and clarity to the set of defensive, pro-innovation and (so**

far timid) pro-industry steps that the EU has been taking to adjust to China's ongoing transformation into a techno-security state.⁴

1 Japan's embrace of economic security

Japan's National Security Strategy (released in December 2022) defines economic security as the policy area that seeks "to ensure Japan's national interests, such as peace, security, and economic prosperity, by carrying out economic measures"⁵ This definition is intentionally broad. It creates an overarching framework within which precise policy guidelines are outlined across four areas:

- The first area is **controls over technology transfers**. Japan intends to improve defensive measures to prevent hostile, forced and intangible technology transfers, using export control, investment screening and management of research and education cooperation.
- The second area is **supply chain resilience**. Japan plans to decrease "excessive dependence on specific countries", focus on advanced semiconductor manufacturing and rare earths, and provide enough financing so that critical industries can thrive, including through "policy-based finance". The Japanese view emphasizes the "indispensability" of Japanese technologies. Japan intends to play on its existing strengths to cultivate its position in global supply chains, and not only to address its weaknesses.
- The third area is the **protection of critical infrastructure** from interference, sabotage or espionage – including internet infrastructure.

⁴ *Tai-Ming Cheung, Innovate to Dominate, The Rise of the Chinese Techno-Security State, Cornell University Press, 2022.*

⁵ *National Security Council, National Security Strategy of Japan, December 16, 2022, https://www.mofa.go.jp/jp/nsp/page1we_000081.html*

Japan will focus on reforming government procurement procedures to eliminate vulnerabilities exploitable by contractors. Critical infrastructure extends to the management of data and information security. In addition to cybersecurity measures, for which Japan will seek to learn from best foreign practices, the Japanese government is initiating the long-overdue construction of an efficient security clearance system, without which international cooperation in intelligence and arms production is prevented – especially with the US ally.⁶

- The fourth area is the **development of measures to prevent and counter economic coercion by other countries.**

The National Security Strategy follows the “Act on the promotion of national security through integrated economic measures”, adopted in May 2022 by the Japanese National Diet. The adoption of this Act is the founding moment of an economic security strategy by the Kishida government. The text codifies the powers, rights and obligations of government agencies and private actors:

- It clarifies that the **government is authorized to provide support measures** – including subsidies – to companies so that they invest in producing “strategically important goods”, in order to strengthen domestic supply chains for key materials and components, to be listed by ordinances. If a stable supply of a key material is difficult to ensure by private actors even with public support, the government can intervene with specific complementary measures, including stockpiling.
- It organizes a **system of government oversight** in the installation of vital equipment and computer systems by infrastructure operators to guard against cyberattacks and the exploitation of other vulnerabilities, and establishes a system of on-site inspections by government officials. The list of infrastructure requiring government screening is to be set by ordinances without requiring parliamentary approval.

⁶ Gabriel Dominguez, “Japan, long a prime target for spying, seeks to improve handling of sensitive info”, *The Japan Times*, March 9, 2023, <https://www.japantimes.co.jp/news/2023/03/09/national/economic-security-sensitive-info/>

- It seeks to **encourage public/private partnership** for innovation in critical technologies. Critical technologies are defined as “technologies that may be critical to the maintenance of future public life and economic activity, where unjustifiable use of said technologies, information used in their development or failure to stably use them due to external action resulting from dependence on goods or services that make use of such technologies obtained from a foreign country could impair national security and public safety”.⁷ They include dual-use technology such as space, maritime, artificial intelligence and quantum computing.
- It creates a **system of secret patents**, which Japan was one of only three G20 countries to lack. The Act facilitates the securing of sensitive information by limiting the public disclosure of patents on technology with potential military applications, and by threatening heavy penalties (imprisonment of up to two years) for those who leak classified patent information. Together with the construction of a security clearance system, this is meant to prevent technology theft and facilitate Japan’s participation in sensitive international R&D and arms industry projects.

It is easy to see that Japan’s economic security policies include both measures to “promote” and to “protect” – to use METI’s language. On the one hand, there is a strong push by the post-Abe Japanese governments to continue his groundbreaking work in strengthening control over technology transfers.⁸ Since 2021, under the Kishida government, this defensive logic for the first time expanded to critical infrastructure and dual-use patents. On the other hand, the Japanese government supports critical sectors with industrial policy measures. This is **partly reshoring** – increasing

⁷ Kana Itabashi et al., “Japan: New Act on the promotion of Japan’s economic security enacted”, *Global Compliance News*, July 10, 2022, <https://www.globalcompliancenews.com/2022/07/10/new-act-on-the-promotion-of-japans-economic-security-enacted240622/>

⁸ On the “structural break” initiated by Prime Minister Abe to enable full use of Japan’s geo-economic power, adjusting domestic institutions and engage in international coalition-building: Yuka Koshino, Robert Ward, *Japan’s Effectiveness as a Geo-Economic Actor, Navigating Great Power Competition*, International Institute for Strategic Studies, Routledge, 2022. Akira Igata, Brad Glosserman, “Japan’s New Economic Statecraft”, *The Washington Quarterly*, Vol. 44, September 2021, <https://www.tandfonline.com/doi/full/10.1080/0163660X.2021.1970334>

national production on Japanese soil – **partly support for diversification** away from countries that pose a significant risk of disruption or weaponization of interdependence.

The semiconductor sector is a good illustration of these policy efforts, and Japan is moving particularly fast. The Japanese government has successfully attracted Taiwan Semiconductor Manufacturing Co. (TSMC) to invest in building in Kumamoto a fab that will produce optical integrated circuits for Sony’s sensors. The Japanese government is covering up to 40% of the estimated \$8.6 billion cost of the foundry.⁹ Unlike the controversial TSMC fab in Arizona, heavily subsidized by the US government, the business case for this foundry project was never challenged in Taiwan. This is because this investment in Japan helps TSMC expand in the CMOS image sensor segment, in cooperation with a design leader, Sony, in order to compete against the current contract foundry leader in that segment: its Taiwanese rival UMC. Beyond TSMC, the Japanese government has earmarked \$2.8 billion from a 2022 supplementary budget to fund new subsidies designed by METI for the semiconductor industry.¹⁰ In addition, the Japanese government has facilitated the creation of Rapidus, a new company created to set up a prototype production line for cutting-edge 2-nanometer semiconductors by the first half of 2025, and backed by capital from major companies (Toyota Motor, Sony Group, NEC, Denso, NTT, Kioxia Holdings, SoftBank and Mitsubishi UFJ Financial Group).¹¹ **The strong belief in industrial policy tools is a defining feature of Japan’s economic security agenda.** Politically, it can be traced to two key political sponsors:

⁹ “Japan to subsidize TSMC’s Kumamoto plant by up to \$3.5bn”, *Nikkei Asia*, June 17, 2022, <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-to-subsidize-TSMC-s-Kumamoto-plant-by-up-to-3.5bn>

¹⁰ Ko Fujioka, “Japan to subsidize domestic chipmaking beyond the cutting edge”, *Nikkei Asia*, February 7, 2023, <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-to-subsidize-domestic-chipmaking-beyond-the-cutting-edge>

¹¹ “Japan chip venture Rapidus aims for 2-nm prototype line by 2025”, *Nikkei Asia*, January 25, 2023, <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-chip-venture-Rapidus-aims-for-2-nm-prototype-line-by-2025>

METI, historically a key proponent of industrial policies to the point that it can be seen as part of its DNA, and the Policy Research Council of the Liberal Democratic Party.¹² But internationally, it is one of the factors raising fears of a subsidy race which ultimately would undermine the efficiency of the semiconductor supply chain.

The Japanese government unveiled its list of 11 strategically critical items designated under the Act in December 2022.¹³ The list contains **semiconductors, batteries, rare-earth metals, liquefied natural gas (LNG), fertilizers, antimicrobials, machine tools/industrial robots, aircraft parts, ship-related equipment, cloud computing, and permanent magnets**. Examples of excessive Japanese dependence on China abound, and are not limited to the well-known case of rare earth elements, for which Japan suffered an episode of Chinese coercion in 2010, an early wake-up call to the supply chain resilience challenge.¹⁴ Japan depends on China for around 90% of its imports of phosphorus, a key component for fertilizers.¹⁵ Like all countries, Japan is dependent on China's dominance of key pharmaceutical ingredients.¹⁶

¹² For a history of METI (and its predecessor MITI) see Chalmers Johnson, *MITI and the Japanese Miracle, the Growth of Industrial Policy (1925-1975)*, Stanford University Press, 1982. Toshiya Takahashi, "Japan's opaque economic security agenda", *East Asia Forum*, December 13, 2021, <https://www.eastasiaforum.org/2021/12/13/japans-opaque-economic-security-policy-agenda/>

¹³ Hiroshi Asahina, "Japan seeks to release rare earths, 10 other critical items from China's grip", *Nikkei Asia*, December 21, 2022, <https://asia.nikkei.com/Spotlight/Supply-Chain/Japan-seeks-to-release-rare-earths-10-other-critical-items-from-China-s-grip>

¹⁴ After the 2010 crisis, Japan has been able to reduce its dependence on Chinese rare earths from 90% in 2008 to 59% in 2020, thanks to a range of measures (trade diversification with initiatives towards Australia, Kazakhstan, Vietnam, Brazil and India, reduction of usage through business renewal and upgrading, joint action with the EU and the US at the World Trade Organization). Nabeel Mancheri, Tomoo Marukawa, *Rare Earth Elements, China and Japan in Industry, Trade and Value Chain*, Institute of Social Science, University of Tokyo, ISS Contemporary Chinese Research Series no. 17, March 2016, pp. 64-85.

¹⁵ "Japan to prop up fertilizer output with subsidies amid inflation", *Nikkei Asia*, January 17, 2023, <https://asia.nikkei.com/Business/Agriculture/Japan-to-prop-up-fertilizer-output-with-subsidies-amid-inflation>

¹⁶ "The great medicines migration: How China took control of key global pharmaceutical supplies", *Nikkei Asia*, April 5, 2022, <https://asia.nikkei.com/static/vdata/infographics/chinavaccine-3/>

In the area of electric batteries, Japan lost its superiority to China and even though it dominates the cathode segment of the supply chain, it depends on Chinese supplies for many components, such as fluorite ore and graphite.¹⁷ These vulnerabilities are made even more critical by Japan's ongoing energy transition to meet its 2050 carbon neutrality target.

Finally, economic security challenges have led to new institutional arrangements within the Japanese government, the culmination of which being the **creation of a Ministerial position for Economic Security in August 2022**. The Minister operates under the guidance of the Council for the Promotion of Economic Security, presided by Prime Minister Kishida.¹⁸ In addition, a division of the National Security Secretariat (part of the Cabinet Secretariat) plays a coordination role while specific units in charge of economic security have been established within relevant ministries and government agencies.¹⁹ For example, Japan's Financial Services Agency is establishing an economic security division to focus on information leakage risks by financial institutions, while the Ministry of Internal Affairs and Communications strengthens its supply chain oversight capacity for 5G networks and submarine cables.²⁰ Importantly, while Japan's embrace of economic security is driven by public policies, **Japanese companies are also key players in shaping the trend**, which they influence and accelerate as they seek to de-risk investment. A Nikkei survey found that 53% of Japanese companies were planning reduction of procurement from China in their global production,

¹⁷ "Japan battery material producers lose spark as China races ahead", *Nikkei Asia*, April 4, 2022, <https://asia.nikkei.com/Business/Materials/Japan-battery-material-producers-lose-spark-as-China-races-ahead2>

¹⁸ Prime Minister's Office of Japan, "Council for the Promotion of Economic Security", February 14, 2023, https://japan.kantei.go.jp/101_kishida/actions/202302/_00015.html

¹⁹ David E. Adler, "Why 'Economic Security' Became Magic Words in Japan", *Foreign Policy*, January 20, 2023, <https://foreignpolicy.com/2023/01/20/japan-china-economic-security-strategic-threat/>

²⁰ Gyu-Pan Kim, "Japan's National Economic Security Strategy and Implications for Korea", *World Economy Brief*, Korean Institute for Economic Policy, vol. 12, no. 9, March 7, 2022.

including 60% of machinery companies and 55% of electronics companies.²¹ The number of Japanese-affiliated companies operating in China has decreased by about 1,700 since a peak reached in 2012, to reach 12,706 in June 2022.²² There are indeed some examples of exiting China as a production base, but overall the Japanese private sector is acting on its supply chain vulnerabilities to increase its resilience rather than decoupling – even in the most sensitive industries, such as information and communication technologies.²³

In sum, under the current government, the Cabinet Office – which is responsible for cross-government coordination – is providing overall coordination to the implementation of Japan’s economic security agenda. The position of Minister of Economic Security was initially created to spearhead the adoption of the May 2022 legislation, a project the first Minister, Kobayashi Takayuki, brought to completion. Today, Minister Sanae Takaichi provides political guidance – and weight – to that agenda, even if her work does not rely on a specific administration. Several ministries implement that centralized agenda, in a whole-of-government approach. There is an asymmetry with the European Union here: **the Commission has exclusive competence on trade, but economic security is larger than trade.** Responsibilities for supply chain security, industrial policy and anti-coercion are spread across several parts of the Commission, and are also areas for which the Member States of the EU retain national competence to a large extent.

²¹ “Japan makers to reduce reliance on China suppliers: Nikkei survey”, Nikkei Asia, December 1, 2022, <https://asia.nikkei.com/Spotlight/Supply-Chain/Japan-makers-to-reduce-reliance-on-China-suppliers-Nikkei-survey>

²² Fukutaro Yamashita, Shinsuke Yasudam, “Japanese, US Companies Rushing to Pull Production out of China”, Yomiuri, January 16, 2023, <https://japannews.yomiuri.co.jp/world/asia-pacific/20230116-84231/>

²³ Mathieu Duchâtel, “Resilience, not Decoupling: Critical Supply Chains in China-Japan Relations”, Institut Montaigne, August 28, 2020, <https://www.institutmontaigne.org/en/analysis/resilience-not-decoupling-critical-supply-chains-china-japan-relations>

2 Europe's wary convergence

Supply chain security, controls over technology transfers, industrial policy, and strategic sectors are also at the heart of Europe's public debates today. Japanese officials argue that the European Commission's "open strategic autonomy" is close to Japan's "economic security" – **close enough to provide a solid basis to deepen EU-Japan cooperation** in the new areas covered under the Japanese vision of economic security.²⁴ At first glance however, the Commission's "open strategic autonomy" has a very different emphasis – it prioritizes rules-based trade and multilateralism, not supply chain resilience and critical technologies.²⁵ Even though the EU's trade strategy talks about "assertiveness" against unfair and coercive practices, thereby providing some overlap with Japan's economic security agenda, **the two concepts are far apart**. In private, EU officials warn that "economic security" is a dangerous expansion of the logic of national security to economic activity. This view, which seems particularly strong in DG Trade, argues that economic security threatens free markets and the multilateral trade system.²⁶ In fact, **EU-Japan common ground comes from the practical rather than the theoretical level**.

Since the 2016 release of a new EU China policy strategy, European institutions have made rapid progress in building a toolbox of defensive instruments to **address problematic asymmetries in EU-China trade and investment relations, and China's systematic absorption of critical European technology**.²⁷ The two main pillars of the EU's toolbox

²⁴ Author's interviews, November 2022.

²⁵ DG TRADE, European Commission, "An open, sustainable and assertive trade policy, open strategic autonomy", February 2021, https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159434.pdf

²⁶ Author's interviews, February 2023.

²⁷ For an overview of EU-China relations, François Godement, "Europe's pushback on China", Institut Montaigne, Policy Paper, June 2020, <https://www.institutmontaigne.org/en/publications/europes-pushback-china>

addressing technology transfers are the Foreign Direct Investment screening regulation and a revamped dual-use export control regulation.²⁸ It is complemented by several tools seeking to level the playing field. In November 2022, the EU adopted an anti-subsidy regulation which considerably strengthened the powers of the European Commission to investigate, inspect and impose corrective measures and penalties when a foreign subsidy distorts competition in the EU.²⁹ In 2022 only, under less strict EU anti-subsidy rules, anti-subsidy duties were imposed against preferential financing provided by China to Indonesia, as part of a complex subsidy arrangement specifically designed for export of steel products to the EU,³⁰ and for imports of optical fiber cables from China.³¹ In August 2022, the EU adopted an international procurement instrument, which imposes measures limiting non-EU companies' access to the EU public procurement market if these companies' governments do not offer similar access to EU businesses.³²

Table 1 breaks down the EU policy instruments that can be listed as “economic security”-like instruments. Indeed, most have been created to level

²⁸ For an analysis of the EU's investment screening and dual-use regulations: Mathieu Duchâtel, “Technology transfers: the case for an EU-Japan-US cooperation framework”, Institut Montaigne, Policy Paper, March 2022, <https://www.institutmontaigne.org/en/publications/europe-new-geopolitics-technology>

²⁹ European Council, European Parliament, **Regulation of the European Parliament and of the Council on foreign subsidies distorting the internal market**, Brussels, November 16, 2022, <https://data.consilium.europa.eu/doc/document/PE-46-2022-INIT/en/pdf>

³⁰ European Commission, “EU counters steel subsidies resulting from export restrictions on raw materials and transnational subsidies from China”, March 16, 2022, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1774

³¹ European Commission, “Commission imposes anti-subsidy duties on imports of optical fiber cables from China”, January 19, 2022, https://policy.trade.ec.europa.eu/news/commission-imposes-anti-subsidy-duties-imports-optical-fibre-cables-china-2022-01-19_en

³² European Council, European Parliament, **Regulation of the European Parliament and of the Council on the access of third-country economic operators, goods and services to the Union's public procurement and concession markets and producers supporting negotiations on access of Union economic operators, goods and services to the public procurement and concession markets of third countries (International Procurement Instrument - IPI)**, June 23, 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R1031&from=EN>

the playing field and correct asymmetries with China’s state capitalism. Some, especially in the two areas of export control and investment screening, have a strong military/dual-use dimension as they seek to avoid access to European technologies for military end-uses. Others proceed from a strategic sector logic – the Chips Act, but also IPCEI and the Critical Raw Material Act.

**Table 1:
The EU’s “economic security”-like instruments**

Instrument	Aim	Scope	Status
Dual-use export control	Impose export authorisation requirements on technology and goods for both military and civilian use. 2021 Recast: Control exports of items (particularly cybersurveillance equipment) which might be used for repression or human rights violations.	Member States have responsibility for issuing licenses and addressing non-compliance. Annual reporting on dual-use item exports. Annual updating of items subject to control (last updated February 2023). Goal: create an “enforcement coordination mechanism” to allow greater information-sharing between Member States and increase their ability to effectively enforce export controls.	A Recast of the original 2009 Regulation has been in force since September 2021 .

.../...

Instrument	Aim	Scope	Status
Investment screening regulation	<p>Counter potential risks to security and public order by boosting national FDI screening by Member States.</p> <p>Boost cooperation and information-sharing on investment screening.</p>	<p>Several investment areas: critical infrastructure (incl. energy, transport, health, media, defense), critical technologies (incl. AI, semiconductors, nuclear), data, and media freedom and pluralism.</p> <p>Cooperation mechanism allowing Member States or Commission to raise concerns about FDI in other Member States.</p> <p>Sets minimum standards for Member States' screening mechanisms.</p>	Entered into force in October 2020 .
Anti-subsidy	Counter the impact of non-EU governments' subsidies for businesses in gaining advantage over EU competitors.	<p>Allows imposition of countervailing duties to offset the benefits of foreign subsidies.</p> <p>Conditions of imposing anti-subsidy measures: benefits must come from specific subsidy; must be a material injury on EU industry from a like product; causal link between subsidized import and material injury; and the anti-subsidy measure must not work against EU interest.</p> <p>Anti-subsidy measures lapse after 5 years, unless review concludes material injury would continue measures being reversed.</p>	<p>Updated several times recently (2016, 2017, 2018, and 2020).</p> <p>Updates to calculations of subsidy impact.</p>

.../...

Instrument	Aim	Scope	Status
<p>International procurement instrument (IPI)</p>	<p>Counter lack of level playing field in international procurement tenders.</p> <p>Limit access to EU procurement tenders for companies from non-EU states where EU companies' access is similarly limited.</p> <p>Improve EU leverage in opening up of procurement markets internationally.</p>	<p>The Commission determines whether IPI measures should be taken against third-country companies.</p> <p>IPI measures compel EU procurement entities to apply price adjustment measures to companies from such third countries.</p>	<p>Entered into force in August 2022.</p>
<p>Anti-coercion instrument (ACI)</p>	<p>Deter third countries from targeting the EU and EU Member States with deliberate economic coercion.</p> <p>Targets: "measures affecting trade or investment that interfere in the legitimate sovereign choices of the Union or a Member State".</p>	<ul style="list-style-type: none"> • An expected "deterrence effect" • Dialogue and engagement with the coercive party as a first step • A large variety of retaliation countermeasures as a last resort (trade restrictions, restrictions of access, sanctions...) • Specific roles given to the Commission versus EU Member States 	<p>Ongoing trilogue negotiations (On March 28, 2023, the Council and the Parliament reached a provisional political agreement on the ACI).</p> <p>One of the priorities of the Swedish presidency.</p>
<p>EU Chips Act</p>	<p>Rapidly boost an EU semiconductor supply chain.</p> <p>Double EU's global market share of semiconductor production to 20% by 2030.</p>	<p>Over €43 billion investment.</p> <p>Chips for Europe Initiative: investment through Chips Joint Undertaking for R&I and for developing an EU semiconductor ecosystem.</p> <p>Chips Fund: access for startups to financing.</p> <p>Coordination mechanism.</p>	<p>In trilogue negotiations between the Commission, the Council, and the Parliament</p> <p>Council adopted position in December 2022. Parliament adopted position in February 2023.</p>

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Instrument	Aim	Scope	Status
Important Projects of Common European Interest (IPCEI)	Guidance for state aid rules vis-à-vis projects deemed in common EU interest.	Aid criteria: necessary, proportionate, negative effects in distorting competition inferior to positive effects, and limited in time.	In action. Revision of IPCEIs in November 2021 (in place from January 2022).
EU Critical Raw Materials Act	Ensure “adequate and diversified supply for Europe’s digital economy as well as for the green transition”.	<i>Pending Commission proposal.</i>	Announced in the 2022 State of Union speech. Publication of proposal on 16 March 2023 .

To complement these defensive measures, the EU is taking cautious steps to partially loosen the strict constraints it has imposed on its industrial policy. European competition law has been built to prevent imbalances within the single market, for example to prevent larger Member States from subsidizing large-scale industrial projects which smaller Member States would never be in a position to afford. This is one of the foundations of the European single market: **state aid for production and manufacturing is forbidden unless it is exceptionally authorized**. Public support is limited to innovation and R&D, with stringent rules to ensure it generates benefits across the Union. This is only in recent years that the European Commission has reconsidered this approach, creating Important Projects of Common European Interest (IPCEIs), which **allow public aid for prototype production lines**.³³

The EU Chips Act has created a legal basis for an exemption regime to European competition law, under which the Commission can approve large state aid packages for “first-of-a-kind” industrial projects.³⁴ It has

³³ For an analysis of the remaining tensions between Important Projects of Common European Interest and EU competition policy: Andreas Eisl, “Important Projects of Common European Interest (IPCEIs) as a New Form of Differentiation: An Analysis of Their Challenges for the European Single Market”, *EU Idea*, Policy Paper no. 18, March 2022, https://euidea.eu/wp-content/uploads/2022/03/euidea_pp_18.pdf

³⁴ Mathieu Duchâtel, “Semiconductors in Europe: the Return of Industrial Policy”, Institut Montaigne, Policy Paper, March 2022, <https://www.institutmontaigne.org/en/publications/europe-new-geopolitics-technology>

also legalized “priority orders” and common purchasing, instituted a European Semiconductor Board, which oversees information requests to companies and monitors supply chain risks. It also plans **cooperation with the US, Japan, Singapore, South Korea, and Taiwan** on standardization, talent development, and information exchange on chokepoints. An amended version of the Chips Act should be adopted during the first semester of 2023. But this embrace is fragile, and so controversial across European political forces that it still seems reversible, even at a time when other large industrialized economies – the United States, Japan, China – are doubling down on industrial subsidies and various public aid schemes. While the European focus on the semiconductor sector raises a practical question of possible industrial policy complementarities with Japan, there remains a **deeper level difference between the EU and Japan regarding the threats and opportunities of using industrial policy tools strategically.**

Like Japan, the EU is also taking steps to address supply chain risks – risks of disruption that arise from international security crises and wars, but also as the Covid-19 pandemic showed, from non-traditional security threats. After a scoping exercise that identified critical dependencies, the Commission has announced in September 2022 work towards the adoption of an EU Critical Raw Materials Act.³⁵ The starting point is to empower the Commission to list “strategic projects of European interests” and to encourage Member States to be especially vigilant about supply chain risks relating to them. Those projects would benefit from measures such as stockpiling, recycling and better access to finance, in particular through the creation of a European sovereign fund to complement IPCEIs.

In this supply chain security areas, **2023 has started with a renewed emphasis on the importance of free trade agreements as the best instrument to improve European resilience** – rather than outright reshoring.

³⁵ Thierry Breton, “Critical Raw Materials Act: securing the new gas & oil at the heart of our economy”, September 14, 2022, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_5523

In the case of the Covid-19 pandemic for example, the Commission argues that even if production of masks had been concentrated in Europe, a mask crisis would still have occurred during the first wave of Covid-19 in 2020, because “the shortage was due to a huge rise in demand that global supply could not satisfy”.³⁶ There are, however, according to the Commission, crisis management lessons to be learned from recent supply chain crises, which is why the European Commission is working to identify strategic dependencies and to better diversify “sources of supply”.³⁷

This focus on trade is consistent with Ursula von der Leyen’s emphasis, in her 2022 State of the Union address, on ratification of FTAs with Chile, Mexico and New Zealand and on conclusion of agreements with Australia and India from the angle of their benefits for the EU’s supply chain security, in particular when it comes to securing critical raw materials.³⁸ At the same time the Commission, backed by Germany, is pushing to fast-track FTA approvals by skipping the national/regional parliamentary ratification process.³⁹ **The initiative is unlikely to succeed but shows the urgency with which the Commission sees the resumption of an ambitious free-trade agenda.**

It also explains why the EU remains broadly cautious about industrial policy. The view that the **EU Chips Act and NextGenerationEU are exceptions rather than a new approach is gaining ground in Europe.** More generally, the EU’s current focus on free trade agreements as the key response to supply challenges also constitutes a political reaction to years dedicated to building the EU’s defensive toolbox at the expense of

³⁶ DG TRADE, European Commission, “An open, sustainable and assertive trade policy, open strategic autonomy”, February 2021

³⁷ *Ibid.*

³⁸ European Commission, “2022 State of the Union Address by President von der Leyen”, September 14, 2022, https://ec.europa.eu/commission/presscorner/detail/en/speech_22_5493

³⁹ Barbara Moens, Sarah Anne Aarup, and Camille Gijs, “Brussels launches power grab to fast-track EU trade deals”, *Politico*, October 6, 2022, <https://www.politico.eu/article/eu-tries-to-grab-power-back-on-trade-deals/>

the EU's traditional free trade agenda. This pushback is particularly visible in Northern Europe and at the European Parliament. However, the debate between the advocates of industrial policy measures and the proponents of free-trade first is not over, and the necessity to foster the European energy transition is another domain through which industrial policy tools may be accepted by the European institutions and Member States, as shown by the proposal for a Net Zero Industry Act.⁴⁰

In this context, is there a majority in Europe in favor of seeing “economic security” as a strategic priority? France embraced the term long ago – it set up an economic security and strategic information service within the Ministry of Economy, with both defensive and offensive attributions back in 2016.⁴¹ Germany has more recently followed suit, setting up dedicated economic security consultations with Japan.⁴² The Netherlands has also incorporated the notion as part of its strategic review of the country's China policy.⁴³ Dutch intelligence services have stated clearly that they considered China the “greatest threat to Dutch economic security”.⁴⁴ In Brussels, there are signs of division within the Commission. President von der Leyen's team clearly supports the notion, as suggests its inclusion in her joint communiqué with President Biden. The term “economic security” was inserted in the EU-Japan joint communiqué by the European

⁴⁰ European Commission, *Proposal for a regulation of the European Parliament and of the Council on establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem (Net Zero Industry Act)*, March 16, 2023, https://single-market-economy.ec.europa.eu/publications/net-zero-industry-act_en

⁴¹ Ministère de l'Économie, des Finances, et de la Souveraineté industrielle et numérique, “Le Service de l'information stratégique et de la sécurité économiques (Sisse)”, <https://www.entreprises.gouv.fr/fr/secureite-economique/service-de-l-information-strategique-et-de-la-securite-economiques-sisse>

⁴² Author's interview with a senior European diplomat, February 2023.

⁴³ Government of the Netherlands, “A stronger approach to threats from other countries”, November 28, 2022, <https://www.government.nl/latest/news/2022/11/28/a-stronger-approach-to-threats-from-other-countries>

⁴⁴ “China 'greatest threat' to Dutch economic security, Dutch intelligence says”, *Reuters*, April 17, 2023, <https://www.reuters.com/world/europe/china-greatest-threat-dutch-economic-security-dutch-intelligence-says-2023-04-17/>

External Action Service, to the surprise of the Directorate-General for Trade. Overall, **the foreign policy perspective has prevailed so far in consultations with Japan and the United States**, despite the competition and trade policy perspectives being much more critical of an embrace of economic security.

In sum, the EU and Japan converge on a common defensive agenda with regards to technology transfer risks and supply chain resilience. But there are also several critical differences of approach. They primarily concern offensive measures to revive industrial production. The EU is displaying today strong hesitation regarding the efficiency and the risks of industrial policy through direct subsidies to manufacturing. Industrial policy is a key issue for the European debate at the moment. The EU cannot subsidize industry by itself, and allowing Member States to do so by themselves (by extending to other strategic sectors the exemption logic of the Chips Act) would distort competition in the single market. **But how to adjust to a world in which major powers all practice industrial policies?** Some would argue that this is an issue calling for greater EU integration. But at this stage of the debate in Europe, this is a major difference with the Japanese clearer embrace of industrial policy through direct incentivizing of local production. On a deeper level, the EU and Japan differ in their appreciation of where the scope of national security should end. Europe draws a clear line to exclude competitiveness from this scope. Concepts such as “superiority” and “indispensability” are simply taboo in Brussels. These differences in approach constitute obstacles to the elaboration of an ambitious supply chain security agenda in EU-Japan relations. Indeed, despite the issue being treated as urgent in both Europe and Japan, no discussion format has so far provided an appropriate venue for kickstarting a cooperative agenda beyond expressions of principles and goals. **Moving that agenda forward without agreeing internally on economic security will not be easy for Europe.** The only pragmatic solution seems to unpack economic security into practical issues where agreement – and a sense of urgency – can be more easily reached.

3 Formats for integrating economic security issues into the EU-Japan partnership

EU-Japan cooperation is already well structured. The framework for EU-Japan cooperation was built in the past decade (the negotiation of the Economic Partnership Agreement started in 2012), with key achievements being reached in the past three years. Despite important differences in thinking, practical convergence exists between the EU and Japan on many of the issues that give substance to Japan's economic security agenda. This suggests that upgrading bilateral cooperation to integrate some new aspects that are high on the priority list of both sides is possible. By order of difficulty, they are:

- Upgrading EU-Japan cooperation on technology transfers;
- Better integrating supply chain security in the EU-Japan relationship;
- Elaborating a concrete anti-coercion agenda;
- Identifying industrial complementarities;
- Incorporating a shared security vision as a strategic driver for EU-Japan cooperation.

The analysis of the potential of existing EU-Japan formats, but also of formats which Japan has joined but not the EU, immediately shows that there are many channels to address economic security issues; but that **an overarching strategic coordination, backed up by strong political leadership, is missing.**

This policy paper makes five suggestions to upgrade EU-Japan cooperation, so as to reach a compromise between Japan's straightforward industrial policy and Europe's remaining worries about anti-market moves:

Recommendation 1

Support Japan's ambitious G7 economic security agenda with the view that G7 members can constitute a preliminary nucleus for more inclusive plurilateral cooperation, especially with regards to supply chain resilience and coercion. For Europe, working through the G7 is more pragmatic than joining the Indo-Pacific Economic Framework for Prosperity (IPEF), which currently raises insurmountable issues in the area of data flows given Europe's restrictive rules in that domain.

Recommendation 2

Empower the EU-Japan High-Level Economic Dialogue so that it becomes the main channel for bilateral cooperation and provides political impetus within Europe to enhance work on economic security topics, in particular through the Digital Partnership. In the current setting of the European Commission, the Commission's President should represent the EU alongside its Vice-President/Trade Commissioner.

Recommendation 3

Make full use of the Digital Partnership, the only format currently designed to facilitate supply chain cooperation.

Recommendation 4

Sponsor a bold supply chain resilience initiative, by building on the Commission’s Critical Raw Materials Club proposal. The supply chain resilience initiative would build on the results of the G7, and propose to bring under a single summit umbrella the various supply chain initiatives and channels, which currently coexist without coordination.













Recommendation 5

Recalibrate the METI/DG TRADE/USTR Ministerial meeting format to focus on trade as a supply chain security instrument.

Table 2:
Formats to upgrade EU-Japan economic security cooperation, and aspects covered

	Supply chain security	Complementary of industrial policies	Cooperation on anti-coercion	Cooperation on controlling technology transfers	Feasibility/obstacles
Expanding the scope of the EU-Japan Economic Partnership Agreement					Ongoing expansion to include rules on data flows was planned, no further expansion possible.
Expanding the scope of the EU-Japan Digital Partnership					Only existing bilateral channel designed to accommodate supply chain issues. In need of political leadership.
Empowering the EU-Japan High-Level Economic Dialogue					Ideal format to provide political guidance to the Digital Partnership and on issues of economic security.
EU joining the Indo-Pacific Framework for Economic Cooperation					Insurmountable differences on approaching data flows from a European perspective.

.../...

	Supply chain security	Complementary of industrial policies	Cooperation on anti-coercion	Cooperation on controlling technology transfers	Feasibility/obstacles
Working through the G7					Can provide overall strategic guidance but cooperation should be more inclusive, and European reluctance to support excessive securitization of international economic activity is in full display.
Recalibrating the METI/DG TRADE/ USTR Ministerial meeting					Limited portfolio of the USTR means that the only economic security issue that can be addressed is the role of trade as a supply chain resilience instrument.
EU-Japan Trade and Technology Council/ trilateralizing the Transatlantic TTC					Creating a new framework is currently not a priority, but trilateralizing cooperation on export control and investment screening is in the interest of Europe.

The **EU-Japan Economic Partnership Agreement (EPA)** entered into force in February 2019. It is first and foremost a market access agreement that lowers tariffs and eliminates barriers across a wide range of sectors – the EU Commission’s initial estimate was that the agreement would progressively remove €1 billion in export tariffs per year over

time.⁴⁵ **But it also constitutes a model new-generation agreement that incorporates a spectrum of issues wider than market access**, in line with DG TRADE's ambitions for such agreements.⁴⁶ Indeed, the agreement goes beyond free trade to set high-level norms and standards in areas such as environmental protection and labor rights.⁴⁷ But the scope of the EPA is not meant to be expanded beyond data flows, an issue which had been left open in the agreement as an explicit review clause. Therefore, the EPA is not a realistic framework to expand EU-Japan cooperation into new areas.

The EU-Japan Digital Partnership, concluded in May 2022 at the 28th EU-Japan summit, is the first agreement of this kind signed by the EU with a partner country.⁴⁸ The partnership is not a treaty. It is rather an ambitious statement of intent to develop the relationship in the digital economy, in order to unlock economic growth and to uphold a values-based "human-centric" approach to digital transformation. But it provides a framework for concrete cooperation, such as the ongoing construction of the first optic-fiber cable connecting Northern Europe and Japan via the Arctic, through an American route.⁴⁹

⁴⁵ European Commission, "EU-Japan trade agreement explained", https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/japan/eu-japan-agreement/agreement-explained_en

⁴⁶ Claes G. Alvstam and Erja Kettunen, "The EU-Japan Economic Partnership Agreement: Second Best Option or New Generation of Preferential Trade Arrangements?", *CESifo Forum*, Vol. 20, no. 2, June 2019, <https://www.cesifo.org/DocDL/CESifo-Forum-2019-2-alvstam-kettunen-eu-japan-june.pdf>

⁴⁷ Céline Pajon, Eva Pejsova, "EU-Japan Relations : Moving Forward", Centre for Security, Diplomacy and Strategy, Policy Brief, June 2021, https://brussels-school.be/sites/default/files/CSDS%20Policy%20brief_2106.pdf

⁴⁸ Full text of the partnership available at https://www.digital.go.jp/assets/contents/node/information/field_ref_resources/b530adc8-3af1-4d9f-af84-6f21af4067af/973dfec5/20220512_news_digital_group_original_02.pdf

⁴⁹ Anne Kauranen, "Arctic data cable linking Europe to Japan secures first investment", *Reuters*, December 2, 2022, <https://www.euronews.com/next/2022/12/02/arctic-cable>

This Digital Partnership is so far the only EU-Japan bilateral agreement that addresses supply chain security. The resilience of global semiconductor supply chains is a priority area for the partnership. In line with the EU Chips Act, it provides for joint monitoring of supply chain disruptions to enable early warning, “exchange of information on long-term investment strategies and coordination of export controls”. It also encourages research cooperation in “areas of combined strength”. Finally, it mentions the need for a “multilateral initiative” to extend EU-Japan semiconductor supply chain resilience. The same focus on research cooperation and information sharing on respective policies extends to 5G/6G, high-performance computing, cybersecurity and AI.

Therefore, even though the partnership “will not create legal obligations on either side but will be based on voluntary cooperation”, **it constitutes a possible framework to upgrade bilateral cooperation in the direction of “economic security”**. The partnership functions as an add-on to the EPA. It is designed to flexibly accommodate the creation of possible new cooperation channels as long as they are part of the digital economy. The semiconductor work shows that approaching a specific sector simultaneously from the angles of industrial policies, export control and innovation cooperation is possible within this Digital Partnership framework. The same approach could be extended to critical raw materials, batteries, cloud computing or permanent magnets. **Cooperation could cover information sharing on technology transfer controls beyond the area of export control, to also include investment screening, and research and education cooperation**. Under the framework, the two sides could also work out a data-sharing mechanism to monitor supply chains beyond semiconductors.

“Voluntary cooperation” needs political guidance and leadership. To that aim, the **EU-Japan Digital Partnership** has instituted an annual meeting at ministerial level (Japan-EU Digital Partnership Council), which has yet to take place. The main contributors on the Japanese side are the Digital Agency, the Ministry of Internal Affairs and Communications, and the

Ministry of Economy, Trade and Industry. It is expected to take stock of progress in the partnership and provide political guidance on the next steps. Its secretariat will be provided informally by the Digital Agency and the European Commission's services (DG CONNECT), which will coordinate activities on their respective sides, involving all relevant services.

The EU-Japan High-Level Economic Dialogue is a promising format to integrate issues of economic security in the framework of EU-Japan cooperation, but its current setting would need to be revamped. Two meetings have taken place so far, in 2018 and at the end of October 2022 in Brussels. The Japanese side is represented at the ministerial level by MOFA and METI. On the European side, Valdis Dombrovskis, Executive Vice-President and Commissioner for Trade, and Mairead McGuinness, Commissioner for Financial Stability, Financial Services and the Capital Markets Union, represented the EU at the 2022 Brussels dialogue. At the 2018 dialogue in Tokyo, the European Commission was represented by its Vice-President for Jobs, Growth, Investment and Competitiveness, Jyrki Katainen.

In theory, this dialogue could be the right platform to provide political impetus to advance the EU-Japan partnership in new areas. **The EU and Japan can find some inspiration in the US-Japan Economic Policy Consultative Committee.** This 2+2 Format, bringing together the US Department of State, the US Department of Commerce, Japan's METI and MOFA has provided political leadership in support of economic security cooperation, stating that "economic security is indispensable to overall security" and that "diplomacy and economic policy are intertwined and require a coordinated approach".⁵⁰ The stated goal of the US-Japan 2+2 is to "advance bilateral collaboration to counter economic coercion, build more resilient supply chains, strengthen energy and food security, and

⁵⁰ US Department of State, "Joint Statement of the U.S.-Japan Economic Policy Consultative Committee: Strengthening Economic Security and the Rules-Based Order", July 29, 2022, <https://www.state.gov/joint-statement-of-the-u-s-japan-economic-policy-consultative-committee-strengthening-economic-security-and-the-rules-based-order/>

promote the development of critical and emerging technologies in support of the global, rules-based economic order”.⁵¹

But lacking regularity, the **EU-Japan High-Level Economic Dialogue** has not yet been able to fulfill a political leadership function in upgrading EU-Japan economic cooperation – this strategic function has been performed by the EU-Japan Summit. How can the High-Level Economic Dialogue complement the Summit in providing political leadership and guidance for an EU-Japan joint economic security agenda? From a European perspective, **this is a question of finding the right composition on the EU side**, so that the EU’s setup covers supply chain resilience, industrial policy complementarities, anti-coercion and technology transfer controls. The Trade Commissioner’s presence is vital. But the current organization of the EU Commission, in particular overlapping responsibilities between Commissioner for Internal Market Thierry Breton and Vice-President Margarethe Vestager in digital and industry, is detrimental the international dimension of the Commission’s work on those issues. In this context, and in the absence of a supply chain resilience Commissioner, President von der Leyen is today best positioned to represent the EU on economic security matters alongside Executive Vice-President Dombrovskis, especially in the context of her spearheading a new initiative by the Commission in the area of economic security.

A strengthened EU-Japan high-level economic dialogue is needed to complement the revival of the G7 as a key political coordination platform, inclusive of the EU, in the context of the Russian war in Ukraine. Japan, which holds the G7 presidency in 2023, has high ambitions to internationalize its economic security agenda. Economic security has appeared in 2022 on the G7 agenda, with the Leaders’ communiqué mentioning the commitment to “strategic coordination” in that area, in particular to “improve assessment, preparedness, deterrence, and response” to supply

⁵¹ *U.S.-Japan Economic Policy Consultative Committee Vice-Ministerial Meeting, January 13, 2023, <https://www.state.gov/u-s-japan-economic-policy-consultative-committee-vice-ministerial-meeting-2/>*

chain disruption risks, including as a result of economic coercion.⁵² Prime Minister Kishida intends to further raise the importance of the theme at the 2023 G7 summit in Hiroshima and at several ministerial consultations (trade, foreign affairs, digital and technology). The aim of the Japanese presidency is to create a mechanism institutionalizing supply chain security cooperation among G7 countries and the EU by bringing together under a single umbrella various cooperation channels.⁵³ Japanese Minister of Economy, Trade and Industry Yasutoshi Nishimura has raised the topic of possible joint “countermeasures” targeting vulnerable chokepoints as a deterrent or a response to economic coercion by authoritarian states to be addressed at the G7 summit.⁵⁴ European policymakers involved in the preparation of the summit consider that a common political definition of what constitutes economic coercion would be a more realistic successful political outcome.⁵⁵ The April 2023 Foreign Ministers communiqué only contains a statement of intention in that area, rather than a concrete proposal, by stressing the “importance of equipping ourselves with necessary means to counter economic coercion and working together with like-minded partners, including partners with emerging or developing economies, to improve our assessment, preparedness, deterrence, and response to such threats, based on robust diplomatic coordination.”⁵⁶

⁵² “G7 Leaders Communiqué”, Elmau, June 28, 2022, <https://www.g7germany.de/resource/blob/974430/2062292/fbdb2c7e996205aee402386aae057c5e/2022-07-14-leaders-communiqué-da-ta.pdf?download=1>

⁵³ “With China in mind, G-7 to call for groupwide supply chains”, *Nikkei Asia*, March 12, 2023, <https://asia.nikkei.com/Spotlight/Supply-Chain/With-China-in-mind-G-7-to-call-for-groupwide-supply-chains#>

⁵⁴ “Japan minister calls for new world order to counter rise of authoritarian regimes”, *The Asahi Shimbun*, January 6, 2023, <https://www.asahi.com/ajw/articles/14808689>

⁵⁵ Author’s interview, February 2023.

⁵⁶ The full Foreign Ministers Communiqué (April 18, 2023) is available on the website of the Japanese Foreign Ministry: https://www.mofa.go.jp/ecm/ec/page24e_000391.html

This year's summit in Japan is an opportunity not to be missed to narrow down differences and create political impetus for wider acceptance of an economic security policy framework in Europe. The G7 remains an informal forum of heads of states and government, designed for frank and open discussions between leaders, but it is in a unique position to set a strategic course and send political messages. On the one hand, the EU is reluctant to agree to an excessive securitization of economic activity. The two main European concerns are the further undermining of free trade and multilateralism. On the other hand, sending a strong political signal internally and to China that G7 members can work together on supply chain security and anti-coercion is in the interest of Europe. Achieving results in the area of economic security at the G7 can also reinforce the EU's bargaining position in ongoing free trade negotiations with Australia and India, by demonstrating that Europe continues to realistically adjust to the Chinese geopolitical challenge and the Russian threat. An agreement at the G7 level can also build political support for the Commission's idea to create a **Critical Raw Materials Club**, which would include G7 members, but not only.⁵⁷ Indeed, a G7 Critical Raw Materials Club would be mostly a buyers club. The resource endowment of G7 countries (especially the United States) is insufficient to cover the needs, and any Club would need to include producers and exporters. Even if the EU favors cooperative clubs larger and more inclusive than the G7, **the G7 format is realistically Europe's best option by default of better existing ones to kickstart advancing an ambitious cooperative agenda** on supply chain security, industrial policy complementarities and anti-coercion.

As the EU develops its own response to supply chain disruption risks, one key question is whether cooperation mechanisms that include Japan but not Europe represent a threat, an opportunity, or have little impact. The EU is currently watching the development of the **Indo-Pacific**

⁵⁷ "Dutch present priority areas for EU critical raw material strategy", *Euractiv*, February 7, 2023, <https://www.euractiv.com/section/politics/news/dutch-present-priority-areas-for-eu-critical-raw-material-strategy/>

Economic Framework for Prosperity (IPEF) with similar reservation and skepticism. This is in large part due to a path-dependence preference for free trade agreements as the much better alternative. More precisely, the inclusion of data in the framework of IPEF makes it difficult for the EU to join given European more restrictive rules on data flows than the ones promoted by the United States in that framework. As long as data rules represent an insurmountable obstacle, IPEF will not be a realistic option to advance the EU's agenda on supply chains – in the words of a European diplomat, the EU has “boxed itself in a corner” in that area.

Missing participation in the Quad, which is at the origin of the **Supply Chain Resilience Initiative** (formally launched by the Trade Ministers of India, Japan and Australia in April 2021), is a natural result of the specificity of this cooperation framework, led by four powers intending to shape the order in the Indo-Pacific region and built around a naval cooperation core. Having the EU join is not realistic at this stage.

Missing participation in the **Chip 4 Alliance**, meant to bring the US, Taiwan, South Korea and Japan closer in the area of semiconductors, has so far had little impact on Europe. The Chip 4 Alliance, proposed by Joe Biden in March 2022, is viewed with skepticism in Europe because of the enormous difficulties the US faces in kickstarting a tangible process – the process remains slow and at a working-level; the second meeting after months of coordination is said to have lasted one hour only and to have reached no commitment.⁵⁸ **Belgium, France, Germany, Italy and the Netherlands – the five European countries that matter in the semiconductor industry – should propose their own initiative, under the EU umbrella.** The third pillar of the EU Chips Act mentions supply chain cooperation with the US, Japan, Korea, Taiwan and Singapore as a policy goal. Acting on this goal will require an effective European Semiconductor Board to be in place so that there is a precise understanding

⁵⁸ “Chip 4 Alliance: Senior officials finally meet to discuss semiconductor supply chain”, *Tech Wire Asia*, February 28, 2023, <https://techwireasia.com/2023/02/chip-4-alliance-the-first-meeting-of-senior-officials-finally-transpired/>

in Europe of semiconductor supply chain bottlenecks and risks. The EU's bilateral relationship with Japan can pave the way for such a larger outcome, building on the very preliminary steps undertaken as part of the Chip 4 Alliance.

As the EU Chips Act already favors a club logic for Europe's international cooperation, **the EU should consider a bold supply chain resilience initiative that brings together the work soon to be achieved at the G7, the idea of a Critical Raw Materials Club, the specific disruption risks in the semiconductor industry, and the other sectors, such as pharmaceuticals, which could suffer shocks in future geopolitical crises, or be weaponized as part of coercive strategies.** This could take the form of a supply chain resilience summit to be hosted in Europe, and open to cooperative partners.

Japan always raises aligning the agenda of EU-Japan consultations on the agenda of the **Transatlantic Trade and Technology Council** in bilateral meetings with the EU. Currently, neither the EU nor the United States is interested in a trilateral expansion of a format that remains a work in progress. A trilateral format makes enormous political sense however when it comes to managing technology transfers. Japan has championed the idea that more efficient alternatives to Wassenaar were needed in the area of dual use export control. This idea that the technology item defines the cooperation format has been behind the trilateral US-Japan-Netherlands work on semiconductor export control. A previous policy paper outlines how US-Japan-EU cooperation in the area of technology transfer controls could look like.⁵⁹ An additional trilateral idea is to recalibrate the **METI/DG TRADE/USTR Ministerial meeting** format to focus on trade as a supply chain security instrument. The format was created with a focus on responding to Chinese non-market policies, especially subsidies.⁶⁰

⁵⁹ Duchâtel, "Technology transfers: the case for an EU-Japan-US cooperation framework", *op. cit.*

⁶⁰ "Joint Statement on Trilateral Meeting of the Trade Ministers of the United States, Japan, and the European Union", September 25, 2018, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-trilateral>

The embrace of industrial subsidies in the semiconductor sector in the US, Japan and Europe makes the issue less salient. The portfolio of the US Trade Representative, limited to international trade negotiations, dispute settlement and enforcement, means that only that aspect of the economic security agenda can be addressed in that format.

Conclusion

As a concept, economic security needs to be handled carefully. The logic of “securitization”, conceptualized by Barry Buzan, provides an important warning as the notion gains greater acceptance in Europe.⁶¹ When an issue is defined in the framework of national security, it justifies policies exempted from democratic accountability. Securitization exempts from due democratic processes. Having the European Commission lead a European strategic adjustment to design ambitious policies in the area of supply chain resilience, anti-coercion, industrial policy coordination with international partners and technology transfers controls is making progress without much of a democratic debate. On the contrary, the Commission’s intention to use free trade negotiations as an instrument of supply chain resilience is **sure to encounter resistance, not because opposition to address supply chain risks is to be expected, but rather as a result of ideological opposition to a free trade agenda in parts of Europe**. And conversely, de-risking supply chains in Europe is likely to be hampered by the Commission’s predominant choice of trade instruments, and by the ideological opposition of free trade advocates against all forms of industrial policy – which are practiced almost everywhere else at this time.

This raises a political question for European institutions. Isn’t the context ripe to foster a debate around economic security? Doesn’t economic security provide an important rationale to facilitate domestic acceptance in Europe of the strategic importance of free trade agreements? Who would oppose foreign trade political work that increases the chance that access to critical goods is maintained during geopolitical crises or other disruptions of global supply chains? It would be a creative irony if “economic security” provided a convincing selling point to gain wider support in Europe for public policies, including in the area of trade, that serve European prosperity and resilience.

⁶¹ Barry Buzan, et al., *Security: A New Framework for Analysis*, Boulder, CO: Lynne Rienner Publishers, 1998.

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*Institut Montaigne welcomes thoughts
and ideas on how to address these issues
collectively and put forward recommendations
which serve the public interest.*



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Before 2024, the European Union (EU) will present “initial ideas” for a new “Economic Security Strategy”. This is what the President of the European Commission announced in a major China policy speech last March. Given the idea of “economic security” goes against the free-trade DNA of the EU, it is striking how fast it has chosen to assimilate the notion. It is a necessary adjustment to a deteriorating international environment and to China’s ongoing transformation into a techno-security state. Many of the EU’s new policy instruments actually fall into an “economic security”-like category, from tech transfers, the proposed Critical Raw Materials Act, to changes to anti-subsidy rules and the anti-coercion instrument. Yet, the adoption of an economic security strategy will face challenges and resistance across the EU, as many will question the risk of excessive securitization of economic activity.

Japan was the first advocate of an economic security agenda. The country is strengthening its controls over technology transfers and acting to reduce supply chain disruption risks, and is leading an international effort among industrialized democracies to adopt economic security measures. This agenda will be central to the May 2023 G7 summit in Hiroshima. There are important perception differences between Europe and Japan on how far the national security logic should expand into the economic domain. But there is also a lot of convergence, for example over supply chain security, anti-coercion and controls over technology transfers. These three areas are not properly addressed in the otherwise well-structured set of EU-Japan agreements and communication channels. In parallel, the Japanese example should also prompt Europe to rethink its reluctance towards industrial policy tools. This paper makes constructive recommendations on which existing diplomatic formats can be better used to improve EU-Japan cooperation in those areas.

Overall, economic security as a notion could provide strategic coherence and clarity to the set of defensive, pro-innovation and (so far timid) pro-industry steps that the EU has been taking. It could also provide a convincing selling point to gain wider support across the EU for bolder public policies, including in the area of trade, in a way to guarantee European prosperity and resilience.

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