



Japan's Strategy and US-China geo-technological competition

By Yoichi Funabashi | 28 June 2021

Key Issues

- Much like the US and Europe, Japan is experiencing an erosion of its technological edge because of China's growing dominance.
- Japan has technological strengths that can help it cushion current geopolitical trends, but Japan needs to drastically alter its national security policy to manage geo-technological trends.
- This awareness of a need to regard geoeconomic challenges as an essential part of national security policy is now taking root.
- Unlike traditional national security, when it comes to economic security, companies are the main players – this underscores the importance of a robust and trustworthy partnership between government and business.

Over the past few years, the US has gradually reached bipartisan consensus on the idea that China is its most serious competitor. Japan reached this conclusion almost 10 years ago, when the country was exposed to China's geo-economic coercion over rare earth exports. The ban on rare earths was a major challenge to Japan's economic security, and so was China's retaliation against Japanese claims over the Senkaku Islands with product boycotts, protests, and attacks on Japanese firms throughout Chinese cities. Today, Japan and the US share a similar view of China that is likely to last for years to come. Even Europeans seem to be altering their view of China.

Today, China's actions are part of a deliberate long-term strategy for global power. It uses economic coercion more frequently and its 'wolf warrior' diplomacy

is causing concerns globally. However, we should not neglect the most important element of China's strategy: to maintain production chain superiority and to master key technologies as a means to coerce countries, should they aim to re-shore production or diversify supply chains. This approach is having a decisive role in the growing competition between the US and China. Unlike the Cold War, where nuclear weapons and precision-strike technologies characterised competition between the US and the Soviet Union, the US-China struggle is all about technology.

The aim of this Policy Brief is to better understand the technological underpinnings of global competition and rivalry today, but from a Japanese perspective. The Policy Brief argues that Japan has technological strengths that can help it cushion current

geopolitical trends, but the key point is that Japan needs to drastically alter its national security policy to manage and not suffer geo-technological trends. In the following we look at the features of the US-China technological rivalry, the specific challenges facing Japan and what more it should do to work with allies and partners – including Europeans – and enhance national strength.

‘Geo-tech competition’: Some features

Japan has attained a global reputation for having a competitive technological edge: this is for good reason when we consider the global competitiveness of Japan’s tech firms and the ingenuity of its research and technology base. The hallmarks of Japan’s technology are precision, quality, and high performance. Today, Japanese companies play an important role in upstream industries such as indispensable chemical and electronic materials, spare parts, and precision equipment. However, much like the US and Europe, Japan is experiencing an erosion of its technological edge because of the rise of China. At present, technologies and systems such as 5G and semiconductors, artificial intelligence (AI), quantum computing, and bio-tech are emerging as arenas for fierce geo-tech competition. For Japan and its allies, China’s growing dominance in three major technology domains are a cause for concern.

First is 5G. This is one of the most obvious instances of US-China technological competition, especially since the US took action against the security threats posed by Chinese 5G technology across its communications networks. We can note here the difficulties of separating Chinese state policy and the activities of its companies, and the close proximity of the Communist party, state, and commercial operators in China is a key characteristic of China’s quest for technological dominance. The US was relatively quick to warn of the security dangers of Chinese 5G companies such as Huawei and ZTE. The US encouraged its allies to avoid China’s technology and China’s low-cost 5G equipment. Japan took America’s lead and its main mobile phone carriers, SoftBank, NTT Docomo, and KDDI, have decided to not use Chinese 5G equipment.

The second battleground is semiconductors and microchips. The Taiwanese company TSMC is the

world’s dominant foundry chipmaker, with a global market share of more than 50%. It produces the chips necessary to support the latest 5G and AI technology. However, TSMC was a key supplier for Huawei and so when former President Donald Trump placed Huawei on the United States’ entity list it forced TSMC to stop providing chips to Huawei. The US has since increased its pressure on TSMC to build chips in the US and succeeded in convincing the company to build a plant in Arizona, and meanwhile Japan has also invited a TSMC research and development facility to its shores. This should prove beneficial to TSMC considering how many of the world’s largest semiconductor equipment suppliers are Japanese. The facility is scheduled to start formal research operations next year.

The third field concerns health security. There has been a rise in ‘vaccine nationalism’, where countries focus on their domestic vaccine needs rather than attempt to find a global solution. We have also observed the practice of ‘vaccine diplomacy’, where states use vaccine distribution to advance their diplomatic goals. This has been exemplified recently in a conflict between China and Taiwan. After China’s offer to supply vaccines to Taiwan was rejected due to safety concerns and laws banning their import, Taiwan accused China of intervening in an international deal to supply the country with vaccines that subsequently fell apart. However, Japan recently donated 1.24 million doses of the AstraZeneca vaccine to Taiwan, and the donation was seen as a reflection of the close exchanges between the two countries. Meanwhile, the US also decided to donate 750,000 vaccine doses to Taiwan. These are just a few examples of how vaccines have been used by states to advance their geo-economic goals.

Japan faces key challenges in the geo-tech world

Recent geopolitical activity by China has spurred Japan to find new ways to leverage its position. Broadly, this has led to three strategies: i) forming closer ties with ‘Five Eyes’ countries for economic and technological intelligence; ii) forging a strategic partnership with Taiwan; and iii) utilising ‘the Quad’ as a counterbalance to China. However, Japan faces formidable challenges ahead. A large issue is

Japan's dependence on trade with China. According to JETRO's January 2021 trade statistics, Japan's businesses profit more from trade with China than trade with the US - and this is a long-term trend.

Japanese businesses have profited handsomely during the COVID crisis. At the same time, Japan needs to strengthen its alliance with the US in order to defend its sovereignty and to make sure that Taiwan is defended effectively and robustly. This is a balancing act that Japan has to pursue, and it may become much more delicate in the coming years. In fact, some of Japan's challenges come from America. The Biden administration's trade policy has not yet been articulated and his foreign policy for the middle class, which can effectively be seen as trade policy,

championed by China or the US, and this is why it has advanced an initiative to create the Data Free Flow with Trust framework. Nonetheless, much remains to be seen and these desires remain aspirational at this point.

Japan: The story so far and what needs to be done

In order to address these kinds of new geoeconomic challenges, the Japanese government established an economic security division in the National Security Council Secretariat in April last year in order to be prepared to tackle challenges both institutionally and bureaucratically. This awareness of a need to regard geoeconomic challenges as an essential



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is essentially 'America First lite' protectionism. The US will face great difficulty in reengaging with the Asia Pacific economic regional architecture, such as the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP), and China has already expressed its willingness to join the framework. This places Japan in an extraordinarily difficult position.

Additionally, Japan is now heading for a digital transformation with the emergence of a data-driven society and economy. It is in this area that it will find its interests at odds with that of the US, particularly with regard to how to deal with American digital platforms. At this point, the world is developing into two camps: one autocratic (with 'digital Leninism' and 'data Stalinism', such as in China) vs one where privacy and ownership are protected in data transactions and business (as seen in democracies). Japan is now struggling to find a third way that is not

part of national security policy is now taking root. Additionally, within the ruling Liberal Democratic Party (LDP), the Amari Commission, which looks to address Japan's economic security strategy, has come up with a geoeconomic security strategy document in which they now argue that strategic autonomy and strategic indispensability are two pillars of Japan's economic security strategy.

Japan is now set to establish a digital agency in autumn 2021 to promote digital transformation, particularly in government agencies, as well as to strengthen cybersecurity and cyber intelligence. The Asia Pacific Initiative, an organisation that I co-founded and chair, also established an Institute of Geoeconomic Studies in April 2020 in order to address these issues and is now focused on publishing geoeconomic briefings every week, as well as collaborating to do serious studies on geoeconomics in an interdisciplinary manner by

inviting the participation of government officials, politicians, business leaders, scholars, and lawyers.

However, making economic security policy more effective requires new approaches. Unlike traditional national security, when it comes to economic security, companies are the main players – this underscores the importance of a robust and trustworthy partnership between government and business. As business decisions are mainly made in relation to their profits, it can be hard for governments to ensure companies' cooperation on security matters, particularly when their decisions could create conflicts with their operating markets in other countries. However, increasingly companies are becoming embroiled in state conflicts and targeted by state actors, particularly in the cyber realm. The struggle will be how to ensure companies and governments can agree on objectives without damaging the other's interests.

A classic example is the Japanese government's failure to dissuade three Japanese companies (Hitachi Metals, TDK, and Shinetsu Chemical) from building plants in China, where most of the necessary rare earth metals are found, to produce high-performance magnets. In response to China's control over rare earth metals, Japan, together with the US and the EU, brought the case regarding China's export restrictions on rare earth elements to the WTO and won. Yet the Chinese government doubled down on their efforts to attract the companies to move to China by ensuring the steady supply of rare earth elements. The Japanese government's attempts to nudge the companies to take the 'China plus one' approach, where firms are encouraged to diversify their supplier base in other countries apart from China, has not gained much traction.

Secondly, certainly the US and Japan now jointly pursue a competitive coexistence strategy with China, but this is a long-term vision and strategy, and in this vision, there is no end point or exit strategy. In a way, it is a vision of process and not of structure. At this point, China is not an actual enemy, even if it is the major single strategic rival. At most, there should be a partial managed decoupling so that there will be more room to manoeuvre and enhance diversity and supply resilience. Ultimately, the concept of competitive

coexistence is in itself unstable because it could be inherently contradictory. A more nuanced, or perhaps a varied, approach is necessary to pursue this process.

Finally, the best way to compete with China in technological challenges is to develop and strengthen Japan's competitive prowess and competitive edge in vital industries vis-a-vis China. Without doing that, Japan will find itself depending more and more on China for its market and it will be drawn into China's asymmetrical coercion strategy. These measures require effective public-private partnership. But more fundamentally, a strong boost to industrial competitiveness, as well as cyber power and cybersecurity, is needed. Japan's ability to compete and provide security is dependent on its national economic strength.

Towards a genuine Japanese national security strategy?

If Japan is able to adapt to a changing security environment with bolder political structures and strategies, then it will be better placed to survive in the 'geotech' world. However, fusing economic and security policies is not without hurdles. Any public-private partnerships in economic security policy will raise questions about who leads: companies or governments? Furthermore, we should recognise that any wider 'tech alliance' between Japan and its allies would comprise of governments, which are allies, and companies, which are often competitors in global markets. The logic of commercial competition cannot be completely dampened by security concerns.

Moreover, protecting and selecting one company for governments to partner with for economic security policy may be seen by the public as collusion between government and firms. This could lead to claims of corruption. Reinforcing the idea that the national interest serves special interests could be counter-productive. Additionally, there is a risk that governments could be sued by commercial actors, should government policies be seen to damage company profits and rights. This is a global issue now. Recall how Chinese firms WeChat and TikTok reacted to the Trump administration's idea to block the apps in the US.

Despite these hurdles, and based on the challenges raised in this Policy Brief, Japan needs to establish a 'national security state'. Japan can follow the same trajectory as the US did in the late 1940s, when Washington recognised that the federal government was not effectively organised to handle the new threats of the Cold War. It should be recalled that this acknowledgement led to the signing of the 1947 National Security Act, which Douglas Stewart called 'the law that transformed America'. Indeed, the Act completely reorganised the US military and led to the creation of the Department of Defense, the National Security Council, and the Central Intelligence Agency.

When we look at geoeconomic tests such as the evolving technological landscape and the US-China technological competition, it is clear that states require new and bold tools such as those developed in the US during the 1940s. The convergence of economics and security, and the frequent use of economic instruments for geopolitical objectives, call for the US and its allies to develop more agile governance and effective institutional arrangements that rests on a whole of government and whole of society approach. Japan must seize the initiative to be prepared for what comes next.



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