



China's Emerging Economic Security 'Retaliation' and How to Coordinate Among Allies

Abstract

On Friday May 5, 2023, the US-Japan NEXT Alliance Initiative convened a bilateral dialogue on China's apparent economic security retaliation against the allies. The in-person event took advantage of the Washington visit by Japan's former Economic Security Minister Takayuki Kobayashi, who was participating in the third annual Integrated Security Dialogue (ISD) organized by Sasakawa Peace Foundation USA. The ISD is a high-level Japanese parliamentary delegation of six members focusing on the intersection of traditional national security, economic security, and technology security. Sasakawa USA Senior Director Jim Schoff welcomed around 18 American and Japanese participants from US legislative staff, government officials from both countries, and the private sector. Schoff noted that China seems to be more assertive recently in terms of investigating and raiding US firms and threatening new high-tech export controls, all in the name of protecting its own economic security. Solidarity among the allies will help them manage risk, but China's pressure seems aimed at dividing the allies and blunting their policy measures. The discussion encompassed a range of related topics, from US-Japan economic security policy coordination, supply chain resiliency, and engagement with the Global South.

Opening Remarks

The Honorable Takayuki Kobayashi, House of Representatives Member and Japan's first Minister for Economic Security (2021-2022), opened the group discussion with his personal comments by noting the timely nature of the event, taking place just two weeks prior to the G7 summit in Hiroshima. His opening remarks highlighted three points on economic and national security: 1) under Xi Jinping's "one man rule," the US and Japan face their greatest strategic challenge, and the alliance must prepare to confront it in the mid-to-long term; 2) a sober assessment of China's intentions is critical to developing effective policy options, neither underestimating nor overestimating China; and 3) as the world has become more divided in recent years, China's narrative on global order resonates well with many countries and particularly with the Global South. China is skillfully using a "big family" (Chinese camp) to counter a "small group" (e.g., G7, QUAD, and the US alliance network). The small group is strong, but the Chinese camp prevails in numbers.

On his first point, Kobayashi added that while it is important to meet security challenges and address potential destabilization of the region, China is Japan's largest trading partner, and it is important to maintain a stable economic footing in the short term. On his second point, he emphasized that it is important to have direct, multi-level contact and dialogue with the Chinese to assess their intentions clearly and avoid misunderstandings.

Kobayashi said that although Japan is now better positioned to address economic security challenges through new legislation from 2022 and with a stronger national security strategy revised last year, they are not enough to address the China challenge. China, he said, has been steadily building a self-sustaining supply chain and pursuing technological superiority not just for the sake of "retaliation," but with a mid-to-long-term goal of making a "strong nation" as declared by Xi Jinping. The tricky part, he continued, is "that we keep receiving mixed messages from China," with its active investment campaigns in the short-term to bring in foreign investment for economic growth.

Kobayashi noted that Japan cannot decouple from China, as 33,000 Japanese entities exist there. Rather, he suggested that Japanese firms work to identify what they need to protect from coercion and what their competitive advantages are, particularly in the area of semiconductors. The allies

need to ensure a stable supply chain of semiconductors and work together among likeminded countries to “map” the semiconductor ecosystem. He said that Japan would approach this challenge both domestically, by strengthening its industrial foundation, and internationally through collaboration with partners.

On Chinese economic behavior, Kobayashi added that China employs more sophisticated measures to force companies to transfer technologies and know how in such areas as multi-function printers, medical devices, and cosmetics. He also said that China is trying to enhance the global supply chain's dependence on China by removing foreign companies in the global market through subsidies and other measures to give domestic firms a competitive price advantage. Overall, he urged the allies to keep updating their response and continue close coordination, because the challenge is more complicated than we thought at first.

Discussion Summary

A State Department official followed with her own comments, noting that as the Chinese economy is facing headwinds, “we see Beijing taking steps to cut off the global community's ability to independently assess what is happening in China and run normal due diligence on Chinese companies with whom they are doing business.” China's recent revision of its Counter-Espionage Law is a case in point, as individuals who share or possess “documents, data, materials, and items related to national security and the national interest” could be prosecuted as spies, with the government empowered to decide what qualifies. She noted a similar pattern in academia, as the largest (privately-owned) academic database published in China (the China National Knowledge Infrastructure), is no longer accessible to foreign researchers. This trend is a serious concern, but not necessarily “economic coercion,” she said.

In general, the US government views economic coercion as Chinese actions that “aim to influence policy decisions by weaponizing economic linkages.” So, when crafting a policy response, she urged the allies to clarify the Chinese actions to which they are responding. When the US identifies economic coercion, its primary goal is to counter any economic damage, and secondarily—when the target welcomes it—the approach is to shine a light on coercive Chinese actions and work with the international community to impose costs, which are usually diplomatic and reputational.

The official described a massive US government effort to improve its ability to respond to cases of economic coercion, working across the interagency to sharpen its toolkit and speed response time. She added that they are working to sharpen their ability to respond in coordination with allies and partners, and that Japan has been especially integral as a leader in the G7. She noted that while Lithuania is an example of successful joint action to counter Chinese economic coercion, they recognize that each case will have unique challenges. She reassured her Japanese partners that if any ally or partner faces coercion, “we have your back,” emphasizing that the US is better prepared compared to 2010, for example, when China restricted rare earth exports to Japan in the wake of a maritime skirmish near the Senkaku Islands.¹

She also discussed China’s mining and processing of critical minerals, noting that China is considering adding minerals and technology critical to making high-tech magnets to its export bans. This makes supply chain diversification even more important, and she highlighted US leadership in establishing the Mineral Security Partnership (MSP) that is bolstering critical mineral supply chains. She said the US introduced MSP to Japan first and thanked her Japanese counterparts for co-leading the effort and appropriating \$1.7 billion to help support an established roster of MSP projects. The focus of the 12-country partnership prioritizes minerals needed for the clean energy transition in areas of 1) information sharing; 2) investment; 3) environmental, social, and governance standards; and 4) recycling. MSP is launching a new program to strengthen supply chains for other critical minerals like gallium needed to produce semiconductors.

Building on this, Congressional staffers offered their perspectives from Capitol Hill. One staff member noted that there would be a House Foreign Affairs Committee (HFAC) hearing on May 18 related to this topic, titled “Standing United Against the People’s Republic of China’s Economic Aggression and Predatory Practices.” It would look closely at evaluating the risks and considering how to minimize US industry vulnerabilities. He noted there is an appetite within HFAC to be more responsive and forward leaning when approaching these challenges.

¹ “Boat Collisions Spark Japan-China Diplomatic Row.” *BBC News*, 8 Sept. 2010, www.bbc.com/news/world-asia-pacific-11225522.

Another staff member noted the bipartisan nature in Congress of addressing Chinese economic coercion and said that Members are committed to coordinating with allies and partners. A third staff member agreed, saying “we know that we cannot succeed in this alone.” They saw the risk to US companies increasing and said that a big part of Congress’ job in this challenge is to communicate these risks and the scale of the threat to the American people. China is pushing a narrative that these increased tensions are the fault of the United States, but they argued that China’s behavior has been the primary cause, and this story needs to be told.

A Japanese participant concurred but added that the US argument could be strengthened by re-engaging with and strengthening global trade regimes like the Trans-Pacific Partnership (TPP).² One Hill staffer agreed, claiming that US withdrawal from TPP was a grave strategic mistake. He elaborated by saying that the US-introduced Indo-Pacific Economic Framework (IPEF) is helpful but lacks crucial market access to the Global South. Another American participant added that this kind of substantive engagement with the Global South is a way to chip away at China’s “big camp” advantage and enhance the allies’ network. But another Hill staffer disagreed, arguing that the US is already a wide-open market. Additional market access would make a small difference to other countries, he said, but have a big impact on certain sectors of the US economy and devastate those communities. Either way, no US participants saw near-term potential for reviving US participation in the TPP, so focusing alliance efforts on making IPEF successful and appealing is important.

US and Japanese participants shared their “asks” of the other partner for ongoing bilateral collaboration in economic security. Japanese representatives highlighted the need to strengthen Japan domestically, which would make it a more valuable partner in the future. They also hoped for more seamless collaboration in such areas as intelligence cooperation, for example with regard to assistance resolving cases where China has detained Japanese citizens for national security concerns. In addition, they asked for more predictability and prior consultation from the US concerning its development and application of sanctions and economic coercion countermeasures vis-à-vis China. Also, a Japanese participant thought that Japan would benefit from US help developing closer security ties with Taiwan. Japan-Taiwan ties are strong in business, diplomacy, and tourism, but economic security cooperation requires whole-of-government engagement.

² Officially known as the “Comprehensive and Progressive Agreement for Trans-Pacific Partnership” or CPTPP.

An American participant requested continued Japanese leadership in the Indo-Pacific specifically in engaging the Global South. Another US participant expanded on this by saying that countries of the Global South are offered millions of dollars by China for their cooperation, and while the US also provides assistance, it is designed to benefit the recipient country rather than just its leaders. Japan's status as a trusted partner to ASEAN nations, its long history of development engagement in Southeast Asia, and its growing outreach to Africa are all valuable components for continuing to improve allied effectiveness.

Concluding Remarks

Two Japanese participants offered some final thoughts to conclude the session. The first noted Xi Jinping's resemblance to past Chinese emperors who, when angered with foreign nations, would sever trade and "deny the gift of trade with China." He observed philosophically that the US seems to look at the China challenge as a dichotomy, while the Japanese tend to see a wholistic universe of complimentary defects and advantages existing as one complex entirety.

Another underscored that Japan would focus near-term on increasing its own national power by acquiring critical technologies, increasing autonomy, and curbing vulnerabilities. As an alliance, he added some related priorities such as sustaining US dollar dominance in cross-border payments (i.e., keeping pace with Chinese digital currency developments) and strengthening data governance rules in line with the Data Free Flow with Trust concept. Overall, participants recommended continuing engagement of the like-minded "small group" with expanded outreach to the "bigger camp" on substantive issues that benefit all involved. It is not about choosing sides but rather about addressing the priorities of potential partners in ways that align with our own goals.

The US-Japan NEXT Alliance Initiative is a forum for bilateral dialogue, networking, and the development of joint recommendations involving a wide range of policy and technical specialists (in and out of government) to stimulate new alliance connections across foreign, security, and technology policy areas. Established by Sasakawa Peace Foundation USA with support from the Nippon Foundation, the goal is to help improve the alliance and how it serves shared interests, preparing it for emerging challenges within an increasingly complex and dynamic geostrategic environment. Launched in 2021, the Initiative includes two overlapping lines of effort: 1) Foreign & Security Policy, and 2) Technology & Innovation Connections. The Initiative is led by Sr. Director Jim Schoff.
