
Japan's Approach to Economic Security

Economic security has become something of a buzzword in policy debates suggesting that national security is no longer only about traditional defence, but that economic aspects and preparedness play a central role. In October 2021, the first minister in charge of economic security was appointed in Japan and six months later a law promoting economic security was enacted setting out the government's priorities. This brief will explore what economic security is, the Japanese approach and corporate responses.

Defining economic security

Economics and security have become entwined in recent years to the point that the concept of economic security has not only been established in the general political debate but also led to governments presenting strategies and policies to support and strengthen economic security. The term economic security was used in the 1970s when energy security became critical after the first oil crisis (Nye 1974). In Japan, the government developed policies to manage energy security aimed at securing supplies and developing resilience to new energy supply shocks. In the 1990s as globalisation brought increasing economic integration the scope of economic security shifted to security of supply in an interdependent world. Cable (1994) noted that economic security was essentially about securing supply, specifically supply of oil, gas, certain rare minerals and key technologies. Japan, at the time, had to deal with pressure from the United States government that was concerned about Japanese companies leading in some high-tech areas and catching up with American ones in others. The United States therefore pursued policies to protect itself and secure its own supply of high-tech knowledge by imposing restrictions on some Japanese exports. Today, Washington is imposing similar measures on many trading partners with reference to economic security as national security.

What is meant then by economic security? The Liberal Democratic Party (LDP) in Japan defined it as 'ensuring Japan's independence, survival and prosperity from an economic perspective' when they presented a report advocating for a strategy on economic security in 2020 (LDP 2020). The subsequent law promoting economic security does not state a definition but the *National Security Strategy* from December 2022 states that economic security aims 'to ensure Japan's national interests, such as peace, security and economic prosperity by carrying out economic measures' (MoD 2022). The starting point is that Japan is an open economy and for national security reasons, regulations and support are needed to protect national interests. In its *Joint communication on an economic security strategy* the European Commission refrained from defining economic security but listed the risks that needed to be addressed. These are risks to European competitiveness, risks that arise from economic coercion, risks to infrastructure and to technology leakage (EC 2023). The EU is closer to the narrow definition that McCaffrey and Poitiers (2023) employ which is about 'de-risking from shocks'. This illustrates a different outlook between Japan and the European

Union. The broader view of security needs to be addressed in Japan whereas de-risking is central to the EU strategy. The OECD meanwhile defines economic security as ‘a nation's ability to protect and sustain its economic stability and growth by strengthening its resilience against external and internal threats’ (OECD 2025).

Cable (1994) stressed that security of supply can refer both to disruptions to imports and from foreign suppliers gaining a monopoly position which they can exploit to their advantage. The succession of supply disturbances in the early 2020s and subsequent shortages of some goods and fear of further shortages raised awareness globally about security of supply of a range of goods. Many governments launched analyses and prepared a range of policy responses. The LDP in Japan prepared the abovementioned report noting that the changing international environment made it necessary for Japan to think through its strategic autonomy and strategic indispensability. In the report the LDP discussed two threats to security of supply, the supply disruptions caused by the COVID 19 pandemic and the risk of excessive dependence on other countries. A number of recommendations were put forward, and the report was referred to in the debate leading up to the promulgation of the Act to Promote Economic Security. Thus, for Japan the law on promoting economic security is primarily about sustaining economic stability and build resilience against external threats through securing supplies of a range of goods and materials as well as protecting infrastructure.

Securing critical inputs and infrastructure

The law gives the government legal powers to intervene in the economy for security reasons in order to (1) secure a stable supply of critical materials, (2) secure provision of essential infrastructure services, (3) provide support for critical technologies and (4) allow non-disclosure of patents. Other economic security measures such as export controls and screening of foreign direct investment are governed by Foreign Trade and Exchange Act. Details for each of the four areas have been provided by competent agencies. Critical materials include fertilisers, semiconductors, ship parts, airplane parts, anti-bacterial material, permanent magnets, critical minerals, cloud computing, storage batteries and natural gas. Essential infrastructure includes water supply, telecom, broadcasting, financial services, and electricity. 20 categories of critical technologies have been identified, and these include quantum computing, AI, and aerospace. Japanese companies are already producing some of the technologies and materials, or form part of supply chains for the same. The aim is to ensure that Japanese companies produce more in Japan and reduce dependencies on external suppliers.

The implementation tools centre on government support, mainly in the form of various financial incentives such as subsidies and funding from government-owned financial institutions for investments and funding for R&D initiatives. Some regulatory changes will be needed as well. A new system will be put in place that allows patents for sensitive

technologies to be exempt from disclosure for a prolonged period, if disclosure could pose a risk to national security.

In general, the tools are standard tools for industrial policies; targeted industries can benefit from government support. The most prominent support to date under the new law is has been directed at increasing research and production of semi-conductors. The government has provided extensive financial support to establish new production facilities. In Kumamoto in the south, Japan Advanced Semiconductor Manufacturing, a joint-venture between TSMC, Sony, Denso and Toyota, has built one factory with financial support from the government and is currently building its second factory. The new facility will produce 3 nanometer chips for the Japanese market. In Sapporo in the north, Rapidus in partnership with, among others, IBM and Imec is expected to produce 2 nanometer chips by 2027 and also undertake advanced research. Initial government financial support for Rapidus amounted to JPY330 billion (about USD2.3 billion). Furthermore, the government established LSTC (Leading-edge Semiconductor Technology Center) as a hub for R&D in Japan.

Over the years industrial policies have been used to support specific industries deemed vital to Japan's economic development and competitiveness by addressing market development, manage information asymmetry, and deal with externalities. The means have typically included access to finance, some public-private collaboration in research and using the international trade system to Japan's advantage. Much has been written about the role of industrial policies in Japan, to what extent industrial policy drove growth and helped create globally competitive companies in the high-growth decades after the war. However, there may be several goals for different policies and the government's objectives are set at country level. Boltho and Boltho (1985) make that case that indirect pressure through moral suasion and the like were more effective than direct support to industry. Moreover, they point to all the industries and companies that became globally competitive without government support. Krugman (1983) analysed support for the Japanese steel industry in the 1970s and found that Japanese steel companies increased their production and grew to become multinational but had lower rates of return than their American competitors. However, industrial policy goals were reached, most specifically in securing domestic steel production and develop links to other industries as steel is essential to the auto industry for example. In other words, at a national level the industrial policy was successful but less so when measuring corporate returns. The goals of the economic security law are about reducing dependencies through increased technological development, innovation and production domestically. While some tools may be similar the economic security policy is not about infant industry protection or about increasing competitiveness per se, it is about securing supply.

The corporate response

The corporate response to economic security concerns has been captured in surveys by the Institute for Geoeconomics and these show that major companies have begun to incorporate economic security into strategic planning. Corporate actions began for different reasons and at different times, but it seems that key legal changes such as tighter Japanese export controls prompted companies to start focusing on economic security. It is also clear that many corporate actions were not undertaken as a result of Japanese policies but in response to coercive measures undertaken by other countries. For example, other countries enhanced export controls and tariff policies led to companies making changes to their supply chains. However, there are limits to the ability of Japanese multinationals to shift their supply chains. Production networks and consequent supply chains have become very integrated across East Asia and there are simply few options for some key resources and intermediate goods. Companies main concern stemmed from the relation between China and the United States, Japan's two largest trading partners, and a significant majority of companies had implemented systems to manage compliance with sanctions and secondary sanctions. Asked what should be prioritised to strengthen Japan's economic security, the most common response was to strengthen the response to energy issues. Energy security thus remains a key concern. The surveys illustrate clearly how companies respond to policy changes that will have direct and indirect impacts on their operations, both Japanese policies aimed at securing domestic supply and policies by other governments policies aimed at achieving their own policy goals.

Going forward

There are challenges going forward with the implementation of the economic security law. There will likely be more domestic production in the targeted sectors, but it is unlikely that Japan will become self-sufficient in any of the critical materials and technologies simply because lack of core resources and certain inputs. Therefore, there will likely be more collaborative initiatives with like-minded governments in research. Just as Japanese companies have already established with joint-ventures with leading foreign companies in semi-conductors more joint-ventures may follow in other sectors. A proposed amendment to the economic security law in March 2026, will allow, among other things, firms to borrow from the Japanese Bank for International Development for certain projects in emerging economies. The bank will shoulder some the risk for projects aimed at making international transportation networks more resilient and thus contribute to securing supplies of critical goods. The proposed amendment seemingly responds to the disruptions in transportation during the Covid 19 pandemic and aims to go some way to alleviate similar disruptions in the future. The amendments also show that economic security is an ongoing concern and the law and policies will evolve and be adapted to changing circumstances.

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Author:

Åsa Malmström Rognes, PhD

Research Fellow, European Institute of Japanese Studies and Center for Asian Studies,
Stockholm School of Economics

Email: asa.rognes@hhs.se

Contact:

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