Issues surrounding the “Economic Security Promotion Act (ESPA)” and Japanese economy

April 1, 2022

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“Economic security (ES)” has become a “buzz-word” in Japan

<table>
<thead>
<tr>
<th>China factor</th>
<th>Technology factor</th>
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<tbody>
<tr>
<td>Strategic trends</td>
<td>Emerging technologies</td>
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<tr>
<td>China’s rise and US decline</td>
<td>Automated driving</td>
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<td>Increasing use of ES*</td>
<td>3D printing</td>
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<tr>
<td>Military Civil Fusion</td>
<td>AI</td>
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<td>Inward economic policies</td>
<td>DIY biology</td>
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<td>New legislation</td>
<td>Export Control Law</td>
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<td>National Intelligence Law</td>
<td>Cyber Security Law</td>
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<td>Human rights violations</td>
<td>Xinjiang</td>
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<td>Tibet</td>
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<td>Inner Mongolia</td>
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<td>Hong Kong</td>
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Private sector’s economic activities

Government’s security policy

The combination of China-related factors and technology factors account for the rise of “economic security” in Japan
Most contents in ESPA has already been decided under the Abe and Suga administrations
Japan’s economic security policies under the Suga and Kishida admins

**Suga admin**

"Four pillars" of ESPA are all included

Cabinet Decision
Basic Policy on Economy 2021

**June 2021**

**Kishida admin**

Likely the world’s first ministerial position

Kishida Administration
Establishes the Economic Security Minister

**October 2021**

Somewhat akin to the NSC, but on economic security

Kishida Administration
Establishes Economic Security Inter-ministerial Committee

**November 2021**

January 2022

Japan-Australia Leaders’ Meeting Joint statement

Cooperation on supply chains, infrastructure, R&D...

**February 2022**

Outside Experts Committee on ESPA
Submits ESPA recommendation

Follows the framework advocated by the gov

**Japan-US**

Agrees to the creation of “2+2” version of economic security

Dialogue between foreign and economic ministers

The “four pillars” were chosen from numerous economic security challenges that Japan face
Japan’s economic security policies have been progressing since 2019

Organization change

- Ministry of Economy, Trade and Industry: Established economic security division
- Ministry of Foreign Affairs: Established economic security division
- Tokyo Metropolitan Police Department: Established economic security Project Team
- Public Security Intelligence Agency: Established economic security Project Team
- Financial Services Agency: Will establish an economic security division
- Ministry of Defense: Will create new post on economic security

Protection of tech / IP

- Strengthening visa screening of foreign students / researchers
- New rules on government-funded research
- Strengthening export control and investment screening

Private sector support

- R&D funding on critical technologies
- Subsidies on supply chain diversification
- Providing economic security risk information

International cooperation

- United States: • U.S.-Japan Competitiveness and Resilience (CoRe) Partnership • 2+2 version of economic security
- Australia: • Developing resilient critical minerals supply chains • Strengthening the protection of critical infrastructure
- The Quad: • Semiconductor Supply Chain Initiative • Partnering on emerging technologies

The Japanese government has done all it can to promote economic security within the existing authorities
Private sector have endorsed the importance of economic security as well

"Securing proactive and strategic economic security"

2020年11月17日

一般社団法人 日本経済団体連合会

(2) 主体的かつ戦略的な経済安全保障の確保

政府には、安心・安全な国民生活の実現、さらには、産学官の各界におけるイノベーションの創出を通じた国際競争力の向上を最優先として、主体的かつ戦略的な外交を展開することが求められる。とりわけ、わが国の経済安全保障の確保に不可欠な基盤技術、新興技術や戦略物資について特定を進める必要がある。そのうえで、該当する機微技術の保護や、戦略物資に関する備蓄や供給の安定性の担保のための仕組みづくりが急務である。特に、安全保障上重要な機微技術に関しては、国内での技術開発・産業基盤の強化に取り組むとともに、国際的な共同研究への参画を可能とするなど、わが国の競争力強化につながるような制度設計とすべきである。企業は、該当する技術等を適切な枠組みのもと、管理する。

目まぐるしく変化する国際情勢のなかでわが国企業が安心して経済活動を行っていくためには、各国の状況を迅速かつ的確に把握し、対応していくことが肝要となる。そのため、政府と企業は、経済分野のインテリジェンス機能を一層強化し、発生し得るあらゆるリスクを想定し、行動していく。その際、情報

42 Data Free Flow with Trust。信頼性のある自由なデータ流通。
Private sector have endorsed the importance of economic security as well.

**Japan Association of Corporate Executives**

“Toward securing a resilient economic security: The path that Japan should take in the era of geoeconomics”

**Japan Association of New Economy**

“New growth strategy under the digital economy: Industrial policy, competitive policy, and economic security required for Japanese companies to win”

2021年4月21日
公益社団法人 経済同友会
All major political parties have embraced the concept of economic security

**Liberal Democratic Party**
- Creating an economic security minister post
- Passage of ESPA
- Reshoring industries

**Komeito**
- Strengthening economic security and food security
- Bolstering rule-making strategies in economic activities

**Constitutional Democratic Party of Japan**
- Need to strengthen rule-making strategies in economic affairs

**Japan Innovation Party**
- Strengthen economic security by working strategically regarding new applicants to CPTPP

**Democratic Party for the People**
- Introduce legislation that allows for better economic security and energy security

The likelihood of the Economic Security Promotion Act being rejected at the Diet is quite low
### Municipalities are also realizing the need to strengthen economic security

<table>
<thead>
<tr>
<th>Requests towards the central government</th>
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<td>Creating a guideline or law to mandate acceptable foreign investment promotion projects</td>
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<td>Identifying and sharing economic security risks unique to municipalities</td>
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<td>Establishing an information sharing mechanism between Japanese intelligence agencies and municipalities</td>
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<td>Clarify emerging technologies that needs to be protected</td>
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<th>Efforts that should be taken by the local government</th>
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<td>Creating an Economic Security Office at the municipality level</td>
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<td>Reviewing various policies taken by the local governments from the perspective of economic security</td>
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<td>Researching to better understand the amount of foreign investment in infrastructure owned by municipalities</td>
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<td>Establishment of a Municipality Economic Security Association</td>
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Excerpts from the recommendation created by the local assembly members of the Kanagawa Prefecture

This recommendation was handed to the Economic Security Minister in February 2022
The Economic Security Promotion Act (ESPA) is currently being debated

### Four pillars of the ESPA

<table>
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<tr>
<th>Supply Chains</th>
<th>Non-disclosure of patents</th>
<th>PPP on R&amp;D</th>
<th>Core Infrastructure</th>
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<tr>
<td><strong>Goal</strong></td>
<td>Non-disclosure of certain technologies that can be used for military purposes</td>
<td>Supporting the development of Japan’s emerging technologies</td>
<td>Securing the safety of core infrastructure</td>
</tr>
<tr>
<td><strong>Main issue</strong></td>
<td>Defining “strategic goods”</td>
<td>Number of actual cases</td>
<td>Is it “economic security,” “industrial policy,” or “protectionism”?</td>
</tr>
</tbody>
</table>
The government will be able to understand supply chains and offer help

**Four pillars of the ESPA**

- Private companies must create a “Supply Plan” on “Specific Critical Materials (SCM)” and submit it to the government
  - The definition of “SCM” will be decided through ordinances
  - The government may give subsidy

【Questions】

- **How will the GOJ define SCM?**
  ⇒ energy, minerals, food, water, semiconductors, medical supplies...

- **How will certain supply chains be identified as being “vulnerable”?**
  ⇒ Specific countries? Amount of reliance? Human Rights risks?
  ⇒ An objective guideline is needed to ensure the fairness of subsidies
Non-disclosure of patents will allow for better protection of dual-use tech

Four pillars of the ESPA

Non-disclosure of patents

Goal
Non-disclosure of certain technologies that can be used for military purposes

Main issue
Number of actual cases

- First screening is done by the Patent Office
- Second screening is done by the Cabinet (newly created division) and the MOD

【Questions】
・How does one calculate the value of patents?
・How many actual cases of non-disclosures are the government expecting?

時事通信「政府、特許非公開で新組織 流出防止技術、2段階で審査」（2022年1月16日）
Government-funded R&D project will strengthen critical technologies

PPP on R&D

Goal
Supporting the development of Japan’s emerging technologies

Main issue
Choosing what’s “critical”

* New group to decide what research topic is critical for economic security
* The budget is likely to be 500B yen
* A new thinktank will be created to advise the ministries

【Questions】

• *Is the establishment of a brand new “research institution” necessary?*
  ⇒ Utilizing existing university research center or a thinktank?

• *Who gets on the board of the group to decide what tech is critical?*

読売新聞「【独自】先端技術育成、研究者公募し官民協議会…経済安保で『けた違い』の資金」（2022年1月13日）
Security of core infrastructure ensured by screening high-risk equipment

Four pillars of the ESPA

- The government will screen (1) “critical equipment” owned by (2) “certain large companies” that is in one of the (3) “core infrastructure industries.”

- "Core infrastructure": Electricity, Gas, Oil, Water, Telecom, Broadcasting, Postal Services, Finance, Credit Cards, Railways, Automobile Transport, Airline Cargo, Airlines, Airports

【Questions】

- How does one explain the difference between “important infrastructure” identified for cyber security and “core infrastructure”?  
  ⇒ “broadcasting” and “postal services” are newly added  
  ⇒ “medical,” “chemistry,” and “government services (including municipalities)” are gone

- Will they screen all foreign products and services? If not, how does one determine what’s ok and what’s not?  
  - Shouldn’t THIS be subsidized?