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Introduction

The global competition for leadership in advanced technology industries only continues to intensify, and China has become an increasingly fierce and capable competitor across a range of high-tech industries from artificial intelligence (AI), quantum computing, and semiconductors to biotechnology, electric vehicles (EVs) and batteries, and robotics. The Chinese government aggressively supports Chinese high-tech enterprises with a wide variety of policies, many of which are well-grounded within the norms of legitimate global economic competition, such as robust financing for research and development (R&D), R&D tax credits and investment incentives, public-private research partnerships, and extensive science, technology, engineering, and mathematics (STEM) education.

Yet China also deploys a suite of what the Information Technology and Innovation Foundation (ITIF) has deemed “innovation mercantilist” policies, such as massive industrial subsidization, currency manipulation, state-sponsored intellectual property (IP) theft, and forced IP or technology disclosure (or local production, often through compelled joint ventures) as a condition of foreign firms’ access to the Chinese market. In international relations, China leverages its vast domestic market to exert economic coercion on foreign nations and their firms if they run afoul of

Beijing Has Upended the Balance of Power

Put simply, the rapid growth of Chinese industry has upended the balance of power

How Can Japan and the United States Counter China's Strategy?

Clearly, Chinese economic strategies are fundamentally inconsonant with the commitments the country made to its global trade partners when it joined the WTO in 2001.²¹ So what should Japan, the United States, and allied nations do? First, they must reject the advice of economists such as Paul Krugman, who has written that, "The notion that nations compete is incorrect...countries are not to any important degree in competition with each other."²² That's dangerously wrong, and policymakers must recognize that China's practice of power trade and economic coercion constitutes a clear and present threat to their economic well-being.²³

As such, the G7 nations were well warranted at the May 2023 Hiroshima Summit to issue the first economic security and economic resilience joint statement, and to follow that in August 2023 with the Camp David trilateral dialogue (between Japan, South Korea, and the United States) on economic security.²⁴ For its part, Japan is to be applauded for pioneering the concept of economic statecraft, including enacting the recent Economic Security Promotion Act to enhance Japan's industrial and technological infrastructure and creating an economic division within its National Security Secretariat. Likewise, between the US-Japan Competitiveness and Resilience (CoRe) Partnership and the US-Japan Economic Policy Consultative Committee (the so-called "economic 2+2"), Japan and the United States enjoy a robust platform to collaborate on economic security. Yet there exist numerous opportunities to deepen the relationship, particularly with regard to accelerating the innovation potential of Japanese and US high-tech companies.

Both Japan and the United States have recently announced significant investments in their semiconductor industries, notably the \$52 billion US CHIPS Act and Japan's ¥4 trillion investments (\$26.7 billion) over the past three years. As the United States sets up its National Semiconductor Technology Center (NSTC) and launches a Semiconductor Manufacturing Digital Twin Institute as part of its Manufacturing USA network, Japanese firms should be strongly encouraged to participate. Likewise, Japan's Leading-edge Semiconductor Technology Center (LSTC) has partnered with IBM to launch Rapidus, a partnership seeking to produce 2-nanometer logic chips. In AI, America's Argonne National Lab and Japan's RIKEN laboratory have signed a memorandum of understanding establishing a cooperative relationship in support of AI research projects. Elsewhere, \$110 million in new AI research partnerships have recently been announced between Tsukuba and Washington universities and between Carnegie Mellon and Keio universities, with the latter effort focusing on AI for robots, autonomous AI symbiosis with humans, and AI for scientific and biomedical discovery. The United States and Japan could go further by deepening partnerships between the US and Japanese AI Safety Institutes, including by creating a mechanism to systematically track AI failures, vulnerabilities, and incidents by creating and exchanging information toward national AI incident and AI vulnerability databases.

Productivity growth has been a challenge for both Japan and the United States, especially for their small to medium-sized (SME) businesses. In fact, less than 10 percent of Japanese SMEs have adopted AI/Internet of Things (IoT) tools, and just 16 percent of all Japanese manufacturers have. To help one another, America's Manufacturing

Extension Partnership (MEP) program and Japan's Kohsetsushi Centers should launch a joint initiative to exchange best practices and technologies to advance manufacturing digitalization. On the defense side of the equation, the United States should push for Japan to be invited into the AUKUS (Australia/United Kingdom/United States) Pillar II initiative, which focuses on the development and sharing of advanced tech (such as AI, drones, quantum, hypersonic, and cyberdefense) to advance joint warfighting capabilities.

To better counter Chinese economic predation, and particularly its state-directed efforts to pilfer foreign IP and technology (of both the commercial and defense variety), Japan, the United States, and other like-minded nations should step up coordination on their technology protection regimes. They should enhance information-sharing efforts to combat foreign economic espionage and IP, tech, and trade secret theft. They could do so by building on the "Five Eyes" alliance—a collaboration between Australia, Canada, New Zealand, the United Kingdom, and the United States to share signals intelligence—to make an advanced-technology allied group of nations that exchange intelligence on Chinese economic espionage activities. Further, most allied nations have elements of their trade law that provide relief when foreign companies attempt to sell products with pilfered IP (this is Section 337 under US trade law). Allied nations should coordinate such that when an infringing product is identified in one market, that product's market entry is blocked across all allied markets.

It's imperative that allied nations collaborate to the maximum extent possible regarding the promulgation and enforcement of export controls on advanced-technology products such as AI and semiconductors. ITIF has argued the United States should convene a group of the leading semiconductor-producing nations—such as Germany, Japan, South Korea, Taiwan, the Netherlands, and the United Kingdom—and outside the Wassenaar structure develop descriptions of both the semiconductor technologies and related items that warrant controls (beyond what already exists) as well as establish common licensing policies.

(from both side of the aisle) but the reality is that the United States should join the Comprehensive and Progressive Transpacific Trade Partnership (CPTPP), reengage with the WTO Joint Initiative on E-commerce (including championing Japan's leadership with its Data Free Flow With Trust initiative), and pursue more free trade agreements, certainly with nations such as the United Kingdom. That's in addition to advancing the Indo-Pacific Economic Framework (IPEF) as comprehensively as possible. The US government must build up the economies of like-minded nations if Western firms are to have attractive and growing markets to sell their products and services into as an alternative to China, especially when—Trump, Biden, or Harris administration trade policies aside—the Chinese government has clearly indicated through policies such as Made in China 2025 that it wishes to substantially increase economic self-sufficiency and decrease imports of foreign technology. Lastly, there's great opportunity here for the United States and Japan, through their Development Finance Corporation (DFC) and Japan Bank for International Cooperation (JBIC), to collaborate to scale investment in infrastructure, energy, and rare earths/critical mineral supply chains in like-minded developing nations.

In conclusion, policymakers in Japan, the United States, and other allied nations must be clear-eyed that China has presently elected to pursue an economic growth strategy that is fundamentally inconstant with its WTO commitments and which is antithetical to the concept of mutually prosperous growth on which the WTO and extant global trade system was founded. As such, the United States and Japan are well justified to pursue a range of policies through which they can mutually reinforce their economic security and counter Chinese economic predation.

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