

Mitigating Geopolitical Risk – Japan as a Stabilizer in Asia

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Introduction

In the current tumultuous geopolitical setting, Tokyo may have a very specific, stabilizing role to play. Japan indeed has, at the same time, very close ties to the United States, due to its long-term alliance, and very tight economic ties with China, due to geographical closeness and a long history of economic and trade relations. As the US-China rivalry becomes more severe, degrading from a trade war to an ideological confrontation and tensions in the Taiwan Strait, Tokyo has to find a way to protect both its security and economic interests.

Tokyo has no choice but to remain pegged to the American camp, while striving to maintain stable and functional relations with Beijing. It must constantly navigate between cooperation and competition in an attempt to preserve its interests. Therefore, Japan is striving to define the conditions for a secured cooperation with its neighbor and to set up, in close coordination with Washington and its other strategic partners, a strict framework of engagement with Beijing. It relies on a heightened deterrence posture in the East China Sea, a counterbalancing policy that also touches geoeconomics, and the implementation of an economic security strategy aimed at protecting technologies and critical sectors, to ensure better resilience of its value chains but also to become an essential center of innovation.

Japan has thus deployed a number of tools to support a positive regional and international order, and to reinforce deterrence against China through closer security ties with the US and other key partners. At the same time, it has tried to mitigate the great power competition and build bridges between like-minded partners such as Europeans and Americans. Finally, it has tried to set up a *modus vivendi* to continue to trade with China under more secure conditions by establishing a pioneer economic security strategy.

Shaping a Positive Regional & International Environment

Japan has long been described as a US follower in terms of foreign policy in the post-1945 period. While Tokyo's diplomacy has certainly been quite low-profile overall, and inclined to endorse US choices, Japan's initiatives, especially in the field of economic diplomacy, have shaped the regional economic integration in East Asia. More recently, Japan under the lead of the late Prime Minister

Shinzo Abe, has promoted a strong vision for the broader region – the Free and Open Indo-Pacific Strategy (FOIP) – and has been very proactive to promote a rules-based order.

FOIP, announced in 2016, takes stock of the economic and strategic integration of the vast area running from the Eastern coast of Africa to the South Pacific. Japan's vision for the region has three pillars: the promotion of the rule of law, freedom of circulation and free trade; the promotion of connectivity to achieve prosperity through infrastructures; and the contribution to peace and security through capacity-building, HA/DR and anti-piracy operations. Importantly, FOIP is a flexible and evolutionary narrative that offers an alternative to the Chinese Belt and Road Initiative (BRI).

Indeed, Japan's broad Indo-Pacific approach certainly relies on multilateral settings to shape China's choices when possible, and increasingly to try to influence a more unilateralist US. When President Donald Trump decided to withdraw from the Trans-Pacific Partnership (TPP), Japan took the lead to salvage the deal and advance negotiations towards a Comprehensive and Progressive TPP (CPTPP). Signed in 2018 by 11 countries, the framework that aims to set ambitious labor, environmental and other trade-related standards is attracting attention: the United Kingdom, China and Taiwan have all applied to join. Concluded the same year, the EU-Japan Economic Partnership Agreement (EPA) is also writing high-level rules of the game, in the hope of encouraging both the US and China to align on them. Japan has a strong record in engaging with regional ASEAN-led multilateral organizations and this commitment to work with ASEAN is even stronger today, as it serves to mitigate the great-powers competition. Tokyo has been a key player to advance and sign the Regional Comprehensive Economic Partnership (RCEP) that promotes free trade in East Asia.

Japan has been striving to support multilateralism as a stabilizing factor, in Asia and at the international level, and has tried to encourage a convergence of the models by promoting norms for quality infrastructure funding, digital governance, non-proliferation, oceans and space. It has successfully positioned itself as a "normative entrepreneur" in order to have its infrastructure financing standards recognized and adopted internationally. Tokyo has worked with the OECD, World Bank and within the G7 and G20 Summits to promote strict evaluation criteria for investments in quality infrastructure (transparency, economic, social and environmental sustainability, etc.). At the Ise-Shima G7 Summit in 2016, Japan

presented its “Extended Partnership for Quality Infrastructure” (\$200 billion over five years) and proposed the “Principles for Promoting of Quality Infrastructure Investment”. These principles were adopted by the 2019 G20 Summit that was held in Osaka – a move that would have implications for Chinese BRI’s implementation.

Japan has also strived to promote common standards for digital governance. During the 2019 G20 Summit, the “Osaka track for data governance” aimed to coordinate the differing approaches to set up globally accepted norms and avoid a fragmentation of regimes. Tokyo promoted the concept of “Data Free Flow with Trust” (DFFT) to try to mitigate the Sino-US rivalry and bridge the gap between the US and EU approaches on digital governance by promoting a “reasonable regulation”.

Being the only country to have suffered from nuclear weapons, Japan has long been committed to the non-proliferation of weapons of mass destruction. It has actively been supporting the Non-Proliferation Treaty (NPT) regime. For example, in cooperation with Australia, Japan initiated the International Commission on Nuclear Non-proliferation and Disarmament (ICNND) in 2008. But Japan also needs the extended US nuclear deterrence to counter North Korea and China (and now Russia). The threatening regional security environment explains why Japan has to make some difficult choices and has so far not ratified the Treaty on the Prohibition of Nuclear Weapons (TPNW).

Oceans are critical to Japan, which relies on maritime routes for its energy and trade supplies, and whose culture is deeply linked to marine resources. For this reason, Japan has deployed efforts to ensure stability, safety and sustainability of the oceans by consistently supporting the UN Convention of the Law of the Sea. The Japan Coast Guard has also been playing a key role to build the capacity of Southeast Asian nations in terms of legal training and maritime assets to better enforce law at sea. In 2019, Japan launched the “G20 Implementation Framework for Actions on Marine Plastic Litter (MPL)” still supported by the Japanese Ministry for the Environment.

Finally, Japan has been engaged to ensure the safety of space activities, promote sustainable space development and contribute to the UN Committee on the Peaceful Uses of Outer Space. Japan’s Space Agency, JAXA, makes proposals on international standards and policies for debris reduction and is working on a system to track and safely remove such debris.

This proactive policy to support multilateralism and a rules-based order is accompanied by a strong posture to ensure a credible deterrence *vis à vis* China.

Deterring & Counterbalancing China Through Alliances & Partnerships

The improvement in Sino-Japanese relations in 2018, based on a fresh bilateral economic dialogue and permitted by the conciliatory attitude of Beijing in difficulty in the face of American pressure, is today largely compromised. In recent years, China has indeed stepped up its incursions into Japanese waters around the Senkaku Islands, which Beijing claims as Diaoyu. Beijing has made the almost permanent presence of its Coast Guard in waters around the Senkakus the new normal and is seeking to exercise maritime policing rights there. The militarization of the Chinese Coast Guard, placed in 2018 under the command of the Central Military Commission and authorized, in February 2021, to fire against naval ships or constabulary forces of third countries is causing great concern.

In response, in order to protect its territorial integrity and discourage any Chinese *coup de force*, Japan is strengthening its deterrence posture by increasing its air and maritime surveillance and intervention capabilities on its southwestern flank. Tokyo and Washington are also organizing joint exercises in order to increase their coordination in case of a crisis in the East China Sea. At the same time, Japan is exercising restraint while responding to Chinese incursions and attempts to develop a functional security cooperation – through a Maritime and Aerial Communication Mechanism – to prevent incidents at sea.

For Tokyo, the expansion of China, which seeks to revise the current world order and replace the US as the hegemon, is a destabilizing factor that poses a systemic risk. To counterbalance this destabilizing effect, and in the absence of any Asian equivalent to the North Atlantic Treaty Organization (NATO), Japan has been promoting regional security cooperation on several levels, mixing strategic partnerships, mini-lateralism within the Quadrilateral Strategic Dialogue (known as the Quad) with the US, India and Australia, and a more inclusive approach directed towards ASEAN countries and European partners. Respect for and defense of the law of the sea and the freedom of navigation are at the heart of these

security partnerships, which together must serve to discourage Chinese adventurism.

Japan is currently involved in some 30-odd instances of security cooperation. At one end of the spectrum, there are some modest schemes that fall under a general framework, whereas at the other end there are specific cooperation schemes that can entail shared intelligence, logistic exchanges known as Acquisition and Cross-Servicing Agreements (ACSA), joint ventures in the defense industry, and joint military exercises that foster strategic convergence. A number of these bilateral instances of cooperation have morphed into a trilateral format (with the US and Australia; the US and India; Australia and India; and the US and South Korea) and even a quadrilateral format (the Quad). More recently, Tokyo has reached out to European partners, especially the UK, France and Germany. At the same time, Tokyo continues to engage with regional security institutions such as the ASEAN Regional Forum (ARF), the East Asia Forum, and the ASEAN Defense Ministers Meeting+ (ADMM+), and with its Southeast Asian partners, especially for non-conventional security issues such as maritime security and piracy as well as counterterrorism. The legitimacy of these cooperation schemes rests on shared liberal values and interests as well as a shared commitment to defend a rules-based order. Beyond this normative framework, there are two concerns that underpin the establishment of these partnerships: to counterbalance China, and to preserve American engagement in Asia.

Japan now appears as a legitimate and capable politico-military actor that benefits from a large network of partners. Beyond security cooperation, these strategic partnerships also serve to promote more diversified value chains and mitigate the risks of an economic overdependence on China.

Setting Up an Economic Security Framework to Hedge Against China's Geopolitical Risks

Japan is deploying an economic security strategy that seeks to protect its critical industries and technologies, become a hub of innovation, and increase resilience against Beijing. This framework should allow Japan to maintain a certain autonomy while the Sino-American rivalry strongly constrains its economic relations with China.

The Japanese position is indeed not completely aligned with its

American ally. If Tokyo recognizes the urgency of protecting its market and developing alternative technological solutions to reduce its strategic dependence on China, it does not plead for a complete economic decoupling. Rather, Japan strives to identify strategic sectors, and critical, potentially dual-use technologies to protect them from Chinese interference, invest in them to maintain the advantage over Beijing, and have the capacity to offer an alternative to third countries.

Achieving an economy that is less vulnerable and more independent of China is today a political priority, driven by the National Security Council Secretariat (NSS) since the creation of a dedicated economic security team in April 2020. Staffed by around 20 agents, its mission is to coordinate the units in charge of economic security set up within the ministries of Foreign Affairs and the Economy, but also of Defense. In October 2021, Prime Minister Fumio Kishida created a ministerial position for economic security, a world first. Economic security will also likely be one of the three main pillars of the new National Security Strategy to be published this year.

Japan has taken a number of measures to protect its market and technologies in strategic sectors. For example, the foreign investment protection law, passed in the fall of 2019 and targeting Beijing in particular, lowers the ceiling for foreign equity participation from 10% to 1% in companies in sectors considered sensitive. New cybersecurity standards have also recently been adopted to prevent attacks and information theft in companies. The academic world has also been made aware of the conditions of scientific cooperation in sensitive sectors and export control sections have been set up to prevent the transfer abroad of nuclear, radar and other technologies likely to be used in military purposes. In 2018 also Japan banned suppliers presenting significant security risks for its 5G market and its critical infrastructures, de facto excluding Huawei.

At the same time, Japan is striving to strengthen its competitiveness and comparative advantages especially for semiconductors. The country has a competitive edge in chip manufacturing equipment and materials. Five Japanese companies are in fact among the top 10 suppliers of chip production equipment, materials and technologies. In this area, Tokyo is positioning itself as a hub of innovation in order to maintain its lead and make itself "strategically essential" for its partners. The government has succeeded in attracting the world semiconductors leader, the

Taiwanese TSMC, to set up a chip plant in Kumamoto Prefecture.

A third way to build up its economic and industrial strategic autonomy *vis-à-vis* China is for Tokyo to ensure the resilience of its value chains and its economy. In April 2020, during the first violent wave of the Covid-19 pandemic, an emergency plan allocated \$2.2 billion to encourage the repatriation to Japan of some industries (in particular in the health sector), or their transfer to Southeast Asian countries. The search for resilience is set largely in coordination with allies and partners. The Partnership for Competitiveness and Resilience, announced at the Biden-Suga Summit on April 16, 2021, encourages the establishment of an alternative communication network facing China for 6G, innovation in key sectors such as semiconductors, and biotechnologies. Japan also joined the US-led Indo-Pacific Economic Framework (IPEF) with 14 countries that would incentivize its members to share information on critical products and exchange inventories in case of a geopolitical crisis in the region. Tokyo has set up a Supply Chain Resilience Initiative along with Canberra and New Delhi, in order to diversify and secure their value chains. This effort is now well deployed within the Quad with the establishment, in 2021 of a working group on critical and emerging technologies.

This multilevel framework should enable Japan to continue its economic cooperation with China. As tensions around Taiwan Strait grow, the issue is no longer for Japanese companies to leave China or stay – they have an interest to stay if they produce and sell in the Chinese markets – but how to face the China risk in case of a crisis or conflict and escape US sanctions. Companies look at splitting their production, with differentiated value chains to hedge against geopolitical risks.

The Japanese authorities are worried about the ideological turn taken by the Sino-American confrontation. If Tokyo condemns the excess of the authoritarian system reinforced under the rule of President Xi Jinping, it is indeed unthinkable for Japan to support any change of regime that would lead to destabilizing Beijing, or instigating reprisals which would have potentially very serious consequences for its interests. For this reason, Japan has sought to externalize pressure on China, encouraging its American and European partners to maintain a firm line on the issue of values and human rights. However, this claimant posture can also come at the risk of peril to Tokyo, which is also expected by its American ally to be unfailingly supportive of its Chinese policy. Japan therefore found

itself in an uncomfortable position during the diplomatic sequence leading up to the Biden-Suga Summit, seeking a balance on the issue of sanctions related to human rights violations in Xinjiang and its support for Taiwan.

Conclusion

Japan appears as a stabilizing factor in the Indo-Pacific region because it has every reason to maintain the status quo. Tokyo has deployed efforts to manage and hedge against risks posed by China, through a three-pronged approach: deterrence, counterbalancing and conditional engagement. Economic security is therefore at the heart of a Japanese strategy aimed at supervising its economic cooperation with China as much as possible to ensure its sustainability and stability. At the same time, it is pursuing a firm line of deterrence on the security level and strengthening its coordination with its affinity partners, first and foremost the US, for the establishment of a favorable regional order, binding and counterbalancing China, but without increasing frictions. Tokyo has also to carefully manage its relations with Washington, which is pressing for a total alignment with its decoupling strategy toward China, without consideration for Japanese economic interests.

This delicate position is in several respects close to that of the EU in the face of Sino-American rivalry. Japan and the EU thus share a large range of values and interests, and should step up their cooperation to weigh on the international order as forces for stabilization and moderation.

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