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## P R O C E E D I N G S

MS. SOLÍS: Good morning, everyone. I'm Mireya Solís. I'm the director of the Center for East Asia Policy Studies at Brookings. And it is my great pleasure to welcome you to today's Webinar on Japan-China relations, seen through the lens of economic security.

Over the past few years Japan-China relations showed a marked improvement with a resumption of high-level political dialogue although tensions over disputed territories have not abated. Now, frictions in the East China Sea have been discussed at length, so today we want to focus on a different and yet critical dimension to the future of Sino-Japanese relations.

How will the Asian powers navigate the tradeoffs between globalization and national security? On the one hand, trade and investment activities have been at the center of the project to rebuild Japanese-Chinese relations through waves of economic interdependence. Japanese capital in the form of economic assistance and private investment has been very important to the takeoff of the Chinese economy, and for it to acquire its role as hub of global supply chains.

More recently, Japan has emerged into the global scene as a champion of economic internationalism, trying to get China to adopt higher standards on infrastructure finance and pushing for the conclusion of an Asian trade grouping that also includes China. So, economic engagement is an essential element in the fabric of Japan-China relations.

But on the other hand, geopolitical tensions, the sharp deterioration in U.S.-China relations, and China's bid for tech dominance have prompted Tokyo to become more proactive on a different track of foreign economic policy, what we refer to as economic security.

So some of the most significant developments in this arena that are the focus of our panel today include the following: The addition of an economic security division in the National Security Secretariat, they moved to effectively bypass Chinese telecom companies in government contracts for 5G, and the tightening of foreign investment screening to prevent leaks of critical technologies with China foremost in mind.

Moreover, the COVID-19 pandemic has exacerbated these challenges. President Xi's much anticipated state visit to Tokyo in the spring did not materialize, was postponed, and we don't have yet a new date on when this might actually happen. Moreover, it has been widely noted that within

Japan's economic measures to deal with COVID-19 there was a fund of \$2.2 billion to reshore (phonetic) diversify supply chains away from the (inaudible).

And Tokyo also included the medical sector in the list of sectors warranting tighter FDI screening. So an overarching question motivating today's webinar is: What will be the impact of the rise of economic security concerns on Japan-China relations? Do these trends herald a renegotiation of globalization among Asia's largest economies?

So, we have a terrific group of experts today who will help us navigate these very complex issues. Let me introduce them briefly in the order in which I will ask them to offer initial remarks.

Sheila Smith is Senior Fellow at the Council of Foreign Relations, she's a very prolific author. Her most recent book is "Japan Rearmed," which I highly recommend to all of you. But Sheila has also authored one of the most authoritative books on Japan-China relations, "Intimate Rivals." So, Sheila, we'll talk today about overall political relations between Japan and China. But what brought about that rapprochement and how far can it go?

Next, will be Jonathan Berkshire Miller, who is senior fellow at the Japan Institute for International Affairs, and deputy director and senior fellow at the Macdonald-Laurier Institute in Ottawa. Jonathan will discuss the boost to Japan's economic security measures, the recent changes in the National Security Secretariat in the Ministry of Foreign Affairs, and what might the impact be on Japan-China relations.

Tomoo Marukawa, is Professor of Chinese Economy at the Institute of Social Sciences at the University of Tokyo. And Marukawa Sensei will discuss the role of technology trade in Japan-China relations, and the challenges that Japan faces in adjusting and updating its export control regime.

Jun Osawa is senior research fellow at the Nakasone Peace Institute, and a former Visiting Fellow with us at Brookings. Jun will discuss the implication of Tokyo decision to bypass Chinese telecom suppliers in 5G, and more generally, Japan's readiness to deal with cybersecurity risks.

Before I turn to their presentations let me just say that we want to hear from you, we want you to be part of the conversation, so please do send us your questions to the email address [events@Brookings.edu](mailto:events@Brookings.edu), or with the Twitter handle JapanChinaSecurity.

With that, I would like to invite Sheila to offer her remarks.

MS. SMITH: Let me unmute. Thank you, Mireya. It's a pleasure to be with you. And I'm delighted to be on this stellar panel. It's a wonderful time to discuss these issues. So, let me start by kind of setting the stage a little bit, I think especially when you're here in the United States we often see the Japan-China relationship through the lens of our relationship with China, but it's important to see it through Tokyo's eyes, or through the lens of Japanese experience with China.

You know, and in the book that you kindly mentioned, I look at this array of interests that are affecting the way in which China and Japan interact, and I think it's important to understand there are a variety of policies under this rubric of China policy. And so this panel is going to be a great introduction to some of the issues we don't often get a chance to look at closely.

But first point I want to make is that Japan-China relations of course have a momentum of their own. It is a long relationship, Chinese and Japanese will both saying centuries-long, but I would date it, obviously, in the post-war period, from the '78 Normalization Treaty. It's also one that has been largely shaped by domestic interest. It is not simply a diplomatic or geostrategic relationship, it's one in which the Japanese people and interest groups of various types have a very strong interest and opinion on.

Nonetheless, we can't ignore the fact that it is shaped by geostrategic and systemic factors. I would say the COVID-19 pandemic obviously is one of these systemic factors, and it should be thought about that way going forward, whether you're thinking of it as a public health crisis, or as, in terms of supply chains and economic integration, or even in terms of strategy.

So let me talk a little bit first about that bilateral dynamic. It's amazing to me now that the book I wrote in 2015 I think this is -- it has been eclipsed by so much, but it began to focus in on the territorial clash that began in 2010-2012 between Japanese and Chinese forces in the East China Sea, initially Coast Guards and fishing boats, but now increasingly by the militaries.

It was a tip of a -- a tip of the iceberg, I think, of a larger shift of the Japan-China relationship, it wasn't just about that specific issue, it was recalibrating in many ways the change, and shift, and balance of economic and military power between the two large Asian giants. It's hard to imagine that that was only -- that was a decade ago already.

Japan's defenses of course had been challenged by China's rising military power, again,

not just the islands themselves, but by Japanese -- by Chinese decisions to expand their maritime capabilities, both on the surface of the sea and in the air. I think the other piece of the puzzle here that continues to be very, very important is that the trade relationship between Japan and China began to show signs of tension as well.

So it's not just that economic relations were fine, and the strategic component complicated relations, it's the fact that there was the structural underpinnings of both the economic interdependence that Japan and China have both pursued for decades, that too was beginning to weaken, and as we all know the economic interdependence between those two powers has long been the ballast against which political tensions, whether they be war legacy issues, or this rise in strategic challenge, it steadies the partnership in a way. It doesn't always solve the problems but it keeps the mutual interest focused on the longer-term diplomatic ambitions of both sides.

We are, today, in a period of course of -- since that decade-ago tension became overtly with a military dimension to it, resurfaced. I think it's taken a decade for Xi and Abe to try to find a way to rethink, recraft their strategic relationship. They've done this before of course the decade before that, but where we are right now is, of course, that Xi was expected, as you said Mireya, to visit Japan this spring. And Prime Minister Lee had visited in 2018, Prime Minister Abe had gone to China, again very much anticipated.

And so this is the final piece of that high-level symmetry that was designed to really create a document, create a framing for how to understand the relationship going forward. It's been stalled by COVID. I think it's also, it could become tangled in some of the behaviors that we see in the region by China, the continued activism in the South China Sea of course, but more specifically by the Chinese assertion of a National Security Law in Hong Kong.

So it's not just the COVID (audio drop) here, we are looking at the ways in which China has also acted in 2020 that has now raised some pretty significant questions about whether this will go forward or not.

The domestic interests I think that I would like us to keep our attention on -- of course your other speakers will be highlighting more than I -- is, you know, these domestic influences have largely -- you know, the aggregate they've shifted in the direction of a greater skepticism about whether

the Japan-China relationship can be a friendly, cooperative relationship.

There's been a general enthusiasm over the post-war period in Japan for greater cooperation with China, and a peaceful relationship, and you see that from citizen-to-citizen relations, and tourism, and trade, young people's exchanges, sports exchanges, all those dimensions. You also saw it in political parties. I mean the Japanese political parties had largely supported conservative and progressive, have largely supported a peaceful, cooperative relationship with China.

That, too, is fraying as you start to see some new parties come to the fore that are much more skeptical about whether or not Beijing can and will act in a way that is conducive to Japanese interests.

But I think the biggest change -- and I argue this in my book -- the biggest change really has been the business community. For most of the post-'78 period the business community was hardly advocating for better diplomatic relations with China, deeper investment, more ODA (phonetic), even when some domestic -- Japanese interests had lost considerably in some of those investments, there was still an overriding desire to improve the economic relationship, and it's in a sense that the China market, obviously, would produce great profit and opportunity for Japan.

Those interests today are more varied, like in the United States' case Japanese business is not speaking of one mind when it comes to China. There's more small- and medium-sized businesses now invested in China, and they are more vulnerable to the political currents there, they're also more vulnerable to Chinese popular reaction. At times we reference the nationalism against Japan that can arise in China.

But I think the other piece, in addition to this complex business, the economic picture in terms of the interests engaged in China, it's also the change in Japanese citizen, or popular opinion on China. You look at poll, after poll, after poll, from the early-2000s to now, and what you see is a pretty straight trajectory of Japanese public, popular skepticism, largely focused on the CCP itself, but nonetheless about the strategic relationship with China.

And I think there's been incident after incident, some of which I talked about my book, that is exacerbating the sense of popular skepticism, but I think it's certainly difficult then for people like Prime Minister Abe who wants to improve the relationship to -- they have to come back and demonstrate

to the Japanese public now in new ways that this is beneficial to Japan.

Let me conclude here with a couple comments about the strategic rivalry that we're talking about between the United States and China, and how that affects Japan. There's an excellent volume that was published by the *National Bureau of Asian Research* called "Strategic Asia," this year's volume is dedicated to looking at how other powers in Asia respond to strategic rivalry. And I wrote the Japan chapter for that.

The very simple point I make there, is there's both opportunity and risk for Tokyo. Again, when we sit here in Washington I think people tend to emphasize the risk part, but I would caution you to see also opportunity in the strategic rivalry as well. If economic interdependence, however, continues to be a vulnerability, not an asset, for the Japan-China relationship, then I think we're going to see risks outweigh the opportunity.

But it is true, too, that China as well -- the United States, rather, as well as China can impose costs on Japan for strategic choices. And I am thinking here of the trade agreements, and then the tone and tenor of the Trump administration's approach to Tokyo on that trade agreement which, Mireya, you've written about extensively.

Should the United States attempt to impose costs on Japan for its side with United States or against the United States, you could also see that vulnerability increase. I don't think we're there yet, but I think we should be cautious about how we approach this part of the strategic partnership with Japan.

The opportunities of course are for diversification, not only economic diversification but also strategic, political, diplomatic diversification. And I think that's the attack you see the Abe Cabinet taking in the Indo-Pacific vision.

It's clearly bringing all of the instruments of Japanese influence to bear on creating, and shaping, and trying to strengthen the partnerships with Japan across the region, and again the economic instrument there is obviously a very important one, not only for Japan to exercise, but also for the countries in the region to have Japan exercise.

But you also see the self-defense forces playing a bigger role. Just yesterday, in fact, Japan and Australia signed a Status of Forces Agreement. India and Japan have upped their military-to-military cooperation, so you see that dimension coming together with the economic instruments of the

state to really bolster Japan's strategic presence in the region.

Europe presents another opportunity for collaboration, both economic and strategic, and diplomatic, and I think here when we think about COVID-19 there's clearly venues in which Japan can operate globally to the benefit of its strategic -- its regional presence. And I think that's an important aspect of how Japan also manages the China challenge.

So let me stop there. I'm happy to talk more during the Q&A session.

MS. SOLÍS: Thank you, Sheila, for getting us off to a great start. Next, I would like to ask Jonathan to offer his remarks.

MR. MILLER: Well, good morning, everyone. And thank you to Mireya and the team at Brookings for organizing this.

Let me just follow up on Sheila's great remarks and kind of -- I think she set the stage really well on the broad issues between Japan and China. Obviously the emergence of COVID-19 has interrupted and changed the course of many international relationships, and ties between Beijing and Tokyo are no exception to this.

I think in broad, strategic terms, the relationship with its drivers of mistrust, and security issues, some of those that Sheila had mentioned, and the compartmentalized economic cooperation has remained more or less the same. But I think that this period, and when we look back at this in five or ten years may hasten certain pre-existing trend lines in the relationship, and add a bit more clarity going forward, at least from the Japanese side.

Kind of with that chapeau (phonetic), I'd like to make three short points on the economic security side. The first point that I'd like to make is the changing appreciation of economic security in Japan, and how this has been realized at the bureaucratic level, but also more at the strategic side as well. So I think it's important if we textualize the thinking of national security, and how this is gradually evolving in Japan.

You know, I think Sheila referenced this with the tensions over the Senkaku Islands, and 2010, '11, '12, and it's important to reference before talking about how the National Security Secretariat, which is included within the National Security Council, how this amended itself towards economic security. I think it's important to contextualize in 2013 when the NSC was first stood up, tensions with

China were probably at its peak.

And a lot of the focus of the National Security Council at that time with its reform as a kind of a four-member meeting, the Prime Minister, the Chief Cabinet Secretary, the Minister of Foreign Affairs and the Minister of Defense, really had a hard-edged security sort of focus, and the East China Sea being one of those areas.

Clearly, this has not gone away. The issues of the Senkaku, especially post-pandemic, we're seeing these issues continue to be a great concern with significant incursions from Chinese vessels. So the issues haven't gone away, but I think that the thinking within the NSC, and the way that the NSS is set up in Japan has amended to look at economic security.

So as Mireya mentioned in her opening comments, Tokyo now has both an economic security division within the NSS, and also within MOFA, the Ministry of Foreign Affairs.

So, I think these are significant developments. The staffing is still not overly large, but the precedent of this I think is very important. And I think it's important to also note that this is not necessarily a new development, so if you even think back to Japan's first-ever National Security Strategy, which they released in advance of the NSC being put up, economic security was also highlighted as an important kind of area to move forward on.

Maybe on some of the challenges of that, I mean we can get into that a little bit in the discussion if you're interested. I think some of the challenges that Japan will face on economic security from a bureaucratic sense, and this is especially true with the NSS, will be number one recruitment. So I think that the NSS largely relies on seconded bureaucrats from different ministries. The consistency of those secondments, deployments into the NSS, it doesn't make sense to stand up permanent positions there that are not just the one- or two-year, three-year secondments.

And the second one, and I think this is something in higher education and the think tanks in Japan to look at, will be the literacy on economic security issues. So much of the security studies focused in Japan over the past 10 years has been heavily focused on either maritime security or the traditional security issues. But increasing that literacy on economic security I think will be very important.

So, that's a little bit on how things are kind of changing from a bureaucratic sense. The last two points that I kind of want to make. The first one is with regard to the foreign investment

projections. So I think there has been a lot of talk on this, especially in recent months, I think there's been some concern from the business community about some of the increased foreign investment protections, essentially now there's going to be regulations for foreign investments, stakes that are over 1 percent, where prior that was 10 percent.

And I think some of the concerns from the private sectors that this might snuff out some legitimate investment and hurt Japan's image as a destination for FDI. But I think if you actually look at the details of this, it actually is quite targeted. So, not only does this new legislation have exemptions in place that could be beyond that 1 percent, but it also targets this foreign investment protection at very specific areas, whether they're in defense, high-technology.

And the kind of last point I want to make on this, and this kind of dovetails into my final section on international cooperation and economic security, is that this point was very much in line with Japan's economic security cooperation with the United States, with the European Union, which I think is, all three of them are looking at ways to kind of enhance and build up their architecture on economic security.

So this hasn't come out of the blue. It's not a Japan and in a fish bowl sort of scenario, but this is something that they're working very closely with their partners and allies on.

So, my last, sort of, point I'm going to make before sort of concluding and giving the floor to my Japanese colleagues is: What will that economic security look like going forward in international space? I already referenced that I think the NSS needs to work on the consistency, work on making sure that they recruit the right bureaucrats to staff these positions.

But I also think the implementation of frequent and sustained exchanges, of course, with the U.S., first and foremost, I think there's already been announced economic security dialogues with U.S. counterparts which I think is a good start. But I think we need to think about this beyond the U.S.-Japan Alliance context. So, I'll give you one example that has recently been discussed on 5G, and this is some of the discussions that are coming out from the United Kingdom as it looks to revamp its approach, is this sort of D10 approach to 5G.

I think 5G is one element of economic security, but I think some of these economic security issues are dealt with within a range of countries, whether it's -- whether it's Canada, Australia,

and New Zealand, and of course the United States, and Japan. So I think that looking at this in a broader context will be very important.

And I guess I'll kind of finalize on, Sheila made reference to FOIP, and I think this is -- it's important to think about this also in Japan's broader strategy. So it can be tempting sometimes to look at economic security as a niche, and those who work on that in a certain part of the NSS, or a certain part of MOFA, but if you look at the way the contours of how FOIP has changed in Japan, or has evolved, as many have kind of referenced it over the past few years, I think economic security really is, first and foremost, in that field.

I mean just a couple examples would be Prime Minister Abe's G20 Chairmanship on high-quality infrastructure, looking at the free flow -- data flow with trust. The economic side, and the economic security being a big part of that, is a big element of how FOIP is changing, and I think how FOIP will change.

So, I think I'll leave it at that. But again I welcome your questions and discussion.

MS. SOLÍS: Thank you so much, Jonathan. That was really interesting. And now I would like to turn things over to Professor Marukawa.

MR. MARUKAWA: Thank you, Mireya. Well, I would like to focus my talk on export control. This is my topic: Export Control by China and Japan: The Failure of Economic Statecraft.

What we call by economic statecraft is the use of economic means to pursue foreign policy goals. And the recent rise of such economic statecraft is this disrupting international trade and investment. And in this short remark I would like to focus on two cases of export control introduced by China and Japan during the past decades, and the lessons we can -- that can be drawn from this failure. Okay.

So the first one is on rare earth. This is the most publicized case of China's economic statecraft against Japan, and it happened in September 2010 when a Chinese trawler smashed into a Japanese Coast Guard vessel near the Senkaku Islands. And it is why -- so it was widely reported that the Chinese had stopped exporting rare earth at that time, and it was believed that this blockade was meant to press Japan to release the Captain.

I, myself, am quite skeptical about that interpretation because the blocking continued way

more than --after the release. But anyway China didn't try to correct the misunderstanding. And the tight control continued even after that until the next year, and what followed was the erosion of Chinese Government's monopoly power on full global rare earths supply, as we can see in this graph. The price of rare earth skyrocketed and then plunged, and went back to the original level. So that was about rare earth.

The second one I would like, the cases I want to talk is on high-performance magnets. This is also related to rare earth. In 2012 three Japanese manufactures, Hitachi, TDK and Shin-Etsu Chemical planned to establish joint ventures in China, and the Ministry, Japanese Ministry of Economy, Trade and Industry, blocked these plans by amending the regulation on Export Trade Control.

Perhaps a hidden motivation for this action was to prevent the leakage of rare earth application technology. The justification was that these high-performance magnets can be used in making missiles. Three years later the Japanese manufacturers were still eager to go into China and make magnets and sell to the Chinese market. So finally the Ministry, METI, approved these plans. So the METI's economic statecraft only resulted in a three-year delay of investing in China.

The third case I would like to talk is of the recent case that happened between Japan and South Korea. In July 2019 the METI tightened its control on exports of hydrogen fluoride, resists fluorinated polyimide. These are the important materials to fabricate semiconductors and LCD panels, and explain the justification was that the South Korea had been loose in administrating the circulation of these items which can be used in chemical weapons, and in nuclear (audio drop) something.

But the action was widely interpreted as Japan's retaliation against the Korean Supreme Court's judgment ordering Japanese firms to compensate for exploiting Korean laborers during World War II. And what happened after one year of this restriction, Korean manufacturers remained intact, they are still competitive, and now they are replacing these materials with Korean domestic ones, or inviting DuPont to come to Korea and make (audio drop).

So Japan's economic statecraft simply resulted in the loss of competitiveness on the Japanese side, and Korea will further file WTO dispute settlement case. And in that case the Japanese government may end up defending a measure which is only harming Japanese industries.

So what are the features and lessons we can learn from these three cases? First, all of

them have non-economic justifications, in the case of rare earth China's justification was environmental degradations, and in the second and third case is national security.

But all of them have hidden motivations. In the Chinese case they wanted to have a higher price of rare earth, or develop their own application technology industry. And in the second case, well, the Japanese Government simply wanted to keep its competitiveness. And the third is the put pressure on the Korean Government. And all of them resulted in the loss of the actors.

So the lessons, I think the justification of export control should be the same with its motivation. You say that it is harmful for security, then your motivation must also be security.

And secondly, if all of them may incur serious losses to yourself, so it would be reasonable only when the solution of the problem that the security is worth incurring the losses. Thank you very much.

MS. SOLÍS: Thank you very much Professor Marukawa. And last, but not least, I would like to invite Jun Osawa to give us his remarks.

MR. OSAWA: Thank you, Mireya san. And first of all I'd like to express my deepest gratitude to the Brookings Institution and the Centre for East Asia Policy Studies for hosting this timely webinar in spite of in this tough COVID-19 period. I'm deeply honored to be able to join this morning with such distinct scholars and audience on the Web.

And I was a staff of the National Security Secretariat in the Government of Japan. So I agree 100 percent about the Jonathan's presentations about the NSS analysis, because the NSS staff doesn't have the freedom of speech in the public about the their own work in the government.

So, today, I had five years experience of being in charge of National Cybersecurity Planning in the Japanese Government, and still hold a part-time position as a member of the Cabinet Office. This morning I will share with you my own thought and experience in the capacity as a think tank research fellow, not as my official capacity.

So today the main message in my short, initial, presentation is the high politics (audio drop) emerging in Japan-China relations. High politics is the war (phonetic) that Robert Keohane and Joseph Nye mentioned in their book's title, *Power and Interdependence in 1977*. The concept, high politics covers all matters that are vital to the survival of the state, in particular national security.

The opposite concept of law of politics matters of the state's welfare especially economics. So, I will briefly touch upon the new phenomena of high politics in Japan-China relations from the viewpoint of my expertise of national cybersecurity.

The post-Cold War era has come to an end, and classical realism returned to international politics, the world of classical realism is a world in which the state is the main actor, and the existential security of the state is the primary concern. So cyberspace is no exception to this recursive phenomena in international politics.

So I will show some PowerPoint slides here. Oh, sorry. I'm sorry, we're waiting for you. And over the last 10 years some states have been using on cyberspace as a place to achieve strategic goal, and express their intentions, but that beginnings in 2007 with the cyber attack against the Baltic States in pursuit of the national interest. In cyberspace the states-to-state conflict in the realist world reemerges with intensity.

And China, one of leading country to use cyberspace for their strategic goal, Chinese cyber espionage targets almost all other countries for stealing governmental secret information, business secrets and intellectual properties.

In Japan, a large-scale targeted attack that called the advanced persistent threat, APT, aimed at stealing the information from House of Representative's government institution, and the defense industry came to light in 2011. Similar attacks with the objective of stealing the information, I believe to have taken place since 2005.

We now observe that more than 10 state-sponsored APT groups in China repeatedly conducting informational theft, cyber attacks, and they have been stepping up their attacks on Japan, particularly since late of 2016.

And you can see the red fonts in this chart and, for example, APT1 the information tech, and energy, the victim of target. So, these victims that Chinese cyber espionage group target industries and the business entities, holding cutting-edge technologies that appear on the list of Chinese recent manufacturing strategy, Made in China 2025, has 10 key sectors.

Here's the Made in China, and that you can see the 10 key sectors. So up to now the national response to a cyber attacks are focused on the passive -- I'm sorry -- I passed. So, these

Chinese cyber espionages are linked to China's long-term strategy for seeking technological and economical supremacy. Thus, as you see, cyber domain becomes a real battleground of economic security between China and the developed Western countries, including Japan.

Up to now national response to the cyber attacks has focused on passive defense such as securing a cyber security and protection of critical infrastructure, these measures of passive defense are now insufficient. In order to stop a potential state adversary conducting cyber attacks on our national interest, Western allies have to employ a new strategy that is based on comprehensive cyber deterrence that consists of both enhancing cyber deterrence by denial, by improving cyber robustness, and resilience of the country, and enhancing cyber deterrence by punishment using a variety of policies tools, including cyber counterattack.

And the more proactive cyber defense by such means as continuous monitoring of attacking groups, and response to attack using big data analysis, is now required. To do that monitoring activities of cyber adversary, and accumulating best amount of electronic information from the Internet, and conducting post-event analysis and follow up by using big data analysis are needed.

In the new cyber strategy of 2018 the Government of Japan decided to promote the policy of proactive cyber defense that ensure the government to implement active preventive measures against the threat in advance.

Adding to struggle in Cyber domain, there is another battlefield of digital infrastructure construction around the world. In 2015 Beijing introduced a Digital Silk Road Initiative, as a part of the famous Belt and Road Initiative, to include communication connectivity, the Russian countries and China.

In 2017 Beijing expanded the concept of Digital Silk Road in the field of IoT platform, such as e-commerce, digital payment and SNS platform. Even though Chinese President Xi, Xi Jinping defends the BRI that China has no geopolitical calculation in his keynote speech, but this kind of Digital Silk Road, and BRI, carries a risk of being regarded as a geopolitical strategy, because of the BRI struggle completely.

But the U.S. famous geopolitical Spykman (phonetic) called the (inaudible), that's the IT infrastructure, thus IT infrastructure building and IoT platform become another field of competition for the supremacy between China and the Western allies.

This kind of contest of supremacy is the main reason why Tokyo decided to have Economic Security Unit in the Cabinet Office. Last summer Secretary General -- sorry. Last summer Secretary General switched from Mr. Yachi, who has a long history of diplomatic career, to Mr. Tamura, who has a long career in intelligence community. Then two months before in April, a new Economic Security Unit has been launched in the National Security Secretariat.

It is important that the main task of the Unit covers technology security, cyber security, and the international coordination for the international infrastructure building, and COVID-19 issues.

So at the end of the short presentation, I'd like to conclude that the high politics reemerging in Japan-China relations, cyber domain and the international IT infrastructure building a new battlefield of economic security. Tokyo shares concerns about China's state capitalism model to achieve dominance, not only in the new technology, but also in the wider economic fields.

The Government of Japan decided to have new Economic Security Unit in National Security Secretariat, so improvement in Sino-Japanese relations in economic field will be limited so national security will overwhelm the economic welfare.

So that's all. I stop my presentation. Thank you very much for your attention.

MS. SOLÍS: Thank you very much. Those were very rich remarks from everybody. I think that you have laid out a number of very important issues, and there's much to discuss.

Again I want to remind our audience that we would like to hear from you, and you can send us questions with the email address [events@Brookings.edu](mailto:events@Brookings.edu), or the Twitter handle JapanChinaSecurity.

So I would like then to start a conversation with all of you, and have an opportunity to respond, and react on what you heard from your fellow panelist.

And let me then go through some questions, and I also want to bring in some of the questions that already we have received from the audience. And the first question I have is as follows, "One of the most contested debated issues when it comes to U.S.-China relations has to do with the notion of decoupling, whether it's feasible, whether it's doable, where it's already happening, and whether -- you know, and if that's the case, at what cost? Can we separate these two economies that had for the - by and large embraced each other economically, can we then think that the risks are now dictating

greater distance?"

But what I would like to ask is your view on: What is Tokyo's view on decoupling? How does Tokyo handle these very important questions? Do you think that Tokyo is able to have a more nuanced approach, more fine-tuning, trying to mitigate risks while still maintaining, by and large, high levels of economic integration? Or whether, at the end of the day, such a surgical approach, if you will, is not feasible?

And actually we received a question that is very much along this line, so I would also like to tag it to my original question. And this comes from Francesco Alberque (phonetic). And he asks, "Can the recent moves by the Japanese Government to partially subsidize Japanese companies to repatriate production to Japan or move to Southeast Asia, be seen also as a way to contain China by trying to reduce its bargaining economic power?" Has the coupling begun? Has this recent fund to bring back some production to Japan or take it to Southeast Asia amount to that? How do we think about the decoupling question for Japan?

And why don't I ask the panelists to intervene in the order in which they offered remarks, and then for the next questions I'll reverse that order. So I would like to go first to Sheila, and then the others as well. Sheila, I think you're on mute.

MS. SMITH: That was a fascinating discussion. There's so much to react to. But let me try to focus specifically on your decoupling question. You know, I think we kind of brandish this word these days as if it's something that can be decided and then implemented. So first the decision, and then the implementation thesis is a nice way to break it out, in my mind anyway.

The Japan -- you know, the United States is struggling with this, but for the Japan-China relationship I think disentangling economic ties between those two countries would be very difficult, if you want to put this in a black and white zero -- where we are now to zero, right. But I think you've already seen, and I think both of our speakers from Japan have highlighted some of the costs and the benefits of actual decoupling itself.

So, your question is really is it beneficial to Japan to think that decoupling is a good idea? And I think in some sectors you've clearly got a yes answer, and Osawa San's presentation outlined where that answer is clearly yes, and then the steps are going to be taken to implement it. But I think as

Marukawa san has pointed out, there are some areas where maybe it's not a good idea, or there's maybe some instruments that should not be used.

I think the decoupling question is really about risk and about risk management, and there I'll go back to some of the comments -- you know, reference points I made in my opening. If you're trying to reduce political risk, i.e. you don't want to give China access to vulnerabilities that then they can exploit either doing a crisis or in the longer-term strategic competition with Japan, then I think that's probably a pretty beneficial thinking process to go through, and again clearly some of that's been happening in Japan, and here in the United States, and in Europe as well.

That doesn't necessarily require decoupling, it requires managing risk, and identifying places where integrated -- greater integration or uncompromised cooperation -- let's put it that way -- is not in Japan's interest. And I think the future technology area is a clear indicator, but so too are issues such as food security, right, areas where you can see that there's been demonstrable harm to Japanese citizens, maybe not intentionally, but inadvertently, there's another reason to reduce risks, and that requires negotiation with Beijing.

So I think that what we've lost a little bit in the decoupling conversation we have over here in Washington is: Where is risk? Where and what can be negotiated? Where is China not responding to a desire for negotiated limitation of risk? And in those instances then what can we do independently to reduce that risk?

And I think that's a nice breakout in my mind of how to proceed. I think your specialists on the panel are better prepared to answer those specific questions, but I think I would get rid of the "decoupling" word and talk about risk management.

MS. SOLÍS: Thank you. Jonathan?

MR. MILLER: Yeah. Well, thank you. It's a really good question and, you know, I agree with almost everything that Sheila had mentioned as well. I would agree "decoupling" has been an unhelpful term, especially in an absolutist sense, and unless you know tectonic plates (inaudible) their shift and Japan -- the Japanese Archipelago moves away from East Asia, decoupling in the sense that many mean it to, just simply is not feasible for the Japan-China relationship.

I do think nuance is important here, especially for the Japanese and, you know, I would

liken this to the way that they're approaching some of their economic risks with China are being approached more with a scalpel rather than a sword.

So I think that and, you know, one of the questions was put on the foreign investment protections, and also on the stimulus package about the incentives for Japanese companies to relocate, still is a very minor -- and some, kind of, have even said they're symbolic. And they're large enough, but they're USD2 billion. There is still a lot of entanglements between the Japanese business community in China.

So I think one thing, one important kind of last point of reference though is that this -- some kind of feel like this just happened overnight, and that COVID has pushed the Japanese, okay, we have to start diversifying our markets. Actually, this has been happening for a long time, if you look at some of Japanese FDI moving to India, to ASEAN, into other areas, and this is not something that COVID created, this is not something that U.S.-China tension has created.

This is something that has been kind of on the mind of Japanese strategists, and even Japanese businesses for some time. So I think it's, while some trends have been kind of hastened by recent developments, I don't think this is a new trend. I think that the Japanese businesses will continue to look elsewhere. But that's not going to say that they're going to completely get out of China either.

MS. SOLÍS: Thank you very much. Marukawa Sensei?

MR. MARUKAWA: I completely agree with Sheila's comment that risk management is a proper way of thinking. And perhaps, well, we should consider to decouple, you know, military use technology and civilian use technology, so a lot of things which are done before between the U.S. and China, it stems from the problem that mixing the military and civilian. So I think we should have a better way of avoiding, you know, risk of transferring military technology.

And on the topic of relocating -- relocation, I would like to introduce an interesting questionnaire survey done by JETRO recently. And it simply asks Japanese investment firms located in Southern Asia -- Southern China, whether you have plans to move away from China to somewhere else, or back to Japan. And when it was done in February, 9.6 percent of the respondents said that they already had plans to relocate from China to somewhere else.

And they started to accelerate, and 5.6 percent responded that they are now considering.

But after two months, they've done another similar survey and the response got decreased quite significantly, so only 5.4 percent responded that they are accelerating their move -- their plans. And 2.9 percent said that they are now considering.

So the relocation may happen, but according to that survey only less than 10 percent will seriously consider moving out of China. So, overall I think even with the government policy of subsidizing relocation, overall the effect will be quite limited.

MS. SOLÍS: Thank you very much. And Jun?

MR. OSAWA: Thank you, Mireya san. I think it is impossible to decouple entire Chinese economy, and society from the rest of the world -- as we did for USSR in the Cold War era -- so the feasible way is to take a selective decoupling policy, such as denying the access to our vital technology, or to critical infrastructure, or denying their request to change our common value of human rights, or freedom. For example the National Security Bill for Hong Kong issue.

So, Tokyo doesn't participate in a tariff war with China, but already starts to take selectively-applied decoupling policy. Now from bitter experience in the last few months Japan will move to reorganize, not really sure, our supply chain to reduce risk.

Even Tokyo isn't on the boat of the boat of the tech war (phonetic) but we -- Tokyo expands the cooperation with the U.S. in economic security issue. For example, it is important that the both government coordinated their policy on the issue of avoidance of supply chain risk in Fifth-Generation of the telecommunication infrastructure building entire, in Japan. So that in December 2018, GOJ decided not to introduce the Huawei, and that's the manufacturing in the (inaudible) system.

And that last year we have the guideline not to introduce this kind of Chinese equipment that has the supply chain risk to Fifth Generation -- communication infrastructure in the energy (inaudible) SoftBank, another telecommunication company. So that, you know, we have some kind of selective decoupling policy about the economic security. So that's my comment. Thank you.

MS. SOLÍS: Thank you, Jun. And you actually allowed me to transition very nicely to my next question. And I'm going to go in reverse order, and ask you to respond and elaborate further, and then we'll go in the reverse order.

But this has to do with: How should we think about economic security in the context of

U.S.-Japan relations? Jonathan made a very good point that it should be broader than that, that we have to think also about Japan cooperation with more like-minded countries, democracies, and the European Union, and so forth. And we can definitely talk about that, we should talk about that.

But, you know, sitting here from Washington, already I notice of course, big differences in how Tokyo and Washington think of decoupling, the wisdom or not behind that. But I want to dig a little bit further. It seems to me that both allies are concerned that China may rely on its state capitalism model to achieve high-tech dominance. So, the end objective might be shared.

But my question is whether they are equally aligned when they're thinking about implementing the strategy, and the tactics and the tools to be employed. You already mentioned that Tokyo was not on board with a tech war. We also know that the United States is moving to revamp and strengthen its export control regime to cover emerging and foundational technologies, and many Japanese companies are concerned that they may get caught in the middle.

And in the most recent action of the U.S. Government *vis-à-vis* Huawei, basically banning foreign companies to supplying the Chinese company that rely on technology and software that's American, well, that has an element of extraterritoriality that may not be seen kindly by other countries.

So, in general, how should we think about economic security? I know there's a dialogue scheduled, but is this -- and as I mentioned that clearly brings the U.S.-Japan together firmly, or are there going to be, perhaps, issues that need to be ironed out when it comes to what is the wisdom of the specific tools being selected?

So, Jun, you have the first go.

MR. OSAWA: Well, so there is -- there are many challenges to a good, appropriate coordination of the decoupling policy between the U.S. and Japan. So, because of the -- because of the -- China is the neighborhood of the Japan. That we can't move to another place next to Hawaii, or next California, or next to the Washington D.C.

So that the reason we -- what Tokyo has to consider, the balancing of the tie with China, and a tie with the United States, but in my experience of talking with the business executives in merchandising firms, or news agency, so they recognize there is no way to be the (inaudible) with China, so because we have to -- we share the common value with the United States, not to the authoritarian

regime. So that reason, even there is the difficulty, the challenges to coordinate the decoupling -- selectively decoupling policy between the Tokyo and Washington.

But we have to move on. I know we talk about the --especially in the digital infrastructure building and worldwide, because the Chinese, their communication companies such as the China Telecom, Huawei or the ZTE (phonetic), helped some developing country to getting up their own Fifth Generation telecommunication infrastructure.

So U.S. and Japan has to offer the altering development model, or the third countries in Africa, and in Asia, and South America, so there is the alternative initiative such kind of the (inaudible), to help their economic -- their economic infrastructure development. So, that's my idea.

MS. SOLÍS: Thank you, Jun. And I should say, I'm asking very complex questions, but I'm going to ask for our next speakers to be very succinct, because there are some very interesting questions from the audience that I do want to pose. So if I can ask you for a minute, two interventions from all of you on this question of: Implementing economic security strategy in a coordinated fashion between the United States and Japan? And then move on to the next question, and bring in some of the questions posed by the audience.

So, I think it's Marukawa Sensei, next.

MR. MARUKAWA: Well, I think, frankly speaking, and many of the tactics adopted by the U.S. Trump administration is unacceptable under WTO rules. And as a member of WTO I think Japan should use the measures that are allowed. Such as, you know, additional pairs (phonetic), it is justified only when the counterparty is dumping or subsidizing exports, or the domestic industries are seriously damaged.

Restrictions on exports is even more, you should refrain from restricting exports, it is justified only when it involves, you know, security issues, or environmental issues. So I think it is very difficult to align our tactics with China. Of course we share our values, but the tactics will be different. Thank you.

MS. SOLÍS: Thank you. Jonathan?

MR. MILLER: Let me just make two very quick points. I mean, I think one thing is that I don't think that we'll see an entire -- significant movement of this before November. And I'm, you know,

not in the position to make any predictions anymore on elections, but I think that the importance right now on the U.S.-Japan side for coordination on this issue is that the seeds have been laid there through the kind of the commencement of the economic security dialogue.

So I think if that creates the basis of the discussion, and then whatever happens after the U.S. election potentially there'll be more synergies to move forward at that point, so I think at this point both sides are still a little bit cautious the way that they're kind of engaging on this.

My second point -- and again this goes back to my international cooperation point -- I think from Japan's perspective they'll be very wise to kind of go in this direction. If you think this year is a G7 Summit, obviously is the U.S. as the Chair of the G7, but next year it will be the United Kingdom.

And previously I referenced how the U.K. has been turning very rapidly on Chinese investment, on Huawei 5G issues, I could see very much in their G7 Chair, an initiative on economic security, something that would involve some of the like-minded countries, including the United States.

And so I think that would be something that would give Japan a little bit more wiggle room than potentially putting all of its eggs in the basket of sort of the bilateral discussion on economic security.

MS. SOLÍS: Thank you. Sheila? I think you're muted.

MS. SMITH: Here I am. I'll be very brief. I'm getting distracted by the conversation. So I think, you know, it's important to remember economic security coordination is very hard, even during the Cold War, we had massive infrastructure, right, for export controls, for all the issues that that our fellow panelists have been discussing. And even, still, monitoring implementation was also very hard. So I think we should recognize that this is something hard even if we agree that it's in our common interest.

That being said, I think the United States clearly has to get with the program in terms of understanding that this is a priority for alliance, coordination and cooperation. And I'm not saying that to be overtly political, I'm just saying this has to be a priority, and it has to be something that we drive forward with our alliances, first and foremost, and find a mutual point of agreement.

I don't think we can separate U.S.-Japan from Europe, although the Europeans are harder. But I think, as Jonathan pointed out, the U.K. is moving, and I think others in Europe are also moving because they understand this.

That being said, I think there's three areas for us to -- for U.S.-Japan to prioritize, and this

would be (audio drop) -- it's already been discussed but obviously cybersecurity is a clear priority across the board for all of the industrial economies and democratic societies. It's pretty obvious why.

The second is, I think, again it's come up by several -- mentioned by several of our speakers, is digital infrastructure, global digital infrastructure. I think clearly we are -- that is the forefront of the authoritarian, liberal piece of the future of technology, and I think it's a coordinated strategy that's needed in an effort to fund and support our vision.

And then finally, I think we really have to think about how we protect our strategic assets. Already there's been some movement, but I think the coalition could be stronger and the United States could lead better. So those are the three areas I think we should focus on in the U.S.-Japan partnership.

MS. SOLÍS: Wonderful. So let me then bring a different question, and one that looks at the deep level of the Japan-China relationship. You know, just at the beginning of this year officials from both countries were reportedly very busy preparing a fifth political document to mark the next stage of bilateral relations.

But we know that the world has very much been changed by the pandemic, but also that there are ongoing issues, like frictions over the Senkaku, and there are new issues as you know China is pushing for a national security law for Hong Kong, and therefore rising voices in Tokyo critical continuing forward with plans for that Xi state visit.

So this is a very open-ended question, as to what do you see might be the future of the relationship? I also want to bring in the question from Amar Adiya, from the *Mongolia Weekly*. And he asks, "Should Japan uninvite Xi Jinping? To what extent does Japan have economic and political leverage over China?"

So, I guess we'll start with you, Sheila, and then work our way through all the panelists.

MS. SMITH: Excellent. I'm still on mute. So, three points I think we have to be realistic about what a document can do, but I think it's an exercise Japan and China have gone through before. I think it's important. I think there's some concern in Washington about what that document might say, and so I think close coordination with the United States would be would be wise.

That being said, I think a Foreign Minister Motegi has already been quite open about his questions about Chinese behavior and ambitions in Hong Kong. Clearly, I don't think Japan can ignore

this, either for domestic political reasons, or for Japan's credibility in the region. It'll be very hard to navigate that one now that the Chinese have passed the National Security Law.

I think prior to that Japan had a platform. It could make its feelings known, but now that China has made it a make-or-break issue, I think this is going to be much, much tougher.

Lingering in the background is Taiwan, and I know in that document you can't talk -- you can't say Taiwan, but there are formulas that have been used in the past about peaceful resolution of disputes. I think it would be wise for Japan to consider how to make sure that those kinds of commitments, between Japan and China in the past, continue to be at the forefront of the relationship going forward.

On the very specific question of: Should you uninvite Xi Jinping? Absolutely not; I think Japan has much to discuss, I think a Xi visit to Japan would be very positive for the region as well as for the bilateral relationship.

That being said though, there'll be an awful lot of examination of exactly what Japan has signed on to in that document. So the pressure is on, I think, the Abe Cabinet now. But I would leave it to Mr. Xi to say to Japan: I'm not coming. And I don't think in any way Japan should disinvite or not continue to work hard to make that a successful visit by Xi to Japan.

MS. SOLÍS: Thank you, Sheila. Jonathan?

MR. MILLER: Thanks. I'll make just two very quick points. I think I'll agree with Sheila that there would be some, I think, in Tokyo who would be happy to uninvite to Xi Jinping, but I think that it does make sense to kind of go forward with this depending on the timing of when that might work. The one thing that I think that is important to think about this on though is that the political future of Prime Minister Abe.

So much of this sort of, whether you call it a rapprochement, I'm sure I would like to call it that. I think that the realities or some of the tensions in the Japan-China relationship remain despite some of the high-level political dialogue. But a lot of this has been under the stewardship of Xi and Abe.

What comes next after Abe, I mean that's, I guess, a crystal ball sort of question. But I think that that moving in a positive direction with China does require some political strength and capital, and I think that's something that we really need to keep an eye on post-Abe. But I do think that there are

things that that Japan and China absolutely need to talk about.

And I think one important point to reference as a final point, is that when asked about what leverage Japan may or may not have. If you think back to 2013-'14 I mean essentially, China was essentially waiting for Japan. They were saying, well, you know, we will wait for concessions, and our leaders are not going anywhere, our high officials will not meet with you.

Tokyo in many ways has essentially become the demander (phonetic) in this high-level diplomatic relationship. So there's not really much, it would be counterproductive for them to, you know, then kind of take a line saying, uninviting Xi Jinping. I think they should just hold their ground, essentially remain in the position that they have to this point.

MS. SOLÍS: Thank you. And with apologies to Marukawa, and then Jun san; because we're almost out of time; so if you can be very concise in your comments. Marukawa Sensei?

MR. MARUKAWA: Well, it's a very tough question. But I agree that the Hong Kong issue is quite shocking and should be included in -- at least we must say something to Xi, if he comes. So, yeah, it's not the reason to just uninvite Xi but, still, it remains to be a very big concern. Okay. Thank you.

MS. SOLÍS: Thank you. Jun san?

MR. OSAWA: Thank you. Just two quick comments: So, a sense of balance is one of the important matters from diplomacy. Japan invited to President Trump as a state guest last year. So, there's no surprise to invite President Xi, next two U.S. President, the important point. So, that for the fifth document resemble the forth political document in 2008, so (audio drop) -- the purpose of the document might be able to control the crisis between the two countries. So, that's my comment. Thank you.

MS. SOLÍS: Well, thank you so much. This has been really a fascinating conversation. I learned so much from all of you. I thank you again. And I thank the audience for tuning in. And have a good day, all of you. Thanks.

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