



Japan's Economic Balancing Act

The following is a transcription of Asia in Washington's podcast episode "Japan's Economic Balancing Act" featuring Dr. Mireya Solís. It was created using a speech recognition program with edits made by hosts and Reischauer Policy Research Fellows, Jada Fraser and Adriana Reinecke, sound editor, Lauren Mosely, and, Producer, Neave Denny. You can find us on [Apple Podcasts](#), [Google Podcasts](#), and [Soundcloud](#). To keep up to date with upcoming Reischauer Center events and programs, please follow us on [Facebook](#), [Twitter](#), and [YouTube](#).

"We live in a world of interdependence. And this, by definition, means that influence cuts both ways. And it's true that you have influence, but you better use it very wisely, because once you call that card, there'll be a cost for imposing that leverage." - Dr. Mireya Solís

Jada Fraser:

Welcome to Asia in Washington, the podcast examining key questions animating debate in DC on the Indo-Pacific region. I'm Jada Fraser, here with my co-host Adri Reinecke, recording in Washington, DC at the Edwin O. Reischauer Center for East Asian Studies at Johns Hopkins SAIS.

Adriana Reinecke:

Today we're joined by Dr. Mireya Solís, Director of the Center for East Asia Policy Studies, Phillip Knight Chair in Japan Studies, and a Senior Fellow in the Foreign Policy Program at the Brookings Institution. Dr. Solís is an expert on Japanese foreign economic policy, U.S.-Japan relations, international trade policy, and Asia Pacific economic integration. She is the author of *Banking on Multinationals: Public Credit and the Export of Japanese Sunset Industries* and co-editor of *Cross Regional Trade Agreements: Understanding Permeated Regionalism in East Asia*, as well as *Competitive Regionalism: FTA Diffusion in the Pacific Rim*. Her most recent book, *Dilemmas of a Trading Nation*, offers a novel analysis of the complex tradeoffs Japan and the United States face in drafting trade policy that reconciles the goals of economic competitiveness, social legitimacy, and political viability.

Jada Fraser:

Today we'll be speaking with Dr. Solís about new directions in Japanese economic statecraft based on her recent seminar at the Reischauer Center. You can find a recording of the seminar on the Reischauer Center's YouTube channel. There are a lot of valuable insights that we won't get the chance to cover in today's conversation, so we highly recommend it to anyone who wants to learn more. Dr. Solís, it's a real privilege to have you on the "Asia in Washington" podcast today. I know Dr. Calder and the rest of the Center thoroughly enjoyed your seminar, and we're looking forward to diving a bit deeper into it today.

Mireya Solís:

Thank you very much, Jada and Adri, it's a pleasure to be here.

Jada Fraser:

In your seminar, you described for us new directions in Japanese economic statecraft that have arisen in response to a world increasingly defined by what you term 'hard-edged interdependence.' In particular, you described a growing trend towards securitization in economic policymaking. To begin with, can you share with our listeners what factors have contributed to this trend and some



of the changes to Japanese economic policy that have resulted from it? What does 'hard-edged interdependence' entail specifically?

Mireya Solís:

Yes, of course. I noted that Japanese economic statecraft has been, in the past, really defined by the quest for connectivity — for building economic interdependence — and that Japan's international stature has risen quite markedly as a result of that. But then we have a new trend, which I described as the 'securitization' of international economic relations, that has now encouraged Japanese policymakers to seize on the notion of economic security, and develop a set of policies, a new toolkit, to try to mitigate the risks of economic interdependence.

So, what has brought us here? And it's not only Japan, of course. This is a move that we're seeing from many other countries. So, I would offer three main factors, understanding that this is a very complex phenomenon. First of all, unquestionably the rise of state friction, state rivalry, [and] great power competition between the United States and China. Which means that now you have the two largest economies in the world, very mindful [that] when they agree to cooperate to promote trade and investment, it's no longer the question as to what are the benefits, but who benefits more — this is something that in the jargon of international relations we refer to as 'relative gains' — that has become a larger consideration. But also a keen awareness about the vulnerabilities that come from these economic interdependencies, links, and how you go about minimizing some of those risks. That's one phenomenon that is happening that has profound consequences.

The other one, I would say, is that we are going through what I would characterize as a technological revolution. So, we all talk about artificial intelligence, edge computing, digitization, advanced manufacturing in semiconductors, or you name it. There are a number of technologies that are redefining the way in which economies and societies operate, but also have implications for military projection and for the conduct of diplomacy. So again, we now seem to be in an era where, because these are platform technologies that are critical to economic competitiveness, to military readiness, "Who controls those technologies? How do you prevent leakages?" has become essential in the minds of many policymakers, as well as a greater awareness about protecting critical infrastructure. That's another very important trend here.

And finally, in how we got here, I would say that the pandemic helped us get here faster than we ever expected. I see the pandemic mostly as accelerating these existing trends. And the way I like to describe it is that it really put a mirror to our current reality. And it's not a pretty image, because it really showed how much economic nationalism has taken root, and how much the international organizations that have tried to promote cooperation — I'm here thinking of the World Trade Organization — are increasingly ineffective. So, what we saw during the pandemic is what we refer to as 'export protectionism': countries hoarding or restricting the flow of personal protective equipment. Access to vaccines has also become a sensitive issue. And of course, in this climate, we heard a lot of voices saying that, you know, "The world is too dangerous," "We need to minimize interdependence," "We should favor domestic production" and, "We should bring back industries to the homeland."

So, I think that all of these factors have created what I would refer to as a very different strategic environment — 'hard-edged interdependence' — where I think that the more concrete manifestations of this is, quite frankly, that governments are now intervening more, regulating more, international economic transactions by invoking national security. So, we're increasingly seeing the interdependence that exists in the world through how much that affects essential national



security interests. And you asked, “How is Japan reacting to this?” Just very briefly, I would say that there are a number of initiatives already that reflect this new awareness. Japan has tightened its screening of foreign direct investment, is considering tightening export controls, has done a lot that we can get into the details later on about supply chain resilience, and, therefore, there's a plethora of actions that do speak about this new era of Japanese economic statecraft where economic security is front and center.

Adriana Reinecke:

Thank you so much. There's a lot to unpack there. One thing that you had mentioned — and this is getting in a bit to what you talked about in your talk with the supply chains and building resiliencies and the sort of reshoring and whatnot — was a sort of two-pronged strategy of strategic autonomy and strategic indispensability. And it seems that that will require some diplomatic balancing; I'm reminded, here, of the 2019 Japan-South Korea trade dispute. In your opinion, how should Japan handle these dual objectives, diplomatically speaking? How can Tokyo encourage its neighbors to become more dependent on Japan, even as Japan itself pursues self-sufficiency?

Mireya Solís:

Thank you, Adri. That's also a very important question. And these two concepts are really going to provide the anchors, the foundations, for how Japan fleshes out its economic security strategy. It's very important to understand this does not mean a turn towards autarky, by any means. Japan's real power and influence and economic wellbeing [re]lies upon [maintaining] that well-connected network economy — especially considering demographic trends and so forth. So again, we're talking about the coexistence of two different sides of Japanese economic statecraft. But I do think that when we hear voices in Tokyo talking about strategic autonomy, the concept that really resonates the most is one of resilience. And the idea is that Japan should be able to withstand any shocks, any acts of economic coercion, any manipulation of waves of economic interdependence, when it comes to central areas that keep the society and the economy running. So, there's a lot of discussion about, again, critical infrastructure, cybersecurity, supply of commodities that are essential, access to the most advanced chips... All of these things are now being discussed quite frequently and quite candidly.

Now, when it comes to the other part of this question, that of strategic indispensability, that's really an interesting dimension. It's not just Japan who has articulated a concept like this. And here, I think that what really is going to be central is for Japan to be at the forefront in the development of these new technologies, because that's what will make other countries turn to Japan, when they need access to these products. Let's talk a little bit using a case of semiconductors. It's very well known that Japan lost its dominant role in the semiconductor industry. But what needs to be restated is that Japanese companies are actually very, very competitive in some segments of semiconductor production, where they control what we now refer to in this new normal of hard-edged interdependence as ‘choke point technologies.’ So this is, for example, in the area of chemicals, advanced components, sophisticated equipment for semiconductor manufacturing. So, Japan is very important to the operation of the supply chain in semiconductors, because some Japanese companies are critical in the supply of these products. But again, I would say that for Japan to really become an indispensable country, it's not just about how it operates in these central niches of critical segments of the world economy. But again, it's about the provision of public goods, and Japan being a force for good. But it's also for Japan to be a reliable and predictable global player.

And I say this, for example, thinking about what has happened when we see disruptions to the supply chain. It is true that access, control over choke point technologies gives you leverage, but



this leverage [is such] that once you use it, you kind of lose it too. You alluded to the Japan-Korea export control row, and what happened there was that when the export controls were tightened, then the response of many Korean companies was [to] try to look for alternatives: domestic production, or alternative suppliers. And some Japanese companies that produce these chemicals did lose market share. We see this, for example, in the ongoing U.S.-China semiconductor tensions, where sometimes you hear American semiconductor companies concerned that the export control restrictions that the United States is imposing might actually create an incentive for American software to be sidelined — American technology to be sidelined — as a way to get around these restrictions. So, we live in a world of interdependence. And this, by definition, means that influence cuts both ways. And it's true that you have influence, but you better use it very wisely, because once you call that card, there'll be a cost for imposing that leverage.

Adriana Reinecke:

Thank you so much. You raised a number of very important points there. And for our listeners, you won't be able to see us, but Jada and I have been nodding along in agreement this entire time. Speaking of which, Jada, I actually think you had a question that ties in nicely here having to do with ODA.

Jada Fraser:

Definitely. So in regards to, you know, how and when to use this influence, you talked about in your seminar that this new great power competition in Asia — how it's playing [out] in Southeast Asia in regards to ODA and infrastructure development — is really a 'two-horse race,' as you termed it, between China and Japan. And so relatedly to that, there was the 2021 ISEAS survey that came out that listed Japan as the region's most trusted strategic partner. Yet with these things in mind, we're not seeing ASEAN buy-in into Japanese foreign policy initiatives, like the Free and Open Indo-Pacific; we're not seeing ASEAN buy-in into regional organizations that Japan is party to, like the Quad. So, my question for you is: How can Japan turn this long history of infrastructure development assistance in the region into strategic influence?

Mireya Solís:

Thank you, Jada. That's again, very important, and it's a central objective of Japan: to cultivate excellent, meaningful relations with ASEAN and Southeast Asia more broadly. And certainly, overseas economic assistance has been a very important way of economic engagement. Again, it's part of what I described in my talk as that connectivity push. And what is important is that Japan is not doing this as a reaction to China's Belt and Road Initiative, in the sense that Japan has been doing this for decades. This is a way in which Japan actually, after World War II, rebuilt relations with many countries in the region. But it's also true that Japan, because it's more proactive diplomatically, it has played a very important role in these formulations of the Free and Open Indo-Pacific and in being a strong proponent of the Quad. And ASEAN has not been entirely comfortable with them, and this always has to do with the concern that this may displace ASEAN from the core platform mechanism for addressing regional challenges. So, I would say that, first of all, from what I can see, Tokyo has been mindful of these concerns in Southeast Asia; it has attempted some corrections here. For example, it was, in the beginning, talking about the Free and Open Indo-Pacific as a 'strategy,' and then it lowered a little bit the visibility, by talking about it as a 'vision.' But also, I think that it has tried to emphasize the overlap that exists between Japan's views about what the regional order should be about and ASEAN's views, because ASEAN also produces Outlook on the Indo-Pacific. And I think that the common denominator there is a rules-based order. And that is one essential feature of regional order where I would think that there is a strong convergence between Japan and ASEAN.



Now, on the other hand, it's not just infrastructure investment. We should also be mindful that Japan has been very active in trade negotiations with ASEAN countries in the context of the Regional Comprehensive and Economic Partnership. And, therefore, it means that it has that to add as well; it has opened its market. It did so before with the Japan-ASEAN trade agreement, and also through bilateral trade agreements. So, there's been a robust trade diplomacy component to this. So, I think that's why you begin to see that, in terms of trust, the trust is there. And that is a very significant asset, that gives Japan a lot of influence in the region, even if it's not going to get complete buy-in into the concepts. And my last point here, Jada — and sorry for going on for so long — is that the most recent reconfiguration of the Quad is more palatable for ASEAN. And by this, I mean that the Quad, now that it has been elevated at the leaders' level, has actually tried to portray itself more as a supplier of public goods. So, vaccine diplomacy, climate change. Not taking direct criticism of China, but actually trying to provide the things that the region needs the most. And I think that that actually would perhaps increase somewhat the comfort level of ASEAN. My final point is that Japan has gone out of its way to state its support for the principle of ASEAN centrality. So, I think that diplomatically, economically, and in terms of addressing the most pressing needs, there's actually a lot of cloth that has [been] used to try to create a meaningful partnership with ASEAN.

Jada Fraser:

Dr. Solís, I think you raised a really good point. Especially, I want to pick up on your mention of the recent Quad leader statement. And in that I think we saw something new and interesting as far as the rhetoric that was used to mention ASEAN as sort of this "heart of the Indo-Pacific," and this direct call to action, where the Quad countries promised to meaningfully and intentionally work with ASEAN countries on these initiatives. So, I can't agree more that we're seeing this recognition of this is what the region needs and wants, and this is how regional organizations that the U.S. and Japan and Australia and India are party to, can better meet those needs. So, on the topic of Southeast Asia, I'd like to dive in a little bit more and kind of bring it back to this idea of hard-edged interdependence. So for Southeast Asia, what implication does this new hard-edged interdependence hold for developing economies in the region, especially given their reliance on technology transfer from countries like Japan and the United States in order to move up the global value chain? Should Japan and the United States be more willing to share their tech expertise to help these developing economies reduce their reliance on China, for example?

Mireya Solís:

Thanks, Jada, very important topic. And clearly, I think that hard-edged interdependence has profound implications for Southeast Asia and for the way in which the United States and Japan think about how to engage with the region and how to make a positive contribution. I think on the one hand, you could say, ASEAN and other countries clearly benefit from the fact that there is concern with over-dependence on China, and this has been the phrase that has been used by policymakers in Tokyo. Then, you know, it's natural that they're going to be interested in diversification. And we saw, for example, the Japanese government open a subsidy program to facilitate Japanese companies from not only bringing some production back to Japan, but also sending some production to Southeast Asia. And in that sense, you could make the case that they have clearly benefited from this. I think that there's, for example, in Vietnam, they have seen a boon in terms of receiving direct investment. And, you know, this goes back to something that is not new, the 'China Plus One strategy' that many Japanese corporations have in the past used to diversify and become more resilient. So, in that sense, I think it's all good.



On the other hand, I do think that, if I'm right, and we're really moving to this hard-edged interdependence - where national security becomes a larger consideration, where the powerful countries in the system step in to restrict flows of technology, trade and investment and where international organizations are weakened, because we see growing unilateralism - I think that is very concerning for the smaller countries, for the countries that cannot use market power to get ahead. And in that sense, I think that this must be a worrisome trend for countries, not only in Southeast Asia, but elsewhere, if we move away from a rules-based system, and we go back to [where] market power is [a] much more predominant factor.

Now, you also asked, well, what happens with helping Southeast Asia move up in the technological ladder, and produce more high value-added products? I think that this is all very important. And the global supply chains actually have been a very positive mechanism for this to bring more integration. And I think that across East Asia, there is this awareness that that actually has been a force for good. But I would say that, again, there are some challenges ahead. Because, for example, I believe that China has been very successful with its Digital Silk Road. And we do see that Chinese telecom, Huawei, 5G networks are used. And so, I think that because the United States and Japan have made the assessment that Huawei and Chinese telecom networks and cashless pay companies represent a risk, it's going to be difficult for them to operate more deeply in those economies if we begin to see these trust issues create barriers. So that's one that I don't have an easy solution for other than the best way to compete is by trying to be very competitive and putting out the market competitive alternatives. And that's what we've seen in infrastructure investment. And that's hopefully what we will see also on the digital domain.

Adriana Reinecke:

So, just to pick up on one thing that you said that I found very interesting: You were saying how we're moving away from a rules-based international system into sort of a market-oriented international system... Am I misquoting you?

Mireya Solís:

Market power.

Adriana Reinecke:

Market power, okay. That potentially would have implications in terms of growing global disparity. Do you think that this sort of competition between Japan and China in the greater region will help to slow that in any way, as they're sort of, you know, competing to develop infrastructure? Or do you see that as being totally separate tracks that we're progressing down here?

Mireya Solís:

Well, no, I do think that competition can be good. And actually, by encouraging the other country to step up and to provide more capital, and in better terms and more sustainable projects, that I think is a healthy competition. The broader point I was making is that we have to grapple with the implications of economic security. I think that on the one hand, it's unquestionable that it's here to stay. And there are good reasons for these concerns about leakage of critical technologies [and] cyber-attacks are on the rise. So clearly, we do want to build some of those defensive measures, but it could be a slippery slope. And the concern is that they could be also captured by vested interests and be used for protectionist purposes. Or that we have an overly expansive definition, and we come to see most things as guided by economics, by national security. And there could be some downsides to that. So, for example, we know that Prime Minister Kishida has elevated economic security to the top of the agenda; that for the first time Japan is going to have a Cabinet-



level Minister dealing with economic security. One of the first tasks here is to develop a comprehensive economic security law. And of course, in doing so, Japan is responding to, I think, concerns about China and leakage of technology to China, but also a strong desire to be aligned with liberal democracies — and certainly with the United States — who are all moving in that direction. So, there's some sound reasons for doing this. However, it's very important, again, to be thinking about the scope, how much of international economic transaction should be seen as amenable to national security restrictions; also about, how you coordinate the different ministries, avoiding overreach and making sure that you do not end up weakening what has actually been a very, very meaningful part of Japan's foreign policy, which is the economic connectivity agenda. So, finding that right balance is what we're going to see how Tokyo manages that. And it's not just Tokyo, most other governments in the world are grappling with these issues.

Adriana Reinecke:

Thank you for bringing this back around. Because we've gone about as far out — we zoomed out — about as far as you can go. So just coming back to Japan, where we began. And you just sort of talked a little bit about some of the — I won't say obstacles — but the difficulties and the things that Japan will have to be keeping in mind as they begin to try and sort of implement this new strategy. I'm curious, you've been talking about Japan as a proactive leader in making all of these new trade agreements and so on. That seems to be a departure from a lot of previous discussion of Japan as being highly reactive. And, you know, one of the main, sort of, critiques here is the sort of structural argument that the Japanese bureaucracy is fundamentally just not equipped to deal with large scale change or emergencies. I'm wondering, do you think that this proactivity is limited to this new economic realm, this economic security realm? Are you seeing a shift towards proactivity also in Japan's domestic politics? You know, in other areas of its domestic and foreign policy?

Mireya Solís:

Well, I think that, you know, economic statecraft is natural for Japan to be more proactive, because really, it's about tapping on its own strengths. And, there are many significant restrictions on what Japan can do on security policy, and even there, there has been important change, but nevertheless, given the emphasis that Japan has always attached to infrastructure finance, and once it was able to overcome the domestic resistance to trade liberalization, Japan was able to again play in the high leagues. And Japan is now party to three of the largest trade agreements in the world. And infrastructure finance, the digital economy, these are all areas where Japan is very much in the center of where things are happening. Now, when it comes to the domestic side, I know that there's a lot of skepticism that Japan can be proactive. I would say that [the] broader trend of having more executive leadership is something that can also be detected when we talk about economic reforms in Japan. The Prime Minister's Office has become more powerful, has become better at initiating legislation, having the ability to coordinate among ministries. And there are long term reasons for this that have to do with administrative reforms, with electoral reforms, and with changes in the structure of the Japanese economy. But the results have not been as stellar, certainly as when it comes to economic statecraft. And people probably are thinking about the third arrow of Abenomics, and the fact that Japan has not had the promised productivity revolution, and they're certainly right about that. But it also does not mean that not a lot has changed in Japan. And certainly, during the long period of the Abe administration, you can see this more proactive leadership, first of all, by the adoption of [a] reflationist project, right? I mean, there was a very sharp shift in monetary policy. Japan has not reached the 2% inflation goal, but nevertheless, we're thinking about just how much more top-down change is happening in Japan; there's more than in the past. And there have been some recent important initiatives on Womenomics and corporate



governance, utility deregulation, and agricultural reform, where it really depends on where you want to look at this as glass half full or half empty. I think that there's been some change, not enough change. And sometimes the problem is that, with the goals themselves — going back to Womenomics — I think that they were very instrumental goals in trying to increase female labor participation, but no real push for gender equality. But I do begin to see more of a proactive Japan than in the past. And I think that this more reactive Japan had to do with the fact that there was very little top down, Prime Ministerial leadership. Now for this to happen, of course, we need a prime minister that stays in power more than a year. And that is a big question mark we have these days when we watch Japanese politics. Will there be longevity? Because no big strategy can be implemented if you're fending for your political life, so to speak, and you don't stay around for more than 12 months or so.

Jada Fraser:

So, Dr. Solís, as we're getting to the end of this podcast episode with you, you might know that many of our listeners are students, as we're hosted out of Johns Hopkins SAIS. And so, having you as a guest on the podcast is a really great opportunity to ask: For those that are interested in building careers in the East Asian political economy space, what are the key questions driving this debate that the next generation of leaders should be paying attention to?

Mireya Solís:

Well, one that I would really like to encourage students [about] is the centrality of in-depth country expertise and language expertise and making the investments in spending time in the region. Because I find that that awareness, that sensitivity, is really meaningful when you're trying to make a career, whether it's in public policy or whether it's in academia. So, again, I do believe that, in Japanese *'keiken'* — that your actual experience [in] the country — makes a big difference. And I know I'm saying this in COVID times where a lot of these exchange programs are not happening as they should, but I would make a plug for as soon as it's possible to resume fieldwork, to resume study abroad, and to again, make the investment. In [the] case of East Asia, frequently, there are hard languages that require a lot of dedicated effort.

Now, what are the big debates surrounding East Asia? Well, one: What is going to be the US role in the region? Are we going to continue to be a resident Pacific power fully vested, not only in the security domain, but in the economic domain? Again, how do we balance between interdependence and economic security is another central issue, I think, for students to be grappling with. How do we revive regional international organizations that have actually delivered 70 years of rising incomes for a lot of the middle class in East Asia? How do we not lose those benefits, while also being mindful that leadership abroad really begins with the domestic foundations here? So, if we don't have a working safety net, investments in workforce development, that's going to hobble all our attempts at leadership. So, I think that it's the ability to not only look at the world in terms of the U.S.-China strategic rivalry; I think that for all of us who are interested in Japan, it's a very good way to exemplify the agency of other very important actors and middle powers and [that] other countries all over the world have agency, and we should therefore be also spending resources to understand their interests and their actions.

And finally, I'd recommend for students these days, is to be thinking [about] — I have a colleague here at Brookings, they use the term "flexible multilateralism" and that is that we are living in a world of growing coalitions and platforms, the Quad, AUKUS, ASEAN, you name it — and trying to understand how they interact, and how we actually have good policies to make the best of them



in a much more complex world. I think it's also an important area for students to be paying attention to.

Jada Fraser:

Well, Dr. Solís, that was an excellent answer. I know that Adri and I definitely gained some important insight from that. And we have some really important questions to start grappling with moving forward. So, thank you for that.

Adriana Reinecke:

There's so much to unpack in this episode. It's been an absolute pleasure speaking with you. And we hope to continue, we'll, of course, continue following you and look forward to whatever is next from you. So, thank you so much for your time today [and] for your insights. It's truly been a pleasure.

Jada Fraser:

Thank you for joining us for this episode of Asia in Washington. If you'd like to learn more about the Reischauer Center and our current research, please visit us at www.ReischauerCenter.org. If you have comments, questions, or suggestions for the podcast, please feel free to email us at EORCPodcastSAIS@Jhu.edu. Don't forget to rate and subscribe to stay up to date on the latest from Asia in Washington.

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