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【Policy Recommendations】

Japan's Economic Security in the New Era: Surviving in an Age of Growing Uncertainty

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Introduction

International relations are undergoing a historic transformation. The Trump administration's diplomacy could undermine the international order that the United States has led in building, and, amid the growing influence of authoritarian states such as China and Russia, xenophobic populism is on the rise in Europe. Japan, located in Asia, must promote the formation of diplomatic alliances, including the unity of like-minded countries based on freedom and democracy, while maintaining its autonomy and indispensability in the economic sphere, with the Japan-U.S. alliance as its foundation. Nakasone Peace Institute (NPI) has invited dedicated policy makers to discuss the path Japan should take from a broad perspective and has compiled the outcome of the discussions into this set of policy recommendations, focusing on economic security.

Current Situation: Centered on the US-China Rivalry, International Relations are Entering an Era without Order

Following the end of the Cold War between East and West, a new era of international relations emerged based on globalism and neoliberalism. However, that era is now a thing of the past, and competition between major powers is becoming the axis of international relations. In the United States, it is clearly recognized that the engagement policy toward China since the 1990s has failed to bear fruit, and China has now emerged as a competitor and a threat to U.S. hegemony. Meanwhile, in Europe, while the focus is on environmental issues and human rights, the threat posed by China is gradually becoming recognized. However, reliance on China in terms of the economy has caused a noticeable divergence in stance toward China from that of the United States.

During the Cold War, the East-West divide was based on an ideological conflict between democracy and socialism. After the end of the Cold War, international relations in the economic area have been centered on free and open trade and investment activities, symbolized by the WTO system. However, in addition to the struggle for economic hegemony between the United States, on one hand, and China, Russia, Brazil, and India, which make up BRICS, on the other, as well as the countries in the so-called Global South, have emerged as important players, leading to a more complicated international structure.

In the second Trump administration, which began in January 2025, the United States has positioned tariffs as a tool for diplomatic negotiation and has adopted a protectionist economic policy of imposing uniform tariffs, regardless of whether a country is an ally or not. Since April 2025 tariff negotiations have been conducted individually with each country rather than through WTO reforms to strengthen a rules-based, free, and open multilateral trade system, thereby leaning toward the formation of economic blocs. It appears that the United States, which had taken the lead in establishing the international economic order after World War II, now appears to be dismantling that order and the free trade system is under threat. In terms of Japan-U.S. relations, although the two leaders have confirmed their commitment to pursuing a "new golden age for Japan-U.S. relations," the United States is seeking to impose high tariffs on Japan as well. However, while Japan-U.S. tariff negotiation and the maintenance of the free trade system have become urgent and important issues, it is essential to bear in mind the continuing importance of addressing economic coercion, mainly by China, as a key factor in economic security.

Japan's Position on Economic Security

When considering Japan's economic security, it is necessary to understand that Japan's position is constrained by the following three conditions.

- (1) Japan is surrounded by three nuclear-armed countries that do not share its values, namely China, Russia, and North Korea, which makes Japan's security environment severe.
- (2) Japan depends on the United States for its security.
- (3) Japan lacks natural resources such as critical minerals and oil.

Due to these constraints, economic security is a vital issue for Japan. Therefore, Japan has taken the lead ahead of other countries and regions in introducing measures for both legislation and implementation. In 2022, the Economic Security Promotion Act was enacted and came into effect and is regarded as a good practice by countries in Europe, South Korea, and others. Furthermore, in 2025, the Act on the Protection and Utilization of Critical Economic Security Information was put into effect, and legislation on proactive cyber defense was approved in an ordinary session of the Diet, completing the legal framework for economic security. It will be imperative to effectively implement these laws through cooperation between the public and private sectors, while reviewing and strengthening both legal and implementational aspects. In doing so, it will also be necessary to strengthen cooperative relationships with Taiwan and South Korea, which are located near Japan and face similar constraints.

Japan's Policy Direction on Economic Security

In order to overcome the three constraints facing Japan, it is necessary to advance initiatives in the following three areas.

(1) Security

The Japan-U.S. alliance is the foundation of Japan's existence and should be firmly maintained as the cornerstone of national security. At the same time, it is necessary to further strengthen cooperative relationships with the Quad, the UK, France, NATO, and neighboring Asian countries such as South Korea and the Philippines, and to promote these multi-layered partnerships. At the same time, in order to avoid excessive dependence on the US, it is necessary to expand Japan's defense equipment market internationally while strengthening Japan's own defense production and technological base.

(2) Trade Policy

For Japan, which lacks natural resources, maintaining a free and fair trade system is a vital issue. Therefore, it is necessary to refrain from protectionist measures that focus only on one's own benefit and to strengthen cooperation with relevant countries and be prepared for economic coercion.

(3) Relations with China

It is unrealistic to consider decoupling China from Japan, given that it is a geographic neighbor with a large economic scale. While focusing on areas where Japan needs to strengthen its protection, such as securing import of critical natural resources and supply chains, Japan must work with like-minded countries and neighboring countries to counter hegemonic movements while also striving to maintain ongoing dialogue with China.

Specific Issues to Address

Economic activity based on free competition and market mechanisms is the fundamental principle, but having said that, in order to make Japan an economically independent and indispensable country, it is necessary to make the following adjustments from the perspective of economic security across three areas: “protection,” “promotion,” and “partnership.” As international circumstances become increasingly uncertain and changes occur rapidly, flexible responses are essential. Therefore, communication between the public and private sectors must be strengthened to share awareness and information.

Protection

(1) Strengthening public-private cooperation to prevent information and technology leakage

In order to effectively prevent information and technology leakage, it is necessary to ensure the effective functioning of the security clearance system and the recently enacted law on active cyber defense. To this end, the sharing of information and awareness between the public and private sectors is essential. In addition, in order to respond to increasingly sophisticated and ingenious cyberattacks, it is necessary to move away from the conventional approach of perimeter defense and introduce monitoring approach in which continuously analyzing, evaluating, and managing risks that exist both inside and outside the network while operating various systems. Furthermore, universities and research institutions are required to evaluate the risk of information and technology leakage for each research and development project and implement specific risk mitigation measures.

(2) Enhancing the inward direct investment screening and monitoring system

It is also necessary to address concerns about information and technology leakage through inward investment. In addition to continuously reviewing the inward direct investment screening system, organizational structure including local finance bureaus should be enhanced so that the capability for information collection, analysis, and monitoring is strengthened. It is also important to actively raise awareness of the risks among the private sector, including SMEs and start-ups in regional areas, through offering information about the system by briefing and consultation sessions. As the number of business successions by local SMEs with important technologies is expected to increase, it is necessary to strengthen monitoring as mentioned above and collaborate with regional financial institutions and government-affiliated financial institutions to promote measures, including financial support, to prevent such companies from being acquired by foreign investors who have a high risk of undermining the national security of Japan.

(3) Strengthening international cooperation on information and technology leakage

The recognition that information and technology leakage is a threat is shared internationally, and it is necessary to further strengthen cooperation between enforcement authorities through the shared awareness regarding technologies that have a competitive advantage.

Promotion

(4) Securing stable resource supply by enhancing the resilience of international supply chains

In order to ensure economic autonomy, it is necessary to avoid over-reliance on specific supplier countries for strategic materials such as rare metals, without being overly constrained by the price

alone. Therefore, it is necessary to promote public-private partnerships to diversify the supply chain and enhance its resilience from upstream to downstream, including the refining process, and to establish a system for continuous analysis of the supply chain. In doing so, it is desirable to share information, raise awareness, and provide necessary support to countries in ASEAN, Africa, and Latin America, given that the middle and downstream parts of the supply chain are often connected through these countries.

(5) Securing technological leadership in advanced key areas such as AI

With the expansion of technology having a significant impact not only on the economy but also on security, it is necessary to promote the “Run Faster Strategy” to secure technological leadership by coordinating promotion and protection measures in cutting-edge key areas of economic security such as AI, advanced computing, quantum technology, and space, from the perspective of strengthening Japan’s indispensability. Furthermore, by cooperating with like-minded countries, Japan will position itself as a core hub in the supply chain in these fields. It is important to link this initiative to the strengthening of security among like-minded countries.

(6) Strengthening domestic capability for the research, development, production, and procurement of defense equipment

Strengthening the defense production and technology base, which is fundamentally considered to be defense capability itself, is a prerequisite for ensuring autonomy. In doing so, it is necessary to actively incorporate cutting-edge civilian technologies, including those possessed by start-up companies, in order to respond appropriately to new ways of warfare brought about by advances in science and technology. It is also necessary to promote international joint development projects, such as the ongoing joint development of next-generation fighter jets by Japan, the UK, and Italy, and the transfer of defense equipment such as ships to like-minded countries, which enables technological development through the securing of continuous demand. From the perspective of increasing domestic procurement, it is desirable to utilize multiple fiscal year contracts and procurement methods that do not rely solely on bidding price. To that end, it is necessary to consider expanding the scope of “Specified Defense Procurement” and direct contracts. Furthermore, it is also necessary to consider establishing a public framework that enables inflow of funds in research and development in related fields that are relatively high-risk.

(7) Recruiting and developing human resources in both public and private sectors with a focus on the space and cyber domains

As various activities become increasingly dependent on networks that include space assets, recruiting and developing human resources, and focusing on the space and cyber domains is a challenge common to both the public and private sectors. Each organization needs to actively and systematically develop human resources as well as utilize their knowledge and technology by improving working conditions and bringing flexibility to HR systems.

Partnership

(8) Building diplomatic partnerships to maintain a free and fair international economic order

Surrounded by the sea on all sides and lacking in resources, Japan cannot survive without trade relations with other countries. Therefore, it is necessary to continue to engage with other countries to

maintain a free and fair international economic order. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Japan has taken the lead in promoting, is a new set of high-level common rules covering not only trade but also a wide range of economic activities. It is desirable to encourage a wide range of countries and regions, including the EU, to participate in this agreement as a standard for the international economic order of the new era. Furthermore, Japan should actively support Asian countries in the areas such as decarbonization and digital transformation, as well as efforts to strengthen resilience against disasters in terms of both technology and finance. Such efforts will serve to strengthen Japan's relationship with Asian countries.

(9) Utilizing public finance frameworks to respond to international development needs

Achievement of stable growth in low- and middle-income countries contributes to the resolution of global issues and the stability of international relations. With USAID programs frozen, it is necessary also from the perspective of economic security to actively utilize public finance frameworks, international development agencies, and other means in coordination with other donors in response to the ongoing high development needs, particularly in infrastructure, to prevent China from filling the gap and exerting influence.

Conclusion

The issues raised in this set of policy recommendations are matters that Japan must address immediately in order to maintain its independence and remain a respected member of the international community amid growing uncertainty in the international situation. In order to advance these initiatives, it is essential to secure the necessary fiscal resources and gain the understanding of the public.

As uncertainty grows and the arrival of a disorderly world becomes an increasingly real possibility, the reconstruction of a free and fair international economic order has become more important than ever. We conclude this set of policy recommendations by strongly urging the government and relevant institutions to take measures proposed in these recommendations and disseminate the information necessary to achieve them.