

100G

Survey Results of 100 Japanese Companies on Economic Security

US-China
Relations

Ukraine
Situation

Taiwan
Contingency

Security
Clearance

Supply
Chain

Local
Procurement

Economic
Frameworks

Cyber
Security

Regulations
on Foreign
Investment

Economic
Security
Promotion
Act

Survey Results of 100 Japanese Companies on Economic Security



CONTENTS

- 4 Executive Summary of the 100 Company Survey

Part I.

- 6 An introduction to Japan's Economic Security Promotion Act of May 2022
kazuto Suzuki,
Director, Institute of Geoeconomics
- 10 Key Data from the 100 Company Survey Results 2022

Part II.

- 38 Round Table "Key Findings of the Survey 2022 and Japan's Next Steps"

Part III.

- 50 COLUMN 1 Three Key Issues for Reforming
the Personnel Security Clearances system in Japan:
Scope, Effectiveness, and Overseas Applicability
Hirohito Ogi,
Senior Research Fellow
- 60 COLUMN 2 What types of information should
the Japanese government and private sector protect
under a new Security Clearance System
Satoshi Yamada,
Visiting Senior Research Fellow, Economic Security Group,
Institute of Geoeconomics

Executive Summary of 100 Company Survey

1 | **The greatest concern: US-China relations**

The majority of companies, over 70%, listed “uncertainty in US-China relations” as a pertinent challenge in terms of economic security. However, less than 20% of companies actually reported being caught in the middle of the US-China confrontation. Considering the increasing trade volume between the two countries, it has become evident that maintaining a certain distance from political maneuvering between the US and China, and conducting objective information gathering and analysis, is crucial.

2 | **Growing concern for a Taiwan contingency**

Regarding challenges in economic security, over 50% of companies mentioned “responses to prepare for a Taiwan contingency,” indicating a heightened interest among Japanese businesses. While the likelihood of an immediate outbreak of a Taiwan contingency is low compared to the high risks involved, companies are struggling to strike a balance between additional costs and the effectiveness of preparations.

3 | **Significant but indirect impact of the Ukraine situation**

Over 80% of companies responded that they were affected by the newly added topic of the Ukraine situation for this year's survey. However, only 20% of companies identified the “uncertainty surrounding Russia-related sanctions due to the Ukraine situation” as a challenge. Many companies pointed out practical impacts such as office closures, suspensions, reassessment of trading partners, alongside financial effects such as decreased revenue and increased costs due to rising material and energy prices.



4 | Gradual efforts for supply chain resilience

80% of companies conducting business in the US and China reported undertaking some measure regarding economic security, with the most common initiative being supplier change and diversification. However, less than 30% of companies took measures as far as transferring production bases. With the export restrictions on semiconductor manufacturing equipment to China introduced by the US, as well as the CHIPS Act and IRA (Inflation Reduction Act), there is a possibility that more comprehensive measures will be required in the future.

5 | Demand for a security clearance system

Nearly 80% of companies considered a security clearance system necessary, recognizing it as an entry ticket to participate in international security-related projects. Currently, there are instances where Japanese companies are not approached due to the lack of such a system, and the number and timing of these cases are not fully understood. There is a high expectation for discussions on systematization to ensure that Japanese companies do not fall behind in the international community.

6 | Expectations for the Japanese government

There are expectations for the Japanese government to provide clearer indications of the future direction of legal measures and for the specific content of the Promotion Bill to be explicitly stated with a strong emphasis on ensuring corporate interests. There is an especially strong demand for policies that support research and development enhancement to maintain the competitiveness of manufacturing. In terms of Japanese efforts to enhance its security, there is a significant number of responses calling for the maintenance and strengthening of the Japan-US alliance, alongside displays of leadership in the Asia-Pacific region.

An introduction to Japan's Economic Security Promotion Act of May 2022

Kazuto Suzuki, Director, Institute of Geoeconomics

In Japan, the term “economic security” first came to be generally discussed after the Liberal Democratic Party’s (LDP) Strategic Headquarters for the Creation of a New International Order, led by then LDP Secretary General Akira Amari, released its recommendations for the “Formulation of an Economic Security Strategy” in December 2020, followed by the “Basic Policy for Economic and Fiscal Management and Reform” in May 2021.

The LDP proposal defines economic security as “ensuring Japan’s independence, survival, and prosperity from an economic perspective,” and outlines two means of achieving this: “ensuring strategic autonomy,” or strengthening the foundations essential for maintaining Japan’s socioeconomic activities and ensuring that Japan is not overly dependent on other countries; and “maintaining, strengthening, and acquiring strategic indispensability and acquisition,” i.e. expanding areas in which Japan’s presence is indispensable to the international community.

In order to realise this policy, the report also states that the vulnerabilities in “strategic base industries” will be identified, and necessary measures will be taken to ensure their strategic autonomy and indispensability. Five fields have been identified under the definition “strategic base industries”: energy, information and telecommunications, transportation, healthcare, and finance. Their respective risk analyses and vulnerability countermeasures are in discussion.

The National Security Strategy, approved by the Cabinet in December 2022, states that Japan’s security challenges include “issues that have not necessarily been recognized as security targets in the past, such as weak supply chains, increasing threats to critical infrastructure, and the struggle for leadership over advanced technologies.” The report also explicitly states that there are threats where “states are trying to expand their own power by economically

coercing other countries through restrictions on exports of mineral resources, food, and industrial and medical supplies, and by providing loans to other countries without regard to their debt sustainability.”

The Economic Security Promotion Act of May 2022

In response to such threats, the Japanese government has passed the Economic Security Promotion Act in May 2022 and taken various legal measures, which are reiterated in the National Security Strategy.

Firstly, the Japanese government seeks to strengthen supply chains. This means avoiding over-dependence on any one nation and diversifying procurement to stabilise the supply of strategic goods. Specifically, Japan aims to develop a domestic supply of semiconductors, including a stable supply of critical commodities such as rare earths, as a strategic goods to maintain superiority in emerging technological fields. As a means of achieving these goals, a support system will be established, including the use of policy loans to help private companies strengthen their domestic production and capital. Eleven items are designated as critical commodities, including antimicrobial agents, fertilisers, semiconductors, storage batteries, permanent magnets, critical minerals, machine tools and industrial robots, aircraft parts, cloud computing programs, natural gas, and ship parts. However, even for antimicrobial agents only beta-lactam antimicrobial agents, which are 100% dependent on overseas sources for their raw materials, have been specifically mentioned and specific commodities are still yet to be narrowed down.¹

Secondly, the Japanese government aims to protect critical infrastructure. The continuity of services provided by critical infrastructures is essential for the stability of the economic and social order, and if other countries interfere with this order, various issues that affect people’s lives and property would emerge. Therefore, this would be considered as a security issue. The field of cyber and the protection of networks, which are the nation’s core infrastructure, has already been discussed, and this has expanded to the protection of other critical infrastructure. The Economic Security Promotion Act designates 14 areas as critical infrastructure, including electricity, gas, oil, water, railroads, motor freight transportation, ocean freight, aviation, airports, telecommunications, broadcasting, postal services, finance, and credit cards. In maintaining and constructing critical infrastructure facilities, the government reviews plans submitted by the relevant operators, outsourced operators, procured parts, and other items. These measures attempt to prevent untrustworthy vendors and operators, and reduce the risk of attacks such as hijacking.

Thirdly, information and data protection has become an issue of increasing importance. In the past, the Act on the Protection of Specified Classified Information stipulated the protection of data and information concerning important secrets related to defence security. Today, technologies related to

¹ For more information on efforts for specified critical commodities, please refer to “Document 1: Designation of Specified Critical Goods (Draft Policy for Efforts to Ensure Stable Supplies (Summary)),” November 16, 2022, at the 4th Meeting of the Expert Committee on Economic Security Legislation (from FY2022), https://www.cas.go.jp/jp/.seisaku/keiseisaku/keizai_anzen_hosyohousei/r4_dai4/siryou1.pdf

security are becoming increasingly dual-use for both the military and civilian sectors, with the private sector playing a central role in the development of technologies in areas such as artificial intelligence (AI), quantum computers, and robotics. These so-called “emerging technologies” are likely to be applied to improve military capabilities, and maintaining technological superiority in emerging technologies is important for security. However, private companies do not have a confidentiality protection mechanism such as the Act on the Protection of Specified Classified Information, and there is a possibility of technological leakage as a result of exports to foreign countries, relocation of production bases, or personnel involved in research and development moving countries. Therefore, how to protect sensitive information on important technologies is both an economic and security issue. Japan is currently considering the introduction of a security clearance system, but in addition to this economic security context, Japan's lack of a security clearance system also makes it difficult to develop and procure technologies and equipment essential to its security, such as joint development of defence equipment with foreign countries. In addition, Japan's lack of a security clearance system makes it difficult to develop and procure essential security technologies and equipment, such as joint development of defence equipment with foreign countries. Hirohito Ogi and Satoshi Yamada will further elaborate on Japan and its intended security clearance system.

Characteristics of Japan's economic security policy

One of the characteristics of economic security in Japan is that the measures listed as economic security measures are basically “defensive” in nature. Since the objective is to deal with the potential threat of economic coercion from other countries, measures that could be taken to protect one's own economic and social order include strengthening supply chains and protecting critical infrastructure. In traditional security, however, security also includes deterring the actions of others and preventing conflicts by having the ability to counterattack or a certain level of offensive capability. However, the concept of economic security in Japan does not include the idea of deterrence through offensive measures.

It would be difficult for Japan to take the aggressive measures seen in the US and the European Union (EU). All of Japan's export controls and economic sanctions are implemented under the Foreign Exchange and Foreign Trade Law, and Article 10, Paragraph 1 stipulates that countermeasures will be taken by the Cabinet when it is necessary to maintain the peace and security of Japan. However, Article 48, Paragraph 1 states that the export of certain goods may be subject to a licensing system if it is deemed to impede the maintenance of international peace and security. In addition, Article 48, paragraph 3 states that in order for Japan to contribute to international efforts for peace, or to implement the Cabinet decision under Article 10, Paragraph 1, in some cases, the obligation to obtain approval may be imposed. Thus, it is theoretically possible

to strengthen export controls for Japan's peace and security. However, due to issues such as the ambiguity of interpretation in "Japan's peace and security," the provisions of Article 10, Paragraph 1 have rarely been actively used, and the provisions have rarely impacted companies.

Economic security involves making changes to industries and businesses that have traditionally benefited from globalisation. This means, from a security perspective, modifying and sometimes restricting production systems and supply chains that have been optimised by free trade principles and the free movement of capital. This can occasionally include making necessary decisions that may be contrary to economic rationality. What will be important, then, is to not only enhance "strategic autonomy," but also to stabilise the international community so that trade and investment can continue based on international rules. Japan's "strategic indispensability" is not only to deter other countries, but also to turn this into power to make international rules, and for Japan to exercise leadership in stabilising the international order.

100 Company Survey on Economic Security

Key Data from Survey Results

Total number of respondents: 81 companies (inclusive of research institutions)

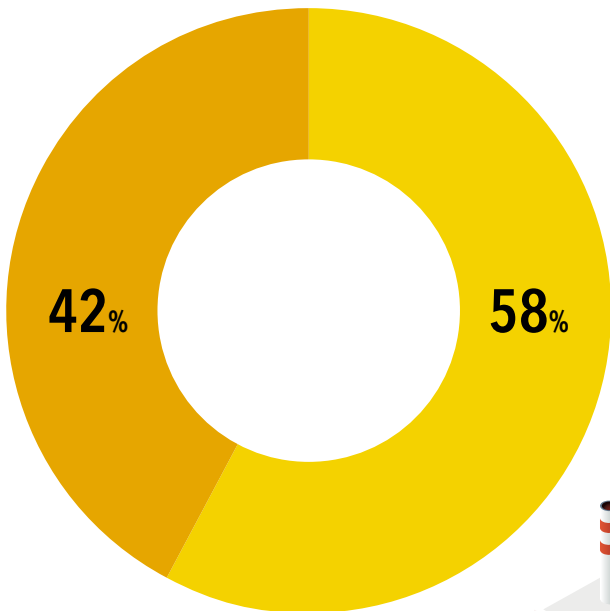
Survey period: December 2022 - January 2023

*A list of responding companies and written responses will be released in March 2023

Industry-sector classification of surveyed companies and institutions

[81 responses]

- Within the manufacturing sector
- Within non-manufacturing sectors



Industry classifications for the 81 respondents

- Finance (10 companies)
- High-precision machines (9)
- Petroleum and petrochemistry (7)
- Iron, steel, and non-ferrous metals (7)
- Information and telecommunications (7)
- Semiconductors (6)
- Trading (5)
- Medicine and pharmaceuticals (3)
- Transport and storage (4)
- Industry and manufacturing production machinery (4)
- Transportation equipment and machinery (5)
- Construction and real estate (2)
- Heavy industry (2)
- Information Technology (IT) (2)
- Other service industries (2)
- Building materials, textiles, and paper (1)
- Other manufacturing industries (1)
- Retail (1)
- Electricity and gas (1)
- Public service, education, fisheries, agriculture, forestry etc. (1)

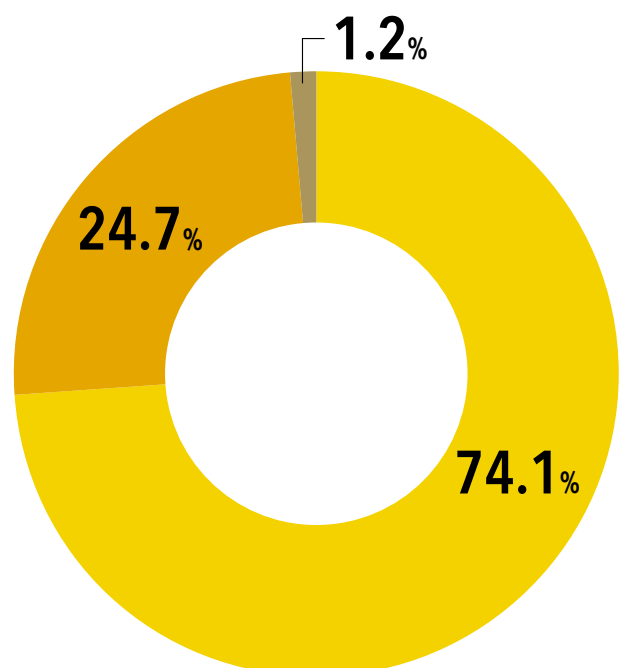


1

To what degree are you aware/mindful of economic security?

[81 responses]

- Strongly aware
- To a degree
- Not very
- Not at all

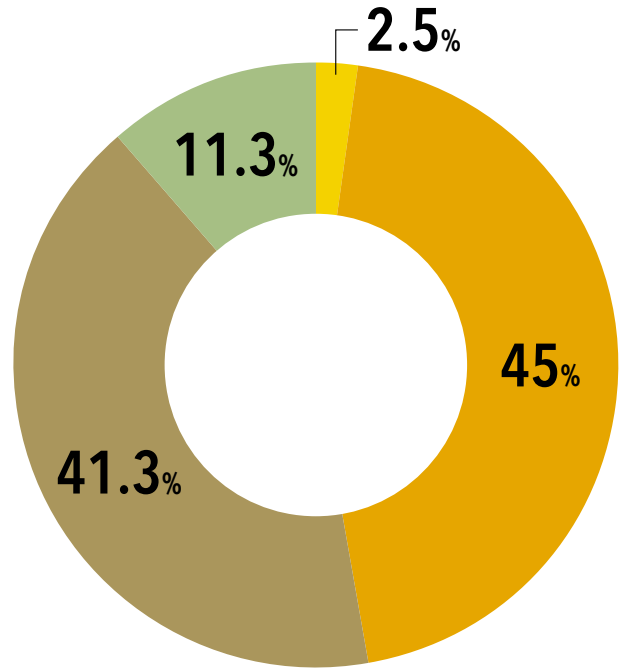


2

Is economic security ever on the agenda when discussing management policies (such as at board of directors and executive meetings)?

[80 responses]

- Every time
- Often
- Sometimes
- Rarely
- Not at all

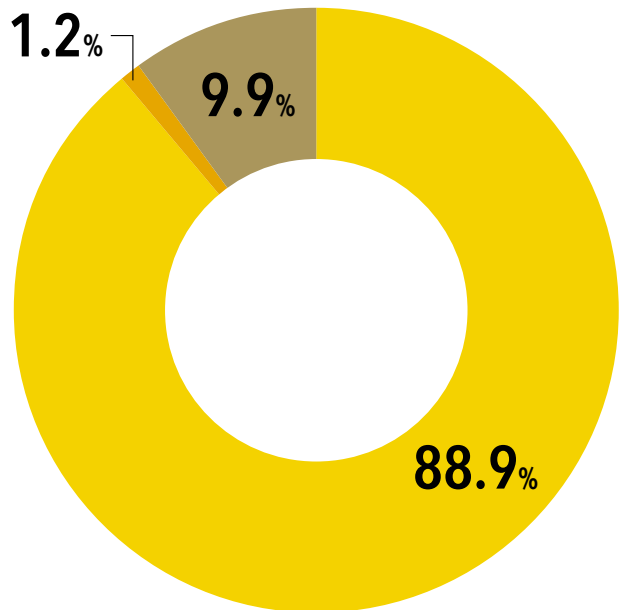


3

Since the May 2022 enactment of the Economic Security Promotion Bill (hereinafter referred to as the Promotion Bill), are initiatives being undertaken toward economic security?

[81 responses]

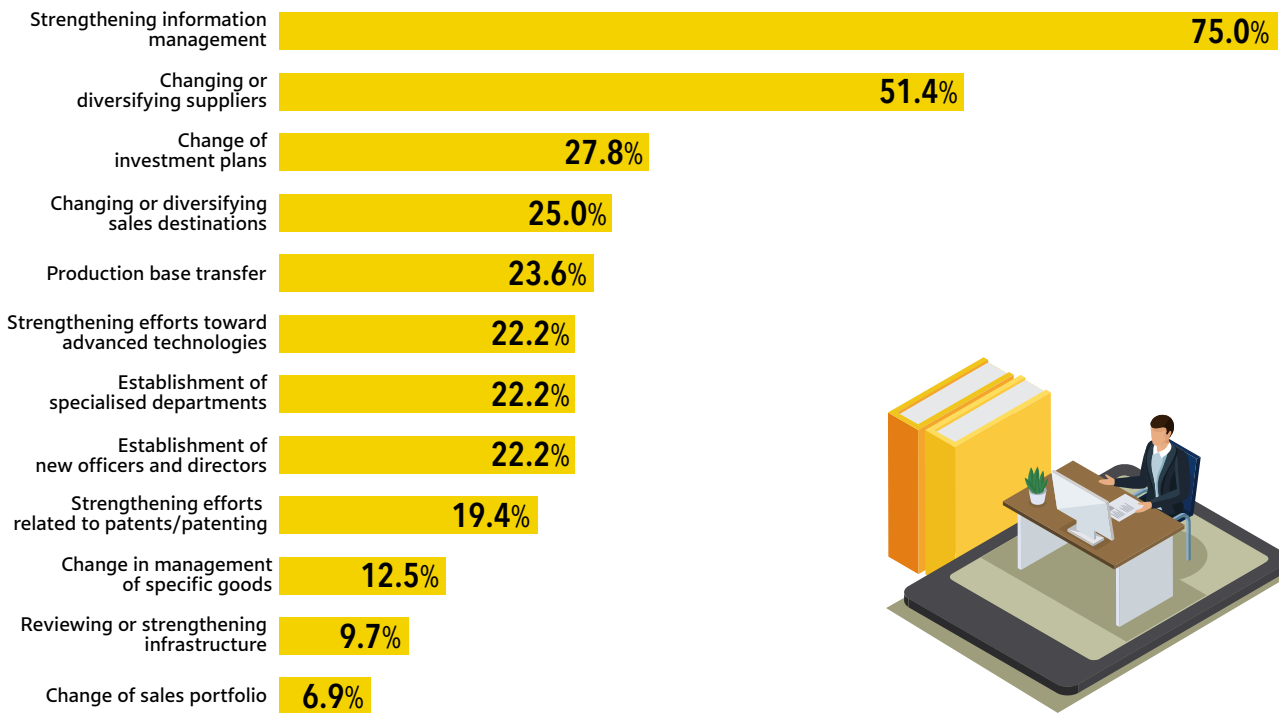
- Initiatives being undertaken from before the Promotion Bill
- Initiatives being undertaken after the Promotion Bill
- Initiatives not being undertaken



4

For those who answered “initiatives are being undertaken” to Question 3, what specific initiatives have you taken from before the enactment of the Promotion Bill? Select all that apply.

[72 responses]



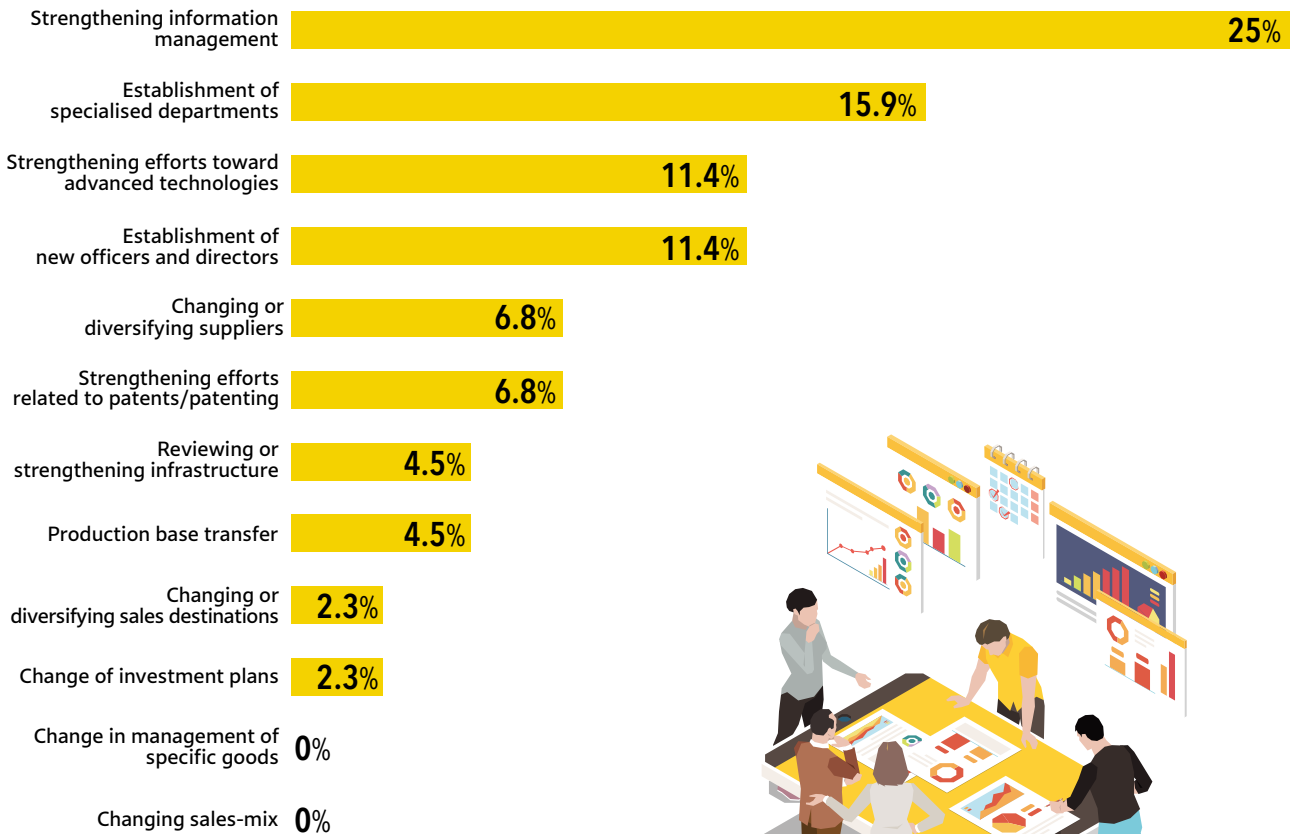
Qualitative Responses

- Reviewing and reinvestigating supply chains.
- Initiatives examining and considering base relocation.
- Efforts toward the diversification of suppliers for stable supplies and the reliable operations of export control.
- Risk assessments on collaborative projects.
- Preparing for related regulations and conducting various precursory checks with suppliers.
- Export control.
- Security Trade Control system building.
- Gathering and analysing information regarding various country's national security policies, understanding supply chains, and creating mechanisms to prevent technology leaks.
- Gathering information and initiatives such as confirming matters requiring company-wide response.
- Preparing systems where relevant departments can respond cooperatively in the event a problem occurs.
- Investment development activities and promotion through videos (and other formats) on asset formation, as guided by personal perspectives on economic security.
- Incorporating design information, technology, and implementing strict control of visitors to prevent product diversion.
- Gathering information regarding economic sanctions of other countries.
- Appealing to relevant organisations and countries.
- Resource diplomacy, supporting private enterprises, state stockpiles, and other means to secure a stable supply of energy sources to Japan.
- Gathering information and information sharing between departments.
- Strengthening both the existing export control systems and inventories of in-house sensitive technology.
- Law and regulation compliance.
- Holding educational sessions for executive employees.
- Gathering information and assessing risk responses under a risk management committee.
- Delegating responsibilities between departments on a task force basis, gathering information, establishing reporting systems and confirming the procurement of equipment.
- Considering the prospect of being designated as a core infrastructure business, initiatives were made in obtaining information from governmental agencies (NSS) and economic organisations (Keidanren, the Japan Business Federation) on the subject of legislation, and discussing them in joint managerial/administrative meetings.
- Strengthening comprehensive compliance systems regarding sanctions, domestic, and foreign export regulations, strengthening management reporting, upgrading company-wide risk management, and strengthening cooperation between industries, economic organisations and the Japanese government.
- Domestic introduction of end-products through securing base production and manufacturing, maintenance and ownership of manufacturing facilities in Japan, and securing international networks.
- Relevant departmental responses in accordance with the situation.

5

For those who answered “initiatives are being undertaken” to Question 3, what specific initiatives have you taken since the enactment of the Promotion Bill? Select all that apply.

[44 responses]



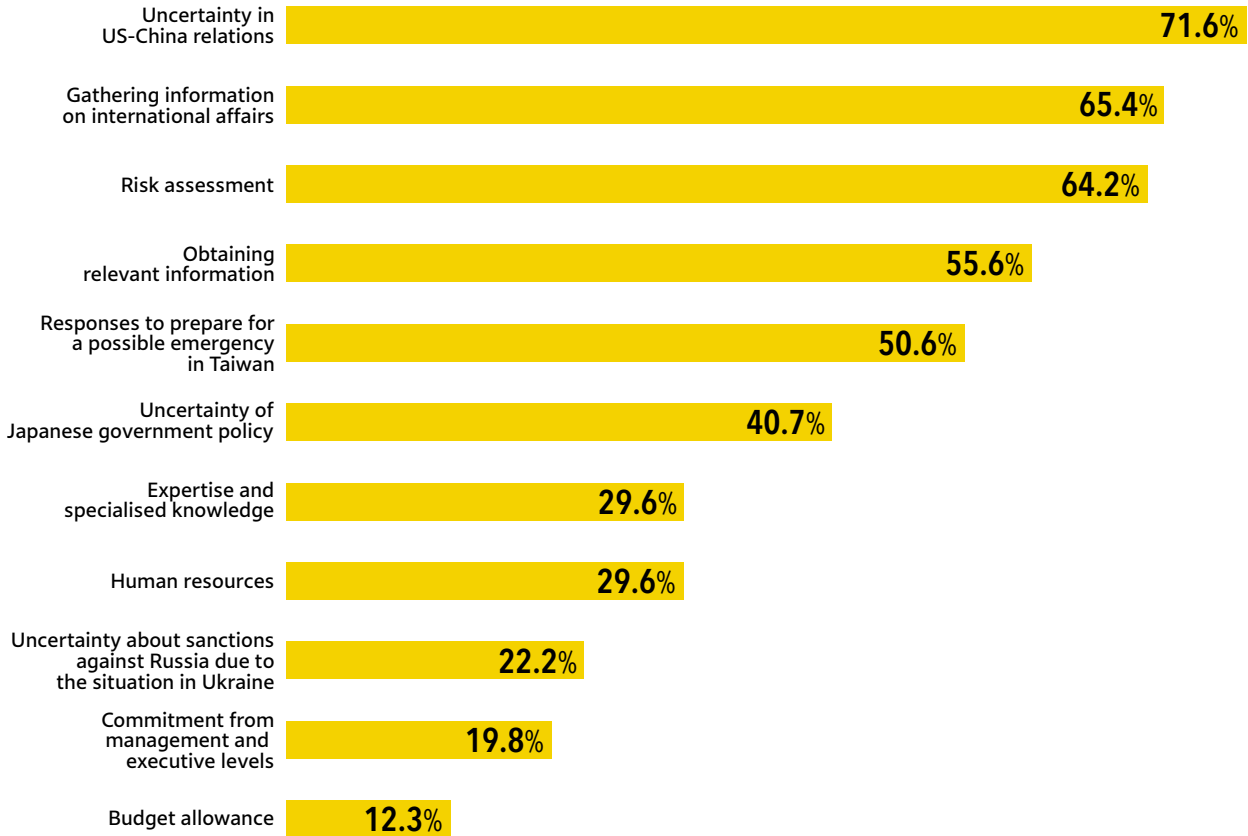
Qualitative Responses

- Amending exports in accordance with revisions made to foreign exchange laws.
- Domestic contract manufacturing of antibacterial/antimicrobial raw materials and intermediates.
- Consideration of changing business plans.
- Investigating and examining a BCP plan that incorporates geopolitical risks.
- Strengthening the information gathering regarding the Promotion Bill.
- Identification of core infrastructure systems and equipment.
- Consideration of measures regarding core infrastructure.
- Responding to the Promotion Bill through securing stable supplies.
- Confirming the direction of the Promotion Bill, and an examination of current response measures.
- Information transmission through seminars and Social Networking Services.
- Gathering information on a task force basis, maintaining report systems, and measures related to the maintenance of core infrastructure functional capacities.
- Gathering information on economic sanctions related to other countries.
- Understanding the potential impacts to our company.
- Cooperation with relevant corporate departments.

6

What are the biggest challenges in addressing economic security? Select all that apply.

[81 responses]



Qualitative Responses

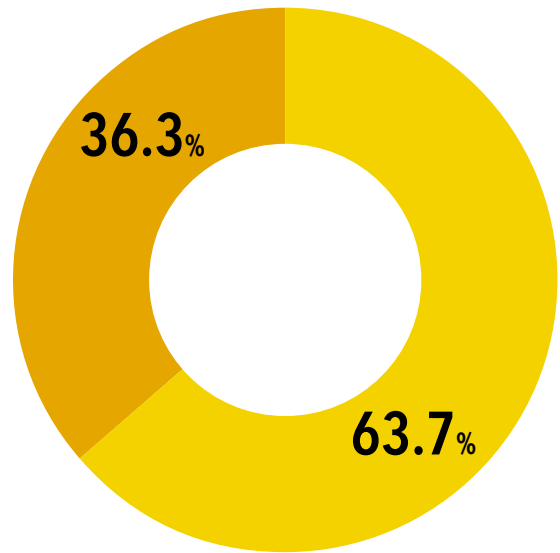
- Raw materials concentrated geographically, and difficulties securing alternative equipment supply sources.
- Japanese innovation: to build a reputation as a country with creative values, and build an organisational structure that can take comprehensive leadership instead of dividing ministries and agencies.
- Clarity of infrastructure regulations and their trajectory, and the limitations in target scope of regulations. To comply with regulations, there were measures made such as avoiding low cost procurement from companies in specific countries. In the event that procurement costs increase from such measures, there are expectations to seek government subsidies and compensation.
- Measures to visualise supply chains and enhance resilience.

7

Has the current conflict between the US and China had an impact on your business in any way?

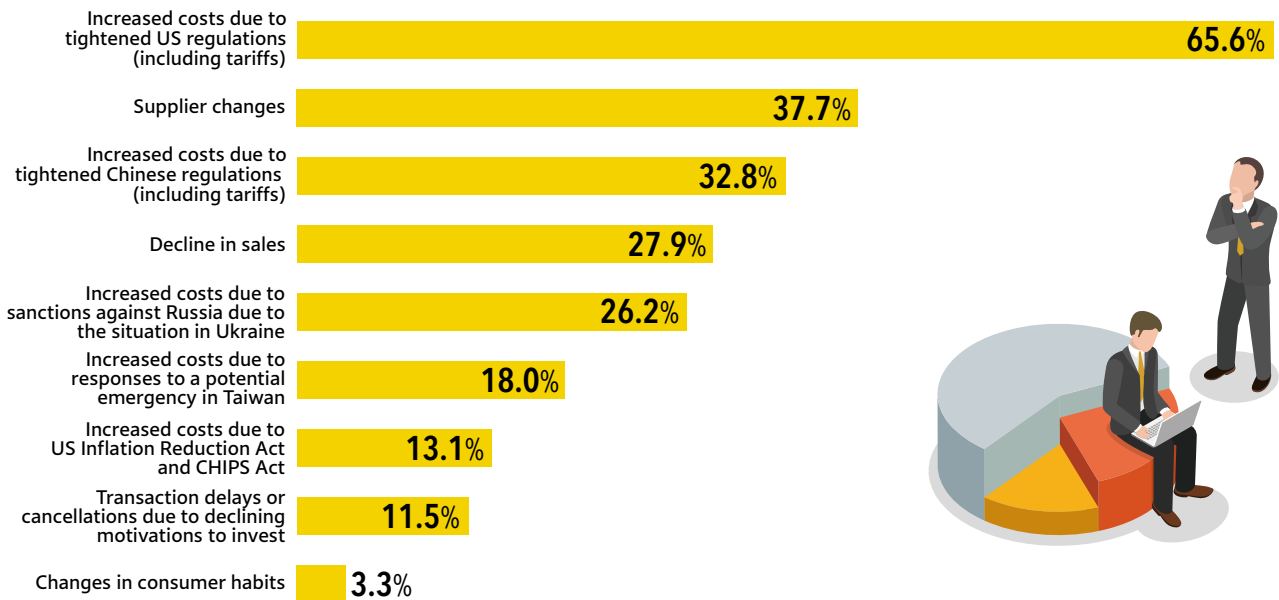
[80 responses]

- Yes, impacted
- No, not impacted



For those who answered that there were impacts, what were the specific impacts? For those who have had no impact, are there any expected impacts in the future? Select all that apply

[60 responses]



Qualitative Responses

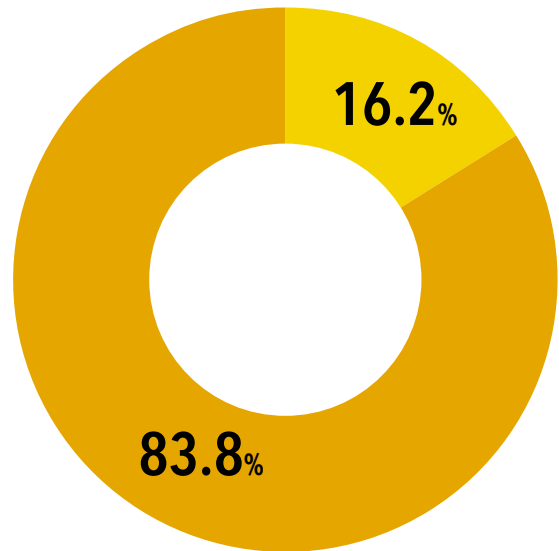
- Semiconductor-related export regulations.
- Responses to various sanctions.
- Impact on sales and costs increases due to stagnation of logistics.
- Entity list response and compliance.
- Responding to the extraterritorial application of US export control regulations.
- Production base transfer for a section of items.
- Impacts investment decisions and performance if invested companies (including candidates) are affected.
- Investment decisions and customer support for Chinese companies subject to stricter regulations.
- Although the current situation is overshadowed by COVID-19, the stagnating global economy due to tensions between the US and China has had an indirect impact potentially leading to a decrease in transportation demands. As China accounts for a large portion of semiconductor demands, we perceive potential business risks.
- Fluctuations in financial markets.
- Obstacles to developing new businesses such as through investment.
- Manage standards for employees that handle where we conserve customer data.
- Strengthening information management systems, and strengthening prior investigations and screenings of subcontractors.
- Confirming business impacts on partners, and transaction policies.
- Increase in consultations from clients.

8

Have you ever been caught between the US and China, where you had to choose between them in some way?

[80 responses]

- Yes
- No



If you had to choose between US and Chinese business, what would be the criteria to make that decision

[73 responses]



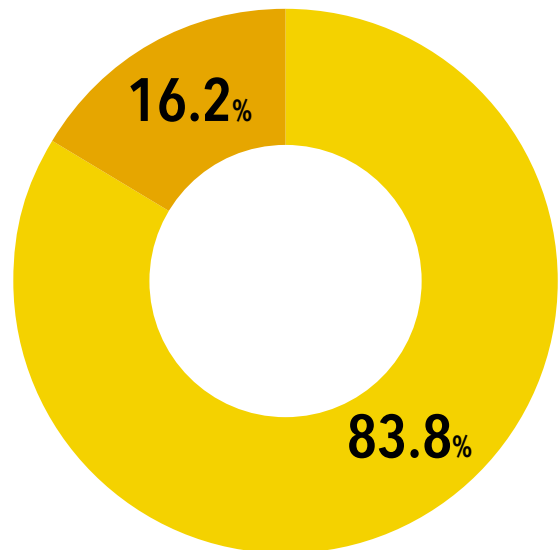
Qualitative Responses

- As most of the raw materials are from China, and most of the manufacturing equipment is from the US, it is impossible to choose between the two.
- There are no situations in which decisions would have to be made between the US and China.
- Both the US and China contain large business projects, making choosing difficult.
- Both the US and China have important markets, so choosing one over the other is inconceivable.
- Choosing between the US and China is a situation which has not been anticipated.
- To avoid being caught between the US and China, decisions are being made based on geopolitical risks when participating in and promoting business.
- Future business feasibility is considered within fields not involved in political disputes between the US and China.
- The situation of the US-China tension, and the attributes of our products and services.
- Decisions determined by geopolitical factors (such as laws and regulations, governmental policies etc) rather than financial.
- Geopolitical risks.
- Country risk considerations.
- Risk assessment and forethought.
- Expected returns and the likelihood of business continuity.
- Based on compliance, correspondence and support as a global company to be accountable to customers and other stakeholders.
- Magnitude of risk and its feasibility as well as reputation considerations.
- Global impacts.
- Perspectives valuing the importance of free trade, democratic values, and a rules-based word order.
- Judgements will be based on whether or not the country shares Japan's democratic values.
- Would choose the US.
- Barely any Chinese business.
- Pre-existing relationships of mutual trust with individual business partners, clients and customers.
- The sustainability of business, considering relationships with the government and clients.
- Guarantee and security of business continuity.
- Judgement criteria differ depending on the content of the project, such as potential customers etc.
- Business prospects considering impacts on customers, and Japan's national interests.
- Japanese governmental policy.
- Case-by-case judgements for each case.
- Decisions will be made according to the situation at that time.
- Comprehensive decision-making.

9

Has Russia’s invasion of Ukraine, and the resulting sanctions against Russia, impacted your business in any way?

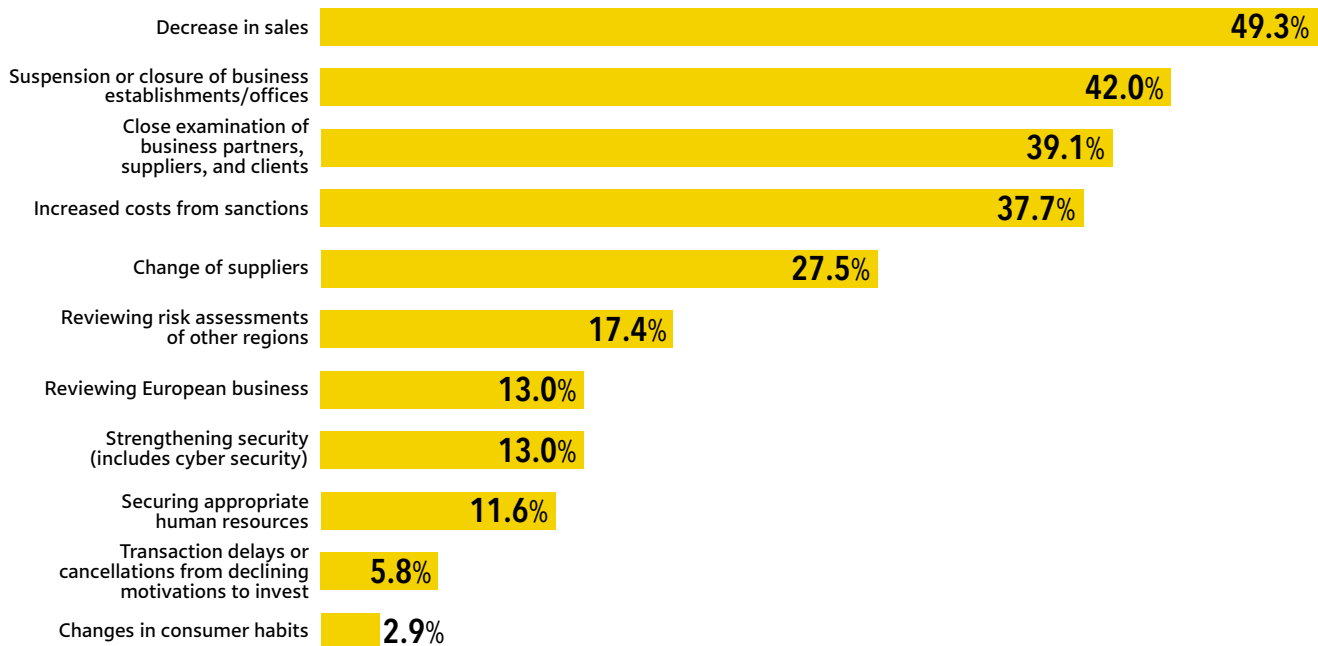
[80 responses]



- Impacted
- Not impacted

For those “impacted”, how have you specifically been impacted? For those who were “not impacted”, are there any specific impacts expected for the future? Select all that apply.

[68 responses]



Qualitative Responses

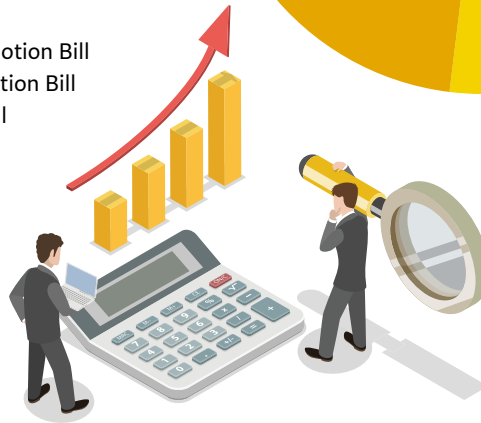
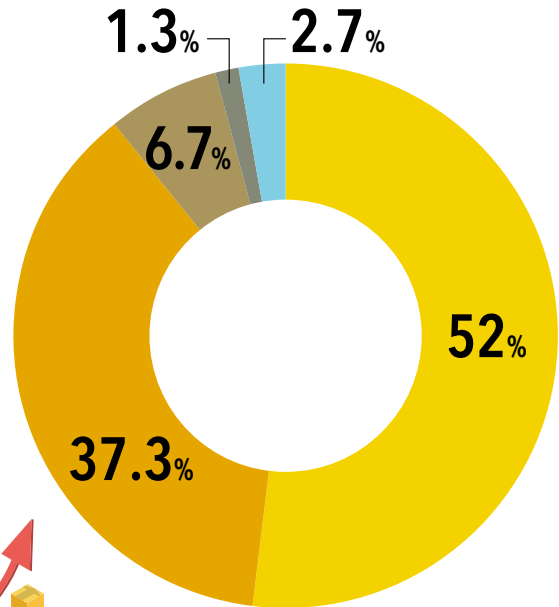
- Handling cost increases owing to the development and management of alternative production bases.
- Soaring resource prices.
- Rising energy costs.
- Rising energy costs in Europe negatively affecting the economy as a whole.
- Worsening costs due to soaring crude oil prices.
- Soaring market prices such as oil prices etc.
- Cost increases and longer delivery times for materials such as helium gas.
- Slowdown in final demand due to macroeconomic slowdowns.
- Market impacts on stocks, exchange rates, bonds etc.
- Affected by stock market fluctuations, and market impacts of monetary policies reacting to price inflation.
- Although it is not possible to identify increased costs, the amount of support has increased due to credit restrictions and limits imposed by financial institutions reacting to sanctions in Europe and the US.
- Increased credit costs.
- Suspension of all new investments, advertising and promotional activities, not conducting any new tests, and discontinuation of ongoing tests.
- External statement launches (business within the region is limited, thus the impact on company-wide performance is extremely small).
- Increased inquiries from clients.

10

To what extent have overall costs increased due to the enactment of the Promotion Bill?

[75 responses]

- No increase
- Increased by under 5% *before* the Promotion Bill
- Increased by under 5% *since* the Promotion Bill
- Increased by 5% to less than 10% *before* the Promotion Bill
- Increased by 5% to less than 10% *since* the Promotion Bill
- Increased by at least 10% *before* the Promotion Bill
- Increased by at least 10% *since* the Promotion Bill



11

In the event that further enforcement details of Japan's Promotion Bill are revealed, where do you expect to find the biggest impact on your business?

[73 responses]



Qualitative Responses

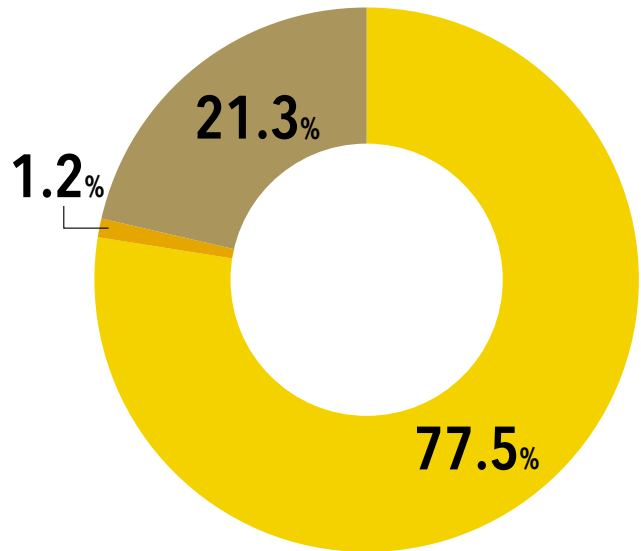
- Possibility of changing supply chains, and moves to strengthen sanctions.
- Customer impact, regulatory risks, sanction risks, human resource constraints.
- Delivery times, deadlines, and costs associated with changing suppliers etc.
- Ensuring the appropriateness of supply chains, including considerations of human rights violations, and ensuring the continued stable operation of infrastructure business operations.
- Decreased willingness to invest in Chinese companies and restrictions on investment, restrictions on data acquisition from Chinese companies (especially financial data of consolidated subsidiaries), and remittance limits with China.
- Constraints on development, and maintenance of critical infrastructure.
- By being regulated as a core infrastructure business, there are possibilities that smooth operation of equipment, and systems necessary for business execution, will be hindered.
- Establishment of a support system as an Incorporated Administrative Agency. Includes securing budgets, human resources, and other such measures for the support system's operation.
- Hopes that there will be no impacts on global development.
- Ideal in-house information security system.
- Expecting more inquiries from clients.
- Impacts unknown until the details of the Promotion Bill are finalised.
- Depends on the specific contents of the regulations.

12

In addition to conventional technology management and export control, have you made new efforts to prevent technology leaks?

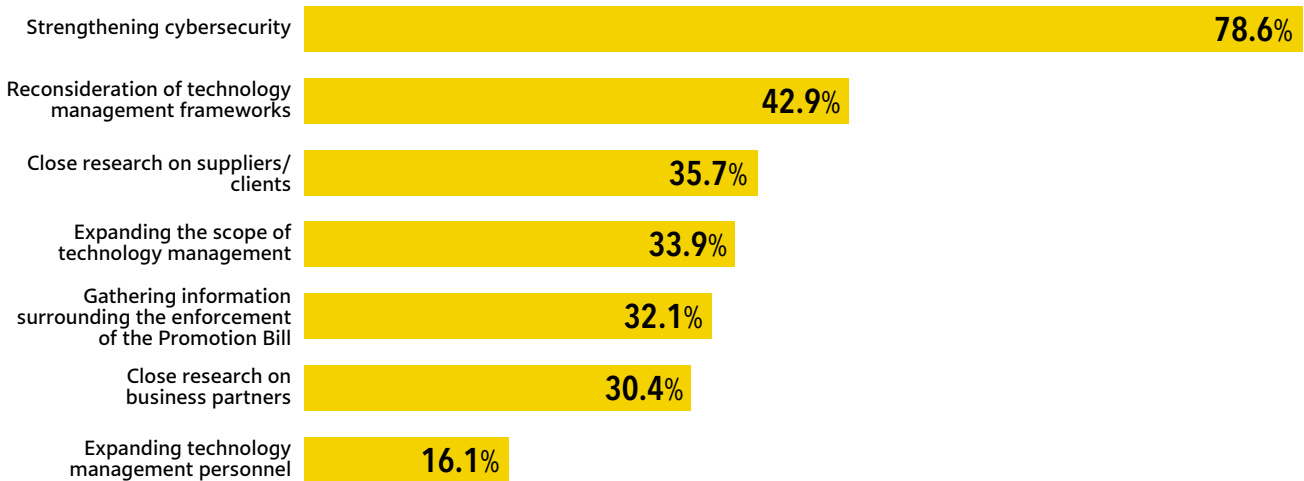
[80 responses]

- Yes, from before the Promotion Bill
- Yes, since the Promotion Bill
- No



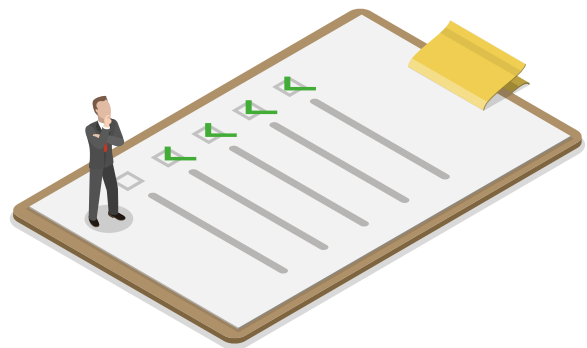
For those who answered that there are new efforts, in what areas are these endeavours being made?

[56 responses]



Qualitative Responses

- Strengthening risk management considering backdoor threats and government access.
- Careful examination of public confidentiality regarding inventions.
- For technology delay prevention, we have conducted continued correspondence regarding export control of technical information. Regarding new initiatives, we will respond appropriately while checking relevant laws and regulations.
- Follow-up for vulnerabilities discovered in penetration tests, reviewing security applications etc.
- In-house management system established in regards to the Foreign Exchange Act amendments on export control.
- Collecting information regarding various topics including domestic trends and attitudes.
- Currently strengthening cyber security, however this has been a consistent effort and not a new measure.

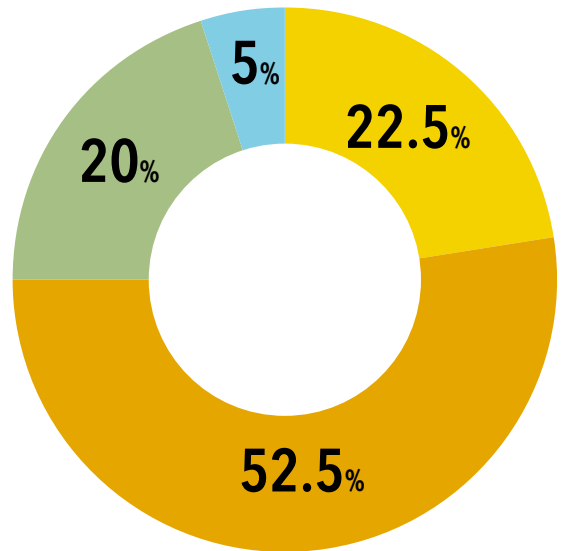


13

Does Japan need a security clearance system?

[79 responses]

- Yes, immediately necessary
- Yes, in the future
- Not necessary
- Couldn't say either way
- Unsure what kind of system it is



14

Have you ever been unable to participate in projects or meetings due to Japan's current lack of security clearance systems? Select all that apply.

[73 responses]



Qualitative Responses

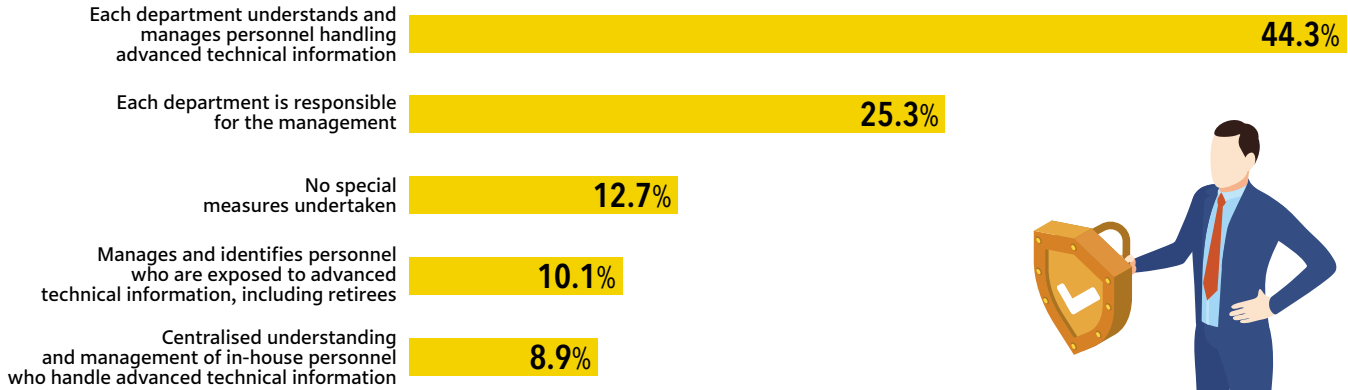
- Although it is possible to bid on projects run by foreign governments, we are not exempt from examination (NID) and our bids take longer than companies in Five Eyes countries such as the UK and Australia, resulting in a loss of competitiveness.
- There are feelings of an information asymmetry as information viewable by US companies (SC) cannot be accessed.
- Currently the probability is low, but there are possibilities if regulations on semiconductor technology regarding China are tightened.
- It is a possibility, but not expecting anything in detail.
- Never happened before, and unknown for the future.



15

To what extent are personnel with access to advanced technical information managed?

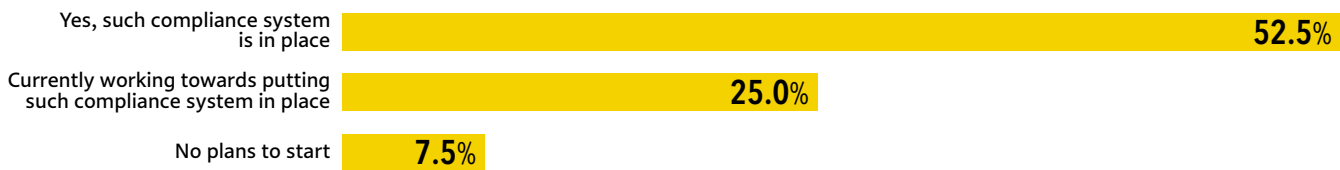
[79 responses]



16

Is there a compliance system in place in anticipation of extraterritorial applications of US and Chinese economic sanctions?

[80 responses]



Qualitative Responses

- Although a compliance system anticipating the extraterritorial application of US economic sanctions are in place, we are still in preparation for potential extraterritorial applications of Chinese economic sanctions.
- We have responded accordingly with the US, but it is difficult to make a decision for China as the operation of extraterritorial application is unclear.
- The head office has been prepared in regards to the potential introduction of sanctions and regulations. Currently, compliance systems are under continual maintenance and consolidation.
- Recognising the importance of compliance systems, we will consider and implement adjustments as necessary.
- Systems are somewhat in place, but they need further maintenance.
- Manage the current system according to the content of the sanctions and development of laws and regulations.
- Respond according to the content of the anticipated economic sanctions. (3)
- Comply with the government.
- Currently we are not dealing with technology subject to extraterritorial application.

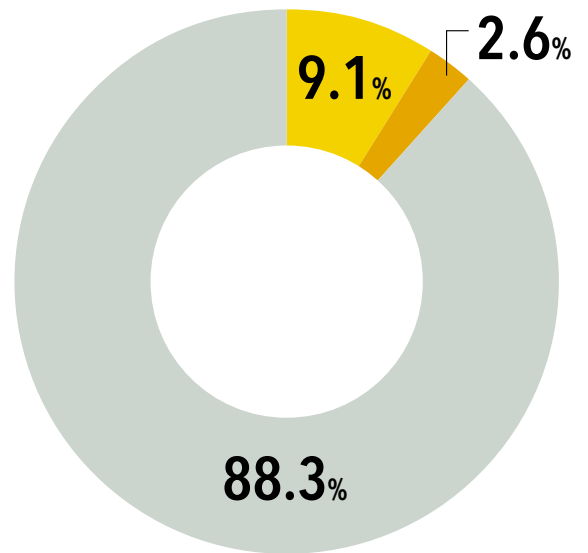


17

In the past, have you ever received signals or attestations by Japanese, US, Chinese, or other governments regarding imports, exports, or transactions with sanctioned companies?

[80 responses]

- Have received indications from the Japanese government
- Have received indications from the US government
- Have received indications from the Chinese government
- Have received indications from other governments
- Never received any such indications

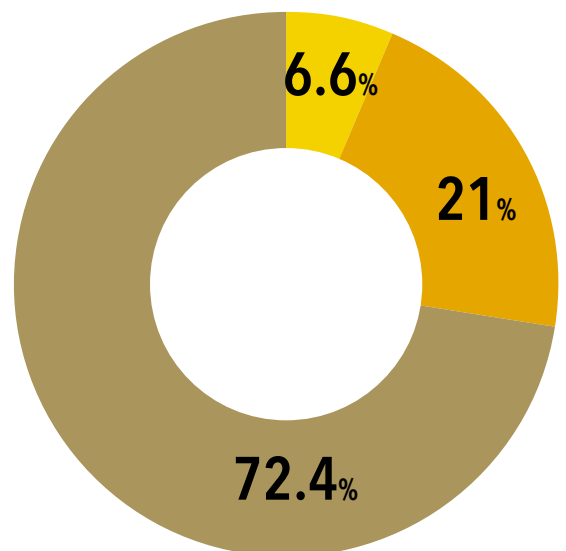


18

Have you ever been subject to fines, transaction suspensions, or import/export suspensions in your business?

[76 responses]

- Yes
- No but can foresee a possibility of being subject in the future
- No and not expecting to be subject in the future

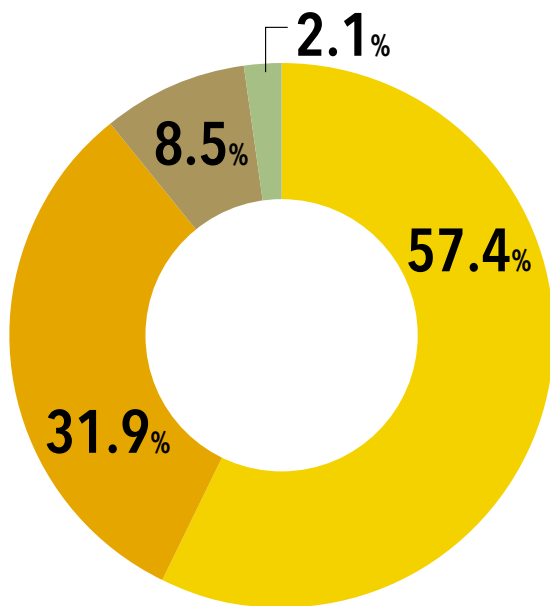
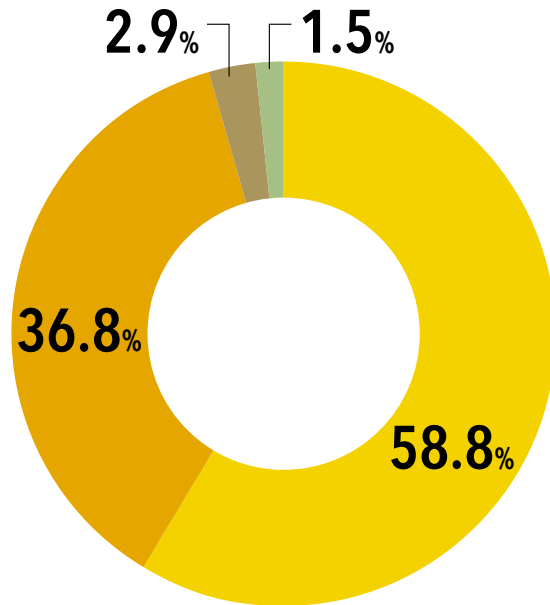


19

What ratio of your sales are in China?

[68 responses]

- Under 10%
- 10% to 30%
- 30% to 50%
- 50% and over



If your business includes production processes, what ratio does this take?

[47 responses]

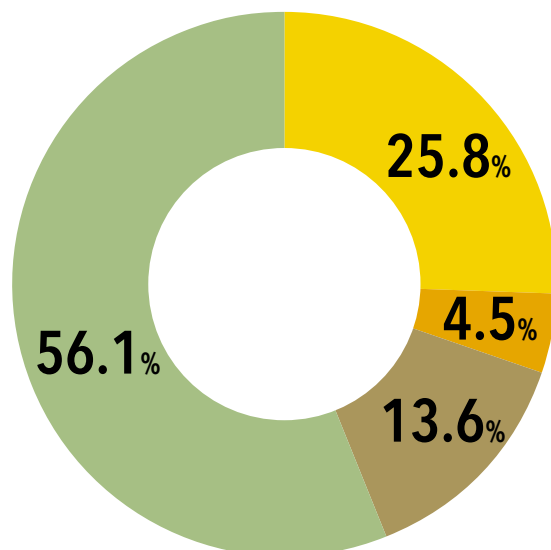
- Under 10%
- 10% to 30%
- 30% to 50%
- 50% and over

20

Do you have any medium to long term aims to change the sales ratio in China?

[66 responses]

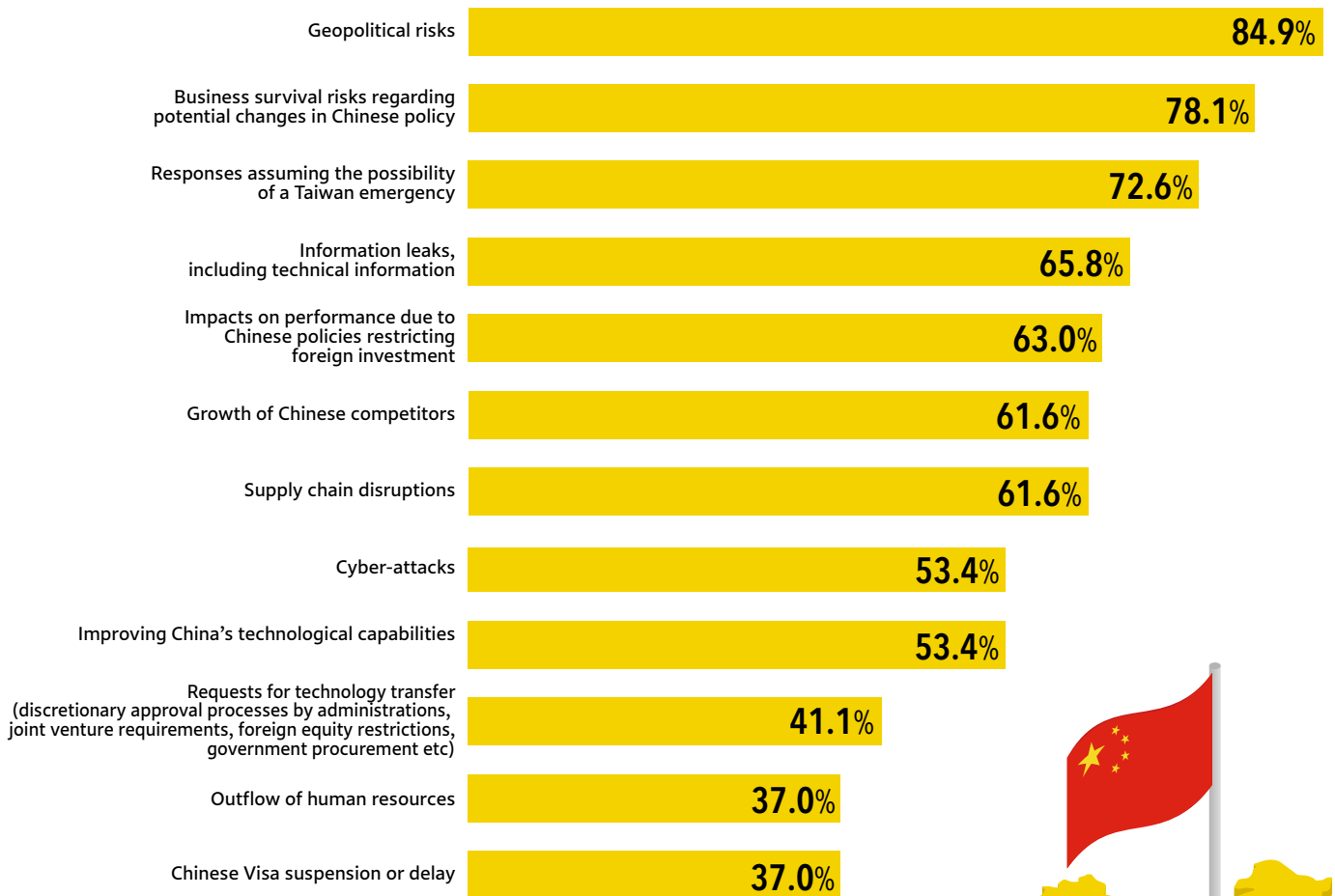
- Aiming to increase the sales ratio in China
- Aiming to reduce the sales ratio in China
- Maintaining the current ratio
- Not especially



21

What are important topics to be attentive to for developing business in China? Select all that apply.

[73 responses]



Qualitative Responses

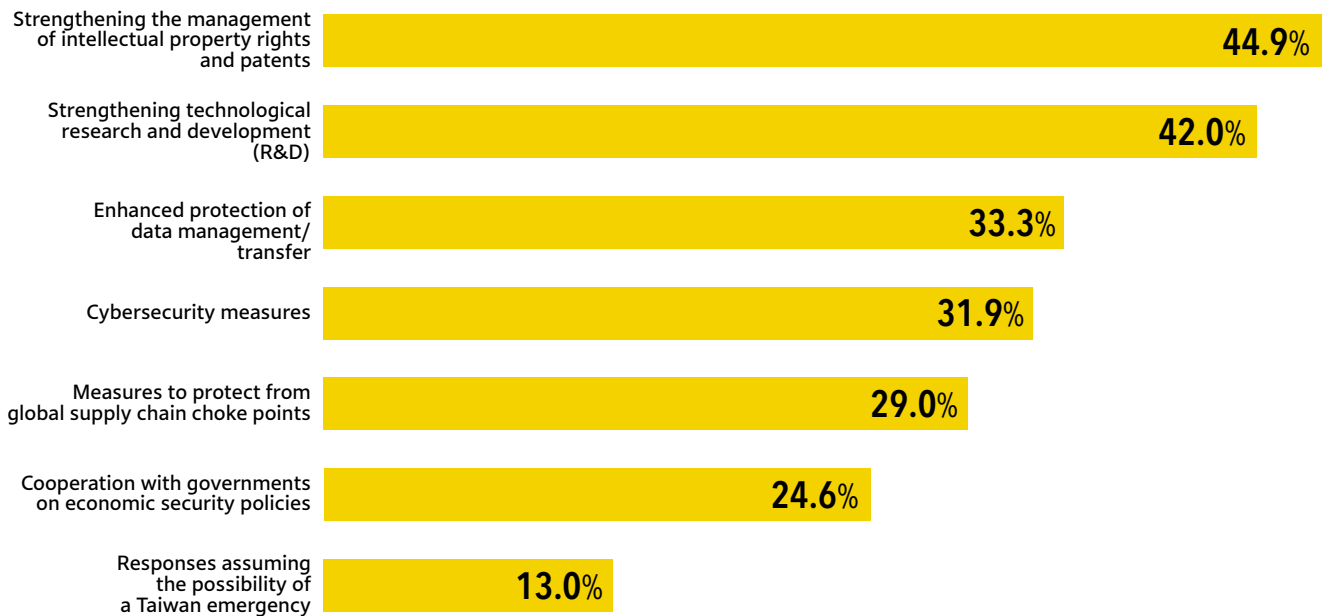
- Movement restrictions, such as going out, due to the spread of COVID-19.
- Zero-COVID Policies.
- Production delays due to energy usage restrictions.
- Intellectual property hoarding in China regarding advanced technology, and handling information (data) transfer.
- Misappropriated utility model applications filed by a Chinese company, and other such impediments to intellectual property and patent rights.
- Impact on the acquisition of data to be disclosed due to tightening of data transfer regulations.
- Strengthening export controls.
- Changes in trade rules.
- Anti-dumping investigations and increased tariffs by the Chinese government.
- Military diversion of goods.
- Impacts on customers, and a potential dilemma between China and the US and Europe on issues such as human rights.
- Boycott movements due to worsening anti-Japanese sentiment.
- Not limited to China, dependence on any specific region or country is a risk. Rather than shrinking business, we will advance relativisation-based approaches.



22

To maintain a competitive edge in regard to China, where do you place the most value?

[69 responses]



Qualitative Responses

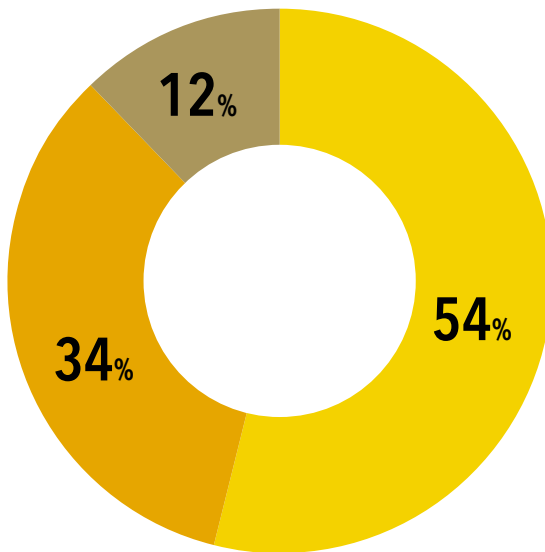
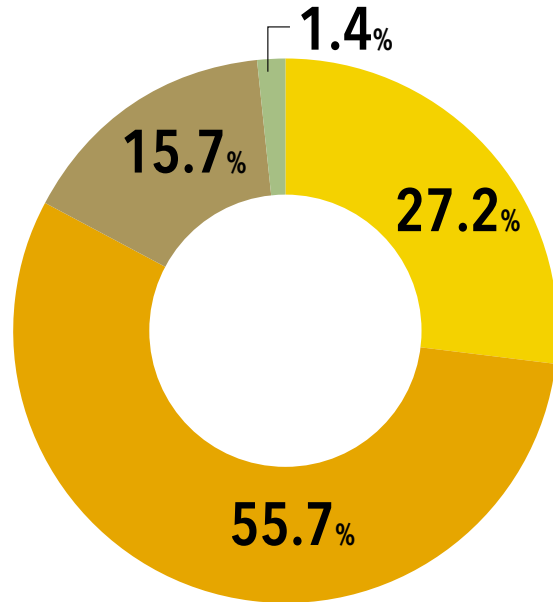
- Cross-border business promotion and its risk management.
- Local authority relations, and intelligence gathering.
- There are two requirements for business partners: technically complementary and shares a relationship of trust. Regarding this point, there are no differences between the US, Europe, China, or developing countries. Therefore, we would like to focus on building trust with partner companies while keeping an eye on political risks.
- China is seen as a market (instead of a competitor).
- The value we provide to our customers.
- China is not a competitor.

23

What ratio of your sales are in the US?

[70 responses]

- Under 10%
- 10% to 30%
- 30% to 50%
- 50% and over



Additionally if your business includes production processes, what ratio does this take?

[50 responses]

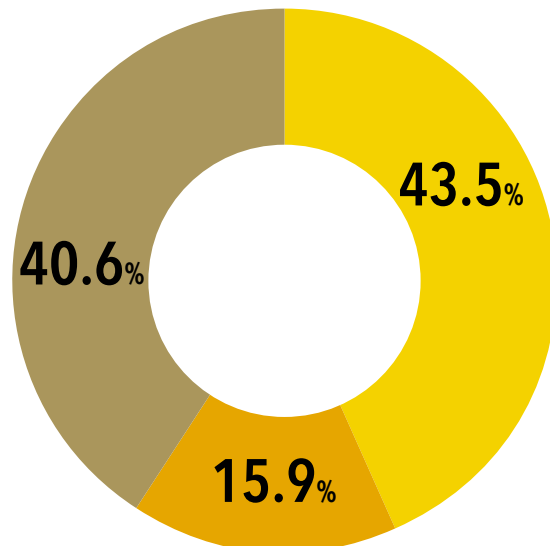
- Under 10%
- 10% to 30%
- 30% to 50%
- 50% and over

24

Do you have any medium to long term aims to change the sales ratio in the US?

[69 responses]

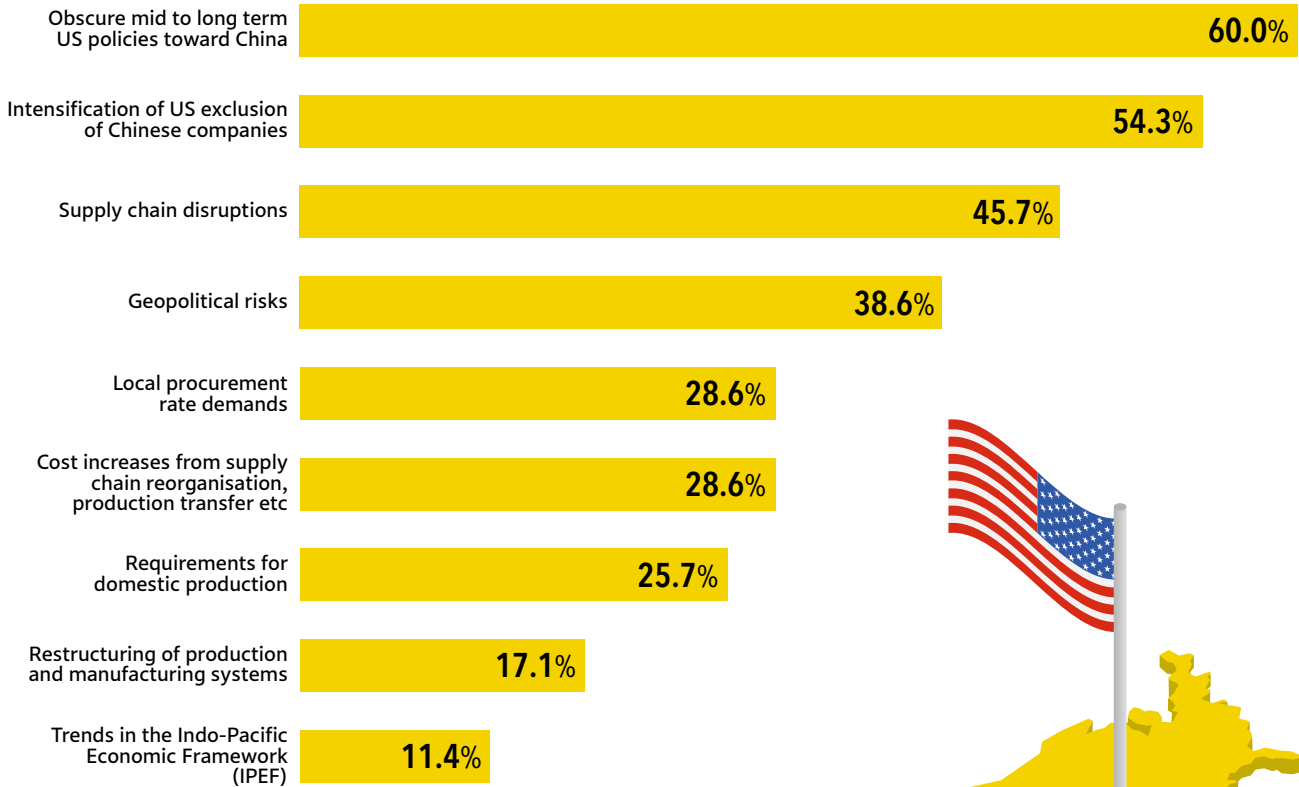
- Aiming to increase the sales ratio in the US
- Aiming to reduce the sales ratio in the US
- Maintaining the current ratio
- Not especially



25

What are important topics to be attentive to for developing business in the US? Select all that apply.

[70 responses]



Qualitative Responses

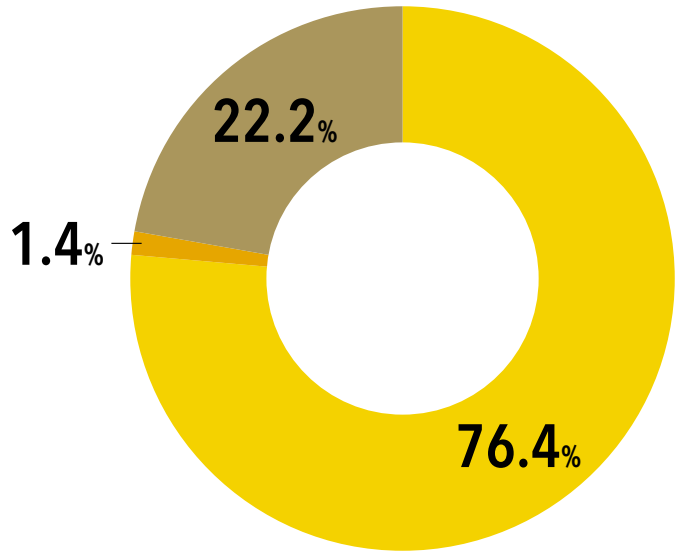
- Concern that excessive “America First” policies may also exclude companies from allied countries.
- Costs of regulation, market growth potential, company capabilities etc.
- Responses to the Uyghur Forced Labor Prevention Act.
- Responses to extraterritorial application and secondary sanctions.
- Responses to US government procurement, ITAR etc.
- Encouraging local production for local consumption.
- Changes in industrial and trade policies.
- Economic conditions, tightening of regulations etc.
- Compliance with laws and regulations.
- Changes in policies, including environmental measures, from changes in government.
- US domestic political turmoil.
- US environmental policies, regulations on financing in the resource sector by US financial institutions, and product market conditions not limited to the US.
- Impacts on customers, and a potential dilemma between China and the US and Europe on issues such as human rights.
- Fluctuations in financial markets.
- Medium- to long- term growth potential of the US itself (including financial conditions).
- Nothing in particular. (3)

26

Are you working to strengthen your supply chains?

[72 responses]

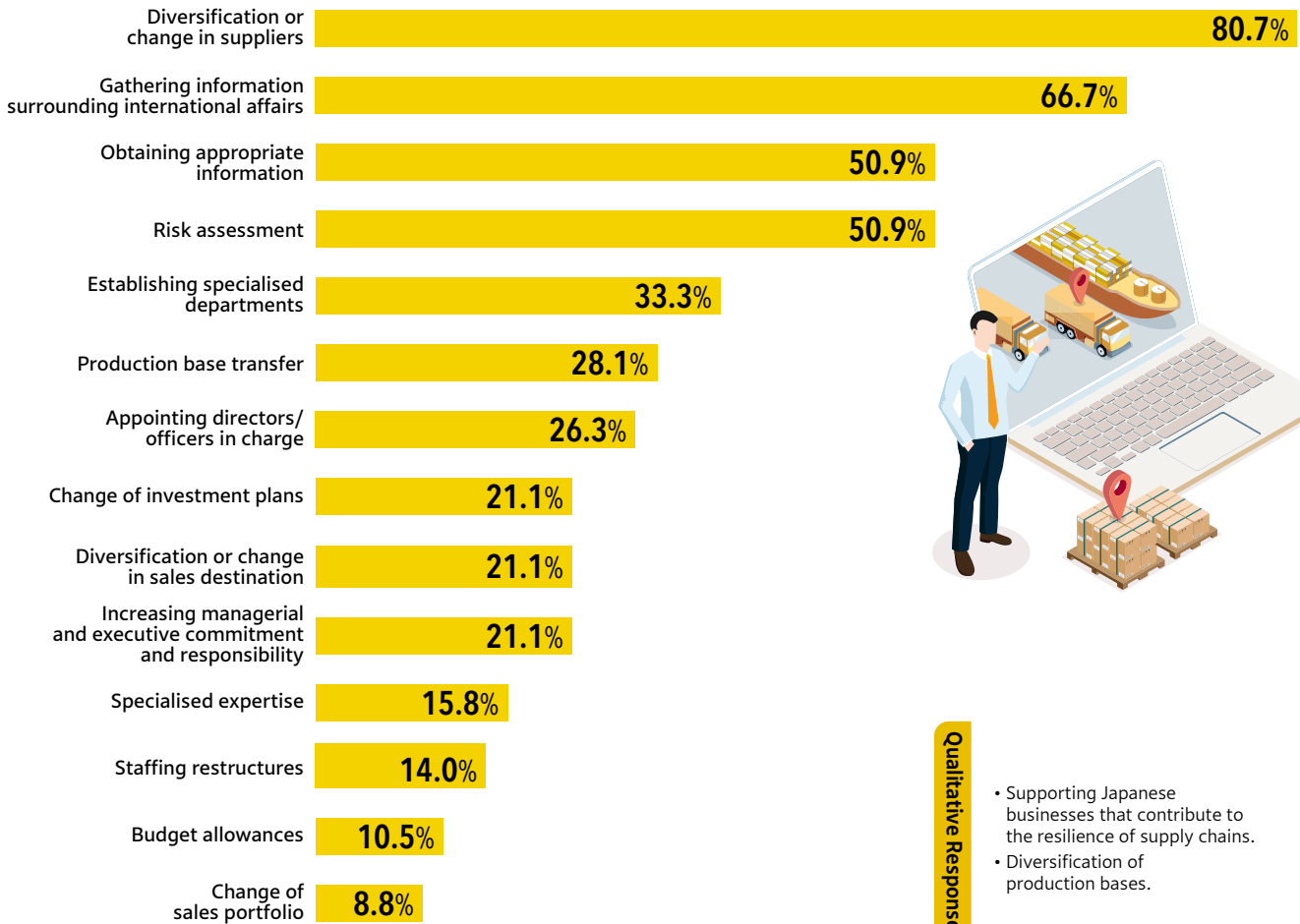
- Working to strengthen from before the Promotion Bill
- Working to strengthen since the Promotion Bill
- Not working to strengthen



27

For those that answered that they are “working to strengthen” for Question 26, what specific efforts are being made? Select all that apply.

[57 responses]



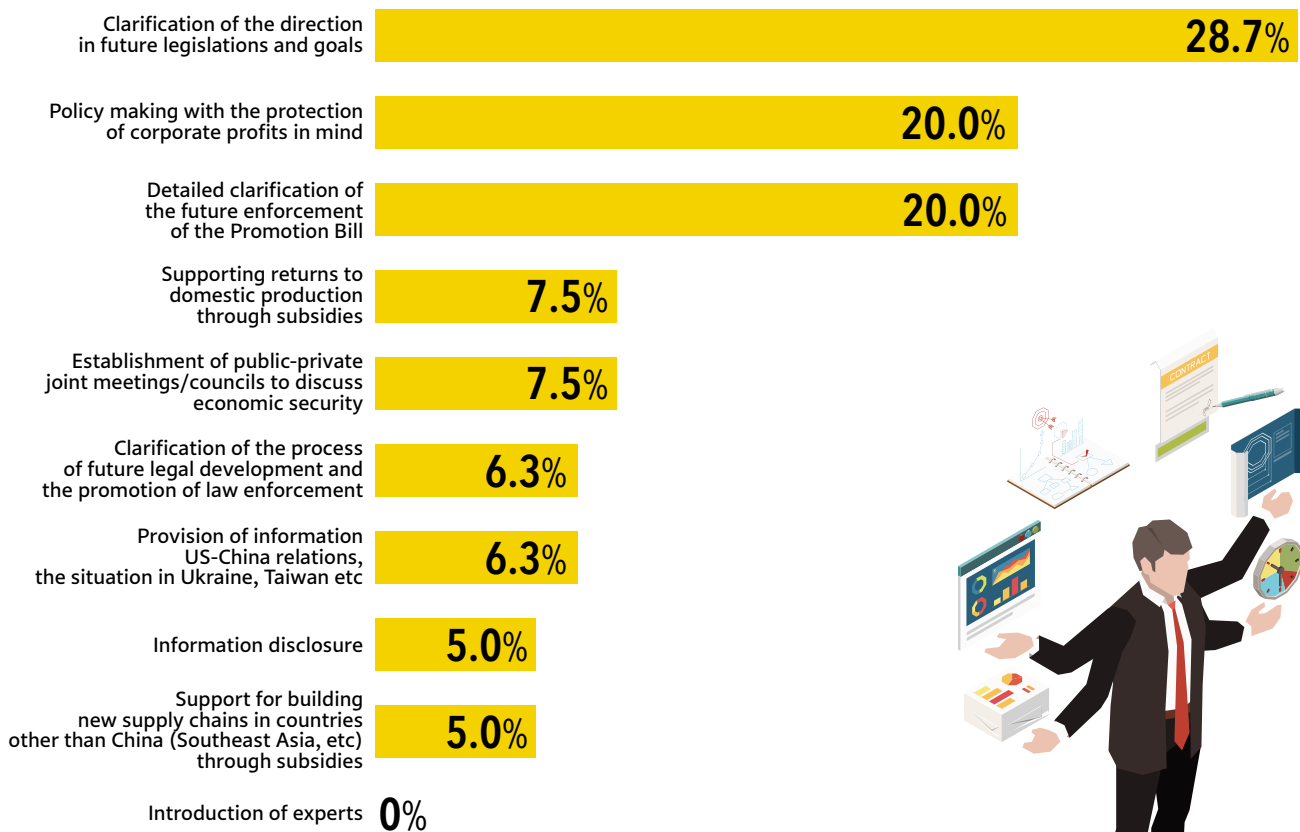
Qualitative Responses

- Supporting Japanese businesses that contribute to the resilience of supply chains.
- Diversification of production bases.

28

What are your expectations from the Japanese government in terms of future economic security policy? Please select which of the following you consider to be the highest priority.

[80 responses]

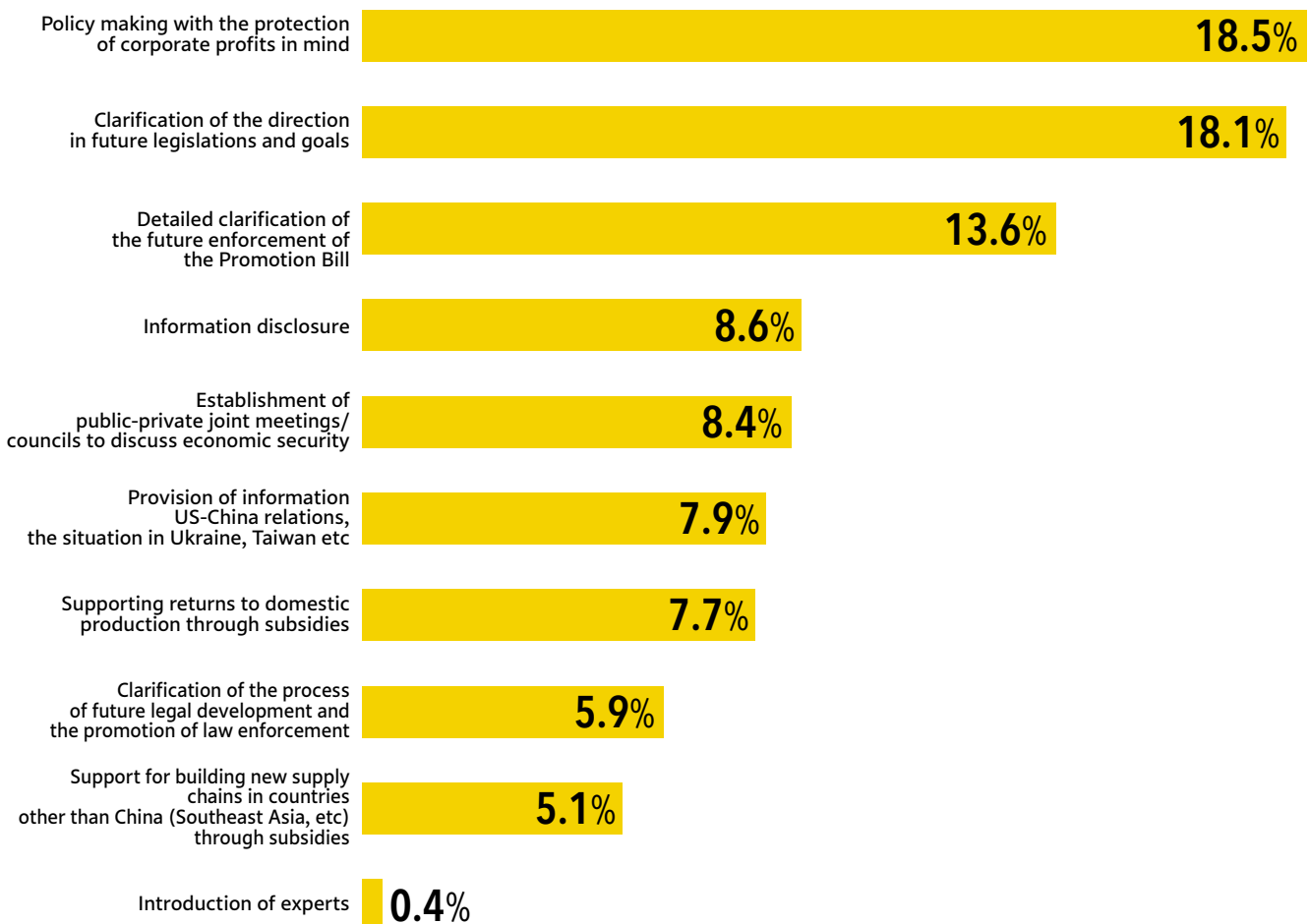


Qualitative Responses

- Decreasing tension in the international security environment.
- Support for Japan's strong semiconductor industry to maintain its foremost position in the world.
- Drafting and implementing sensible policies that balances the necessity for corporate activity and economic security.
- Policy support for strengthening key research and technology development (R&D).
- Leadership that includes the Global South alongside the US and China in a multitudinous framework. Through a coalition of like-minded nations, relations can be integrated between countries and enhance intelligence with overseas information.
- Improve Japan's self-sufficiency rate (policies on nuclear energy utilisation etc.).

Please place 3 points for the answer of top priority, 2 points for the answer of second priority, and 1 point for the answer of third priority in response to the previous question: “what are your expectations from the Japanese government in terms of future economic security policy?”

[80 responses]



29

What do you expect most from the Minister for Economic Security? Please answer freely.

[65 responses]

[Leadership and orientations related to the Promotion Bill]

Qualitative Responses

- To secure a level playing field for overseas business development, creation of an environment for international cooperation to develop legislation balancing corporate and national interests.
- Proactive policy-making to ensure Japan's strategic independence, and playing a leading role in shaping the international order.
- Hopes for policy-making that places emphasis on securing the competitiveness of Japan's domestic industrial base.
- In developing laws in the future, it is necessary to ensure the predictability of policies and a long-term perspective that focuses on the characteristics of each industry as to not obstruct business through excessive regulation. From this perspective, clarify the directionality of system development, disclose information, maintain fairness in the international competitive environment, and consider refraining from sudden changes in the environment (including tightening regulations, and protecting the industry).
- In addition to providing support to goods potentially vulnerable to Japan's chokepoints, support for the advanced technologies and important materials critical to Japan's strengths. By further strengthening relations with like-minded countries, the Japanese economy can become more resilient to even withstand a global economy that is further divided.
- To maintain Japan's competitiveness internationally, we believe that the development of competitive advanced technology and intellectual property rights are critically important. For the purpose of Japan acquiring cutting-edge technologies, that are examples of carbon neutrality, ahead of other countries, it is hoped that the government will actively support industries (including subsidies). In addition, to ensure and maintain the competitiveness through such advanced technology, there are expectations on the government to actively participate in and work on maintaining a fair international arena and international rule-making.
- For the NSS and the Promotion of Economic Security Councils to serve as pillars supporting the establishment and enforcement of Promotion Bill ministerial ordinances, cooperating with and between each ministry and agency.
- From the viewpoint of national security, which became critical through the pandemic, there are expectations placed on the development of supply chains that are directly linked to the safety and security of citizens. In addition, in anticipation of the next phase, fiscal consolidation, including the development of new industries and primary balance, is essential.
- In order to promote economic security efforts as seen from the perspective of corporate management, there are hopes that the trajectory of foreign policy, even regarding offensive/defensive policies on a global scale, is indicated more clearly.
- Regularly determine and review the effectiveness of specific law-based measures. Responses should be flexible and include decisive halting of measures that have not yielded expected results.
- We expect that close cooperation with the Digital Agency will provide the best measures for the growth of Japanese companies, and toward industry development.
- Presenting objectives and visions for years 2030 and 2050.
- Rational decisions aligning with national interest.
- Clearer directionality and objectives.
- Sincerity and leadership toward defending Japan's national interests against threats from various foreign powers.
- Honesty, sincerity, and highly motivated.

[Enforcement and trajectory of the Promotion Bill]

Qualitative Responses

- Policy planning and promotion for strengthening Japan's national power based on a deep understanding of domestic industry.
- Maintaining and improving international competitiveness through further support for Japan's strong technology sectors.
- Further clarity on the potential impacts of drafted policies and legal developments on individual companies.
- Maintaining a fair competitive environment, and consolidation and clarity of judgement criteria/standards.
- Hopes that policies will be developed with consideration of the potential impact on existing production bases.
- Smooth implementation of the four Promotion Bill measures that reflects and considers corporate activities.
- Steady implementation of the Promotion Bill, including the reinforcement of supply chains for critical goods.
- Measures to prevent the outflow of next-generation technology IP overseas.
- Support for investment in domestic alternative production as a response to the supply crisis of overseas procured core parts.
- In addition to current policy fields, initiatives in the energy security field.
- Strengthen supply chains for energy resources that are highly overseas dependent.
- Investment support for those reducing overseas dependence on energy (promoting locally produced energy for local consumption).
- Choosing restricted areas carefully, and provide detailed information about those topics as early as possible.
- Collaboration with companies and industries, and ensuring transparency and predictability with collaboration with various governments.
- Promotion of effective initiatives collaborating with the business world, including economic organisations.
- Supporting domestic industries, and building supply chains with consideration of economic security.
- Clarification of policy direction, and policy support for strengthening core research and technology development (R&D).
- Maintaining and expanding freedom in the business environment.
- Ensuring economic security with consideration for freedom in economic activities.
- Presenting a roadmap for future legislation.
- Speeding up responses to economic security issues.
- Enforcement of the previous question (28) response. (2)



[Correspondence with the US and China, and diplomacy]

Qualitative Responses

- Hopes for more discussion with the US government in advance regarding new rules and regulations, and an expectation that necessary topics are spoken about clearly and firmly to the US.
- Further clarity on the scope of regulation in economic security related laws and policy making, and that regulations can be compatible for those involved in both Chinese and US business.
- Government leadership to formulate clear and foreseeable economic security policies to prevent companies from becoming stuck between the US and China.
- As with last year, Japan must possess diplomatic capabilities that are not overly influenced by the US and China, as well as intelligence functions that can aid policy decisions.
- Clarifying the relationship between Japan and China.
- Promoting policies that are balanced between the US and China.
- To not be biased toward the US or China.
- To ensure that the US security legislation measures are not unreasonable for Japanese companies, that there is adequate communication between the Japanese government and Japanese businesses on economic security and business issues, and for information exchange between US and Japanese governments at various levels.
- Negotiations and support to ensure Japan's competitiveness in regards to the laws and regulations represented by the US Inflation Reduction Act.
- As raw materials are distributed unevenly in China, and production and evaluation facilities are unevenly distributed in the US, semiconductor-related industries require understanding that business cannot be established if US-China tensions intensify.
- Japanese companies often have strengths in cross-border transactions in Chinese business. To avoid hindrance of cross-border business opportunities or information sharing, there are hopes for policy induction and guidance to help maintain business and profits.
- To ensure Japanese company profits and strengthen their competitiveness, it is important to understand the latest situation in the US, China, and other countries, by sharing information with the industrial world and emphasise the viewpoints of industrialisation. There are policy expectations for the stable procurement of materials, and to help prevent excessive (re-)export regulations.
- To increase Japan's strength, there are hopes that Japanese companies will be supported so they will not have to guess the US and Chinese government direction, and thus prevent their decline.
- In the current situation where geopolitical conflicts are becoming more radicalised in some regions, it is essential to ground attitudes and discussions on rationality and objectivity.
- To prevent the worsening of the security environment in East Asia, and further prevent a situation by which economic and business activities are affected, the government should take the initiative in clarifying external messages and responses.
- To establish a level playing field with overseas competitors, and propose contributions toward healthy global market growth.
- Economic security measures that are consistent with national energy policies, and to expand influence on US and Russian administrations and governments.
- Understanding world trends, quick decision-making, and taking concrete actions.
- Overlook and control Japanese, Chinese, American, British, German and French supply chains.

[Public-private interactions]

Qualitative Responses

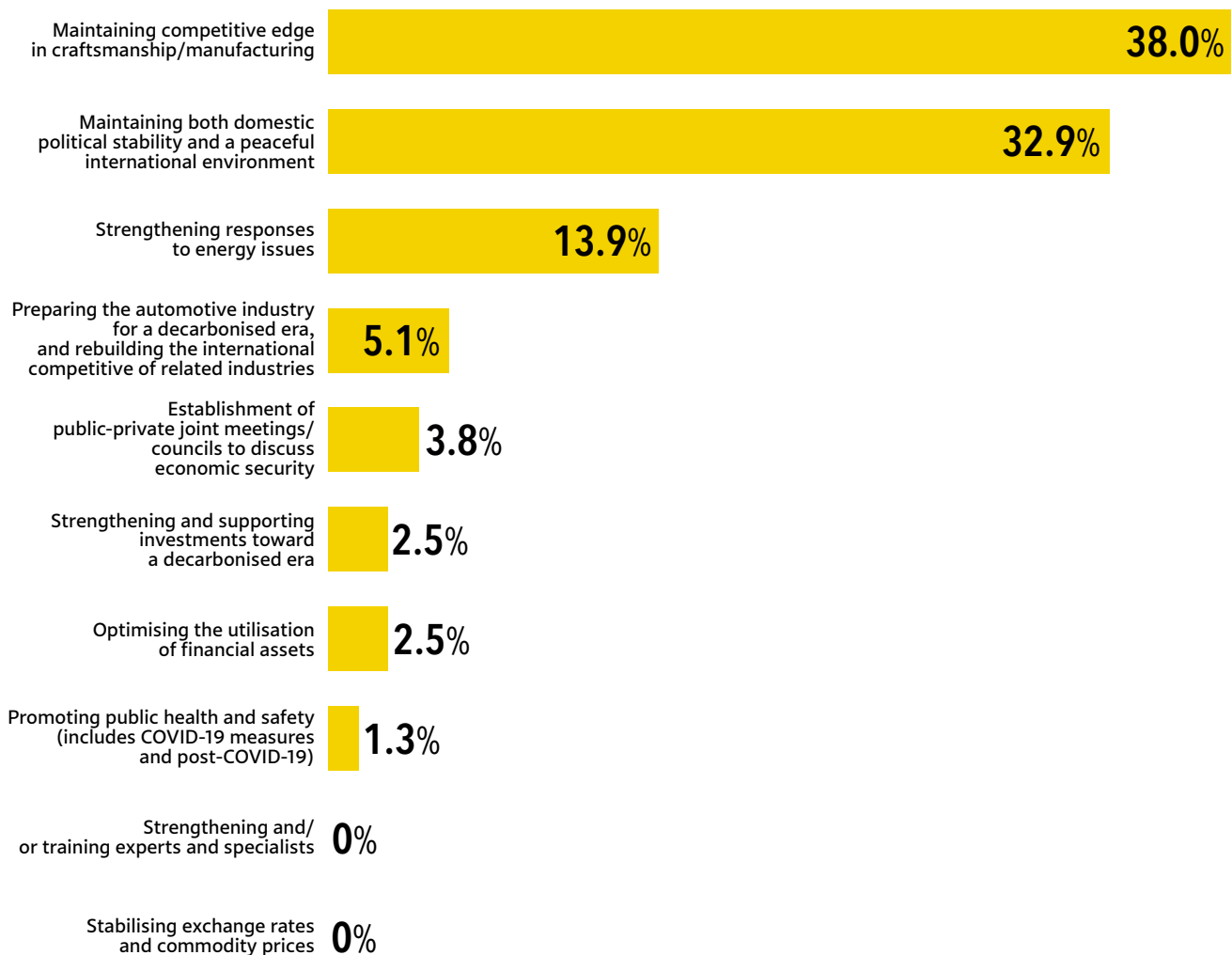
- In the event that restrictions are imposed on regular commercial transactions or markets due to national security issues, it is expected that relevant private company intentions will be considered and information is provided in advance.
- Although the technology and supply chains to be protected are different for each business, for Japanese companies operating globally, there are many common points that should be addressed from the perspective of economic security under Japan's geopolitical environment. Under such circumstances, if the public and private sectors further promote both information exchange and best-practice-sharing, it can enhance the level of Japan as a whole.
- Hopes that the direction of the country's correspondence and governmental support, as well as requests to businesses, are explicitly stated and clarified.
- To formulate basic guidelines for the enforcement of law through communication with the business community, so that the contents of guidelines can reflect the actual business operations of private businesses. To avoid a situation in which Japanese companies are forced to choose between the US and China based on the sole responsibility and judgement of the single private company, the Japanese government should take the lead in minimising the risk of decoupling through policy management. The stable procurement of supplies, and the prevention of overseas outflow of advanced semiconductor technology are also expectations.
- Steady enforcement of the Promotion Bill, including the consideration of the bill's application, and promote initiatives with understanding of the business community alongside economic security policy required for Japan.
- Expectations for information dissemination and disclosures to the public that are easy to understand.
- Establishing a system of cooperation between bureaucrats, politicians, and business, and effective policies that does not impede on free economic activity.
- Build an organisational structure that can take comprehensive leadership, instead of dividing ministries and agencies. The industry, government, and academia should collaboratively build national strength for Japan to be chosen as an ally.
- A candid exchange of opinions on risk, economic security, supply chains, and other topics between government and company management.
- In terms of economic security, although it is important to have cooperation among related ministries and agencies for each project, as there are barriers between ministries and agencies, there are cases where the same investigation is taking place in various ministries. Since it is inefficient and increases the burden on companies to respond, there are expectations for the Minister in charge of Economic Security to take the lead in promoting close cooperation.



30

In promoting Japan’s economic security strategy, what do you think should be done to maximise and make the most of Japan’s strengths? Please select which of the following you consider to be the highest priority.

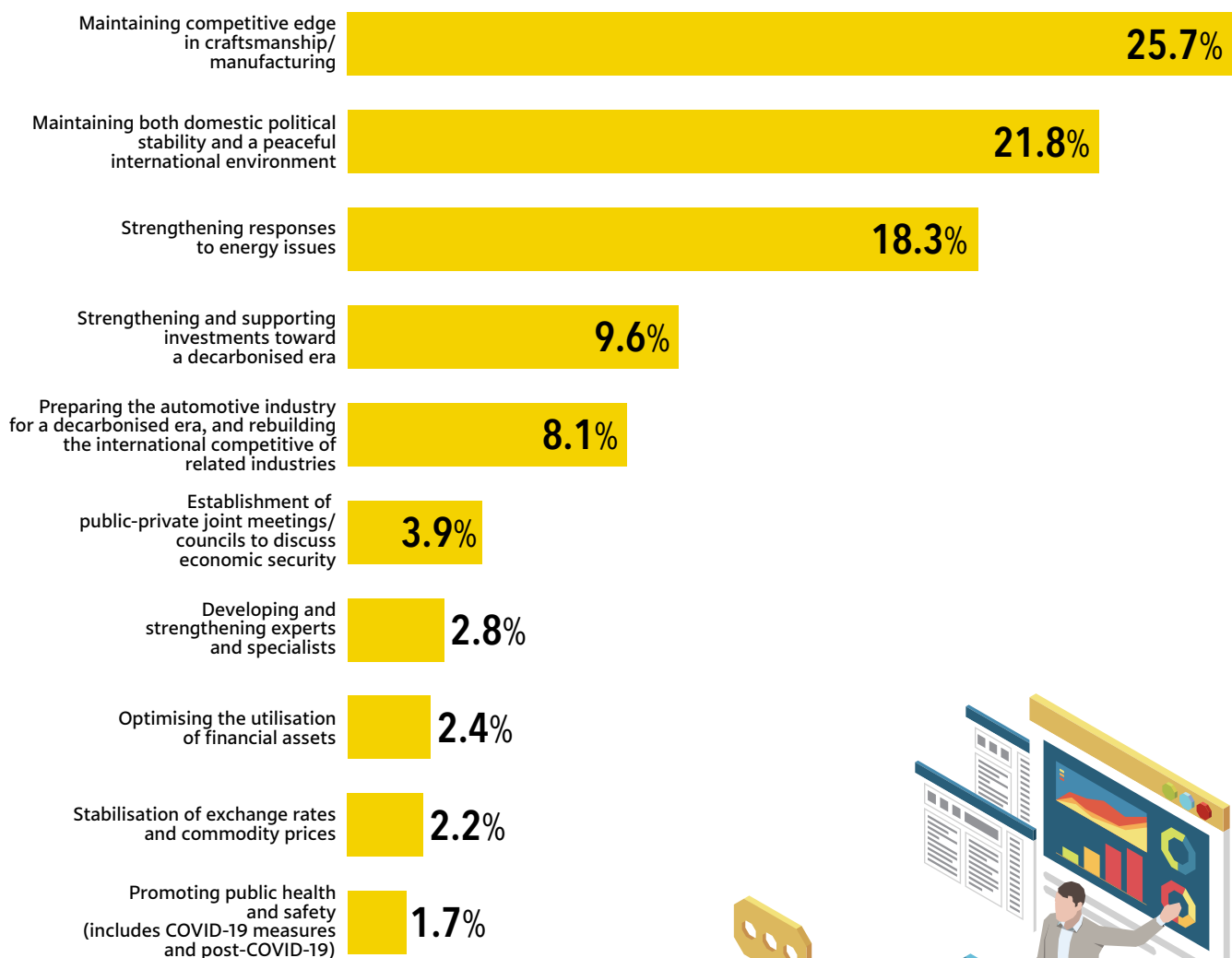
[79 responses]



Qualitative Responses

- Initiatives focused on nurturing science and technology fields.
- Diplomatic exchange toward cybersecurity measures (considering anti-US/ anti-China revisionist powers).

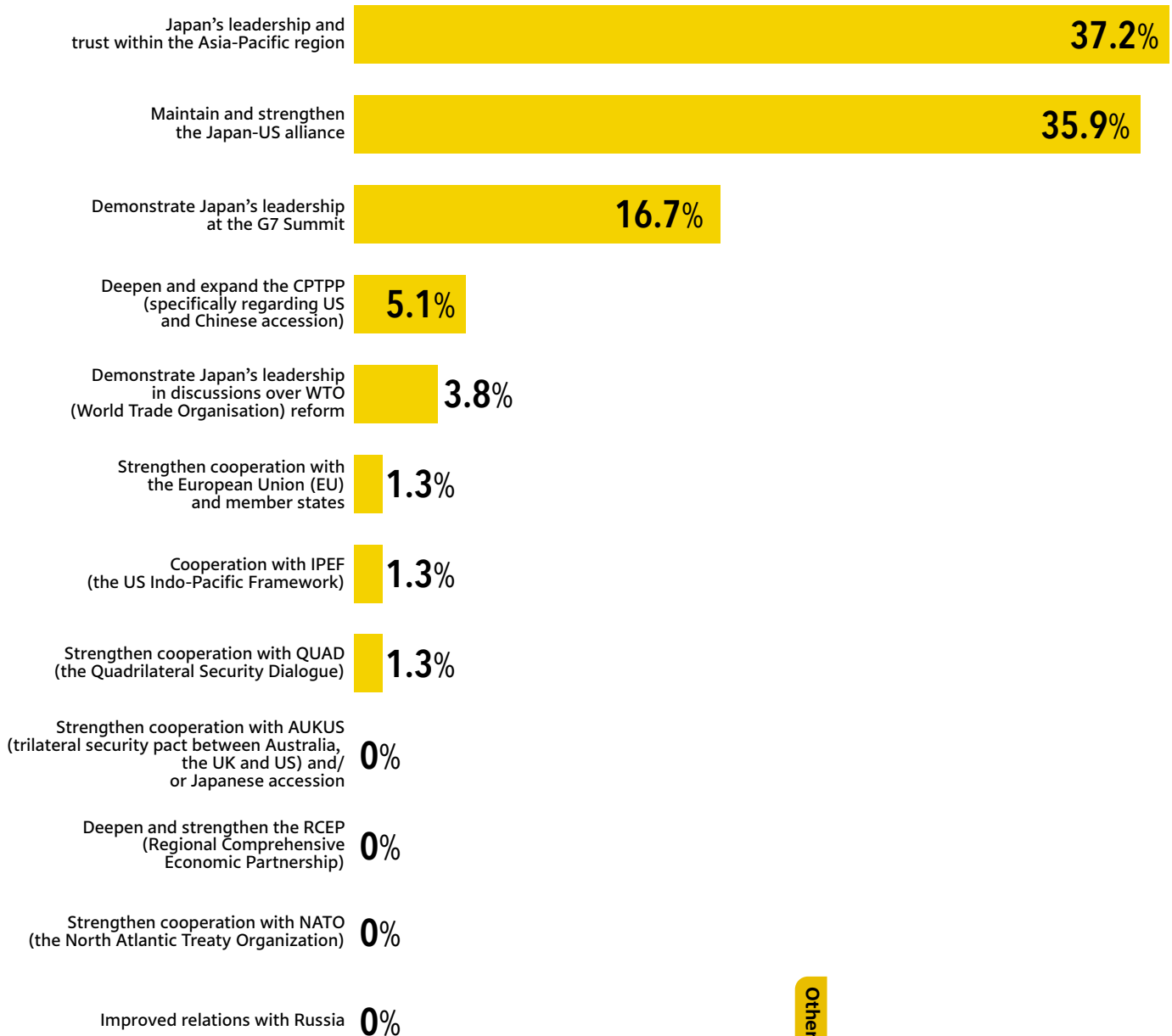
**Please place 3 points for the answer of top priority, 2 points for the answer of second priority, and 1 point for the answer of third priority in response to the previous question:
“what do you think should be done to maximise and make the most of Japan’s strengths?”**
[79 responses]



31

What initiatives do you think Japan should strengthen in advancing its economic security strategy? Please select which of the following you consider to be the highest priority.

[78 responses]

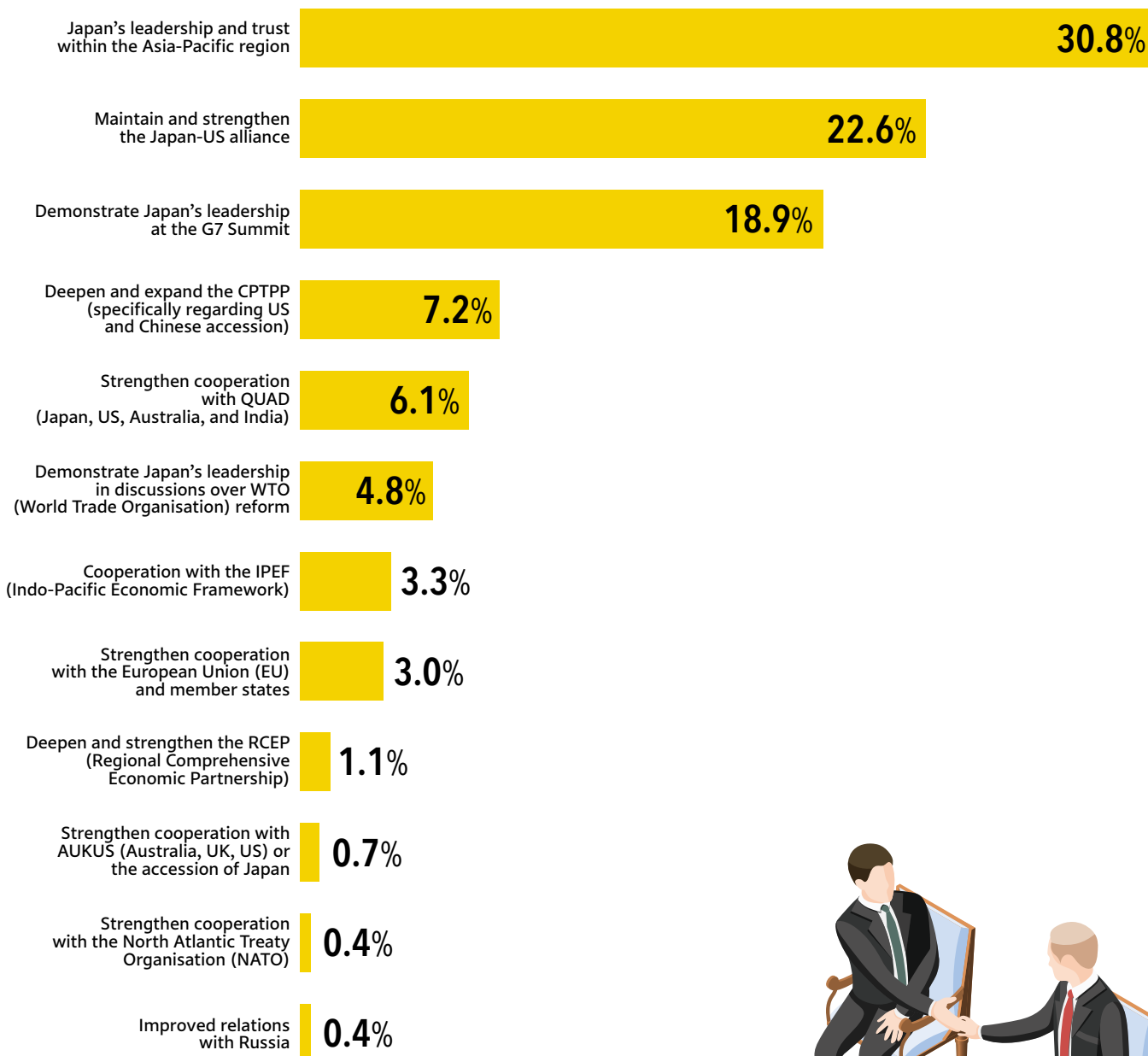


Other responses include

- National security risk detection akin to the Defense Advanced Research Projects Agency (DARPA), an agency of the United States Department of Defense / the establishment of institutions that invest in the research and development of groundbreaking technologies.

Please place 3 points for the answer of top priority, 2 points for the answer of second priority, and 1 point for the answer of third priority in response to the previous question: “what initiatives do you think Japan should strengthen in advancing its economic security strategy?”

[78 responses]





Round Table

“Key Findings of the Survey 2022 and Japan’s Next Steps”

Hitoshi Suzuki (Moderator):

This week’s IOG Geoeconomics Insight is titled “IOG Geoeconomic Insight : Economic Security 100 Company Survey IOG Roundtable (full version)”, where we will be discussing the results of the survey published on February 6th with IOG experts. The 5 members participating today are: API President Ken Jimbo, Director of the Institute of Geoeconomics and Head of the Economic Security Group Kazuto Suzuki, Institute of Geoeconomics Senior Fellow and Head of the China Group Naoko Eto, Senior Visiting Fellow of the Economic Security Group Satoshi Yamada, and myself, Visiting Senior Research Fellow Hitoshi Suzuki.

First of all, Kazuto-san, please give us your overall impression of this project.

Kazuto Suzuki:

We would like to thank the many companies that responded to our survey of 100 companies. Thank you very much for your cooperation. We have received responses and comments from a total of 80 companies (81 companies by March 2023)¹ from a wide variety of industries and sectors. We con-

ducted the first 100-company survey last year, and the largest difference this year has been Russia’s invasion of Ukraine. Although we presumed that the economic sanctions surrounding this invasion may have created major impacts, the core issue of the survey instead surrounded concerns over the Taiwan contingency. Russia’s invasion of Ukraine, and their use of force, has perhaps increased general sensitivity to changes in the status quo.

Another key difference from last year’s survey was the enactment of the Law for the Promotion of Economic Security in May 2020, alongside the more legislative and concrete economic security efforts made by the government impacting various areas. As a whole, companies are preparing their responses to new policy moves very proactively. In response to the new legislation, as issues have been made clearer than before, it appears that companies have been making gradual changes rather than committing to sudden shifts. The other issue of great interest was the topic of the security clearance system, and this is expected to become a contentious issue in the near future. In addition, this survey has revealed that supply chain resilience and efforts to address it are major topics of consideration for many companies.

¹ This “Roundtable” was recorded on March 2, 2022, based on the survey results of 80 respondent Japanese firms. The “Survey Result” of this booklet shown on previous pages is the final version with 81 respondents. Therefore, numbers may differ slightly between this “Roundtable” and the published “Survey Results”.



Hitoshi Suzuki:

To supplement Kazuto-san’s points, the survey contained questions to do with the situation in Ukraine and sanctions against Russia: these are the following responses. In order of response rate, “decrease in sales” (49%) was followed by the “suspension or closure of offices” (42%) , then the “review of business partners” (39%) followed by “increased costs associated with production” (38%), and “change in suppliers” (28%).

Ken-san, in regards to the situation in Ukraine, what are your thoughts on sanctions against Russia that Japan has also participated in?

Ken Jimbo:

More than 80% of companies answered that Russia’s invasion of Ukraine and its impact on economic sanctions has affected their business. This means that various **sectors and industries were affected by the invasion of Ukraine**. However, not all companies are doing business directly with Russia, but results have shown direct effects to business by the invasion in two different ways. Among the direct impacts, it is believed that there were cases of office closure and suspension of operations at business sites in Russia. In addition, economic sanctions have resulted in other direct

effects such as necessary reassessments of the business of various partners including suppliers. We believe that indirect impacts involve the material, resource, energy, and food price hikes caused by the spillover effect of the invasion, causing a significant negative impact on the overall business of companies. The underlying implication of our results is that geopolitics can have significant impacts on company profits and business strategies.

Thank you very much. What are your views, Naoko-san?

Naoko Eto:

From the survey results it seems that, on the topic of Japanese companies with Chinese business and impacts of the situation in Ukraine, the most significant feature is the increased concern over a Taiwan contingency. This survey, revealing company concerns over what may happen and whether various countries who have placed sanctions against Russia will similarly do so against China, has allowed for companies to start reflecting on the specific impacts to their own businesses. However, China’s economic downturn

“Key Findings of the Survey 2022 and Japan’s Next Steps”

due to the COVID-19 disaster has led the state to encourage foreign business, distancing themselves from perceptions of Russian influence in the process. Companies around the world, including Japanese companies, are both concerned and excited about the prospect of China’s future moves. This is perhaps a reflection of how companies are thinking about how to respond aptly to such a complex and fluctuating situation.

In addition, the further sanctions imposed against Russia by the US government on February 24 2023 included sanctions against five Chinese companies. These sanctions were prefaced with the phrase “in cooperation with the countries concerned,” a sentiment reflecting the gradual exertion of US governmental pressure on China that may cause ripple effects. In light of these increasing concerns, questions on how the Russia - Ukraine issue may affect US-China tensions, and by extension, **how Taiwan should be viewed, are becoming further difficult to grasp**. The difficulty to grasp these issues can be considered as a risk, and I think that the extent to which this risk must be converted into a cost has emerged as a particular difficulty in relation to China.

Thank you very much. Satoshi-san, please.

Satoshi Yamada:

The survey results show that Japanese firms are struggling with sanctions against Russia. As mentioned, although there are companies who have faced a decrease in sales, suspended business, closed offices, or have continued to do direct business with Russia, many companies in the survey have commented on the indirect impacts of higher energy costs and various declines in sales and increases in costs.

Hitoshi Suzuki:

Thank you very much. While the situation in Ukraine and the impact of sanctions against Russia are very much focused on, as Kazuto-san has mentioned, our survey was conducted in consideration of these impacts as well as the Taiwan

contingency. In fact, there was a surprisingly large number of companies that provided responses about the Taiwan contingency.

The most common answer to a question on what the most pertinent issue is in addressing economic security was the uncertainty surrounding the relationship between the US and China, (72%), and the challenge of gathering information on international affairs (65%). Notably, when the survey was conducted in 2021, 57% of surveyed respondents answered similarly, with an increase of over 10% this year. In addition, the 2021 survey saw that within companies that voiced challenges in gathering information, suppliers felt these challenges more than large manufacturers. This year, the survey has revealed that **even Japan’s leading manufacturers face challenges in gathering information**, and this issue has become the second most frequent response.

The third most common response was the issue of “risk assessment” (64%). “Adequate information gathering (including domestic)” was at 56%. The percentage of respondents who said they were taking precautionary responses in the event of a Taiwan contingency was 51%, meaning that one in two companies believe the Taiwan contingency to be a key issue. Although in terms of ranking this was the 8th most frequent response, 22% of respondent companies have felt uncertainty regarding the sanctions against Russia due to the situation in Ukraine. This suggests that the situation in Taiwan is more pertinent for surveyed companies than the situation in Ukraine. What are your thoughts on the Taiwan contingency, Naoko-san?

Naoko Eto:

The reasons for why respondents who were concerned on topics surrounding the Taiwan contingency was proportionally large may include the large-scale military exercises around the Taiwan Strait in August 2022, and the 5 missiles that were fired into Japan’s EEZ as a message to Japan. Consequently, Japanese society as a whole has come to view the Taiwan contingency as a pertinent security risk. This, together with the changes in Japan’s security posture, has led to a growing awareness of the impact of Taiwan on their eco-

conomic activities. When we think about what forms these risks may take, we must consider that the likelihood of any military action in the next 1 or 2 years is not at zero, but also not high. Although it is not something that is going to happen imminently, the cost of such a scenario would be very high. The Japanese business community is therefore being confronted with the question of **how to prepare for such a low probability yet high cost type of risk**, heightening this sense of urgency.

Hitoshi Suzuki:

Thank you, Naoko-san. Although there have been urgent reports from the US media suggesting an invasion tomorrow or in the immediate future, Chinese specialists have been saying that they do not believe it will happen anytime soon. Ken-san, what are your thoughts on the Taiwan contingency?

Ken Jimbo:

As Naoko-san mentioned earlier, from a risk management perspective, if the magnitude of risk and the likelihood of it occurring are seen as two coordinate axes, the size of risk is large yet the likelihood is low for the Taiwan contingency. These axes would have to be in consideration in answering the question on how a company can evaluate risks in corporate strategy. In the survey, although there were a large number of companies concerned with the Taiwan contingency, there were a limited number of concrete responses detailing strategic measures companies are undertaking in business with China. I believe this is because it is a complex situation.

Such as with Russia's invasion of Ukraine, the closure of offices, changing supply chains, devising logistics through detour routes, are some applicable methods for this situation. However, in the event of a Taiwan emergency such responses would require a drastic change in corporate strategy and companies are therefore faced with a difficult problem. A thought experiment on what to do in the event of a geopolitical crisis of such a very high magnitude is important but it is also important to learn what each company is struggling with.



**Managing Director of
International House of Japan**

Ken Jimbo

Thank you very much. Satoshi-san, what do you think, regarding the Taiwan contingency?

Satoshi Yamada:

From the results of the survey, 66% of respondent Japanese companies answered that “information gathering on international affairs” is a key challenge for them, and I assume this could be the same on the Taiwan situation. In reality, there are no clear and easy answers for Japanese companies to avoid geoeconomic risks. Especially, as the semiconductor industry is concentrated in Taiwan and as Japanese companies import semiconductors heavily from Taiwan, many Japanese companies are facing supply chain risks. There are some companies investing in Japan such as TSMC which is going to build a factory in Kumamoto. Japanese companies which could receive semiconductors from TSMC Kumamoto may mitigate geoeconomic risks and also increase its business effectiveness. As **it shall be difficult for most Japanese companies to change their supply chains in a short term**, I assume that they are trying to gather information through a trial and error process to understand the geopolitical situation.

Round Table

“Key Findings of the Survey 2022 and Japan’s Next Steps”

How about you, Kazuto-san?

Kazuto Suzuki:

As everyone has discussed, uncertainty in how one should view the Taiwan contingency, what might happen in the future, when emergencies may happen, are all unknowns that stack on top of each other, creating further anxiety. However, at the same time, there are speculations from the US that a Taiwan contingency could happen as early as tomorrow, in 2027, in 2024 etc, swaying in its range of predictions to perhaps serve as a strategy to balance against China. If we take this seriously and attempt to use this information within some kind of intelligence-based judgement, it is implied that things must always be true if the US has expressed it. This is why the survey has seen **higher response rates from companies concerned over “worsening US-China relations” and “uncertainty in US-China relations” than “the Taiwan contingency”** itself. I believe the most difficult issue is therefore ascertaining the future of US-China relations.

On the other hand, there are also political and strategic elements to consider, making it difficult to know what either side is truly thinking. We are all caught in the middle, feeling a sense of insecurity, by attempting to assess difficult risks surrounding what kind of moves China or the US may make. However, if we take a step back, with the perspective that this is a situation between the US and China, information can be discerned rationally without being swayed by treating each event (that an incident could happen tomorrow, during the presidential election, or other such news) with serious urgency and fear.

A Taiwan contingency would certainly highly affect Japan, but I believe that it is also critical for us to appreciate the fact that it is not an easy situation to suddenly occur and to ground our attitude in preparation for the occurrence of such an event.

Hitoshi Suzuki:

Thank you, Kazuto-san. I would like to bring attention to the key comments on **Japan being caught between US-China tensions**, and the need for



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Japan to calmly assess situations in its own ways to make proper decisions for itself.

Although we have had some discussions over this theme, I would like to propose the next theme of US-China relations and the strengthening of supply chains. For example, in the survey we had asked how companies feel about the impact of US-China tensions. The most frequent answer was “increased costs due to stricter regulations by the US” (66%). In 2021, the percentage of respondents for this answer was 59%. Although it is not a significant increase, the answer has increased by 5 percentage points. The second most frequent response was “changes in supplier” (38%), which was almost the same as the previous year’s survey. The third was “cost increases due to regulatory changes by China” shy of 33%, down slightly in comparison with the previous year. For the question “What issues do you keep in mind when developing business in the US?” Japanese companies responded that the most pertinent issue was **“the difficulty in forecasting long-term US-China policy” (60%), the second most important being “the increased exclusion of Chinese companies by the US” (54%),** thirdly “supply chain disruption” (46%), fourthly “geopolitical risks” (39%), followed by “demand

for local procurement rates” (29%), supply chain restructuring and cost increases due to production transfers (both at 29%), and domestic production requirements (26%).

1 company for every 4 have responded as already seeing impacts from the US’ enactment of a new law in 2022, concerning the prevention of batteries for EVs made in China being sold in the US. Similarly, when the survey asked what the most important issue is to keep in mind when developing business in China, the most frequent response was on “geopolitical risks” at 85%. The second most common response was on risks surrounding business survival due to Chinese government policy changes (78%), third was on responses in the event of Taiwan contingency at 73%, fourth was information leakage such as technical information(66%), fifth was the impact of tightened restrictions on foreign investment by the Chinese government (63%), and if we look a little further down the list, the improvement of China’s technological capabilities (53%) was within company responses. Various responses, such as on “cyber attacks” (53%) were more case specific for companies doing business within China. Additionally, when tallying the frequency of each response, despite the ability to choose multiple responses between concerns over US and Chinese business, only approximately 1 in 4 companies selected options listed under the “considerations for Chinese business” section.

In regards to strengthening supply chains, although we have already talked about the US and China, may I ask you for your thoughts Satoshi-san?

Satoshi Yamada:

The most frequent response regarding U.S. business was on the uncertain U.S. policies toward China which was 60%, while the most frequent response regarding Chinese business was on the geopolitical risks. These results

suggest that many Japanese companies are currently very concerned about the tension between the U.S. and China, and its potential impacts on their business. I would like to highlight the survey result that the number of respondent Japanese companies caught between the U.S. and China were 16%, while 84% had never been caught between the U.S. and China. Although the escalation of U.S.-China tensions has been widely reported on in the news, I assume the point reflected in the survey is that Japanese companies dealing with cutting-edge technologies such as semiconductors may be caught between the U.S. and China, while companies that do not deal with such technologies are not experiencing such a dilemma.

Thank you very much. How about you, Ken-san?

Ken Jimbo:

I think this is a very interesting analysis. In recent years, Japan-China and US-China trade has reached a record high. Although this implies that trade imports and exports in commodities continue to be active, the US Department of Commerce has already listed over 600 companies under trade restrictions. In addition, re-export restrictions apply to companies using US components in their final products, and as a result, companies in third countries will also be subject to these trade restric-



“Key Findings of the Survey 2022 and Japan’s Next Steps”

tions, narrowing the space for free trade. It is a key feature of this survey that we can view the range of company attitudes in this situation, from companies that feel strongly constrained, while other companies may feel nothing has changed at all.

If we look further into individual responses we can see that certain firms are suffering inordinately in the marketplace. It seems that there has been an increase in the number of responses regarding situations that force individual business choices. For example, there are responses suggesting that issues lie more with the US than China with the excessive ‘America First’ mentalities that subsidise business in the US but disallow business in China. Dissatisfaction that the **range of options for Japanese business is narrowing** and similar sentiments that the US has been overregulating the Japanese economy, imposing excessive restrictions, and that regulations have been exported from US domestic laws to recent external application, does appear to certainly exist.

Hitoshi Suzuki:

Thank you. While companies have pointed to US actions as causing business issues, there has also been an increase in responses that intend to increase their investments in the US. It is believed that in one aspect, this is due to the demand for production in the US, and that there is another aspect, that this is seen as a business opportunity for Japanese companies. Although in last year’s survey there were no respondents planning to reduce investments in China, such responses are in this year’s survey. There are also calls for the Japanese government to avoid situations where businesses will be caught between the US and China, but I would like to ask Naoko-san first on how we should consider the complex situation regarding business in China?

Naoko Eto:

In considering the contested situation in China, it is important to consider why the US seems to be currently applying pressure onto China and, while China is prepared to take countermeasures against legal and institutional sanctions, in reality their current operations are restrictive in nature. Spe-

cifically, China has not applied explicit sanctions concerning economic security. Although China has also created an anti-foreign sanctions law, this is limited to political matters such as human rights issues in Hong Kong, Tibet, and Xinjiang, and arms exports to Taiwan. In other words, the ‘China risk’ is merely a dormant, latent type of risk.

On the other hand, within the survey there was a large number of responses raising the potential risk of a change in Chinese policy. On the corporate side, there are sentiments that seek further predictability and transparency in regards to Chinese policymaking as otherwise it is too risky to invest. As these wishes may not be acted upon if it is articulated through merely corporate sentiments, there are calls for inter-governmental response for some kind of rule-making at the same time.

However, from the **Chinese government’s perspective it is important to leave a degree of ambiguity** in the current situation. It is therefore foreseeable that messages encouraging further investment and claims that these investments will not be risky will continue, as economic recovery is an issue of top priority. At the same time, ambiguities can suggest that at some point, somewhere,



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there may be moves from the Chinese government.

Very recently the Chinese government announced that two American companies would be added to the export control list. However, this announcement arrived with little prior research usually done for such a move. Therefore the message was considered as a countermeasure to the sanctions imposed by the US on Chinese companies over the balloon issue. The key issue is that **measures are initiated on political bases and uses**, rather than researching and building cohesive measures in advance: the perception is that when something urgent arises, the Chinese government may make sudden volatile moves.

In the midst of the US-China confrontation, the attention on China has continued to increase from the balloon issue to the arms sales to Russia. Internally, China's antipathy toward the US is growing high and I believe the situation is difficult to be optimistic about.

Hitoshi Suzuki:

Thank you Naoko-san. It seems like the difficulty in ascertaining the US and China situation each take very different forms, but I would like to ask Kazuto-san for his thoughts on this?

Kazuto Suzuki:

The difficulty foreseeing Chinese moves largely stem from their political opacity. Moreover, China's political system is dominated by the one-party Communist Party, and therefore decisions are made suddenly and without process, making it worrisome to not know to whom the message will be directed and to what extent. These factors are likely being perceived as risks.

On the other hand, the US, unlike China, has a liberal democratic system and a high level of transparency in politics, making their tension with China more apparent. This has made their **measures against China sound almost theatrical or emotive**, making us doubt its rationality, especially in the machismo displayed by policymakers competing with one another to appear like they are the strictest "hardliner against China". For example, the CHIPS Act and the Inflation Reduction Act contain theatrical rhetoric on reducing or for-

bidding investment in China to possibly appeal to the 2024 elections. This is very difficult to do, and inevitably such hard-line measures against China will lead to protectionist measures by the US. While the results of the survey revealed that there were more companies planning to increase investment in the US, the more protectionist the US becomes, the more it will be necessary to establish bases and manufacture in the US domestically as I believe it will become increasingly difficult to do business without doing so.

Thus, there are various difficulties in both the US and China. However, the difficulties presented in business with China encourages withdrawals of investment, while American protectionism has resulted in an increase in investment from Japan to the US. This is not to say that one is better or worse than the other, but I believe the survey suggests that Japanese companies are responding appropriately to the current situation.

Hitoshi Suzuki:

Thank you, Kazuto-san. I would like to mention that during the 1980's Japan was described as "torrential exports" by the US and Europe. As a result, Japanese car makers opened factories there, reduced exports and created jobs locally. This was the first wave of launching Japanese plants in the US, and now we are facing a second wave in a different way.

One of the major issues that is being discussed for future collaboration with US companies in the defence industry and cutting-edge new technology is the security clearance system and its launch in Japan. I would like to introduce the survey results on this "security clearance" topic. This year we added a new question which asked "were there any meetings you were unable to participate in due to the lack of a security clearance system," and when asked whether the security clearance system is necessary, 23% of the firms answered that it is "immediately necessary", with 53% of companies answering that although there was no such system in the past, that it will be necessary in the future. The proportion of companies that answered "can't say either" reached 20%, while 4 companies answered they don't have a full comprehension of

“Key Findings of the Survey 2022 and Japan’s Next Steps”

the system. Kazuto-san, could you explain to our audience what the system is and why it is being discussed now within the government.

Kazuto Suzuki:

I feel that the security clearance system is not well understood in Japan. From what sensitive information is, to what information needs to be protected, one major problem is that “sensitive information” itself is not defined. Classified information, CI, is usually defined as security-related information held by the government in which the private sector is involved. The security clearance system is a mechanism that first defines this kind of specified important information, granting permission as a kind of licence to those who can access it.

At the same time as being a way to protect Japan’s important technologies, the security clearance system being discussed in Japan today can bring a global equivalence to assure other countries that Japan has systems to protect sensitive information. By ensuring equivalence, as explained earlier when collaborating with other countries, it is hoped that we will be able to participate in projects that, for example, involve sensitive US military security information. This nuanced point of an ‘admission ticket’ to joint international research is critical for discussing this topic.

However, the contentious points in Japan concern the degree to which background checks are conducted for security clearances, and whether it would be an infringement of privacy to be investigated in detail regarding family structures, savings, who is receiving your salary, and other such matters. For example, in the case of the US security clearance system, those who choose to handle sensitive information as their job fall under the requirements for a security clearance, such as people who have access to such sensitive information or people who work in occupations that come into contact with sensitive information, apply for this security clearance. I think this point is not well understood by many Japanese people. This selectivity is, I believe, a crucial point. Although there were companies within this survey that responded that they “do not understand the security clearance,” not directly feeling the

urgency or necessity of such a system, there may have been many cases in which opportunities were lost because the business lacked a security clearance. By creating a security clearance system, there is a possibility that a variety of subtle distinctions and nuances will be highlighted, so I think that the system will be of further discussion in the future.

Hitoshi Suzuki:

In regards to your point, Kazuto-san, that “if Japan doesn’t have the security clearance system, Japanese companies simply may not receive notice of a deal,” there is an implication that among the firms which answered that “there was no damage caused by the absence of the system,” Japanese businesses may have lost chances without knowledge. Satoshi-san, what are your thoughts on the security clearance system?

Satoshi Yamada:

In response to the question “were there projects that you could not participate in due to the lack of a security clearance system?”, 55% of Japanese companies responded that although they have not experienced such a scenario, they expect to face such difficulties in the future. This result may reflect a situation where companies belonging to the Japanese defense industry are aware of the risk that if the Japanese government introduces such a system in the future, they will not be able to participate in bidding process held by the Ministry of Defense unless they have the necessary qualifications. 43% of the respondent Japanese companies answered that they have not experienced and do not anticipate experiencing such inability in the future. I assume that this is a response from Japanese companies outside of the defense industry that have no plans to enter related fields.

Moreover, in recent years, there have been various discussions about Japan-U.S. cooperation in advanced technology fields, including dual-use technology, at the Japan-U.S. Summit Meeting and the Japan-U.S. Economic Policy Consultative Committee Meeting (the Economic “2+2”). The survey results may partially reflect some recognition by Japanese companies which have U.S. businesses



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Satoshi Yamada

that difficult situations may arise without a security clearance system.

Hitoshi Suzuki:

Thank you, Satoshi-san. By introducing a security clearance system, we are envisioning the US first, then the UK and EU countries for collaboration. Realising the system would be a kind of **“entrance ticket” to work closely with Western countries.** At the same time, the introduction of such a system would perhaps depict a Japan more explicitly on the side of the US, which may be perceived as hostile by China. Should we consider the impacts such moves may have on Japan-China relations? Naoko-san, please.

Naoko Eto:

As this concerns the creation of a system Japan perceives to be necessary, if this is explained and understood by China, I believe the system’s introduction does not necessarily worsen China’s perception of Japan. Rather, I personally believe it is more important to consider how the system will be operated and the kind of effects it may produce. I believe it is crucial for the Japanese government to explain to China that this is not a system to exclude China, but rather a system to

secure important information in Japan, while at the same time promoting cooperation with the US in terms of security. It is also important to explain the important implications for cooperation with Europe as well.

As Satoshi-san has discussed, there are also companies that are not directly involved in this matter, such as companies that are not using cutting-edge technology or related to security fields. It is necessary to **avoid misleading messages** such as that “Japan intends to be stronger against China,” and **hold proper communication with the Chinese government.** The fact that we wish to protect securely what needs to be protected is a rationale that can be understood in China’s point of view, so I believe it is crucial to explain this point thoroughly.

Hitoshi Suzuki

Thank you very much, Naoko-san. Lastly, may I ask Ken-san for his thoughts in regards to this topic?

Ken Jimbo:

Thank you. I think that there is a possibility that missed opportunities for companies may currently be unseen due to the lack of a security clearance system. Specifically, government procurement projects involving sensitive technology are strictly regulated in the US under laws such as the National Defense Authorization Act and cleared companies are whitelisted under the Industrial Security Agreement (ISA). Companies that have not been whitelisted must go through specific procedures to be certified for participation: a process that takes approximately 60 to 360 days. As Kazuto-san has discussed with the analogy of the “starting line,” the current situation is that the companies that have already been in the ISA have had a jump-start where they are already ahead of the many Japanese companies that have not previously joined. Therefore, I think it is crucial to have this system firmly implemented to allow us to enter the market where all the competitive conditions have taken proper forms.

In order to participate in the robust research and development of security-related advanced and sensitive technology, basic technology, gen-

Round Table

“Key Findings of the Survey 2022 and Japan’s Next Steps”

eral-purpose technology, and technology that will be commercialised, I think the **security clearance system is crucial for seamless inter-industry cooperation internationally** to avoid any discontinuation of business opportunities. I think it is important to design a system that is internationally accepted as a system to promote international corporate activities.

Hitoshi Suzuki

Thank you to all panellists for a wonderful discussion. We have picked up 4 topics from our Survey Results and discussed its implications and our thoughts. To conclude, I would like to ask each of you for your overall impressions and thoughts on this year’s survey. Let’s start with Ken-san.

Ken Jimbo:

For the second year in a row, we have conducted this Economic Security Survey of 100 Companies, and I have found again that this field, geopolitical relationships, and economic growth are deeply involved in corporate strategy and business decision-making. It has also revealed that corporate strategy must include elements beyond the market rationality and optimal supply chain determinism relied on in the past. I learnt that companies are

casting nets to gather a wide variety of information and realised the complex difficulties about **how to structure a strategy** from such dispersed information. I hope that through dialogue at the Institute of Geoeconomics, we will be able to help companies in developing strategies.

Hitoshi Suzuki

Thank you very much, Ken-san. Next, Naoko-san, please.

Naoko Eto:

I think it is pertinent from now on to **correctly fear what should be feared**. This is true for the Taiwan contingency, economic security and sanctions, and other such cases where the location or event of the perceived risks are unknown. Although these kinds of risks are certainly present, it would be impractical to allow the fear of such risk to become so great that it prevents us from engaging in economic activities with, for example, China. In this survey, it was revealed that a lot of companies desired to gather as much information as possible, including requests for the government to increase predictability of behaviours and to stabilise relations with China. I believe that efforts should be made to increase the foreseeability of China’s actions, and to properly fear elements that require being fearful of. To that end, I think we need a system to aid realistic and pragmatic thinking in regards to what is happening in China and what they may be thinking.

Thank you very much, Naoko-san. Satoshi-san, please.

Satoshi Yamada:

In this year’s survey, conducted in the midst of heightened geopolitical risks, we have been able to reaffirm our understanding that Japanese companies are very worried about the rising risks. On the other hand, we also found that there are differences in each company’s perceptions of the risks depending on the industry and its situation: carefully examining these differences can provide



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further analysis. We, including myself, will keep on providing useful information and analysis.

Hitoshi Suzuki

Thank you so much, Satoshi-san. Finally, back to Kazuto-san, please.

Kazuto Suzuki:

Once again, I would like to thank the many companies that have responded to this survey, and that I think we have learned a lot thanks to this cooperation. Although others have touched on these various points, I think this year's survey reveals that the issue of **economic security has shifted from concerning compliance measures to preparing risk management**. Until now, for example, the main requirement was to abide by the Foreign Exchange Law which designated sensitive technology and the countries it should not be exported to. The understanding was that outside of adherence to this, trade was by-in-large free. However, free trade is becoming less free, and various countries are rapidly imposing regulations. Some countries have ambiguous systems such as in China, while some countries such as the US are adopting rather theatrical protectionist measures. Companies that consciously collect and analyse information, make risk judgments, and with all of this in mind, make business decisions, also continuously face con-

cerns over the kind of management decisions that should be made in this environment. I think that this survey is a visualisation of company business decisions based on all of these considerations.

At the Institute of Geoeconomics, I believe that it is our job to analyse and disseminate information on where and what kinds of risks exist, which countries may impose what regulations, and how these considerations may change the structure and order of the global economy. For this reason, I hope to use what we have obtained through this survey in our research to disseminate information that will contribute to your various activities.

Hitoshi Suzuki:

Thank you so much to all four panellists. Kazuto-san has already thanked all the companies who have answered this questionnaire. I would like to once more thank all the corporate persons who are involved in sensitive businesses and operations for taking their time to respond to our survey. Thank you to all the panellists today for a fruitful discussion.

The Three Key Issues for Reforming the Personnel Security Clearances system in Japan:

Its Scope, Effectiveness, and Overseas Applicability

Hirohito Ogi, Senior Research Fellow



¹ Security clearance also includes Facility Security Clearance (FCL), a system for granting qualification examinations to companies and facilities, and the overall handling of classified information in industry has various factors to be considered, including classified information handling procedures and information system integrity. While a separate discussion of these issues is necessary, this article will only focus on PCL.

Since the end of 2022, the Institute of Geoeconomics conducted the second survey of 100 Japanese companies on economic security that featured a section on the topic of security clearances, and whether or not there were any projects in which surveyed companies were unable to participate due to the lack of said system. The results showed that about 79% of all respondents acknowledged the necessity of the system, including its future introduction, and about 56% expected that the absence of the system would prevent them from participating in projects in the future. However, only 1.4% of the respondents reported that they were unable to participate in foreign government projects in partnership with foreign companies. Many companies, rather than from the perspective of current obstacles to business, felt the need for the system due to concerns over barriers to future participation in international projects.

Until now, documents, including from the government, have repeatedly stated the necessity of establishing a security clearance system (a system that grants qualifications to handle classified information not only to government employees but also to private citizens after a screening process, following the expression “Personnel Security Clearance” in the United States (hereinafter referred to as “PCL”).¹ Although this system was not included in the Economic Security Promotion Act (ESPA) enacted in 2022, a supplementary resolution of the Diet during deliberation stated that “in order to secure and maintain Japan’s technological superiority, with the smooth promotion of international joint research in mind, there are necessary measures, including legal, toward the establishment of a system to certify the suitability of those who handle information, including civilians”. The newly formulated National Security Strategy also states that they “will promote studies to strengthen Japan’s information security, including PCL, based on the information security of major countries and the needs of industry and others”. In consideration of these moves, Prime Minister Kishida announced at a meeting of the Government Economic Security Promotion Council held on February 14 this year, instructing Minister of State for Economic Security Sanae Takaichi toward “a panel of experts will be established to study the needs and issues surrounding the security clearance system in the economic security field from a specialized viewpoint, and

that work will proceed as quickly as possible within the next year or so”.

The necessity of introducing PCL has been discussed exclusively by those who view that it would contribute to the smooth entry of Japanese companies into international joint research and overseas government procurement, both of which may involve sensitive information. However, these discussions have mostly focused on screening and evaluation methods, such as the relationship between background checks and the protection of personal information, and there has been little to no discussion on how the system should be structured and what information should be subject to the system. In this article, I would like to address these issues: what kind of information should be protected as classified, and what kind of subjects and cases should be prepared for the establishment of an effective system.

■ Limited Scope of the PCL in Japan

The discussions on whether a PCL system should be established in Japan is somewhat misleading, as if such a system does not currently exist. In the Act on the Protection of Specially Designated Secrets, the PCL exists as the Act’s evaluation system for those who handle specified information, including employees (private citizens) of “compliant businesses” that manufacture goods or provide services on a contract with the government.

This raises the question of where the problem actually lies. Firstly, in comparison with similar systems in the US, Japan’s current system of granting qualification review (PCL) does not comprehensively stipulate for information lying outside what is specified in the Act. For example, the Ministry of Defense has a system of “Defense Ministry Secrets” based on the Defense Ministry’s Secret Preservation Instructions, which is based on the duty of confidentiality of Self-Defense Forces personnel under the Self Defense Forces Act. Despite the provision for granting qualifications to government employees, there are no detailed provisions for individual employees such as the Specially Designated Secrets Protection Act. It only provides rigorous investigation to contractors. In addition, unlike Specially Designated Secrets, there are generally no criminal penalties for employees to the contractor who

The Three Key Issues for Reforming the Personnel Security Clearances system in Japan:

Its Scope, Effectiveness, and Overseas Applicability

² Shigenobu Tamura (ed.), *New Defense Legislation* (Naigai Shuppan, 2018), 740. In this regard, the Ministry of Defense designated “Defense Ministry Secrets” related to defense equipment, etc., which have been conventionally secured by contractual confidentiality obligations, as “equipment secrets” by creating a provision that would introduce criminal penalties for violation of the obligations of private citizens, including companies in the “Act on Strengthening Infrastructure for the Development and Production of Equipment Procured by the Ministry of Defense,” passed by the Diet this year (2023).
https://www.mod.go.jp/j/presiding/houan/pdf/211_230210/03.pdf

³ Of these, Presidential Executive Order 12829: National Industrial Security Program (NISP) specifically provides for industrial PCLs, pursuant to which the Secretary of Defense issued the “National Industrial Security Program Operations Manual (NISPOM),” which prescribes detailed procedures. “Executive Order 12829-National Industrial Security Program” (January 6, 1993), in *Federal Register*, Vol. 82, No. 7 (January 2017), 3224, <https://www.govinfo.gov/content/pkg/FR-2017-01-11/pdf/2017-00152.pdf>.

⁴ “Executive Order 13526-Classified National Security Information” (December 29, 2009), *Federal Register* Vol. 75, No. 2 (January 2010), 709, <https://www.govinfo.gov/content/pkg/FR-2010-01-05/pdf/E9-31418.pdf>; and Kenshi Fukuda, “The Security Clearance System in the United States and Discussions in Japan: Application to Researchers,” in *Changing International Environment and Comprehensive Security: A Comprehensive Research Report* (National Diet Library, 2022), 117-119. However, basic scientific research not clearly related to national security is excluded from the designation.

violate their obligations with regard to Ministry of Defense Ministry Secrets, and only measures based on contractual provisions, such as penalty charges.²

Furthermore, even in ministries that provide funding for advanced technology research, such as the Ministry of Economy, Trade and Industry (METI) and the Ministry of Education, Culture, Sports, Science and Technology (MEXT), despite rules regarding the management of classified information based on the duty of confidentiality of public officials under the National Public Service Act, they are not designed to designate the results of commissioned research as classified and manage them. In the contract clauses of commissioned research, although there are provisions imposing a duty of confidentiality on the other party, there are no criminal penalties for violating such duty, and there are no stipulated mechanisms for the suitability evaluations. These differ from the US, where information classified as top secret, secret, and confidential, as well as private companies that handle these various types of information, are all subject to PCL (Executive Orders 12968, 12829, and 13526).³

Whether to Include Commissioned Research related to National Security in the Scope of the Secret Designation

Secondly, the scope of information that may be subject to secret designation differs from that of the US. Under the Act on the Protection of Specified Secrets, information on defense, diplomacy, and terrorism, such as information on “items used for defense” (defense equipment) and information on diplomatic negotiations and others, are designated. On the other hand, in the US, “scientific, technological, or economic matters relating to national security” are also included in the list of information subject to designation as classified information (Executive Order 13526), and there may be cases where PCL must be obtained for research funded by the government.⁴ The PCL may be required when conducting government-funded research. Although the Specially Designated Secrets Protection Act and the Defense Ministry Secret also designate the specifications and production technology of defense equipment at the research and development stage,

the scope of designation in the US can be said to be broader.

Can the Government Only Generate Information Amounting to Secrets

Thirdly, unlike Japan, which has a system designed to allow private entities to handle government-designated classified information with the assumption that such confidential information is only generated by the government, the US assumes that there are cases in which contractors and contract researchers may generate information which amounts to classified information themselves, and explicitly stipulates procedures for designating such information as classified through Executive Order 13526. Executive Order 13526 stipulates that when a recipient of things such as government funds determines that it has generated information requiring confidentiality, it should notify the government agency with jurisdiction over the information, and upon receiving such notification, the government will decide whether to treat the information as classified.⁵

⁵ “Executive Order 13526,” 708-709.

Should the Scope of Information Designated as Classified be Expanded?

Firstly, in light of the aforementioned points, it can be said that Japan’s challenge is the absence of a PCL mechanism that covers all types of secrecy systems for civilians, and that, as a preliminary step, the scope of information protected by their current PCL does not include civilian technology outside of contracts toward procuring defense equipment, yet still related to national security (such as dual-use sensitive technology). If this kind of sensitive information is not covered by the PCL, the PCL cannot be applied to evaluate the qualifications of actors handling the information to prevent its leakage.

These issues become clear when viewing the handling of “specific technologies” that receive government support under the Critical Technology Development Program, promoted with the enactment of the ESPA. The Act provides that “specific technologies” are defined as, in essence, advanced technologies whose invalid use or interference on whose stable provision by external actors could undermine

The Three Key Issues for Reforming the Personnel Security Clearances system in Japan:

Its Scope, Effectiveness, and Overseas Applicability

6 Prime Minister's Decision, "Basic Approach to the Operation of the Program for the Development of Key Technologies for Economic Security" (June 17, 2022), https://www8.cao.go.jp/cstp/anzen_anshin/20220617_kihonteki.pdf Cabinet Secretariat, Cabinet Office, "Guidelines for the Operation and Evaluation of the Program for the Development of Key Technologies for Economic Security" (September 16, 2022), https://www8.cao.go.jp/cstp/anzen_anshin/nyo-hyouka.pdf See "The Basic Approach" (June 17, 2022), .

7 However, although it is not the content of the research itself, secrets obtained in connection with the affairs of public-private sector councils that may be held in the implementation of the program for fostering key technologies are subject to protection with penalties under the ESPA, which makes it possible to share sensitive "needs information held by relevant administrative agencies" with researchers (Basic Guidelines for the Promotion of Research and Development of Specific Key Technologies and the Appropriate Utilization of Their Results (Cabinet Decision of September 30, 2022), https://www.cao.go.jp/keizai_anzen_hosho/doc/kihonshishin3.pdf). A minimal approach of establishing a PCL system as a necessary requirement for access to such sensitive information is possible, but in such a case, there would be a divergence from the US system where the technology itself can be subject to secret designation.

the security of the nation and people. In fact, the individual research and development concepts listed under the program include: AI, unmanned, quantum, space, and marine technologies, and other general-purpose advanced technologies that could be applied to defense applications.

However, government documents such as the "Basic Concept" and the "Operation and Evaluation Guidelines" for this programme merely state that "appropriate measures against technological leaks" should be taken at each stage of research, but do not indicate any specific mechanism, including whether or not confidential designations should be made. (Furthermore, at present, both guidelines stipulate that research results should be "basically" disclosed to the public.⁶

Consequently, in examining the PCL mechanism, we will need to consider whether information obtained through private sector R&D of advanced technologies funded by the government, if the technology has potential applications in the defense field even if not directly related to defense equipment, should be included within the scope of information protection measures and how. If such advanced and sensitive dual-use technologies are not subject to information protection measures and designation in Japan (outside cases where the private sector is in contract with the government toward defensive equipment procurement), there would be no trigger to generate protection measures that subject researchers and private businesses handling such technologies, and hence the issue arising when the private sector consider to participate in international joint research in such fields would not be solved.⁷

Whether or not to designate information similarly to the US system should be judged only on the basis of what is truly necessary, after considering the balance among the openness of research required for the development of science and technology, the sensitivity of the relevant technology, and the lost profits of the country or company due to the inability to participate in international joint research. Although it is difficult to draw a clear line for marginal cases, it may be a good idea to organize the criteria where, while results at the basic research level are basically disclosed, the level of implementation, applicability

to the defense field, sensitivity of the manufacturing technology, superiority of the technology, impact on national security if the technology is leaked, and other factors are considered in a comprehensive manner to designate classified information.

Moreover, new legislation would be required to expand the scope of information that could be designated as protected, along with the establishment of a PCL mechanism in the form of new guidelines for handling such information, including civilians. In this regard, Minister Takaichi, stated at a press conference on February 14 this year, “When it comes to granting eligibility for access to multi-use technologies, such as telecommunications and space, it is unlikely that all of them will be designated as specifically designated secrets. For this reason, we ask that they be considered separately from this category”. Considering this, along with Prime Minister Kishida’s directive to consider a system in the “economic and security field,” it seems likely that the matter will be considered under legislation separate from the Specifically Designated Secrets Protection Act.

How Should the Effectiveness of the Expanded PCL be Ensured?

Secondly, if it is decided that sensitive technologies in the research conducted by institutes, for which the government provides funds fall within the scope of classified information, the issue would be how to establish a PCL system applicable to those handling such research. Under the Act on the Protection of Specifically Designated Secrets, information pertaining to terrorist activities, family members, criminal records, economic status, etc., will be investigated by filling out a questionnaire to those subject to evaluation, and it is assumed that the newly expanded PCL system would be based on the same mechanism.

On the other hand, if a system based on granting qualifications to private-sector researchers, it is necessary to take into account the fact that such researchers may obtain research funds from various sources, including overseas, and that the Act on the Protection of Specifically Designated Secrets, which is assumed to be aimed primarily at public

The Three Key Issues for Reforming the Personnel Security Clearances system in Japan:

Its Scope, Effectiveness, and Overseas Applicability

servants, may not be enough when considering the application to the private-sector, and additional examination criteria may be necessary. Specifically, the issue would be whether to include not only personal information but also the status of outside funding received in evaluation processes.

In terms of government measures to maintain the health and fairness of research (research integrity), in light of concerns about technology leakage due to unfair influence from foreign countries, there are moves to revise the 2021 guidelines for competitive research funds, which require the applicants to submit information such as external support (including overseas) and second businesses.⁸ But the revised guideline cautiously requires the applicants to only submit minimum information with regards to nondisclosure agreements for joint research, such as the name of the partner institution. To prevent cases of undue influence and technology leakage due to funding from overseas, we would need to consider evaluating items similar to these guidelines in a more effective manner. However, if a researcher is funded under a nondisclosure agreement as described above, he/she may not be able to participate in research requiring a PCL if he/she is unable to respond to a survey for the granting of a PCL due to his/her contractual obligations. In expanding the PCL system to researchers, it is important to find a balance between the necessary and sufficient survey items and the effectiveness in preventing technology leakage.

In the US, PCL eligibility is generally limited to US citizens, and the handling of confidential information by non-US citizens is considered as an exception.⁹ If the PCL system is expanded to include private-sector researchers in Japan, it would be appropriate to treat them in the same way. When surveying individuals based on their responses to questionnaires at the time of qualification, it would not be possible to conduct an effective survey without the cooperation of the government authorities of the country of nationality.

How to establish an agency in the government to review the granting of qualifications, including civilians, and how to secure professional personnel will also be a matter of future discussion. In the US, the Defense

⁸ “Guidelines for the Appropriate Execution of Competitive Research Funds” (December 17, 2021), the Liaison Committee of the Relevant Ministries and Agencies on Competitive Research Funds, https://www8.cao.go.jp/cstp/compefund/shishin_r3_1217.pdf

⁹ US Department of Defense, “National Industrial Security Program Operating Manual” (Change 2, May 2016), *Federal Register* Vol., No. 245 (December 21, 2020), 83330, <https://www.govinfo.gov/content/pkg/FR-2020-12-21/pdf/2020-27698.pdf>. However, if confidential information handling is necessary for reasons such as specialized knowledge, Limited Handling Authorization (LAA) may be granted to non-US citizens.

Counterintelligence and Security Agency (DCSA), belonging to the Department of Defense, is in charge of PCL practices, especially background investigations of government and corporate employees¹⁰ In order to build an effective mechanism for industrial security, some may point out the necessity of organizations that possess this key human resource (called “security cadre”).¹¹

How Should Japanese PCL be Accepted Overseas?

Thirdly, another issue that has been overlooked is that even if Japan has established a PCL that can be deemed equivalent to that of the US or other countries, it does not automatically apply to those countries. For example, as mentioned above, in the US, only US citizens are eligible to obtain US PCLs, and even if a PCL is obtained under Japanese domestic law, it cannot be directly applied in the US. In order for a PCL acquired in Japan to be valid in another country, an international agreement such as a treaty that stipulates such treatment as well as measures under the domestic law of the other country will be required.

The exchanges of classified information between the US and Japan in this regard are regulated under the Japan-US Secret Military Information Protection Agreement (GSOMIA) . the Japan-US GSOMIA provides that respective classified information is treated with “substantially equivalent protection” afforded to the donor country to keep received information confidential; stipulates that the individual accessing provided information must have “personnel security clearance”; and that the information shall be transmitted “through Government-to-Government channels”. Thus, in the case of defense-related R&D and procurement, by making it a joint project between defense authorities, the possession of a PCL in Japan is meaningful as a qualification for participation in projects with the US. However, since the information covered by the agreement is confined to “secret military information,” in order to include the exchange of sensitive security-related technology not directly related to defense, it is necessary to discuss and decide how to handle such information between Japan and the US, such as amending, reinterpreting, or making a new agreement.

¹⁰ Reorganized from the Defense Security Service (DSS) in 2019; oversees 10,000 businesses and reportedly conducts 2 million background checks annually. <https://www.dcsa.mil/about/>

¹¹ Arthur Herman, “Closing the Defense Industrial Security Gap with Japan” (Hudson Institute, July 2018), <https://s3.amazonaws.com/media.hudson.org/files/publications/HermanJapanFINAL.pdf>.

The Three Key Issues for Reforming the Personnel Security Clearances system in Japan:

Its Scope, Effectiveness, and Overseas Applicability

¹² US Department of Defense, “National Industrial Security Program Operating Manual,” *Federal Register*, 83348; Masahiro Matsumura, “Facilitating Japan’s Participation in Multinational Defense R&D: A Japanese Approach to Strategic Management of Technology Transfer and Intellectual Property Rights Issues,” (Institute for National Strategic Studies, National Defense University, February 27, 2017), 5-7, https://researchmap.jp/read0032929/published_papers/18085743/attachment_file.pdf.

In this regard, the US may have concluded supplemental “industrial security agreements” with the various countries such as the UK, and although it is not yet certain as the contents have not been disclosed, it has been said that such agreements stipulate specific procedures for handling various classified information, including the one between the respective industries¹². The government should investigate these precedent cases and discuss the optimal framework.

The Japan-UK and Japan-Australia Information Protection Agreements cover classified information related to national security, not limited to military matters, and have provisions regarding PCL. Therefore, assuming the involvement of both governments, the acquisition of PCL in one’s own country may expand opportunities for joint research with the other country or its participation in procurement by the other country’s government.

In considering the expansion of the PCL system in Japan, it is necessary to identify which countries Japanese companies face challenges when attempting to participate in joint research and government procurement, and revise or conclude the necessary agreements respectively. In addition, if the partner country’s domestic measures need to be changed for this, the government should consult with its foreign counterparts. It is crucial to conduct a thorough investigation of domestic systems in countries where Japanese companies recognize the potential opportunities in joint research, and to consult with the government of such countries prior to specific consideration of legislation in Japan. The two parties must be in agreement on what kind of PCL systems is eligible for the judgment as the vehicle to protect transmitted classified information “equivalently” classified in Japan as it is in the other country.

Future Opportunity Losses or Impact on Earned Income?

In the survey of 100 companies by the Institute of Geoeconomics mentioned at the beginning of this report, many companies responded that it is necessary to establish a system out of concern that it would be a barrier to their future participation in international business while the only

limited number of respondents reported to have already experienced obstacles. This may be due in part to the fact that the degree and manner of overseas expansion differs depending on individual companies. This could suggest that when discussions of PCL creation become a politically contentious issue, it is difficult to form a strong and unanimous support from the industry for this system.

On the other hand, as seen in the aforementioned discussion on research integrity, strong opposition may arise among researchers and research institutions that receive funding from overseas, in anticipation of the potential negative impacts on their opportunities for research projects. In the event of such opposition, moderately supportive views of industries seeking to expand future overseas business opportunities may be buried on the grounds that already-acquired benefits for the research community could be affected.

However, hampering future overseas business opportunities may also affect the development of home-grown technology and Japan's economic growth. In addition, the expansion of PCL may conversely make it easier for researchers to obtain overseas funding in the countries where the PCL system is rigidly applied. Furthermore, apart from the needs for overseas cooperation, the establishment of a PCL system may also facilitate the incorporation of private-sector knowledge by allowing the government to share sensitive information to PCL holders in private sectors when participating in government projects.

In considering the PCL system, we must take these considerations into account, gather a wide range of opinions, including those from industry and academia, and design a system that can gain as much support as possible.

(February 27, 2023)

What type of information should the Japanese government and the private sector protect in its new Security Clearance System

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¹ “Economic Security 100 Company Survey Results,” Institute of Geoeconomics (IOG), February 6, 2023. <https://apinitiative.org/economic-security-survey/>

² “Expert Committee on Security Clearance System in the Economic Security Sector”, Cabinet Secretariat of Japan, February 2, 2023, https://www.cas.go.jp/jp/seisaku/keizai_anzen_hosyo_sc/index.html

³ Confidential information (CI) is further divided into three levels: TOP SECRET, SECRET, and CONFIDENTIAL.

In February 2023, the Institute of Geoeconomics released the results of its “Second Annual Survey of 100 Japanese Companies on Economic Security”. Survey questions included topics such as whether Japan should introduce its Security Clearance System that Western countries have already introduced. Among 78 companies that responded, 76% responded that such system is necessary.¹ The Security Clearance System is a structure whereby government certifies a qualified person who could access to designated classified information. In addition, it is a security management structure on classified information. In 2013, Japan introduced the “Act on the Protection of Specially Designated Secrets (SDS)” which covers the management of classified information in four areas: “Defense”, “Diplomacy”, “Prevention of specified harmful activities” and “Prevention of terrorist activities”. Although compared to Western countries, the SDS’s scope does not include areas of economic security such as protecting advanced sensitive technologies which is becoming obstacles for Japanese companies when in international collaboration such as joint international research etc.

For this reason, on February 14th, 2023, Prime Minister Kishida instructed Economic Security Minister Sanae Takaichi to prepare legislation introducing a new Security Clearance System in Japan within a year and Japanese government’s expert committee is currently discussing details². In this paper, I will describe about what type of information the Japanese government and the private sector should protect through its Security Clearance System.

Information Classification

Information handled by the Japanese government and the private sector can be broadly divided into 3 major categories (see Figure1). The most important information is (1) “Classified Information (CI),” which in Japan is the information designated by the government based on laws such as the SDS. In the United States, this is the information designated by executive agencies such as the Department of Defense based on the Executive Order 13526.³ Defense equipment technologies and their related data are the examples of such information.

	Japanese Government Derived Information		Japanese Private Sector Derived Information	
	A Government Owned	B Private Sector Owned *based on government contracts etc.	C Government and/or private sector owned *based on government contracts etc.	D Private sector neither have a contract nor financed by the government
1 Classified Information (CI)	<p>Current Regulations such as the “Act on the Protection of Specially Designated Secrets”</p> <p>New Information Protection Regulation (including Security Clearance System)</p>			<p>Regulating the private sector which does not have a contract nor financed by the government would be challenging as there is no authority. It is also difficult at the operation side to search and regulate such technologies.</p>
2 Controlled Unclassified Information (CUI)	<p>Confidentiality obligations defined in the “National Public Service Act”</p>	<p>Japan MOD Standards on Cybersecurity Measures for Defense Industry (similar to NIST 800-171) *Japanese Private Sector has to comply with the MOD measures based on government contracts.</p> <p>Ministries other than MOD has to discuss introducing similar guidelines to MOD</p>	<p>Discussion necessary about introducing guidelines on protecting the CUI</p>	
3 Other information	<p>Current Regulations</p> <p>Regulations Under Discussion</p> <p>Discussion Necessary</p>			

Figure 1: Information Matrix that classifies information to be protected (prepared by the author based on Document 2 of the Second Meeting of the Japanese Government Expert Committee⁴)

⁴ “Document 2: Information Category (Image)” 2nd meeting, “Expert Committee on Security Clearance System in the Economic Security Sector”, Cabinet Secretariat of Japan, March 14, 2023. https://www.cas.go.jp/jp/seisaku/keizai_anzen_hosyo_sc/dai2/

What type of information should the Japanese government and the private sector protect in its new Security Clearance System

Next is the (2) “Controlled Unclassified Information (CUI)” which is not classified but is a category that is designated by the government ministries such as the Japan Ministry of Defense (MOD) in Japan’s case and executive agencies such as the Department of Defense (DoD) in the United State’s case. This type of information does not fall under (1) “Classified Information” but is still sensitive. For example, in the Japan MOD’s procurement, evaluation criteria and performance requirements written in a “Request For Proposal (RFP)” document of a prototype equipment could be considered as “CUI”, as this could provide some sort of information to future defense equipment. In recent years, as the boundary between defense and civil technologies has become uncertain and the weight of advanced dual-use technologies is increasing, (2) “CUI” has become a very important topic especially in the context of economic security.

Third is (3) “other information,” which is information outside the categories of (1) “Classified Information(CI)” and (2) “Controlled Unclassified Information (CUI).”

Information protection between the Japanese Government and the Japanese Private Sector

In the Japan’s case, the above three categories of information could be divided into four cases depending on the situation between the Japanese government and the Japanese private sector (see Figure 1).

The first case is (A) “Government-derived information owned by the government”. Regarding (1) “Classified Information (CI)”, Japanese government officials are subject to the “Act on the Protection of Specially Designated Secrets (SDS)”. Regarding (2) “Controlled Unclassified Information (CUI)”, officials are subject to the confidentiality obligations defined in the “National Public Service Act”.

The second case is (B) “Private sector organizations possessing government-derived information”. When a Japanese private sector organization receives a Japanese government procurement project, there will be some cases in which the information is considered (1) “Confidential Information (CI)”. In addition, as the scope of Japan’s

Classified Information (CI) based on the “SDS” is narrower than the scope of CI of the United States and does not necessarily include economic security information such as advanced dual use technologies, the new information protection system (including the Security Clearance System) currently under discussion at the Japanese government’s expert committee is discussing the scope of CI especially from the economic security point of view. As for (2) “Controlled Unclassified Information (CUI),” the Ministry of Defense (MOD) of Japan has established the “Standards on Cybersecurity Measures for Defense Industry”⁵ and has started to apply the standards as a condition for MOD contracts starting from April 2023 (maximum of 5 years transition period⁶). This standard incorporates the same level of control measures as the U.S. NIST 800-171, which in the U.S. Department of Defense (DoD) mandates contracted organizations when handling the “(2) CUI”. U.S. DoD is currently preparing to operate this NIST standard as a “Cybersecurity Maturity Model Certification (CMMC)” system. In Japan’s case, discussion is necessary on whether ministries other than MOD should apply the MOD’s standards or establish new but similar standards from the point of economic security.

The third case is (c) “Information derived from the private sector that is owned by the government and/or the private sector.” There may be cases where a Japanese private organization contracts with or receives funding from the Japanese government to develop advanced technologies. In this case, information related to such technologies might be (1) “Classified Information (CI)” or (2) “Controlled Unclassified Information (CUI)”. In the U.S. case, even it does not have the authority to designate “Classified information”, if the party believes that it has created (1) “Classified Information (CI)”, the party is obligated to notify the relevant executive agency according to the U.S. Executive Order 13526. Upon receiving the notification, the executive agency must decide within 30 days whether to designate the information as Classified.⁷ The Japanese government should discuss introducing such similar regulations. To protect information within the private sector, it may be possible for Japanese ministries to “recommend” the use of NIST 800-171 or similar guidelines to Japanese private sector.

⁵ “Document 4: Defense Industry Security”, 5th meeting, “Expert Committee on Security Clearance System in the Economic Security Sector”, Cabinet Secretariat of Japan, April 25, 2023. https://www.cas.go.jp/jp/seisaku/keizai_anzen_hosyo_sc/dai5/siryuu4.pdf

⁶ Maximum of 5 years of transition period is set up due to considering equipment system replacement based on the “Standards on Cybersecurity Measures for Defense Industry” by the “Acquisition, Technology & Logistics Agency (ATLA)”, Ministry of Defense of Japan. <https://www.mod.go.jp/atla/cybersecurity.html>

⁷ “Designation and Lifting of State Secrets in the U.S.: As a Material for Considering Secret Preservation Legislation in Japan” Hideo Nagano, March 2021, 12 (2), Society for Human Environment Studies, Human Environment Academy of Hosei University

What type of information should the Japanese government and the private sector protect in its new Security Clearance System

Finally, there is a case in which there is (D) “No contractual, funding, or other relationship with the Japanese government”. In this case, private organizations do not have access to information related to (1) “Classified information (CI)” or (2) “Controlled Unclassified Information (CUI),” and in theory, do not create such information. On the other hand, there are people who say that advanced technologies themselves should be designated as (1) “Classified Information (CI)” or (2) “Controlled Unclassified Information (CUI)”. However, regulating a private organization which does not participate in government procurement and does not receive government funding would be challenging as there is no authority and it is also difficult on the operation side to search and regulate such technologies.

From a different perspective, one potential approach may be to strengthen the operation of the “deemed export control”. Under the Japanese Foreign Exchange and Foreign Trade Law (“FEFTA”), in November 2021, Japan Ministry of Economy Trade and Industry (METI) has clarified the scope of the “Deemed Export Control. A “Japanese resident” who possesses advanced technology is required to obtain an export license from METI when providing the technology to another “Japanese resident” who is under control of a “non-resident of Japan” (such as foreign government, corporation, or university). In the United States, under the U.S. “deemed export control”, an export license from the Department of Commerce is required for designated sensitive technology from a U.S. national to a non-U.S. national.

Operation of the Information Protection System

While this paper has discussed how information should be protected based on each information category, it is also important to discuss what type of information should be protected, and for what purpose from an operational point of view. Discussing only in abstract without going through the operation process may mislead Japan’s security clearance system to introduce unpractical rules. In particular, from an economic security point of view, it is necessary to discuss how privately-derived or privately-held information could be protected through discussion with the private sector.

In the United States, one of the challenges in the Security Clearance System is said that it requires a considerable amount of man-hours in the government screening process and as a result, receiving Security Clearance certificate takes considerable amount of time to be obtained. In Japan, it is also necessary to ensure that the competitiveness of the private sector is not curtailed by an excessive increase in man-hours by the government.

(May 16, 2023)

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May 24, 2023 Published by: International House of Japan,
Institute of Geoeconomics (IOG) National Economic Security Strategy Project
Design by: hoop



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