

RIETI BBL Webinar Handout

Economic Security Policy as Growth Strategy and Recent Developments in Trade Rule

September 6, 2021

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Economic Security Policy as Growth Strategy and Recent Developments in Trade Rules

RIETI BBL September 2021

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- 2) METI's policy**
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Background (and Key points)

(Economic Security Policy as Growth Strategy)

- The basis of national security is rapidly expanding into the economic and technological fields due to technological innovation and geopolitical changes. Also, vulnerabilities in supply chains are becoming clear due to the Covid-19 and the other disruptive challenges.
- In this respect, the Japanese Government recently stated in government-wide documents such as Growth Strategy decided by the Cabinet on 18 June 2021 that it will strengthen and promote economic security policy.
- It intends to secure autonomy and gain superiority as well as to deepen cooperation with like-minded countries under an international order based on fundamental values and rules. It will strengthen its efforts to “know”, “protect” and “promote” critical technologies via a holistic, “whole of government” approach.
 - ⇒ As I am responsible for trade controls, investment screening and import and export regulations at METI and oversee the economic security policy for both protection side and promotion side, I would like to discuss this in the first section.

Background (and Key points)

(Recent Developments in Trade Rules)

- While the economic security policy is newly highlighted, free and fair trade remains an essential part of government policy.
- Actually, the most recent government-wide documents emphasize that the Japanese Government will expand free and fair economic order and further strengthen the rules-based multilateral trading system to build a resilient supply chain and to actively develop the global economy in light of challenges such as climate change and the digital economy.
- In addition to rule-making in such challenging areas, enforcement is also important in tackling unfair trade practices including those which may lead to overcapacity in certain sectors in the global economy. This aspect is actually closely related to supply chain resilience and economic security policy.

⇒ In the second section, in this sense, I will touch upon recent developments in trade rules as I am also responsible for enforcement of such rules as antidumping and anti-subsidy, countervailing measures to tackle unfair trade practices.

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Japan's Holistic Approach to Protect Critical Technology

“KNOW”

◆ Identify chokepoints in global supply chains with multiple suppliers

- Examine structure of supply chains
- Identify suppliers with key technologies

“PROTECT”

◆ Prevent diversified technology acquisition activities

- Layered approach to identified risks (Strategic Trade Control, Investment screening, VISA screening, Cyber Security etc.)
- Interagency cooperation inside the government
- International coordination

“PROMOTE”

◆ R&D promotion in the field of critical technology

- Manage Finance/human resources
- Promote international joint R&D (Industrial security, Non-disclosure of critical technology)

Ref. Key Points of Integrated Innovation Strategy 2020

- In light of current economic security trends, Japan pursues **a holistic approach that manages critical technologies from the three pillars of “Knowing”, “Promoting” and “Protecting”.**

Key Points of Integrated Innovation Strategy 2020 (Chapter 6 "Safety and Security")

Know

- Considering creating a system with a think tank function that collects and analyzes information on cutting-edge R&D trends in Japan and overseas, and clarification of important technical issues based on that information

Promote

- ① Strengthen science and technology capabilities by prioritizing budgets and human resources on important technical fields
- ② **How to grant security clearance for important technical information**
Examine the ideal way to grant security clearance to information handlers in a form that enables cooperation with other countries

Protect

- ① **How to publish research results**
Examination of a framework for determining how government-funded research results should be published concerning security
- ② **What the patent system should be**
Consider the patent system (basically open to the public to promote innovation) including the institutional aspect, so as to be compatible with preventing the outflow of sensitive technology
- ③ **How to accept foreign funds**
Set information disclosure such as foreign funding as a requirement when applying for government research funds, and in the case of false declarations, consider a framework for canceling fund allocation decisions
- ④ **How to accept international students and researchers**
Work to strengthen screening of international students such as through immigration control and visa issuance in collaboration with related ministries and agencies

Government-wide Strategies on Economic Security

- Economic security is characterized as a key policy in three government-wide strategies; “Growth Strategy”, “Basic Policy 2021” & “Integrated Innovation Strategy”
- Japan will accelerate its economic security policies incl. export controls.

e.g. Chapter 6: Assurance of Economic Security and Intensive Investment, “Growth Strategy”

- **Assurance of technological supremacy**
 - **Developing Critical Technologies**
(Aerospace, Quantum, AI, HPC, Semiconductor, Nuclear, Advance material, Biotechnology, Marine technologies, etc.)
 - **Protecting Critical Technologies**
(novel export control framework, deemed export controls, investment control enforcement, immigrant screening policy on foreign students and researchers, research integrity, secret patent system, etc.)
 - **Building Resilient Supply Chain on Critical Technologies and Materials**
(semiconductor, pharmaceutical products, batteries and critical minerals)
 - **Establishing Funding Mechanism for Economic Security**
 - **Promoting advanced semiconductor and battery technologies**
 - **Attracting Critical Industries’ Manufacturing Sites**

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"Economy" × "Environment" "Green Growth Strategy"

- ✓ The 6th Strategic Energy Plan
- ✓ Energy Infrastructure Development
- ✓ Batteries
- ✓ Offshore Wind Power
- ✓ Hydrogen Energy
- ✓ Carbon Pricing for Economic Growth

"Economy" × "National Security" Towards Economic Security & Supply Chain Resilience

- ✓ Holistic Approach to critical technologies, industries & infrastructures
"Know", "Protect" & "Promote"
- ✓ Key Sectors: **Semiconductor, Data Center, Biotechnology**

"Economy" × "Inclusion" Towards Inclusive Growth through Human Development & Rural Sustainable Development

- ✓ Labor and Industrial Conversion
- ✓ Sectorial and Regional Gap Adjustment
- ✓ Human Development including Empowerment of Women and Elderly People
- ✓ Overseas Expansion of "Problem-solving" industries

Digitalized Economic Society Management - Pursuing a New Administrative Architecture -
e.g. Collaboration with "Digital Agency", Human Resource Development, Reform of Administrative Tools

Global Economic Strategy

Response to Global Strategic Competition & Integration of domestic economic policies

- ✓ **Building Trustable Value Chains** (*Focusing on Resilience, Green, Human Rights Protection & Digital*)
- ✓ **Upgrading Free Trade System**

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Challenges of Existing Export Control Regimes & Possible Solution

- Japan's export controls: in accordance with the international regimes e.g. WA, NSG
- (Problem 1) Regimes' challenges: deficiency in flexibility and swiftness on decision-making
- (Problem 2) US & China issue unilateral measures with extraterritorial effects.
- Possible Solution: **to develop a complementary export control framework for managing critical technologies with like-minded countries**

Limitations of the Existing Intl. Regimes

(Context)

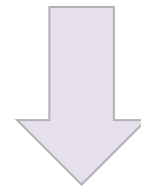
- **Military-Civil Fusion Strategy**
- Rapid development of emerging technologies

(Difficulty responding to pressing economic security needs)

- **Deficiency in flexibility and swiftness** on decision-making process for newly controlled items
← Due to the nature of **unanimous rules, membership extension** (42 participating states)

Problems of Unilateral Measures

- **Detriment to business predictability** for companies in Japan or EU
- **Unilateral measures ≠ Effective measures**
← Unilateral measures cannot deter exports of equivalent items from other countries.

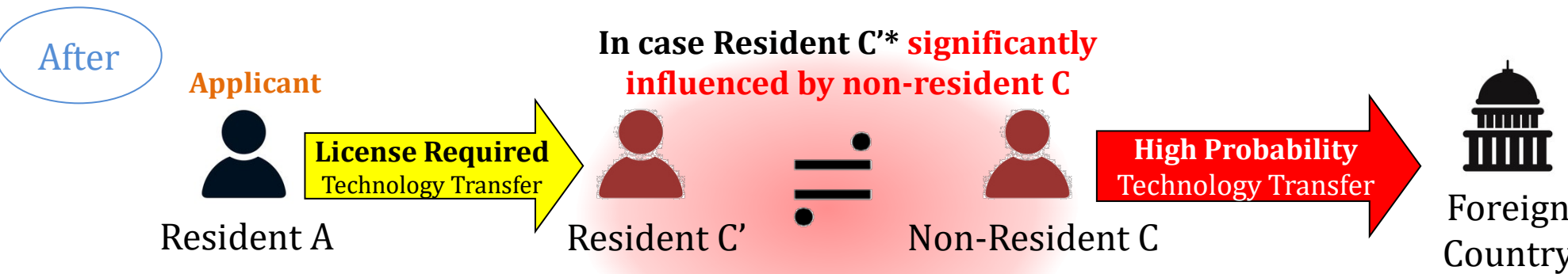


Japan's Policy Outlook:
Growth Strategy & Basic Policy 2021 (Cabinet decision)

- ✓ Aims to promptly form a novel export control group complementary to existing international regimes.

Review of Deemed Export Controls

- Having appropriate controls on Intangible Technology Transfer is foundational both for national security and innovation in companies, universities and institutions.
- Review: Expand the scope of controls into a “Resident” influenced by foreign countries
 Current: Japanese nationals & foreigners staying in Japan for more than 6 months are exempted from the controls.



***Conditions:**
 Resident C is classified as any of a) to c) types

- a) Person under the control of foreign government or entity by contract
- b) Person substantially under the control of foreign government by economic benefits
- c) Person in Japan acting pursuant to the instructions of foreign government

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Global Economic Strategy (METI's Integrated Internal and External Economic Policy)

Response to Global Strategic Competition & Integration of domestic economic policies

- ✓ **Building Trustable Value Chains (Focusing on Resilience, Green, Human Rights Protection & Digital)**
- ✓ **Upgrading Free Trade System (Built for sustainability and fairness, creating norms that ensure a level playing field at the WTO, EPAs and other fora.)**
e.g. for market distorting measures such as harmful industrial subsidies, both rule-making and enforcement are important.
⇒ Today's focus is the enforcement in particular AD/CVD (antidumping/countervailing duties, anti-subsidy measures)

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Recent AD/CVD Measures by Japan (Since 1995)

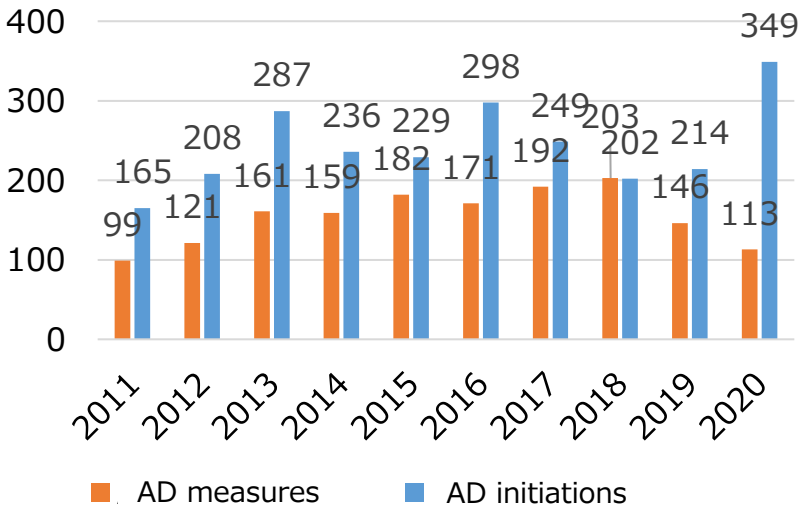
Case No.	Product	Country	Date of Duties	Duty Rates
-	Cotton yarn	Pakistan	1995.8 - 2000.7	0.0-9.9%
A001	Certain polyester staple fiber	Korea Chinese Taipei	2002.7 - 2012.6	6.0-13.5%
C001 *CVD	DRAMs (dynamic random access memories)	Korea	2006.1-2009.4	27.2%(2006.1-2008.8) 9.1%(2008.9-2009.4)
A003	Electrolytic manganese dioxide	Australia	2008.9 - 2013.8	14.0-46.5%
		Spain South Africa	2008.9 - 2019.3	
		China	2008.9 - 2024.2	
A004	Toluenediisocyanate	China	2015.4 – 2020.4	69.4%
A005	Potassium hydroxide	Korea China	2016.8 – 2021.8	49.5%, 73.7%
A006	Polyethylene terephthalate with a high degree of polymerization	China	2017.12 – 2022.12	39.8-53.0%
A007	Carbon steel butt welding fittings	Korea China	2018.3 – 2023.3	41.8-69.2%
A008	Tris (chloropropyl) phosphate	China	2020.9-2025.9	37.2%
A009	Dipotassium carbonate	Korea	2021.6-2026.6	30.8%

*A002:Uncoated certain cut sheet paper originating in Indonesia (2012) – Investigation terminated with no dumping

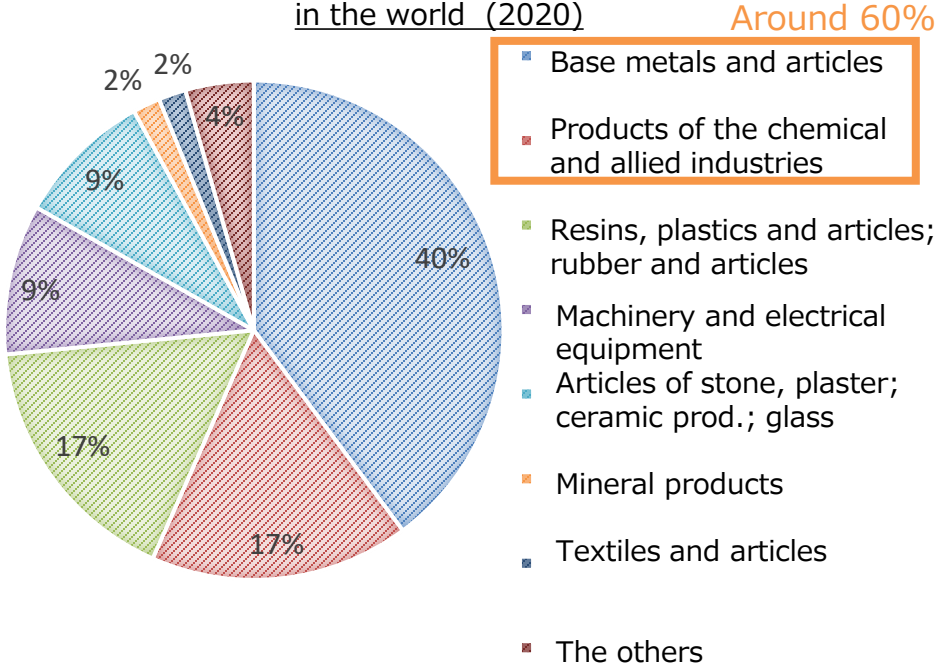
Status of the implementation of AD measures in the world

- Anti-dumping measures are widely used around the world, with 113 measures imposed in 2020. In particular, the number of investigations initiated in 2020 increased significantly as a result of the global economic recession caused by Covid-19.
- AD measures can be imposed in any sector, covering from agricultural, forestry and fishery products to mineral and industrial products. Globally, metal products and chemical products account for about 60% of AD measures.

Annual AD initiations and measures in the world (2011-2020)



AD measures by sector in the world (2020)



Number of AD measures (initiations) by country in 2020

USA	: 21 (89)	China	: 9 (4)
Australia	: 0 (18)	Brazil	: 0 (9)
EU	: 8 (12)	South Coria	: 1 (3)
India	: 12 (92)	Japan	: 1 (1)

Source date : https://www.wto.org/english/tratop_e/adp_e/adp_e.htm

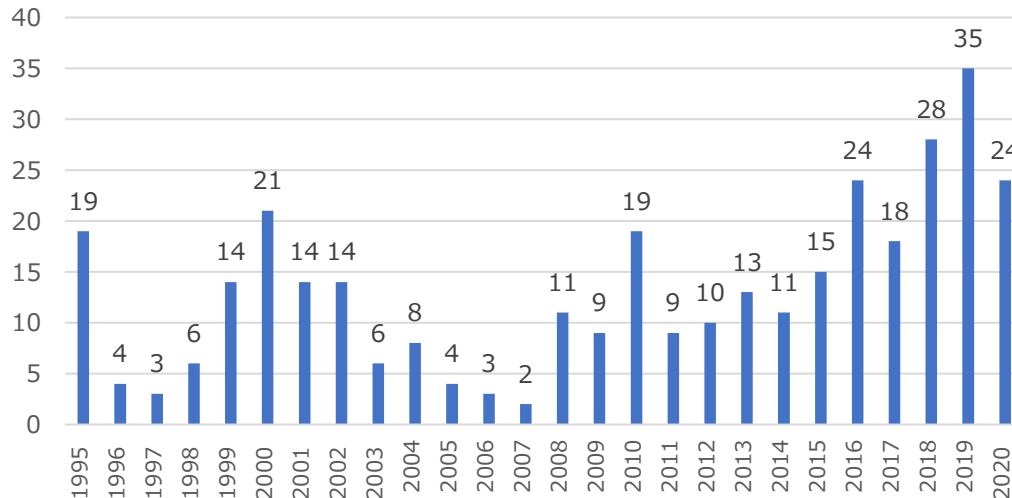
Status of the implementation of CVD measures in the world

- Between 1995 and 2020, there have been 344 CVD measures around the world. 8 countries (regions) have implemented over 10 CVD measures: USA, EU, Canada, Australia, Mexico, India, Brazil, and China.
- Metal products account for 50% of all CVD measures. Chemical products, plastic and rubber products, and machinery and electric products are following.

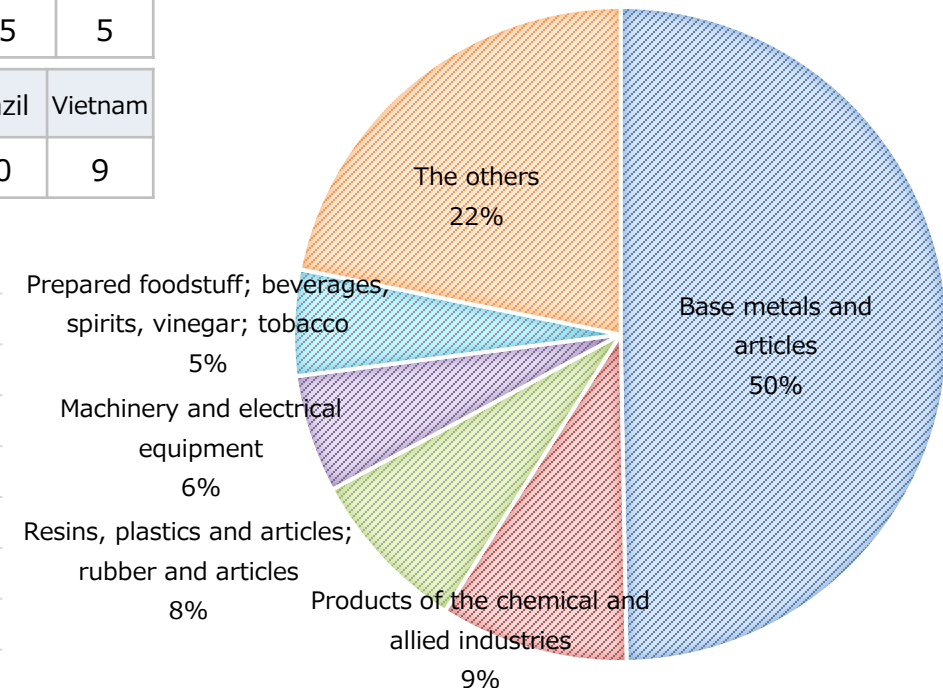
Top 10 countries (regions) of the total number of CVD measures in the world (1995-2020, Reporting member / Exporter)

Reporting member	USA	EU	Canada	Australia	Mexico	India	Brazil	China	Peru	South Africa	Taiwan
CVD cases	173	45	36	16	11	11	10	10	7	5	5
Exporter	China	India	South Korea	Indonesia	USA	Turkey	EU	Italy	Brazil	Vietnam	
CVD cases	129	56	15	13	12	12	12	11	10	9	

Annual CVD measures in the world (1995-2020)



CVD measures by sector in the world (1995-2020)



Source date : https://www.wto.org/english/tratop_e/scm_e/scm_e.htm

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Challenges for the utilization of CVD measures in Japan

○Since trade structures have become more complex with the development of global supply chains, CVD needs to be reviewed as an option to redress market-distorting measures such as industrial subsidies including in developing countries.

○METI has heard the views of experts of trade remedies since February 2021, and is currently analyzing the issues for the practical use of CVD measures in Japan .

<Issue 1-1> Difficulty in obtaining information on subsidies

○There is difficulty in obtaining information on subsidies and in analyzing the injury to domestic industry due to insufficient disclosure of information by exporting countries' governments, which results in industries and companies being hesitant to considering CVD application.

<Issue 1-2> Difficulty in estimating the benefit of CVD measures

○CVD measures do not always result in high tariffs, and the effects of tariffs may not be commensurate with the costs of application; The balance between the level of evidence required, and the costs of application should be evaluated at an early stage of consideration by consulting with the investigation authority.

○The significance of CVD measures should be clarified in a situation where tariff rates and effects of tariffs are difficult to estimate.

<Issue 2> Concerns about retaliation from other countries

○Industries and companies have concerns about the risk of retaliatory AD and CVD measures from exporting countries.

<Issue 3> Lack of awareness of CVD measures

○There are challenges of lack of awareness of CVD measures and other trade remedies as a strategic tool among companies, and the difficulty in collecting individual information and burdensome procedures also become hurdles for companies.

(Extract From the METI material submitted to the Subcommittee on Trade Remedy Measures of the Industrial Structure Council (July 1, 2021/August 19, 2021))

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Conclusion - Welcome comments and questions. Thanks.

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