

Economic Security: Global Implications

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Abstract

This is a review paper that discusses the economic security strategies of the Major economies of the world. The economies of the USA, China, Japan, EU, and India have been discussed and compared. The review analysis shows that Economies with a good hold on the industrial sector and low trade deficit perform well in economic shocks and have good long-term growth. Although the Economy of the USA is the largest in the world, the Debt is increasing day by day, this shows that financial systems need to be in place to ensure long-term stable growth and employment creation. Japan seems to have a solid growth rate after the WW II, solely due to dedication and the alignment of common objectives of people in power. India seems to have a stable growth rate yet due to overpopulation, providing employment is a huge problem to solve for the government, this has been discussed briefly in the paper.

Keywords: Economic Security, Economic Shocks, Recession, Growth Rate

Economic Security Legislation: Global Trends and Impacts Introduction

Economic security is of one of the most important aspects of protecting the economy of a nation. The definition of Economic security is the capacity of a nation to protect itself from foreign manipulation/shocks that results in decrease in the economic output. Japan and the United States to China and the European Union are pursuing wide-ranging legislation with aggressive intent to safeguard key sectors, supply chains, and technology. These laws of economic security are protectionist measures that reduce vulnerabilities created in today's interdependent world. As these trends began to be accentuated, economic sovereignty became increasingly linked to the concept of national security, giving way to new frameworks that depended on resiliency and self-sufficiency related to key sectors. The objective of this paper is to compare the Economic security policies of Japan, USA, China, India and the European union.

Japan's Economic Security Legislation

The Economic Security Protection Act (ESPA) was promulgated in May 2022 as a cardinal law to be implemented to enhance Japan's economy's ability to resist external pressure due to mounting geopolitical tensions. It ended vulnerabilities caused by dependencies on foreign sources for critical materials and technologies, incorporating economic security strategies into those of national defense [1]. The main areas ESPA now focuses on include the security of stable supply chains, protection of critical infrastructure, creation of mechanisms to develop key technologies, and the institution of secret patents, which will assure protection for sensitive innovations. Endowing Japan with the shield of economic sovereignty, this law is expected to reduce dependence on potentially adversarial nations and better position it to handle global uncertainties.

Other key features of the ESPA include the diversification of supply chains and the protection of vital infrastructure. This calls for the stockpiling of vital materials besides semiconductors and rare earths and

a careful screening process regarding infrastructure projects aiding vulnerable sectors. Moreover, ESPA encourages and protects critical technologies, such as artificial intelligence and biotechnology, to maintain Japan's lead in these areas [2]. It also initiates a confidential patent system that protects sensitive technological innovations from possible exploitation by other countries, securing Japan's strategic interests. All these rigid measures will ensure that Japan can sustain its economic stability and security amidst global challenges.

The ESPA is being implemented gradually, with core provisions projected to be enforced from 2023 to 2024. This comes in handy regarding gradual adaptation to the fresh rules so that government agencies and business ventures align correctly with the broader national security objectives. In supply chain security and infrastructure protection, significant steps have already been taken regarding guidelines and establishing support systems to facilitate compliance [3]. It points to how seriously Japan is enhancing its economic security in a well-structured rollout of ESPA, keeping some flexibility to react to the evolving global economic conditions.

The strategic objectives behind ESPA are oriented toward the security of Japan's economic sovereignty and mitigating risks related to external pressure. This legislation is focused on breaking Japan's dependency on foreign suppliers in critical sectors and protecting it from economic coercion. In this sense, enhancing supply chain resilience, protecting critical infrastructure, and technological innovation would increase resilience and work for a strategic advantage in the global economy [4]. The ESPA is also an expression of the broader Japanese strategy to integrate economic security into the national defense framework, whereby Japan can finally surmount the complex dynamics in global trade and geopolitics with ease.

Comparative Analysis with Other Countries

United states of America

The United States has implemented important policies in order to improve its economic security, creating broad legislation that has the aim of screening foreign investments and protecting critical infrastructure. The Foreign Investment Risk Review Modernization Act, enacted in 2018, substantially expanded the authority of the Committee on Foreign Investment in the United States by allowing it to review more transactions that could pose a threat to national security. Until now, CFIUS concentrated on clear purchases of U.S. companies by foreign buyers. However, FIRRMA expanded its purview to include investments which do not involve control in areas related to national security, including emerging technologies, supply chains, and property transactions next to sensitive government property.

Concerns regarding foreign influence, particularly from countries such as China, on sectors essential to the U.S. economy and national security, resulted in the establishment of FIRRMA. The letter named AI, semiconductors, 5G technology, and quantum computing among critical technologies where heightened awareness against intellectual property theft has to be developed if the US were to maintain a leading position in technology. Other necessary changes to the law dealt with investments in companies involved in critical technologies by foreigners via filing requirements that must be mandatorily filed, allowing CFIUS to thoroughly review such transactions well before these pose a risk to national security.

Moreover, FIRRMA works in conjunction with the NDAA, an authorization for the annual budget of the Department of Defense. Included are the various provisions tailored to ensure the nation's economic security. The NDAA also provided legal authorization for the United States to invoke the DPA in order to strengthen domestic production capabilities in key sectors deemed integral to the national defense,

including rare earth elements used to manufacture various military technologies and other sophisticated devices. In the last couple of years, supply chain resilience has taken center stage in the NDAA, recognizing vulnerabilities exposed by over-dependence on foreign suppliers, especially in key sectors like semiconductors and medical equipment. The NDAA has thus directed funding to initiatives that onshore critical manufacturing, reduce dependency on foreign suppliers, and spur public-private partnerships to enhance the economic security of the United States.

More specifically, the CHIPS and Science Act of 2022 authorizes a total of \$52 billion in federal financial support to revitalize the domestic semiconductor manufacturing industry within a larger framework of economic security. The intent of this support is to help the United States remain competitive in an increasingly critical technology sector for both civilian and military applications. The approval of FIRRMA and NDAA shows that the US is trying to address a plethora of emerging problems related to the ever-more-closely-linked geopolitical competition and the intertwining of economic security with national defense.

This approach underlines the technological leadership of the country on the international arena by protecting critical industries from foreign expropriation and control. These measures may be comparable to what Japan does under the ESPA but can be extensive. This shows how serious the U.S. is about maintaining world leadership and simultaneously taking care of national interests.

European Union

The economic security strategy of the European Union was harnessed to solidify its internal market through a raft of legislative and strategic measures; it has also been at the center. This is done through the Foreign Investment Screening Regulation established for oversight of foreign direct investments in sectors viewed as critical to the long-term competitiveness and security of the EU, such as energy, telecommunications, and infrastructure. This regulation gives EU member states the right to investigate investments coming from a non-EU country and block transactions that may cause damage to European sovereignty or give hostile countries disproportionate control over strategic sectors.

In the shadow of Russia's invasion of Ukraine, the EU made the historic decision to stop gas supplies through the North Stream 1 and 2 pipelines and reorient itself. The cessation of gas supply through the North Stream 1 and 2 pipelines and the shift towards the global market to find new fossil energy sources marked a historic decision by the European Union (EU) to decouple energetically from the Russian Federation. This launched the EU into a race against time to find alternative sources. As we have seen, the reorientation was immediate and effective, accelerating the EU's transition to green energy and its own clean energy production by several years.

In light of the events of February 2022, the need to strengthen the EU's energy security became increasingly apparent. This involved adopting new alternative energies, abandoning fossil fuel heating, and consolidating European energy policies. The only way these changes were necessary was through strong cohesion among member states on energy security. Since spring 2022, the EU has successfully established a viable energy security policy for its member states, ensuring there are no supply chain disruptions. Among energy products, gas represents the highest share of imports within the EU. To balance dependency, energy hubs such as the one in Turkey have been created, ensuring a continuous flow of energy to consumers.

Table 1. SWOT Analysis

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> - Decoupling the EU's energy from the Russian Federation - Strengthening the EU's energy security - Achieving strong cohesion between member states regarding energy security 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> - The significant share of energy products imported from Russia in the EU's total imports - Lack of experience of member states in collaborating on common trade policy in crisis situations, and the imposition of sanctions on Russia produced a trade deficit that peaked in 2022 - Dependency on Russia facilitated its blackmail in the hybrid war it is waging with the EU
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> - Achieving stronger cohesion of European policies, not just those on energy security - Strengthening the green energy sector and making necessary changes now - Bringing the EU closer to other external gas and oil markets 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> - Failing to meet commitments made by member states in a timely manner - Increasing pressure exerted by Russia on states within its sphere of influence could lead to higher demands on the EU and member states, making them unable to meet external demands - Changing the war in Ukraine

This is complemented by the 2020 White Paper on Foreign Subsidies, which identifies various possible distortions in the internal market of the EU via foreign-subsidized companies. These would cover enterprises receiving significant governmental support from third countries outside the EU that are likely to create distortions of competition in Europe, in particular in critical sectors like digital infrastructure and energy. These legislative proposals illustrate the overall commitment of the European Union to ensuring that its key industries do not become overly dependent on foreign capital or technology, hence enhancing self-sufficiency within the international economy. The most notable one currently that aligns with this goal is the European Battery Alliance. The EBA was launched in 2017 as part of the larger European Union strategy to ensure supply chain security with regard to batteries for electric vehicles and storage for renewable energy. The EBA's mission is to stimulate cooperation between the EU member states and private entities in a quest to reduce dependence on non-EU suppliers of active material manufacturing for batteries. This is an important step toward the broad long-term goal of the EU of achieving technological sovereignty. Also, while Japan's ESPA includes a secret patent system, with the aim of protecting key innovations, the European Union goes another path: under the General Data Protection Regulation, widely considered a model for data privacy laws, the EU puts immense emphasis on strict data protection and digital sovereignty.

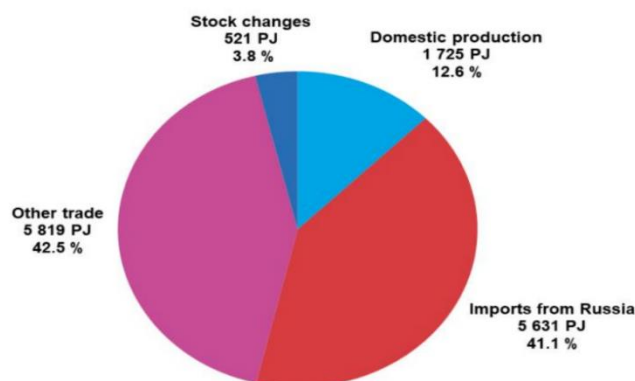


Figure 1. Natural gas import and export of the EU

By providing increased data security protections, the European Union helps protect the personal information of the citizens and their required technological data from foreign misuse, so that the European Union can be a world leader regarding ethical use of data. This portfolio of policies put together shows a prudent, yet visionary European Union vis-à-vis the challenges of globalization. By embedding economic security within the legislative framework, the EU tends to balance the openness provided by international trade with protection for strategic assets and also provide an internal market that is secure but at the same time competitive.

China

The 1997 Asian Financial crisis (AFC) represented a dividing point in Chinese discussions on economic growth and national security. Prior to the AFC, economic growth and national security were treated as separate conceptual issues. Under Deng Xiaoping, economic reforms and economic development became the primary national objective, and successive policies were implemented in an attempt to bring about this macro-economic goal. Some of the most notable included the open door policy, the separation of the party and government administrative bureaucracy, the decentralization of fiscal and trade authorities from Beijing to the provincial level in the 1980s, the successive simplification of administrative structures since the early 1980s as part of political reform.

Chinese researchers appeared to be motivated by three broad rationales for approaching economic security: economic globalization and the potential Chinese entry into the WTO, the inadequacies of China's financial infrastructure, and other miscellaneous reasons.

Economic globalization and the potential Chinese entry into the WTO

Many Chinese Enterprises would be forced to change their strategy, for example by improving their allocation of resources and seeking partnerships with foreign technological know-how and capital. It would also give them more ready market access and help them to promote new growth areas in the economy. Moreover, WTO arbitration processes might help China to reduce trade disputes and to deal better with economic friction between states. However, there would also be significant new limitations on Chinese policy tools in return, such as the freedom to set taxes on imports or to limit foreign capital entering the Chinese economy.

Now China is guided by a highly centralized approach to economic security based on state control, securing critical sectors, and reducing dependency on foreign technologies. The National Security Law and the Cybersecurity Law lie at the heart of China's strategy. It most importantly points to protecting key technologies and infrastructures, provides for tight controls along supply chains, and institutes new export control laws to help prevent the transfer of sensitive technologies [5]. While China's strategy is thus, in some ways, similar to that of Japan in so far as the protection of supply chains and critical technologies is concerned, it is much more centralized and expansive because of how the government oversees all economic activities to dovetail them with national security goals.

India

As India's population ages, concerns about the economic security of the elderly naturally come to the fore. Traditionally, families have been the core source of economic support for people as they age, but new developments are calling into question the strength of such support and its role in the future.

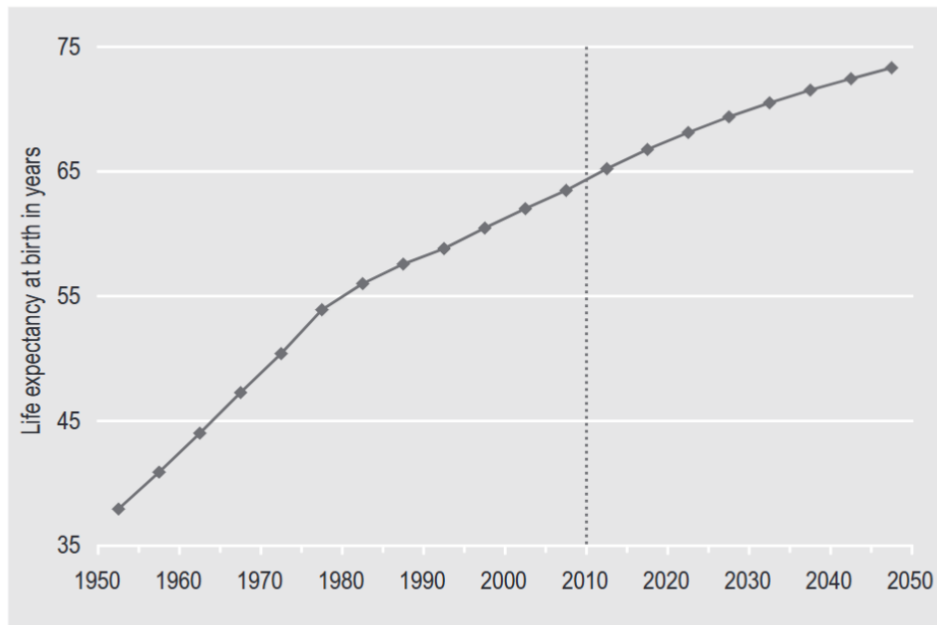


Figure 2. Schematic graph of life expectancy in India

The initiation of economic reforms in the 1990s saw India gradually breaking free of the low growth trap which was euphemistically called the “Hindu growth rate” of 3.5 per cent per annum. Real GDP growth averaged 5.7 per cent per annum in the 1990s, which accelerated further to 7.3 per cent per annum in 2000’s. A feature of the growth acceleration during the period was that while the growth rate of industry and services increased that of agriculture fell. This was because there was no notable technological breakthrough after the “green revolution” of the mid-1960’s which saw sharp increase in yields of cereal production particularly in northern part of India. By the 1990’s, the momentum of “green revolution” had died down. Consequently, the yield increases in the 2000’s was much lower than those experienced even in the 1990’s.

The approach towards attaining economic security in India is changing towards self-reliance through several initiatives like the Atmanirbhar Bharat initiative, significantly emphasizing reducing dependence on imports and building domestic industries. In addition, some measures have been taken by India to protect the critical structure and encourage technological innovation, though the legislative framework from which this is harnessed remains in its developing stage. Unlike Japan, which has a formalized approach under the ESPA, India emphasizes economic self-reliance and resilience-building [6]. In particular, India is focused on securing supply chains and enhancing local manufacturing capabilities as part of its economic security strategy, reflecting the broader goal of achieving greater economic autonomy today.

Strategic Implications and Global Impact

The global trend toward economic security legislation is likely to have far-reaching implications for international trade and geopolitics. As countries increasingly prioritize national security over economic openness, several key developments are anticipated in the near future:

Reshoring of Industries: There is also the possibility that manufacturing and supply chains will be moved within their own shores more quickly in many countries, especially developed economy members. The increasing dependence on local production for vital commodities, such as semiconductors and rare earth

elements, may redefine global supply chains. This realignment of supply chain forces could result in a reduced quantity of trade among the leading economies and the promotion of more regional strategies for industrial development.

Greater Protectionist Tendencies: In some cases, economic security laws may provide a basis for higher protectionism through tariffs and restrictive trade practices in general but, in particular, in areas identified to be essential to national security. These can easily lead to trade disputes and further escalate tensions among countries whose economies depend upon interdependence with other nations.

Technological Decoupling: Of course, the risk of technological decoupling is growing with countries like the US, Japan, and the European Union focusing on establishing technological sovereignty. Already visible in the currently pursued technological battle between the US and China, this position will increase as nations put in place more restrictive rules that determine which sensitive technologies can be traded. Multinational companies operating in such strategic sectors like AI, cybersecurity, and biotechnology will therefore have to operate within an increasingly complex regulatory environment—one that, in the end, only serves to hurt international innovation. A shift to protectionist policies could cause fragmentation in the global economy. Large economies, like China and the European Union, are increasingly tempted to focus on regional trade blocs and strategic alliances as a means of strengthening their economic resilience.

The fragmentation of markets is a threat to the established order of globalization, which had hitherto, until very recently, been considered the path to economic growth. **Shift in the Balance of Power:** As economic security becomes a prime aspect of national policy, there is also a new set of dynamics in international trade. Those countries which can produce essential technologies and resources within their territories will be at a much more privileged strategic position. Those who cannot suffer not only economic disadvantages but even political perils could lead to a reevaluation of alliances based on technological capability and economic strength.

Sustainability and Green Energy: Economic security legislation can have some spillover effects in advancing the sustainability industries. For example, countries that want to reduce their dependence on foreign energy sources will continue to invest heavy funds in the development of alternative fuels such as solar power, wind power, and storage batteries. This shift in perspective can mark the beginning of global competition towards the development of sophisticated technologies that consume less energy and produce less carbon, hence making sustainability a critical determinant for economic stability. Modern themes, such as the European Green Deal and the European Battery Alliance, give this trend credence.

Conclusion

With rising geopolitical tensions and global disruptions, advanced economies are now enacting economic security legislation to protect their strategic industries from vulnerabilities emanating from global interdependence—a tectonic shift toward protectionism and national sovereignty. Japan, the United States, China, and the European Union have policies to secure critical industries, fortify supply chains, and protect technological advancements. These measures ride a wave within a broader trend toward economic protectionism and strategic autonomy, driven by the need to mitigate vulnerabilities in global interdependence. As these policies reshape how global trade is made, and international relations unfold, they are an indicator for times ahead when it comes to economic security being at the core of shaping the geopolitical and economic order.

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