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THE INDUSTRIAL POLICY-NATIONAL SECURITY NEXUS: THE CASES OF JAPAN, SOUTH KOREA AND THE EU

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Executive Summary

The EU, Japan and South Korea are now firmly prioritising industrial policy as a way to boost their economic security and, more generally, their overall national security. In the context of US-China competition and weakened global governance, Brussels, Seoul and Tokyo are likely to continue to use industrial policy as they seek to compete at the technological frontier. Considering that none of them has the power to compete directly with the US and China, the EU, Japan and South Korea should boost industrial policy cooperation with each other—as well as with fellow middle powers—as a way to strengthen their own and their collective positions. In the case of the EU, this would have the added advantage of serving Brussels to learn from the experiences of Seoul and Tokyo—both of which have a longer history of using industrial policy as a key component of their national security.

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INTRODUCTION: INDUSTRIAL POLICY AS A SECURITY TOOL

Industrial policy is making a comeback in the Western world. The European Union and the United States have moved away from decades of emphasis on (neo)liberal economic policies in favour of long-term planning, open state interventionism, and strong government-private sector cooperation. While neither the EU nor the US ever truly shied away from intervening in the economy, government involvement has increased dramatically in recent years. The EU, in particular, has increasingly emphasised the need for Brussels to design and implement an industrial policy that works for governments, firms, and workers.

The EU and the US now explicitly link industrial policy to national security as well. Competition with China, the COVID-19 pandemic, the pursuit of technological supremacy, the weakening of global governance institutions, and a broader understanding of the meaning of security are driving the industrial policy-national security nexus among European and American policy-makers. This is why they have repositioned industrial policy as a necessary tool to boost national security in the post-liberal era, in which economic interdependencies are considered potential vulnerabilities rather than strengths.

Unlike the EU and the US, several East Asian countries have long placed industrial policy at the centre of their economic strategies. These countries also have a history of linking industrial policy to national security, as a result of factors such as economic and technological competition among themselves, regional security tensions, and the centrality of manufacturing to their economic growth strategies. China certainly is the world's best-known example of an East Asian country pursuing industrial strategy at least partially due to national security reasons. Yet, Japan, Singapore, South Korea, Taiwan, and Vietnam[1] are other East Asian countries following the same approach.

The cases of Japan and South Korea are particularly instructive for the EU, since all three share several important characteristics. The three of them are developed and market-driven economies, seeking to compete at the technological frontier across a range of sectors, wary of their position amid US-China competition, concerned about China's economic nationalism and, more recently, unpredictable US policy, and looking for new partners to boost their economic security. Since Japan and South Korea have a longer history of pursuing industrial policy for both economic and security reasons, their experience holds valuable lessons for the EU.

The challenge for the EU is how to take these lessons and develop its own industrial policy while enhancing cooperation with Japan and South Korea to strengthen economic security.

JAPAN, SOUTH KOREA, AND DECADES OF INDUSTRIAL POLICY

Japan and South Korea had to rebuild their economies following, respectively, the former's defeat in the Second World War and the latter's independence from Japan and hit from the Korean War. Their preferred approach was industrial policy, in what came to be known as the developmental state model[2]. Pioneered by Japan in the 1950s and then followed by Hong Kong, Singapore, South Korea, and Taiwan, the developmental state model included a range of policies such as state-led development, long-term planning, strategic export-oriented industrial policy, strong government-business relations, meritocratic

and independent bureaucracy, and banking-led funding helped these five East Asian economies develop over a period of 20 to 30 years, and served as an inspiration for China's own development strategy from the 1980s.

Once these five original developmental states reached developed status, there was a debate about the merits of industrial policy. After all, their economies had become too big for the state to direct, private firms had become too big and internationalised, bureaucracies found it more difficult to direct globalised economies, and the financial sector grew to previously unheard of heights. Furthermore, the establishment of the World Trade Organization (WTO) in 1995 placed greater restrictions on direct state support for the private sector, particularly subsidies linked to export performance or favouring domestic rather than imported goods made direct support from the state to the private sector illegal—at least for developed economies—since it would contravene the most-favoured nation status principle and amount to protectionism. Finally, the Asian financial crisis of 1997-98—following Japan's asset price crash in the early 1990s—showed the supposed limits of the developmental state, exposing problems such as corruption and underdeveloped stock exchanges.

Yet, the developmental mindset survived all of these changes[3]. Today, policy-makers across East Asia continue to promote industrial policy, strong relations between the public and private sectors for the benefit of the economy as a whole, and interventionism through research and development (R&D), and regulation. Japan and South Korea certainly retain this developmental mindset in that a strong industrial base and sustainable innovation ecosystems are central to their economies, security, international relations, and even identity.

In particular, Japan and South Korea see industrial policy as the path towards global technology leadership. Both of them are innovation-driven economies, in the case of Japan since the 1970s and in the case of South Korea since the 1990s. In other words, once the two countries had reached developed economy status, their policy-makers and business leaders realised that they had to compete with the likes of Europe and the US by producing technologically advanced goods and components. They could not compete on price, so they had to compete on the quality of products that others needed and would pay a premium for. Today, policy-makers in Seoul and Tokyo continue to see the US and Europe as competitors, while considering China an existential threat given its decades-long rapid economic growth, vast industrial base, and increasingly tech-driven economy. This focus on technology is reflected in the fact that South Korea and Japan ranked second and third, respectively, in R&D spending as a percentage of GDP among all the members of the Organisation for Economic Co-operation and Development (OECD) in 2024.

Japan's and South Korea's contemporary industrial policy is based on a whole-of-system approach. This means that the policies implemented by the Japanese and South Korean governments target the industrial base as a whole rather than just specific products or firms. Seoul and Tokyo bring together a range of actors, including government agencies, large conglomerates, start-ups, and universities. These actors coordinate with each other—or at least work together—to decide on and implement an industrial strategy involving funding, regulation, and standard setting, infrastructure, R&D, education, talent attraction, and other macro-level policies. Crucially, the government plays a convening and coordination role and provides substantial funding, which allows for riskier projects. Yet the private sector acts as a

partner, given that it has certain advantages that the state cannot replicate, such as manufacturing capacity, market knowledge, or skilled talent. Importantly, this approach to industrial policy and innovation has survived changes in government throughout the decades in both Japan and South Korea, since there is a consensus that it is beneficial for the long-term future of the two countries.[4]

Certainly, Japan and South Korea prioritise specific high-tech sectors that receive special attention via dedicated funding lines, research activities, or education programmes. In recent years, artificial intelligence (AI), biotechnology, electric batteries, green shipping, humanoid robotics, semiconductors, space technology, and quantum computing have been some of these sectors. Yet, their breadth signals why Japanese and South Korean industrial policy is focused on the respective countries' industrial base—including sustainable innovation ecosystems—rather than on any single sector. After all, these sectors cover a wide range of cutting-edge technologies. Some of these are dual-use technologies.

The Japanese and South Korean governments have become more vocal regarding the links between industrial policy and national security in recent years. To a large extent, this has been the result of their perception that China has become more assertive under Xi Jinping. In particular, both countries have suffered economic retaliation from China as a result of politico-diplomatic disputes. In 2012, Japan was the target of government-stirred protests and a car sale boycott by Chinese consumers linked to a dispute over the Senkaku/Diaoyu islands that both Beijing and Tokyo claim as their own. In 2016, the Chinese government imposed unofficial economic sanctions on South Korea after Seoul agreed to the deployment of a US anti-missile system in its territory. Furthermore, both Japan and South Korea have territorial disputes with China and have become alarmed at Beijing's artificial island building in the South China Sea, as well as its rhetoric on a potential takeover of Taiwan by military means. Coupled with this assertiveness, the strong alliances that both Japan and South Korea have with the U.S. also informs their perceptions of China, which only reinforces their linking of industrial policy and national security.

As a result, Japan and South Korea have strived to become what can be labelled as "niche superpowers"[5]. In other words, middle powers that dominate specific industries or products that they can leverage in their relationships with superpowers that need access to them. In particular, Seoul and Tokyo have sought to use their strengths in high-tech sectors to deepen their economic relationship with the US and in this way, help strengthen their respective alliances with Washington. This explains, for example, why South Korea earmarked US$150 billion of the US$350 billion it pledged to invest in the US under its tariff deal with the Trump administration for the Make American Shipbuilding Great Again (MASGA) initiative. As a shipbuilding superpower and the world leader in the production of LNG-powered ships, South Korea has directly linked its industrial policy to its national security via the MASGA initiative, which is intended to strengthen economic and security ties with the US—not to mention the dual-use nature of shipbuilding technologies.

THE EU GETS IN THE INDUSTRIAL POLICY GAME

The EU has been slower to openly pursue an industrial policy compared to Japan and South Korea. In fact, the EU was arguably the staunchest supporter of trade and investment liberalism in the decades following the end of the Cold War. Brussels

used the power of attraction of the single market to help consolidate democracy and a market economy in Central and Eastern Europe, as the countries in this region sought EU membership to boost economic growth. The EU was also instrumental in the launch of the WTO, and sought to uphold its rules and mechanisms even as the US turned against the organisation and China flouted its rules. When it became inevitable for the EU to pursue bilateral and inter-regional trade agreements as the Doha Round of trade negotiations stalled and the US had already signed its own agreement, policy-makers in Brussels pushed for a new generation of trade agreements going well beyond tariffs and also covering trade in services, investment, and rules and regulations. This left little scope for traditional industrial policy.

This is logical when considering the history of the EU, with its origins as a common market that member states saw as a path to bring peace to Europe via stronger economic links. While it is true that early European integration involved cooperation in strategic sectors such as coal, steel, and nuclear energy, the rise of neoliberalism from the 1980s undermined the role of industrial policy in the EU. This was the result of the key tenet of this ideology being that the state should not intervene in the market. Privatisation, deregulation, and liberalisation reduced the scope for the EU and member state governments to successfully design and implement an industrial policy. The Maastricht Treaty did enshrine industrial policy, but the focus was on regulation as a way to enhance industrial competitiveness rather than the role of government. This could hardly be described as traditional industrial policy. The end of the Cold War and the aforementioned developments in the decades since made it even more difficult to advocate for industrial policy in Europe.

The long-term and existential challenges of the US pursuing protectionist policies and China's economic assertiveness and aggression, however, have made it imperative for the EU to have an industrial policy of its own. Together with the supply chain disruptions resulting from the COVID-19 pandemic and the economic consequences of Russia's invasion of Ukraine, these challenges have served to concentrate the minds of European policy-makers. Yet, there are questions as to whether the EU can put together a coherent and durable industrial policy similar to the policies of Japan and South Korea, given its limited recent experience in this area and the fact that the EU has to take into consideration the needs of 27 different member states.

In this respect, it is encouraging that the EU's newfound industrial strategy affords a central role to its own institutions and their cooperation with the private sector. Understandably, the EU's industrial policy places emphasis on regulation, given that this is crucial to create a level playing field across the single market. But Brussels also emphasises public funding, joint activities between the public and private sectors, innovation, and education[6]. While none of these activities may be revolutionary, the EU's emphasis on them as a way to develop a coherent industrial policy is a welcome development.

In particular, the Important Projects of Common European Interest (IPCEI) mechanism can serve as a template to accelerate the design and implementation of industrial policy projects related to specific high-tech sectors[7]. This mechanism allows for the mobilisation of public funding to develop large-scale, high-risk projects normally bringing together actors from at least four member states, with the potential to lay the groundwork for a pan-European innovation ecosystem. The IPCEI

mechanism has already been activated to support projects in sectors such as batteries, clean energy, and cloud computing. This could serve as a template for the type of approach that the EU's industrial policy could follow at a larger scale, via mechanisms such as the Industrial Accelerator Act, the Critical Raw Materials Act and the proposed European Competitiveness Fund. While creating a long-term industrial policy involving a sustainable innovation ecosystem will take time, this seems indispensable for the EU not to lose further ground vis-à-vis the US and China—or Japan and South Korea, which arguably are ahead of Europe in a number of high-tech sectors ranging from electric batteries and vehicles to humanoid robotics to semiconductors.

To this end, the EU also now recognises the links between industrial policy and its own security. The emphasis on strategic autonomy and the resilience of the single market and supply chains highlights how closely European policy-makers now connect these priorities with industrial policy. As the US—or at least the Trump administration—signals that Europe needs to boost its own defence spending and casts doubt on the role of the North Atlantic Treaty Organization (NATO) as the main pillar of European security, a pan-European industrial policy focusing on high-tech sectors is bound to become more closely linked to the EU's security needs.

CAN LIKE-MINDED PARTNERS WORK TOGETHER?

Given the similarities in the goals, policies, and sectors that the EU, Japan, and South Korea are prioritising, there should be scope for cooperation among their respective industrial strategies. After all, the three of them would be building on their very strong economic ties. Indeed, the EU, Japan, and South Korea are among the top ten trading and investment partners for each other, according to WTO trade statistics. Furthermore, the EU has bilateral free trade agreements with both Japan and South Korea in place. The three also share values such as democracy, the market economy, and the rule of law, which provides a non-controversial foundation for cooperation. And there is strong political support for middle powers to work together with each other, not only in the EU, Japan, and South Korea but also in other countries such as Australia, Canada, Singapore, and the United Kingdom.

Focusing on economic security more narrowly rather than national security more broadly should be the starting point for the EU, Japan, and South Korea—along with other potential partners—to pursue industrial policy cooperation. Prioritising economic security will help to more easily identify the goals, policies, and sectors to focus on and avoid more difficult debates about national security strategies.

Supply chain resilience via diversification, co-production, and critical mineral access should be the priority for policy-makers in Brussels, Seoul, and Tokyo. The EU, Japan and South Korea share vulnerabilities linked to dependencies on China for a large share of components and critical minerals. They also share a need to diversify their partners as a way to navigate US-China tensions and protectionism in both superpowers, even if this means duplication. A China Plus One supply chain strategy to overcome US (and EU) tariffs on Chinese products could easily become China and the US Plus One, meaning have supply chains focused on the Chinese market, the US market, plus a third one for the global market—given Washington's push to onshore manufacturing. These realities firmly entrench security in supply chain strategy and push up costs, emphasising the need for the EU, Japan, and South Korea to cooperate.

Innovation via R&D should be another priority area. Leading European, Japanese and South Korean firms already boast R&D facilities in different parts of the world. South Korea's and Japan's associated membership of Horizon Europe since January 2025 and July 2026, respectively, provides a framework for public sector-driven R&D cooperation. As the EU strives to create the conditions for public-private innovation cooperation in a way familiar to Japan and South Korea, there is scope to deepen ties among the three of them. This could be particularly important for the EU, given that its own European Innovation Scoreboard shows that its innovation performance lags behind South Korea's and is similar to Japan's.

Having said that, any instance of EU-Japan-South Korea cooperation is unlikely to take place in a vacuum. In particular, the US is bound to play an important or even leading role in supply chain resilience initiatives. After all, Washington remains Seoul's and Tokyo's most important security ally, the US is the biggest economy in the world as well as a world-leader in multiple high-tech sectors and European leaders are not ready to completely break ties with the US. Furthermore, the US shares the desire of the EU, Japan, and South Korea to reduce dependence on China, which Washington sees as its main competitor in the 21st century. Indeed, the Biden administration launched the Minerals Security Partnership (MSP), while the Trump administration launched its successor, the Forum on Resource Geostrategic Engagement (FORGE), as well as Pax Silica. The economic, security and diplomatic weight of the US means that it will continue to play a central role in minilateral initiatives on supply chain resilience.

Industrial policy cooperation initiatives among Brussels, Seoul, and Tokyo, whether with Washington or not, are bound to have an indirect yet positive effect on their national security. These initiatives will strengthen their industrial bases, boost innovation and co-production and dual-use technologies and, more broadly, underpin deeper trust and people-to-people ties. In fact, the respective security and defence partnerships that the EU signed with Japan and South Korea in 2024 signal a willingness to boost cooperation. While direct and open cooperation in this area may be difficult given the sensitivities of the long-standing alliances that Seoul and Tokyo have with Washington, indirect cooperation as a result of the industrial policy-national security nexus seems more plausible.

POLICY RECOMMENDATIONS

Policy-makers in the EU, Japan, and South Korea share a belief that the state and the private sector need to work together for the greater benefit of their respective economies. They also believe that innovation is central to their respective strategies to navigate US-China competition. These shared beliefs are bound to lead to the implementation of similar policies, creating the conditions for cooperation among the three of them as well as with other partners. Here are three policy recommendations to promote cooperation:

- Launch an independent minilateral economic security and industrial policy dialogue: the EU, Japan and South Korea have regular bilateral governmental dialogues focusing on industry with each other. Yet, their exchanges on industry-related matters at the minilateral level take place within the context of US initiatives, such as FORGE and Pax Silica. Inevitably, this affords Washington to de facto lead discussions. The EU, Japan and South Korea should establish their own minilateral

economic security and industrial policy dialogue, along with other partners such as Australia, Canada, Norway, Switzerland and the United Kingdom. This dialogue would be among equals and would allow the participants to share information, learn from each other's experiences, and potentially forge common positions or even partnerships.

- Launch a regular trilateral business forum: EU, Japanese and South Korean firm executives engage in regular exchanges and maintain strong business ties. This is particularly the case for Japanese and South Korean firms. Yet, there is no dedicated trilateral forum for firm executives to engage in discussions with each other, meet government officials, focus on future planning and strategising, and, more generally, establish and reinforce people-to-people links. A regular trilateral business forum involving firm executives, government officials, and experts would support existing and future relationships, making economic security and industrial policy cooperation easier.

- Use Horizon Europe as a platform to launch sustainable joint R&D projects: European, Japanese and South Korean universities and research centres have a long history of working with each other in R&D projects. However, South Korean and, more recently, Japanese associated membership of Horizon Europe opens the doors for long-term R&D projects, which has been more difficult to achieve. Thus, the EU should encourage joint projects involving EU, Japanese and South Korean universities, research centres and private firms. This would also open the door for certain projects to receive funding from similar Japanese and South Korean programmes. This would allow for the embedding of European, Japanese and South Korean universities, research centres and private firms in the innovation ecosystems of each other, leading to sustainable joint R&D projects.

CONCLUSION: THE NEXUS IS HERE TO STAY

Industrial policy has become central to national security strategies. The EU, Japan, and South Korea certainly see it this way. In the case of Seoul and Tokyo, the nexus has been obvious for years given the geopolitical realities of East Asia. This is a key reason why successive Japanese and South Korean governments never abandoned industrial policy. As for Brussels, its leaders now openly draw the link between industrial policy and security. This has made traditional industrial policy more palatable for both the EU and its member states.

The industrial policies of the EU, Japan, and South Korea focus on the economy as a whole and seek to establish sustainable innovation ecosystems. Given that Seoul and Tokyo have more experience than Brussels with this type of industrial policy, it makes sense for the EU to learn from its partners and to be the one pressing for cooperation in this area. Supply chain resilience and innovation, in particular, offer promising opportunities for cooperation among the EU, Japan, and South Korea. All three would benefit.

ENDNOTES

1. The author explores this argument further in a forthcoming book.

2. Meredit Woo-Cumings, *The Developmental State* (Ithaca: Cornell University Press, 1999).

3. Elizabeth Thurbon, *Developmental Mindset: The Revival of Financial Activism in South Korea* (Ithaca: Cornell University Press, 2016).

4. Robyn Klingler-Vidra and Ramon Pacheco Pardo, *Startup Capitalism: New Approaches to Innovation Strategies in East Asia* (Ithaca: Cornell University Press, 2025).

5. Ramón Pacheco Pardo and Robyn Klingler-Vidra, "Middle Powers Don't Have to Work Together to Get Ahead", *Foreign Policy*, 3 February 2026.

6. European Commission, "Updating the 2020 New Industrial Strategy: Building a Stronger Single Market for Europe's Recovery", 5 May 2021, available at https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52021DC0350.

7. Enrico Letta, "Much More than a Market - Speed, Security, Solidarity", April 2024, available at https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf.

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