

Opinion **Inside Business**

US-China rift looms over Japanese companies

Tensions between Washington and Beijing add to concerns over rising Chinese competition in world's largest auto market

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US first lady Jill Biden, right, and Yuko Kishida, left, wife of Japan's prime minister Fumio Kishida, plant a Yoshino cherry tree in the grounds of the White House in Washington © AP

Kana Inagaki YESTERDAY

Last week Yuko Kishida, the wife of Japan's prime minister, made a rare solo trip to the White House to plant a cherry tree with Jill Biden, celebrating a friendship between the two countries that will last “forever and ever”, in the US first lady's words. It was a congenial symbol of the close alignment between the two nations.

The costs of those ties have been a source of concern for some Japanese executives as tensions mount between the US and China. But at the Shanghai motor show also held last week, there were more pressing concerns for [Japanese](#) carmakers — how to survive in the world's largest car market.

Japanese carmakers are already suffering [the sharpest sales decline](#) this year among foreign brands in China. The likes of Toyota and Honda are facing further big risks if they fail to keep pace with the rapid advances in electric vehicle and self-driving technology of Chinese rivals. Both companies pledged at the Shanghai show to increase local production so they can deliver EVs to Chinese consumers faster.

“I do feel an underlying sense of crisis that we need to accelerate our efforts to do business in this market,” Koji Sato, Toyota's new chief executive, said in a group interview.

That might be harder if decoupling between the US and China gathers pace. Sato carefully avoided directly addressing whether a China-only supply chain was needed to hedge against further escalation in the tensions. But the practical difficulty of decoupling has been widely noted. And a growing number of Japanese chief executives have expressed concern in private about how far Tokyo should play along with Washington in distancing itself from China, even as national and economic security threats appear to bind the US and Japan closer together.

On the surface, the economic tension is hardly noticeable. Japan recently [announced](#) big curbs on exports of semiconductor manufacturing equipment, fulfilling its side of a trilateral deal with the US and Netherlands aimed at curtailing China's ability to produce high-end chips for military use.

Japan was also the first to [sign a trade agreement](#) with the US covering critical minerals needed for electric car batteries, giving its companies access to at least some of the Biden administration's green subsidies.

Still, there are some in Japan questioning the economic benefits offered by the US to offset the huge risks from the China trade tensions. Joe Biden did launch a trade initiative with 12 Indo-Pacific countries in May as part of efforts to counter a more assertive China.

But the Indo-Pacific Economic Framework has already come under much criticism since it does not include any new access to the US market from Asian countries. There is also no prospect for the US to join an 11-member Asia-Pacific trade bloc known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (soon 12 nations with the inclusion of the UK). That bloc is the successor to the Trans-Pacific Partnership that was signed in 2016 but which Donald Trump pulled the US out of the following year.

And while Tokyo did unveil export controls on semiconductor equipment that will affect a larger number of Japanese companies than previously expected, the US has signalled that it would seek even tougher measures and it remains unclear whether Japan will continue to play along.

Within Japan's trade ministry, people with knowledge of the matter say there is deep division between one camp that is concerned about the economic consequences of such measures and another camp that is seeking more aggressive steps to further align Tokyo with Washington.

For Japanese chief executives, the political uncertainty in the US is another factor in

their reluctance to place all their bets on the country's alliance with Washington.

In an interview earlier this year Keiji Kojima, Hitachi's chief executive, openly called into question the concept of "friend-shoring", which involves the shift of production towards friendly geopolitical partners. "With various changes in the geopolitical power balance, how do you know that our friend today will always be our friend?" he asked.

Because these concerns are not widely shared publicly, it can be sometimes difficult to spot the subtle tensions brewing underneath. But it will be dangerous to assume that Japanese companies are on board on the basis of strong national security co-operation between Washington and Tokyo. The strains are likely to surface eventually if the US does not address the gap in its trade strategy.

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