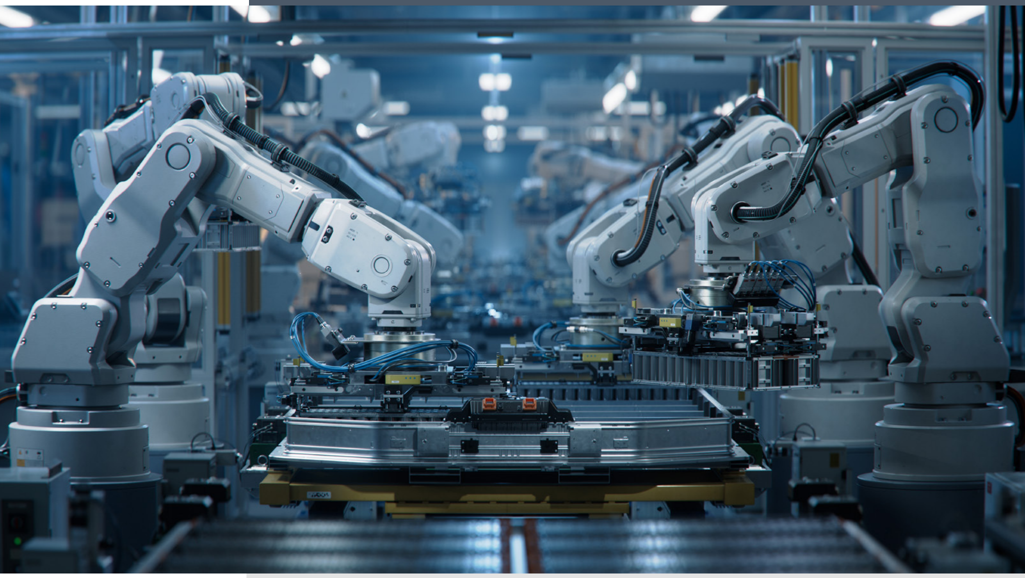

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China's EV Rise and the Strategic Challenge for Japan's Automotive Industry

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Key Takeaways

- China's rise in electric vehicles (EVs) is not only a technological shift but an industrial power shift. Chinese manufacturers are competing on scale, price, batteries, and vertically integrated supply chains across both advanced and emerging markets.

- While pioneering hybrid technology, Japan's slow transition to battery electric vehicles left it with a limited presence in China's new energy vehicles market and exposed it to rising pressure in export markets.

- The EV transition has turned automotive supply chains into a geoeconomic issue. China's dominance in battery materials, critical raw materials (CRM) processing, and EV battery manufacturing gives it strategic leverage over the global automotive transition, increasing vulnerabilities for foreign automakers.

- For Europe, Japan offers both a cautionary lesson and a potential partner. Its experience shows the vulnerability of CRM dependence, but also the value of resilience strategies in recycling, substitution, stockpiling, and supply-chain diversification.

- Europe needs both defensive and cooperative responses. To preserve its automotive industrial base, Europe must combine trade defense and industrial support with deeper partnerships with trusted partners such as Japan and South Korea to diversify supply chains and accelerate innovation.

Introduction: China's EV Expansion and the Challenge for Established Automakers

China's rapid expansion in electric vehicle production is reshaping global automotive competition for both European and Japanese automakers. Japan —a pioneer in hybrid vehicles— is struggling to translate this leadership into battery electric vehicles (BEVs), as Chinese manufacturers rapidly scale production and exports. At the same time, China's dominance in battery manufacturing and critical mineral processing exposes upstream vulnerabilities for Japan's automotive industry. Together, these developments create a dual challenge: intensifying downstream competition in electric vehicle (EV) markets and continued dependence on Chinese-controlled supply chains.

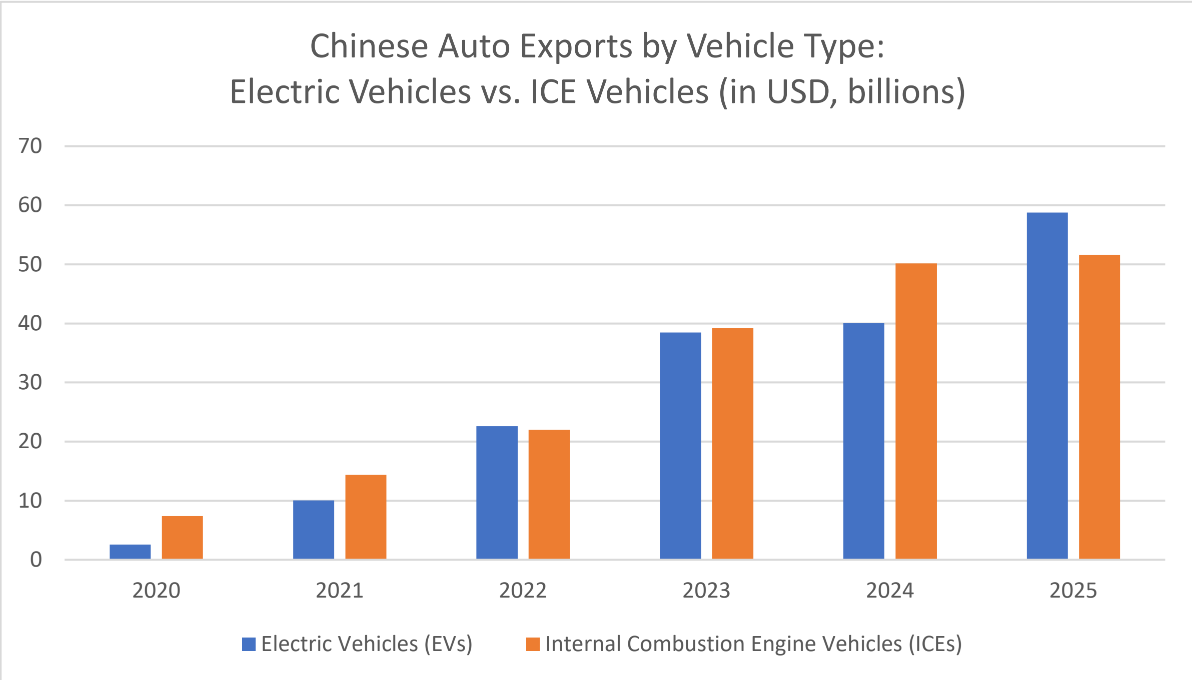
Japan's experience is particularly relevant for Europe. Like the European Union (EU), Japan hosts a globally competitive but mature automotive industry built around internal combustion technologies and complex international supply chains. Both are navigating the transition to electrification while facing growing competition from rapidly scaling Chinese EV manufacturers and similar exposure to supply-chain risks in batteries and critical minerals. Japan's response therefore offers useful insights for European policymakers and industry leaders confronting comparable challenges.

This memo examines how Japan's automotive sector is responding to these shifts. It first outlines the expansion of China's EV industry and its implications for global competition. It then analyses the competitive pressure faced by Japanese automakers in EV markets and the upstream vulnerabilities linked to battery materials and critical mineral supply chains. The final section assesses the strategies adopted by Japanese firms and policymakers to adapt to this changing landscape.

China's EV Expansion and the Changing Global Automotive Landscape

China has now overtaken Japan as the world's largest automotive producer, marking a significant shift in the global industry. In 2025, China produced approximately 27 million vehicles —around 30% of global output— compared with roughly 25 million vehicles produced by Japan, representing about 28% of the global total. This shift reflects not only China's scale as the world's largest automotive market but also the rapid expansion of its EV sector, which has become a major driver of production and exports. EVs now account for roughly 53% of China's vehicle exports (Figure 1).

Figure 1: Chinese auto exports by vehicle type: electric vehicles vs ICE vehicles (in USD, billions)

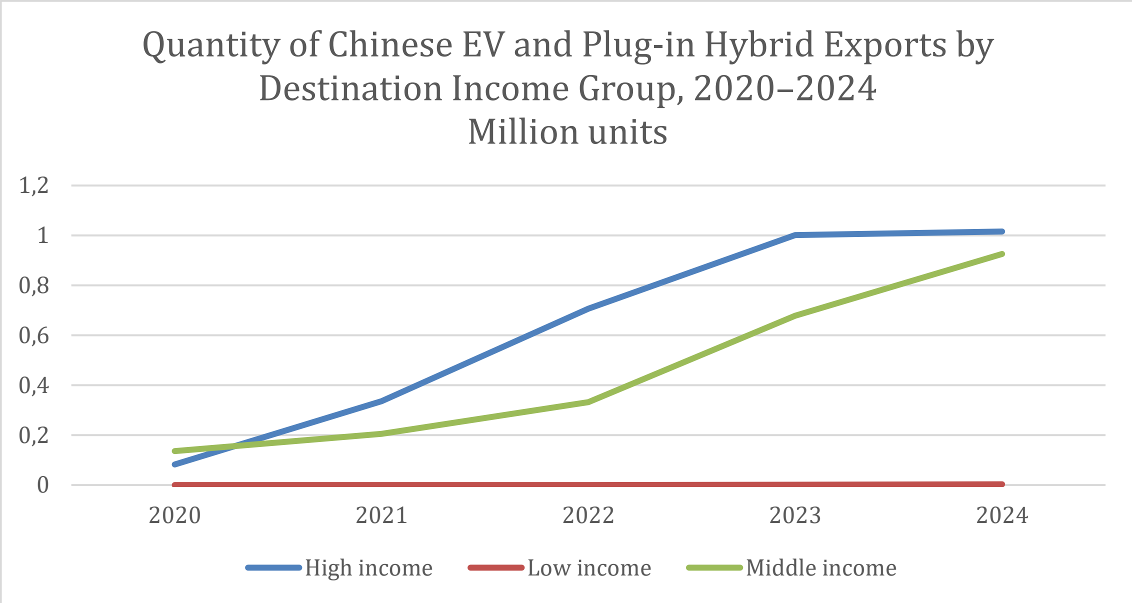


Source: created by author based on GACC data[1]

Chinese manufacturers are increasingly targeting both emerging and advanced markets (Figure 2). In Southeast Asia and other developing economies, competitive pricing is accelerating EV adoption, while in advanced markets, especially in Europe, Chinese brands are expanding their presence as demand for electric vehicles grows.[2] Companies such as BYD, Shanghai Automotive Industry Corporation Motor, and Geely are supporting this expansion through strong domestic scale, rapid product development cycles, and differentiated pricing strategies aimed at consumers across income groups (Figure 3).

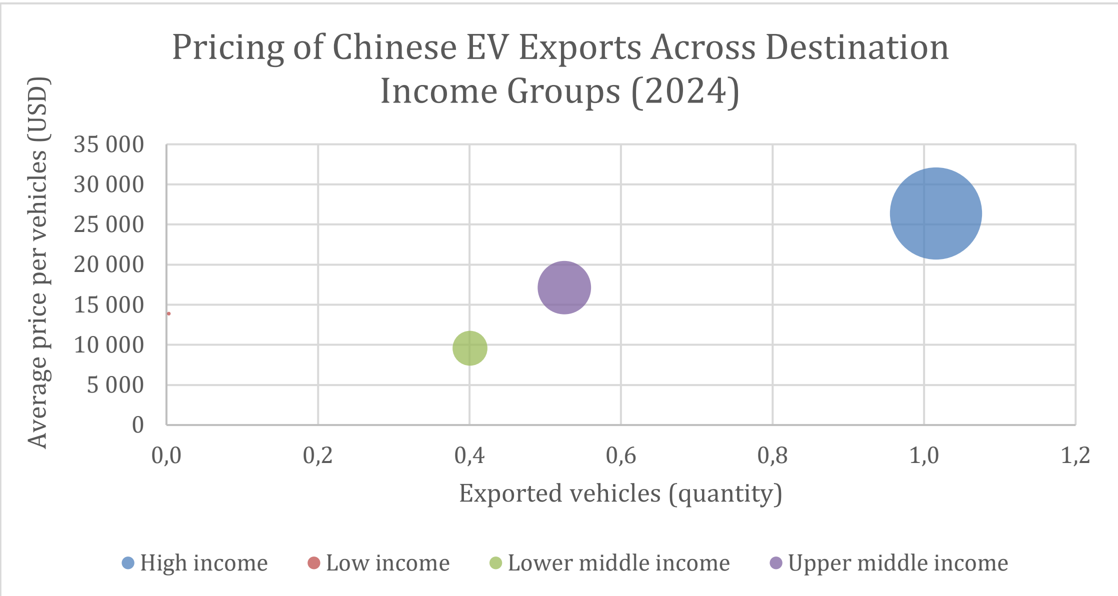
1. "ICE vehicles" refers to the residual HS 8703 category excluding BEVs (HS 870380) and PHEVs (HS 870360).
2. See I. Mazzocco and G. Sebastian, "Electric Shock: Interpreting China's Electric Vehicle Export Boom", *Brief*, Center for Strategic and International Studies (CSIS), September 14, 2023, available at: www.csis.org; or R. Featherston, "Slamming the Brakes: The EU Votes to Impose Tariffs on Chinese Evs", CSIS, December 16, 2024, available at: www.csis.org.

Figure 2: Quantity of Chinese EV and plug-in hybrid exports by destination income group, 2020-2024 (by million of units)



Source: created by author based on UNCOMTRADE data.

Figure 3: Pricing of Chinese EV exports across destinations income groups (2024)



Source: created by author based on UNCOMTRADE data.

China's success in the EV sector is rooted in the scale and integration of its industrial ecosystem. A large domestic market enables rapid diffusion of EV technologies and supports high production volumes. Chinese firms also benefit from extensive battery manufacturing capacity and vertically integrated supply chains linking vehicles, batteries, and critical materials. Combined with sustained state support through industrial policy, subsidies, and infrastructure investment, these factors have allowed Chinese manufacturers to achieve significant cost advantages and accelerate the global expansion of their EV sales.

Downstream Pressure: Japan's EV Competitiveness Gap

The rise of China's electric vehicle industry is placing intense competitive pressure on Japanese automakers. While Japan played a pioneering role in the development and global diffusion of hybrid vehicles in the 2000s, its manufacturers have been slower to scale BEVs. Companies such as Toyota Motor Corporation, Honda Motor Company, and Nissan Motor Company built strong global positions through hybrid technologies that combined internal combustion engines (ICE) with electric motors. Hybrids were considered to have clear advantages in fuel efficiency and reliability, providing a pathway to lower-emission driving that did not depend on large-scale charging infrastructure.[3]

Japan's global export strength remains concentrated largely in a quickly shrinking hybrid vehicle market rather than in fully electric models

However, this strategy has now contributed to a structural gap in the rapidly expanding BEV segment.[4] The rapid maturation of China's EV ecosystem outpaced the expectations of many Japanese manufacturers, leaving them with only a limited presence in the country's fast-growing BEV market. Japanese brands account for roughly 1% of China's new energy vehicle market,[5] reflecting both intense competition from domestic producers and the slower rollout of Japanese BEV models. As a result, Japan's global export strength remains concentrated largely in a quickly shrinking hybrid vehicle market rather than in fully electric models. For instance, Honda Motor Company recorded a 7.5% year-on-year decline in overall vehicle sales, falling from 3.8 million units in 2024 to 3.5 million in 2025. While sales of electrified vehicles —including hybrids and Evs— increased by about 7.6%, rising from roughly 951 000 to just over 1.02 million units over the same period, this growth has not been sufficient to offset the decline in ICE vehicle sales.[6]

To mitigate these pressures, Japanese automakers are increasingly trying to enter or expand in markets where competition from Chinese EV manufacturers remains limited. In the United States, trade restrictions and geopolitical tensions have largely shielded

3. "Hybrid and Plug-In Electric Vehicles", US Department of Energy, October 2011, available at: afdc.energy.gov.
4. S. Tanaka and I. Miyake, "China Auto Brands to Top 2025 Global Sales, Overtaking Japanese Rivals – BYD, Others Export More Low-Priced Evs Amid Cutthroat Competition At Home", *Nikkei Asia*, December 30, 2025, available at: www.asia.nikkei.com.
5. "The Mobility Paper - Mainland China's Automotive Outlook", S&P Global Mobility, May 2025, available at: www.cdn.ihsmarkit.com.
6. "Detailed Data for Production, Sales, and Exports", Honda, March 30, 2026, available at: www.global.honda.

Japanese producers from direct competition with Chinese EV brands, allowing them to maintain market positions. At the same time, companies such as Honda[7] and Suzuki[8] are expanding their presence in India, another large market where Chinese EV manufacturers currently face significant regulatory barriers. However, relying on such protected markets may prove an uncertain long-term strategy, as geopolitical tensions and trade deals continue to reshape competitive dynamics.

Nevertheless, Toyota Motor Corporation has so far proven more resilient than most other non-Chinese automakers. Strong hybrid sales —up 7% year-on-year in 2025— together with rapid growth in BEV sales (+42.4%), supported in part by battery technology sourced from BYD, and plug-in hybrid vehicle (PHEV) sales (+19%) have helped sustain the company's overall global performance (overall +4,6%).[9] Combined with a diversified international presence and continued strength in key markets such as the United States, this has allowed Toyota to maintain robust profitability and market share despite its relatively slow rollout of fully electric models compared to other carmakers.[10] This resilience has also provided the company with greater financial flexibility to invest in next-generation technologies and gradually expand its EV portfolio.

Yet this may prove difficult to sustain. Chinese EV manufacturers are expanding across third markets, intensifying competitive pressure on Japanese firms. Their push has been especially visible in Southeast Asia, Latin America and parts of Europe, where Chinese brands have entered with low-priced EVs, faster model turnover, and growing investments in local distribution and production. This is particularly significant in Southeast Asia and other emerging markets where Japanese automakers have held strong positions through localized manufacturing, supplier networks, and established brand recognition. As EV adoption increases, Japanese manufacturers face growing pressure on the production networks and market positions that have long supported their international competitiveness.

Japanese firms are now accelerating their EV strategies. This includes increased investment in BEV development, partnerships with battery suppliers such as Contemporary Amperex Technology Co. Limited (CATL), and expanded local production of EV models in China. Japanese automakers, much like their European counterparts, are deepening cooperation with Chinese firms as part of their electrification strategies. At the same time, they are exploring battery initiatives that could reduce reliance on Chinese batteries: in

7. "Honda Expands Production Capacity by Adding New Production Line at Fourth Motorcycle Plant in India", Honda, May 22, 2025, available at: www.global.honda.

8. "Suzuki Decides Acquisition of Land for New Plant in the State of Gujarat, India", Suzuki, January 12, 2026, available at: www.globalsuzuki.com.

9. "Sales, Production, and Export Results for 2025", Toyota, January 29, 2026, available at: www.global.toyota.

10. Toyota continues to hold on to a "multi-pathway strategy" to carbon neutrality, keeping hybrid electric vehicles (HEVs) and PHEVs and other technologies such as hydrogen and fuel cell electric vehicles (FCEVs) in the portfolio. See "Toyota Asia Reinforces Multi-Pathway Strategy Towards Its 'Mobility for All' Vision", Toyota, October 29 2025, available at: www.toyota-asia.com; or "Between Hope and Hype for Toyota's 'Solid-State' EV Batteries", *Financial Times,* July 4, 2023, available at: www.ft.com.

December 2025, *The Yomiuri Shimbun* reported that nine Japanese companies planned to establish a joint venture to develop a low-cost, high-efficiency EV battery production system.[11] Toyota Motor Corporation is targeting the commercialization of solid-state battery technology around 2027-2028. If successful, these innovations could deliver higher-performance EVs with faster charging and longer range, enabling Toyota and its affiliated automakers[12] to compete more effectively in premium EV segments.

China is also investing heavily in next-generation battery technologies, including solid-state designs, but its firms have generally taken a more staged path to market. China is backing major solid-state research and development (R&D) efforts, while companies such as Nio, WeLion New Energy, Ganfeng LiEnergy, and CATL have also pushed semi-solid or solid-liquid[13] batteries toward quicker commercial deployment by this year.[14] By contrast, Toyota has emphasized full solid-state breakthroughs with ambitious performance targets and commercialization by 2027-2028.[15] Taken together, this suggests a broader strategic contrast: Chinese firms have leaned more toward rapid commercialization and scale, while Japanese manufacturers have placed greater emphasis on high-performance technological breakthroughs.

> Japanese automakers face growing upstream vulnerabilities linked to the concentration of critical mineral and battery supply chains in China

Japan nevertheless retains important capabilities in the battery sector. Panasonic Holdings Corporation remains among the world's top 10 leading EV battery manufacturers and is collaborating with both Toyota and Tesla on next-generation battery technologies. While Chinese firms will dominate battery manufacturing on scale, such partnerships could help sustain Japan's role in advanced battery innovation.

Upstream Pressure: Critical Minerals and Supply Chain Vulnerability

Beyond intensifying competition in EV markets, Japanese automakers face growing upstream vulnerabilities linked to the concentration of critical mineral and battery supply chains in China. The transition toward EVs has shifted the strategic importance of the

11. "9 Japan Companies Team Up on EV Battery Production; Seek to Streamline Process to Compete With China", *The Japan News*, December 19, 2025, available at: https://japannews.yomiuri.co.jp.
12. Several automakers affiliated or partnered with Toyota Motor Corporation – including Daihatsu Motor, Hino Motors, and Mazda Motor Corporation – have adopted Toyota's hybrid technology. A comparable scaling effect could occur if Toyota licenses solid-state battery technology to partner manufacturers.
13. In China, semi-solid is also referred to as solid-liquid. See P. Zhang, "China Reportedly to Regulate Naming of Semi-Solid-State Batteries", CnEVPost, October 27, 2025, available at: www.cnevpost.com.
14. D. Ren, "Chinese Maker of Semi-Solid EV Batteries Reports Delivery Jump Amid Range Rivalry", *South China Morning Post*, June 17, 2024, available at: www.scmp.com; "All-Solid-State: No More 'Empty Promises'", Gasgoo, February 28, 2026, available at: www.autonews.gasgoo.com.
15. "Toyota to Roll Out Solid-State-Battery EVs As Soon As 2027", *Nikkei Asia*, June 13, 2023, available at: www.asia.nikkei.com.

automotive value chain away from ICE engine manufacturing toward batteries and the materials that underpin them. In this emerging ecosystem, China holds a dominant position across several key segments, including rare earth processing, battery component manufacturing, and large-scale EV battery production.

This concentration provides Beijing with significant leverage over the global EV transition. China processes a large share of the world's rare earth elements and plays a central role in refining and manufacturing battery materials used in lithium-ion cells. Chinese companies also dominate global EV battery production, supplying many international automakers. As a result, the electrification of the automotive sector is increasingly intertwined with geopolitical considerations related to resource security and industrial policy.

Recent developments illustrate how geoeconomic competition is reshaping the global automotive landscape. The EU has imposed countervailing duties on Chinese EVs —ranging from 7.8% to 35.3%, in addition to the standard 10% auto tariff— amid concerns over subsidies and market distortions.[16] In the United States, tariffs on China-made EVs have reached 125%.[17] At the same time, China has expanded export controls on critical materials and dual-use technologies, including so-called lithium iron phosphate cathode active material relevant for battery technology, increasing uncertainty for firms operating in strategic supply chains.[18]

Japanese companies linked to the automotive value chain have already been affected by these developments. In January 2026, China's Ministry of Commerce (MOFCOM) introduced dual-use export controls targeting 40 Japanese companies,[19] citing concerns over Japan's "remilitarization" following remarks by Prime Minister Sanae Takaichi regarding Japanese military involvement in a potential blockade of Taiwan. Of the listed firms, 13 have direct or indirect links to the automotive supply chain (Table 1). It remains unclear whether export licenses for critical raw materials to these companies will be granted for non-military uses, creating additional uncertainty for companies operating in the automotive supply chain. While these measures are formally framed around dual-use technologies, they illustrate the increasing intersection between industrial competition, supply chain security, and geopolitical tensions.

16. "EU Commission Imposes Countervailing Duties on Imports of Battery Electric Vehicles (Bevs) from China", European Commission, December 12, 2024, available at: trade.ec.europa.eu.
17. 100% tariffs on Chinese EVs were introduced on May 14 2024 and 25% on passenger cars and part from all trade partners on March 26, 2025. See "U.S. Trade Representative Katherine Tai to Take Further Action on China Tariffs After Releasing Statutory Four-Year Review", United States Trade Representative, May 14, 2024, available at: www.ustr.gov; and "Fact Sheet: President Donald J. Trump Adjusts Imports of Automobiles and Automobile Parts into the United States", White House, March 26, 2025, available at: www.whitehouse.gov.
18. "Chinese Catalogue of Technologies Prohibited or Restricted from Export", Ministry of Commerce (MOFCOM) and Ministry of Science and Technology, July 15, 2025, available at: https://cset.georgetown.edu.
19. "Announcement 11", MOFCOM, February 24, 2026, available at: www.mofcom.gov.cn; "Announcement 12", MOFCOM, February 24, 2026, available at: www.mofcom.gov.cn.

Table 1: Japanese automotive-linked companies on China's dual use entity list

Company	Type	Core Automotive Contribution	Tier
Subaru Corporation	Automaker	Passenger vehicles	Original equipment manufacturer (OEM)
Hino Motors, Ltd.	Automaker	Commercial trucks & buses	OEM
TDK Corporation	Electronics	Sensors, MLCCs, battery components	Tier 1
Nissin Electric Co., Ltd.	Power Electronics	EV charging & power systems	Tier 1
Mitsubishi Heavy Industries Engine & Turbocharger, Ltd.	Powertrain Systems	Turbochargers	Tier 1
ENEOS Corporation	Energy	Automotive fuels & lubricants	Tier 1
Mitsubishi Materials Corporation	Materials	Metals & tooling materials	Tier 2
Nitto Denko Corporation	Advanced Materials	Adhesives & battery materials	Tier 2
NOF Corporation	Chemicals	Specialty & battery chemicals	Tier 2
Tokin Corporation	Electronic Components	Capacitors & passive components	Tier 2
Sumitomo Heavy Industries, Ltd.	Industrial Machinery	Automotive manufacturing equipment	Tier 2
Yashima Denki Co., Ltd.	Industrial Equipment	Electrical systems distribution	Tier 2

Source: created by author based on 2026 MOFCOM announcement 11 and 12.

For Japanese automakers, this evolving landscape introduces new uncertainties related to access to critical minerals and battery materials. Even where direct restrictions do not apply, the growing securitization of supply chains creates uncertainty for firms operating across highly integrated global value chains. As electrification accelerates, managing these upstream dependencies is becoming an increasingly important strategic challenge for the automotive industry.

Japan's Strategy to Reduce Supply Chain Vulnerability

Japan's government and industrial sector have taken a range of measures to reduce their exposure to disruptions in critical mineral supply chains. Many of these initiatives were shaped by earlier experiences with economic coercion, most notably the rare earth supply crisis that followed tensions between China and Japan over the Senkaku Islands in 2010. In response, Japanese policymakers and companies began developing a more comprehensive strategy to strengthen supply chain resilience in strategic materials.

One important measure has been the development of strategic stockpiles of rare earth elements and other critical minerals. Japanese firms maintain their own private stockpiles, the scale of which is generally not publicly disclosed, alongside public-private reserves of 30, 60 days or more administered by the Japan Organization for Metals and Energy Security (JOGMEC), helping to cushion short to medium-term supply disruptions and provide greater flexibility during periods of geopolitical tension or market volatility.[20]

A second response has been the expansion of recycling capabilities. Japanese companies have invested heavily in technologies that recover rare earth elements and other critical materials from used products and industrial waste. For example, Toyota Motor Corporation has developed recycling systems for hybrid vehicle batteries,[21] while Honda Motor Company has also pioneered large-scale recovery of rare earth materials from nickel-metal hydride batteries used in hybrid vehicles.[22] These and newer efforts[23] aim at reducing dependence on newly mined materials while strengthening circular supply chains.

Japanese firms are also investing in technological solutions that reduce or substitute the use of critical minerals in key automotive components. Research efforts have focused on developing motors that rely less on rare earth magnets and exploring alternative materials for electric powertrains. Examples include rare-earth-free motor designs developed by

20. "International Resource Strategy – National stockpiling system", International Energy Agency, April 9, 2025, available at: www.iea.org; "Japan's New International Resource Strategy – 3. Strategically Securing Rare Metals", Ministry of Economy, Trade and Industry, July 31, 2020, available at: www.enecho.meti.go.jp.
21. "TMC, 3 Companies Start Joint Battery-to-battery Recycling", Toyota, October 27, 2010, available at: https://global.toyota.
22. "Honda to Reuse Rare Earth Metal Extracted from Nickel-Metal Hydride Batteries in Hybrid Vehicles for the Motors for Hybrid Vehicle Motors", Honda, June 18, 2013, available at: https://global.honda.
23. M. Ida, "Japan to Subsidize Rare Earth Recycling Push, Reducing Reliance on China", *Nikkei Asia*, February 24, 2026, available at: www.asia.nikkei.com.

Honda,[24] as well as innovations that reduce the use of neodymium and other heavy rare earth elements in permanent magnets.[25]

Finally, Japan has pursued diversification of supply chains through international partnerships and investment in overseas resource projects. Through initiatives led by JOGMEC, Japan has supported mining projects and processing facilities in regions such as Australia[26] and Africa.[27] Other initiatives seek to secure midstream processing capacity outside China.[28] In parallel, Japan is exploring potential new sources of rare earth elements, including deep-sea deposits located near Minamitori Island in the Pacific Ocean.[29] Although such projects remain technically and environmentally challenging, they illustrate Japan's broader effort to reduce long-term dependence on concentrated supply chains.

Despite these efforts, Japan has only partially reduced its vulnerability in rare earth supply. Stockpiling has proven most efficient in short to medium-term disruption, but diversification and technological substitution remain difficult. Low profit margins in processing and recycling, cost advantages of incumbent supply chains and conventional critical raw materials (CRMs) continue to offer strong performance benefits. Unless continued geopolitical pressure or tech breakthroughs dramatically change the cost-performance balance, substitute will likely remain niche.

Implications for Europe

The stakes for Europe are significant. The automotive sector remains a cornerstone of the European economy, employing around 2.5 million people in motor vehicle manufacturing, approximately 8% of total EU manufacturing employment.[30] In 2024, the EU produced roughly 11 million passenger cars, representing around 15% of global production.[31]

24. "Honda Xcelerator Ventures Invests in Enedym Inc. to Advance Rare Earth–Free Electric Motor Technology", Honda, October 21, 2025, available at: https://xcelerator.hondainnovations.com.
25. "Daido Steel and Honda Adopt World's First Hybrid Vehicle Motor Magnet Free of Heavy Rare Earth Elements – Honda Freed, on Sale This Fall Will Be The First Hybrid Vehicle to Adopt New Magnet", Daido Steel and Honda, July 12, 2016, available at: www.daido.co.jp; "Toyota Develops New Magnet for Electric Motors Aiming to Reduce Use of Critical Rare-Earth Element by Up to 50%", Toyota, February 20, 2018, available at: www.global.toyota; "Proterial Develops High-Performance Heavy-Rare-Earth-Free Neodymium Sintered Magnet for EV Driving Motors", Proterial, Ltd, July 22, 2025, available at: www.proterial.com.
26. "Sojitz and JOGMEC Enter Into Definitive Agreements With Lynas Including Availability Agreement to Secure Supply of Rare Earths Products to Japanese Market", Japan Organization for Metals and Energy (JOGMEC), March 30, 2011, available at: www.jogmec.go.jp.
27. "Lofdal Heavy Rare Earths Project Under Joint Venture with JOGMEC", Lofdal Namibia Critical Metals, available at: www.namibiacriticalmetals.com; "JOGMEC Signed An Agreement with African Countries to Secure Critical Minerals", JOGMEC, August 18, 2023, available at: www.jogmec.go.jp.
28. T. Duc, "Japan-Invested SRE to Triple Rare Earth Processing in Vietnam to 3,929 Tons", *The investor*, January 24, 2025, available at: www.theinvestor.vn; "Equity And Debt Financing To Caremag SAS- Project Participation To Diversify Rare Earth Sources –", JOGMEC, March 17, 2025, available at: www.jogmec.go.jp.
29. R. Shimonoya, "Japan Deep-Sea Rare-Earth Project Begins Off Remote Southern Island", *Nikkei Asia*, January 12, 2026, available at: www.asia.nikkei.com.
30. "The Automobile Industry", European Automobile Manufacturers Association, August 26, 2025, available at: www.acea.auto.
31. *Ibid.*

Preserving this industrial base will require a careful balance between defensive trade measures, leveraging the size of the EU market and proactive strategies to strengthen supply chains, including demand-side support, promotion of technological innovation, and the deepening of partnerships beyond China.

Japan's experience highlights an important lesson for Europe as it navigates the transition to electric mobility: competition with Chinese EV manufacturers is not only about vehicle production, but also about control over the upstream supply chain. China's scale, vertically integrated supply chains and strong domestic battery ecosystem give its firms major cost and production advantages, making it difficult for European automakers to compete on price and manufacturing scale. At the same time, the concentration of battery technology, CRMs and processing capacity in China means that supply chain security is becoming a strategic issue rather than a commercial one. While China remains an attractive economic partner, Europe's growing dependence on these inputs creates vulnerabilities that extend beyond cost efficiency calculations, particularly given the dual-use nature of battery technologies. Although downstream competitive pressures from Chinese firms will remain, and the EU can use its market size and trade defense instruments to support its automakers in price competition, that alone will not address these deeper structural dependencies.

In this context, cooperation with partners such as Japan and South Korea could help Europe diversify risk while strengthening its long-term industrial base. The most promising opportunities lie upstream, where European and Japanese firms could expand collaboration in CRM processing, battery materials, permanent magnets, and next-generation battery R&D. The proposed Industrial Accelerator Act (IAA) will not by itself secure access to these inputs, but it can help create a stronger European production base and support industrial partnerships inside the EU. Crucially, the IAA appears to preserve preferential space for trusted partners, placing Japanese companies in a comparatively stronger position, not least because the EU-Japan Economic Partnership Agreement may allow Japanese-origin content and investment to receive treatment unavailable to less closely integrated partners.

Europe needs a selective industrial strategy —one that protects core capabilities, supports domestic scaling, and creates structured partnerships with trusted partners in areas where no single actor can compete alone. In that sense, cooperation with Japan is not an alternative to European industrial policy, but a potential complement to it, provided that Europe creates policy frameworks flexible enough to combine internal capacity-building with external diversification.

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