Rhodium Group

US-China Technology Competition and Japan's Role in a Trusted Tech Coalition

Prepared for RIETI seminar

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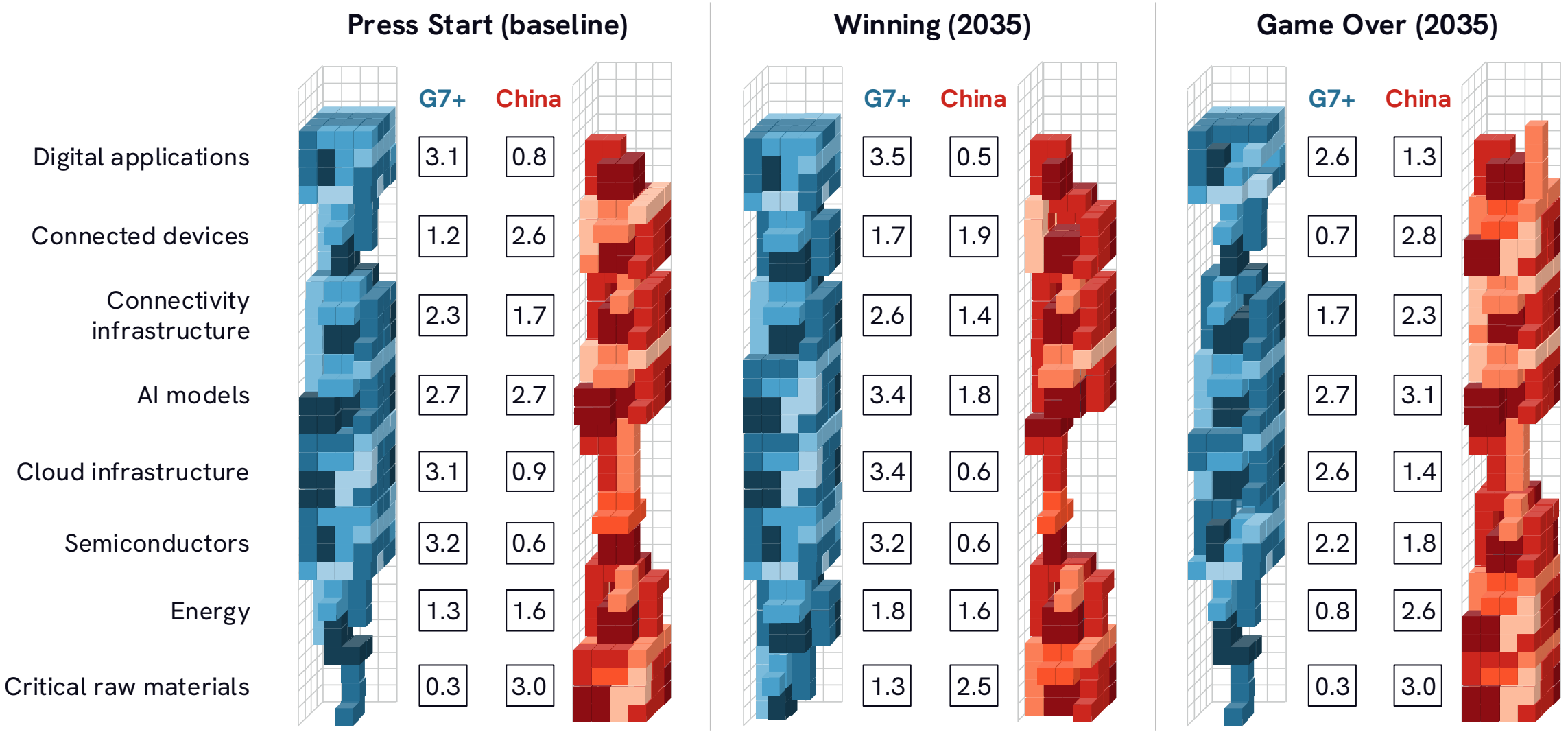
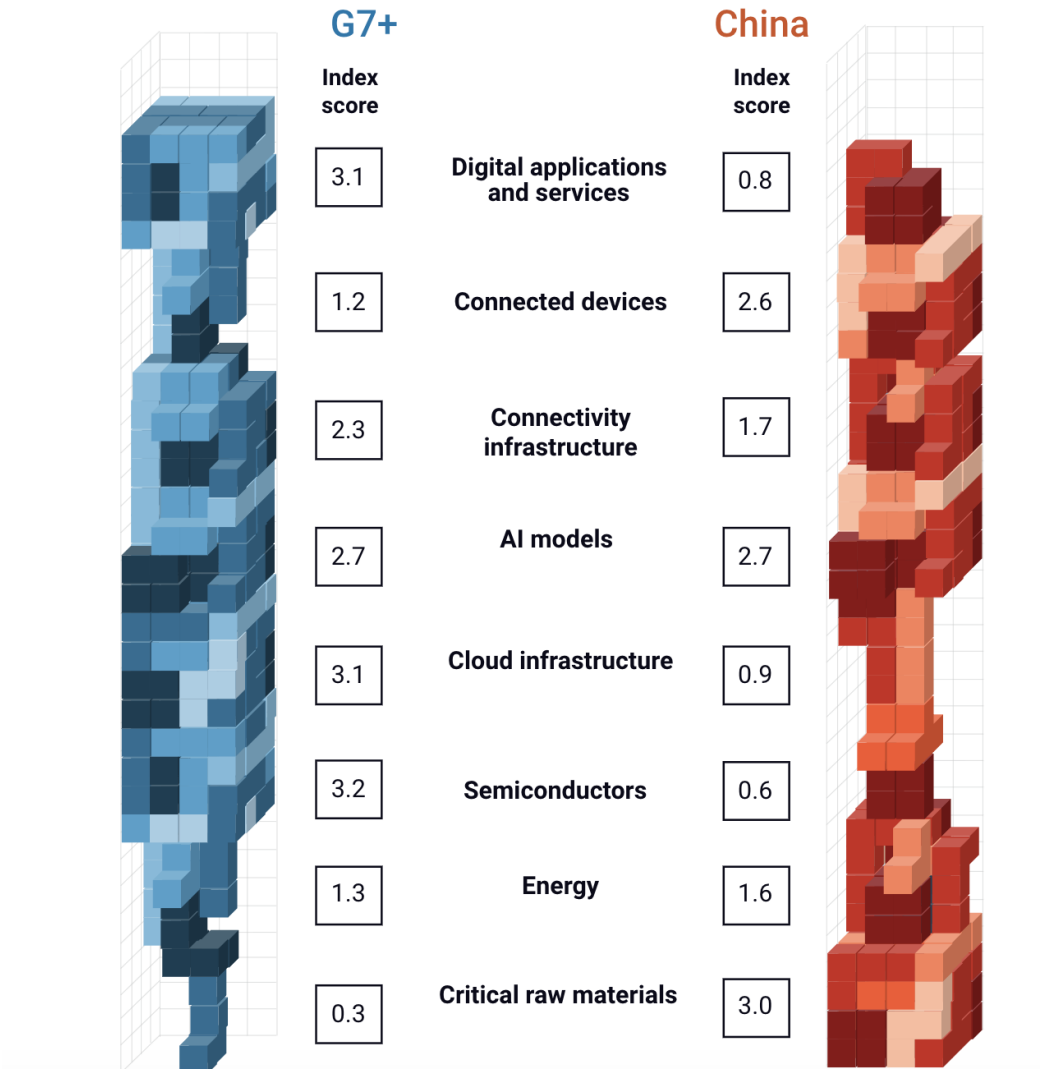
Big picture: Strategic tech competition looking out to 2035

We are inching toward an emerging G7+ tech coalition, but it's going to be a very bumpy ride to 2030



Source: Rhodium Group, Fighting Hubris in AI Strategy (August 2026). Each layer is scored on a 0–4 index derived from global market share; Winning and Game Over are 2035 scenarios. See report appendices for methodology and assumptions. G7+ includes the US, Canada, UK, Japan, EU, Australia, Israel, Mexico, Norway, South Korea, and Taiwan.

Japan's position in AI stack competition



Japan's role	Leading firms
Gap	Mostly a buyer of US platforms; few Japanese software firms operate at global scale
Key supplier	**Fanuc, Yaskawa, Sony, Murata, TDK:** Robots, image sensors, capacitors. Robot makers are losing share in China
Key supplier	**NEC, Fujikura, Sumitomo Electric:** NEC is one of three subsea cable system suppliers; optical fiber and cable
Gap	**SoftBank, NTT, Sakana AI:** sovereign models, behind the US and Chinese frontier
Key supplier	**Kioxia, Toshiba:** SSDs and hard disks for data center storage. Hyperscalers are adding capacity in Japan
Key supplier	**Tools and materials:** Tokyo Electron, Advantest, Shin-Etsu, JSR, Ajinomoto, Resonac. **Memory chips:** Kioxia NAND
Key supplier	**Mitsubishi Heavy, Hitachi, Toshiba:** MHI is one of three heavy-duty gas turbine makers; grid and transformer equipment
Exposed buyer	**Diversifying since 2010:** JOGMEC and Sojitz backed Lynas. Prime target of Chinese CRM retaliation

Source: Rhodium Group, "Fighting Hubris in AI Strategy: A Layer-by-Layer Dissection of AI Tech Stack Competition" (index scores, G7+ vs China); company filings; Rhodium Group analysis.

Time is tyranny in US-China strategic competition

Both sides are in a race to diversify away from each other in critical inputs; 2030s is the inflection point

China's lever: CRMs, magnets

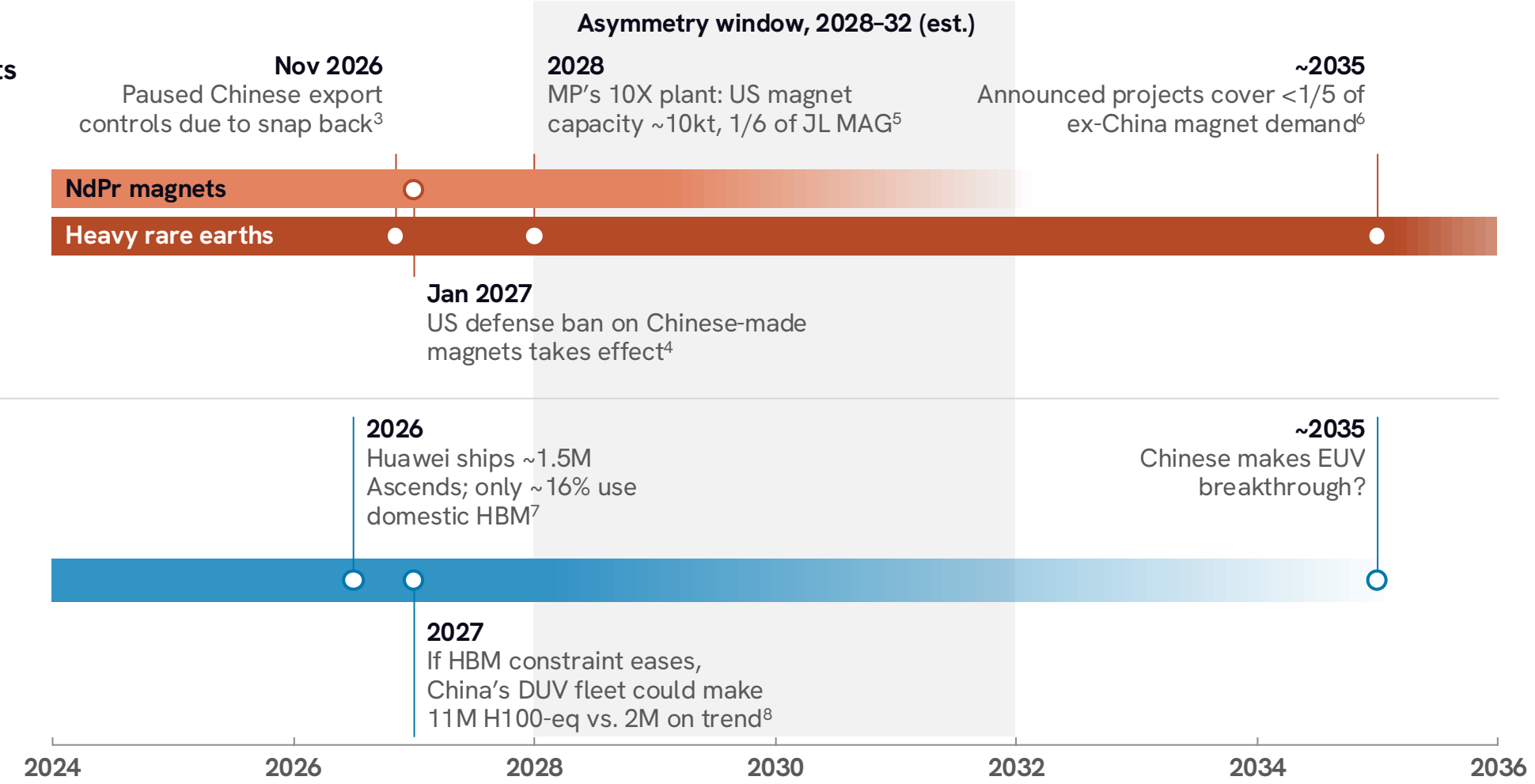
94%

of global sintered rare earth magnet output was Chinese in 2024[1]

US lever: AI chips

~2%

of US AI chip output is what China will produce domestically in 2026-27[2]



Bar shading is an indicative estimate of when each chokepoint weakens; the NdPr bar assumes most of the ~80kt exChina magnet pipeline targeted for 2030 is built (Adamas Intelligence, Jan 2026). (1) IEA (2024). (2) IFP (Oct 2026), H100-equivalents. (3) MOFCOM Announcement No. 70 (2025). (4) DFARS 252.225-7052. (5) MP Materials; Tech Times (Oct 2026). (6) IEA, Global Critical Minerals Outlook 2026; Dy/Tb per consultancy estimates compiled by Bloomberg (2026). (7) Epoch AI (2026); IFP (2026). (8) Center for Technology & Statecraft (2026), lithography-bound estimate.

US anxiety growing over narrow performance gap between US and Chinese AI frontier models

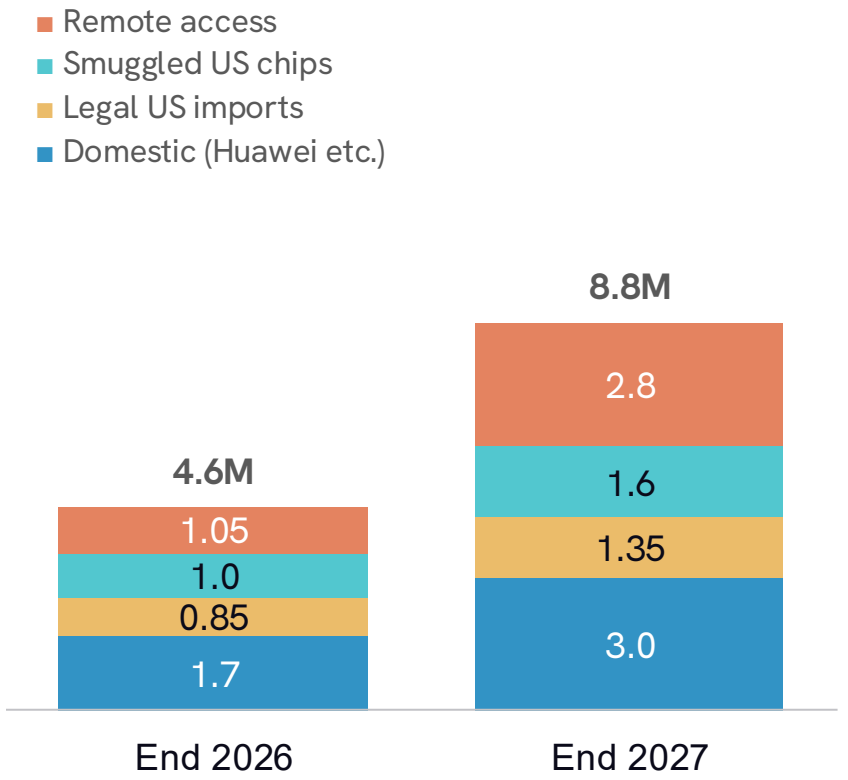
US-designed AI chips make up ~65% of China's projected 2027 compute stock, with remote access (mostly via data centers in Southeast Asia) making up half of that

Models ranked by Artificial Intelligence Index, US vs China



China's AI compute stock by channel

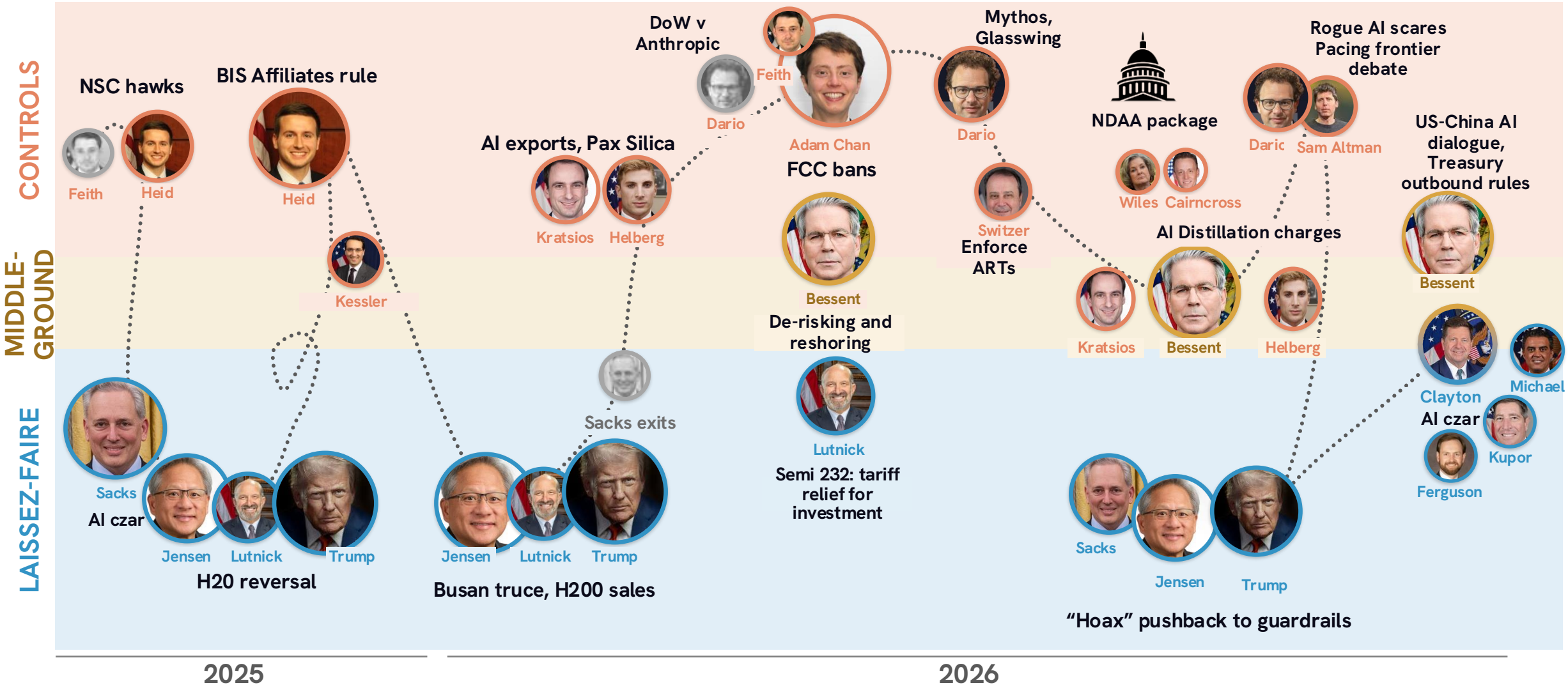
Million H100-equivalents



Sources: Artificial Intelligence Index (October 2026); IFP, "How much AI compute does China have, and where does it come from?"; Rhodium Group analysis.

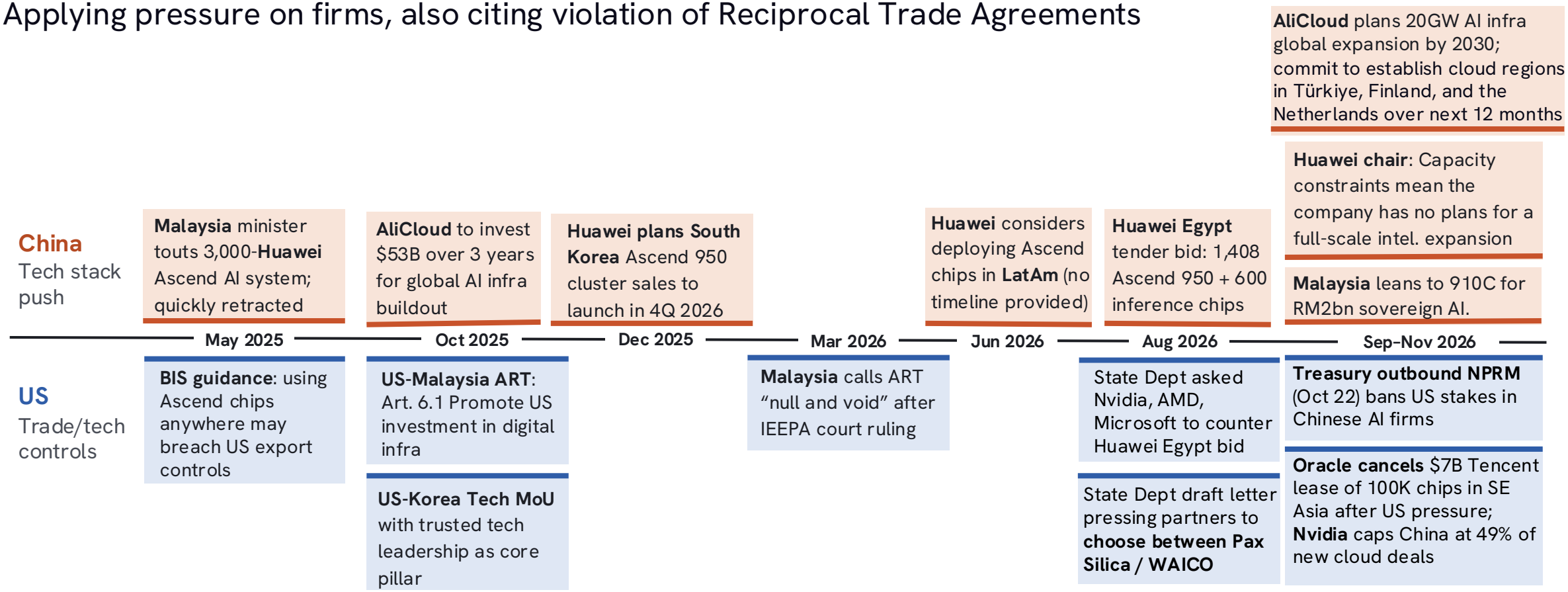
Watch the rise and fall of tech influencers in the Trump White House

Tug-of-war between Control and Laissez faire camps; Watch **Bessent** on AI policy; Commerce leadership change



Block and tackle: US is chasing down Chinese overseas AI stack deployments

Applying pressure on firms, also citing violation of Reciprocal Trade Agreements



- **A deal-by-deal chase can't keep pace** if the US aims to lock out Chinese AI providers while it still leads in global AI infrastructure buildouts.
- **Watching for broader US levers** to block countries from transacting with Chinese chip and cloud providers: Tariff pressure (ART violations, pending Semi 232), export control threats/fines under broad interpretation (BIS Ascend guidance), leveraging compute (but US firms are also hungry for these markets), ICTS rules on data centers with trusted network standards, bills in Congress to bar Chinese suppliers and align controls with partners, Entity listings and tighter chip controls to constrain China's indigenous chipmaking (at risk of Chinese retaliation)

Watch the US policy stack: Semi 232 + FCC import bans + USMCA content rules

	What it does	What it tests	What to watch
1 Semi 232 Cost at the border	Duty on **chip content** by chip count and memory bits; relief only for **building US wafer capacity**	**Wafer fab of record**, not packaging or assembly	Base, rate and credit design still open; ongoing deliberation over whether to scope in AI servers, consumer electronics at later point
2 FCC Access to the US market	Bars authorization of devices with **logic-bearing components** from Covered List entities (effective Oct 13)	**Who produced** the component: a Covered List entity or not	FCC Covered List additions; A CXMT listing would block devices with its DRAM; a **broader foreign-component ban** is also on the table but would require a trusted partner exemption to make it workable
3 USMCA Where value is added	**Regional and local content requirements** for auto-adjacent electronics (Displays, PCBs, legacy chips, CMOS imaging sensors)	**Where** components are made and assembled in North America	Where USTR falls on local v USMCA regional value content requirements, phase in timelines

Bessent takes a big swing with outbound investment rules

Part 851 would replace the Part 850 rules in force since January 2025. Final rule is due by March 13, 2027

New scope

Sector	What changed in Part 851
AI systems	Compute thresholds and the notification tier are gone. Any SI system is prohibited, including anything that runs on a model: agents, robots, AVs, drones. Adding an agentic layer to a third-party model counts as development
Biotech	New sector, prohibited only. Covers any "pharmaceutical compound," sequencing, bioinformatics, lab automation and brain-computer interfaces
Semiconductors	Prohibited: DUV inputs, HBM, photonics and co-packaged optics, rad-hard chips, and SiC, GaN and III-V development. Notifiable: HPC interconnects, any other chip including test and assembly, and back-end and mature-node tools. Tracks BIS controls issued since Part 850
Quantum and hypersonics	Quantum adds software and algorithms. Hypersonics become notifiable for components "capable of use" in a system
Countries of concern	COINS Act adds Cuba, Iran, North Korea, Russia and Venezuela alongside China

Key features

- **Equity is the hook; sales and licensing stay open.** Stakes, JVs, greenfield projects and LP commitments are covered. A JV no longer needs a new entity.
- **US person executives carry a personal filing duty** for notifiable deals they knowingly direct, including at a foreign parent.
- **Targets are defined by control, not ownership.** Any entity a Chinese person can direct is covered, with no 50% threshold.
- **"Develop" is broad.** It covers any stage before serial production, including design, prototypes and turning blueprints into a product, done directly or through affiliates. High-level oversight, approval or strategic planning also counts.
- **Listed affiliates convert notifiable deals into bans.** The 1260H and forthcoming BIOSECURE lists join the Entity List, MEU, SDN and NS-CMIC lists.
- **Expanding China operations may be restricted.** A US parent can fund a China subsidiary only to "maintain" covered operations it had before the rule. Treasuring asking whether "maintain" should mean upkeep only, upgrades, or more production.
- **Full buyouts are still exempt,** which feeds Beijing's worry about technology flight.

Fiver layers to assess whether outbound activity is covered

Question	Coverage check	Part 851 changes
1. Is a US person involved?	US entities and foreign branches; US citizens and green-card holders anywhere; anyone in the US	Unchanged. With no US person at any step, the deal is likely out of scope
2. What role does the US person play?	Party to the deal; parent of a foreign entity that does the deal; or an executive or director who directs or approves it	**New:** directing a notifiable deal creates a personal filing duty unless the individual fully recuses
3. Is the counterparty a covered foreign person?	Based in a country of concern; 50% or more owned by its persons; or most revenue or spending from them	**New:** control by any Chinese person, with no ownership threshold. Principal place of business follows where it operates
4. Is the target engaged in a covered technology?	Prohibited or notifiable activities in AI (now SI), semiconductors, quantum, hypersonics, HPC and biotech	**New:** "develop" covers any pre-production stage done through affiliates, plus high-level oversight, approval or strategic planning. A listed affiliate (1260H, BIOSECURE) makes a notifiable deal prohibited
5. Is it a covered transaction with no exception?	Equity, convertibles, JVs, greenfield projects, LP stakes. Not licensing, sales, procurement or services	**New:** a JV needs no new entity. A parent may fund a China subsidiary only to "maintain" operations it had before the rule; Treasury asks if that means upkeep, upgrades or more production. $50,000 de minimis for notification
Outcome	**Prohibited:** refrain or recuse. **Notifiable:** file within 30 days	More deals fall in the prohibited tier, with the AI notification tier gone and all biotech prohibited

Key outstanding questions

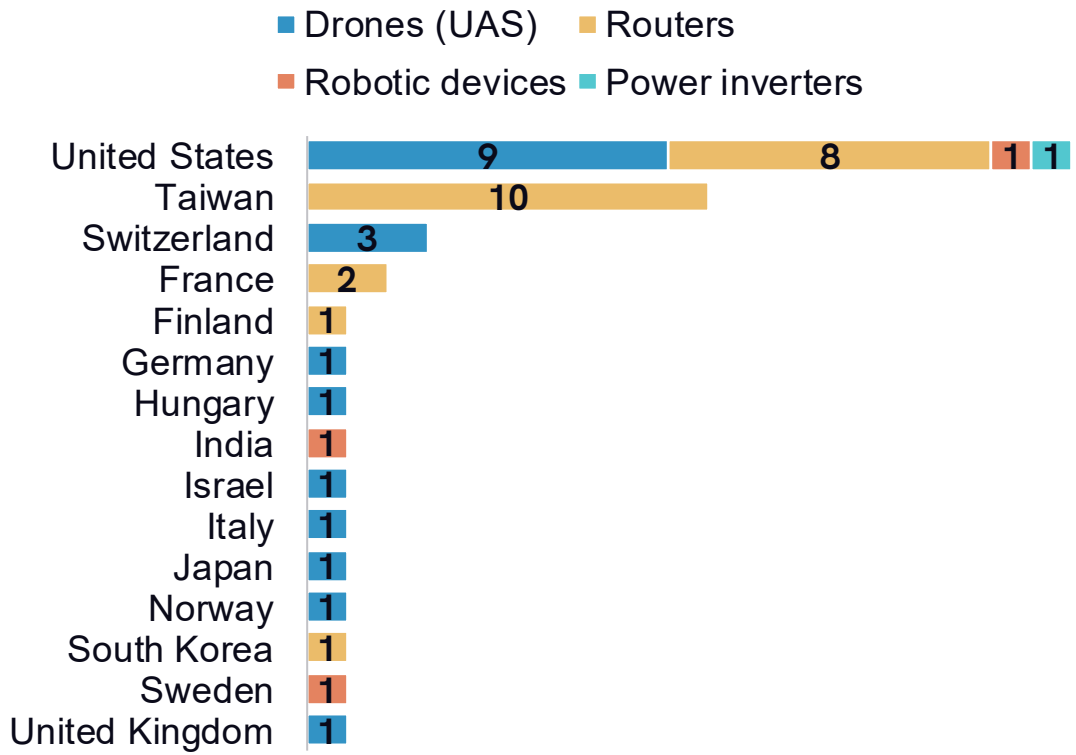
- **Will Treasury narrow "develop" and "maintain"?** Likely. Watch for a carve-out for customer enablement and room to upgrade existing China operations.
- **Will an AI notification tier come back?** Likely for applications and enablement. Model developers and embodied AI would stay prohibited.
- **Will Bessent trim biotech and AI in the final rule** and use the rollback to manage negotiations with Beijing?
- **Will BIS follow Treasury and drop compute thresholds** in AI export controls, especially under new leadership after the midterms?
- **How hard will Beijing push back?** MOFCOM is already building its own controls on Chinese tech moving offshore; Biotech is now in play, and China holds asymmetric leverage in healthcare supply chain.
- **Next steps on partner alignment:** Concerns over US persons discrimination, unlevel playing field and indirect dependencies will drive US admin to pressure partners to align on investment screening and export controls.

Exemption trickle will push the FCC toward partner trustworthiness standards

Blunt import restrictions and a stingy exemption process are unsustainable for supply chains

US and Taiwanese parents hold 29 of 45

Conditional FCC approvals, by country and device type



Source: FCC Public Safety and Homeland Security Bureau,

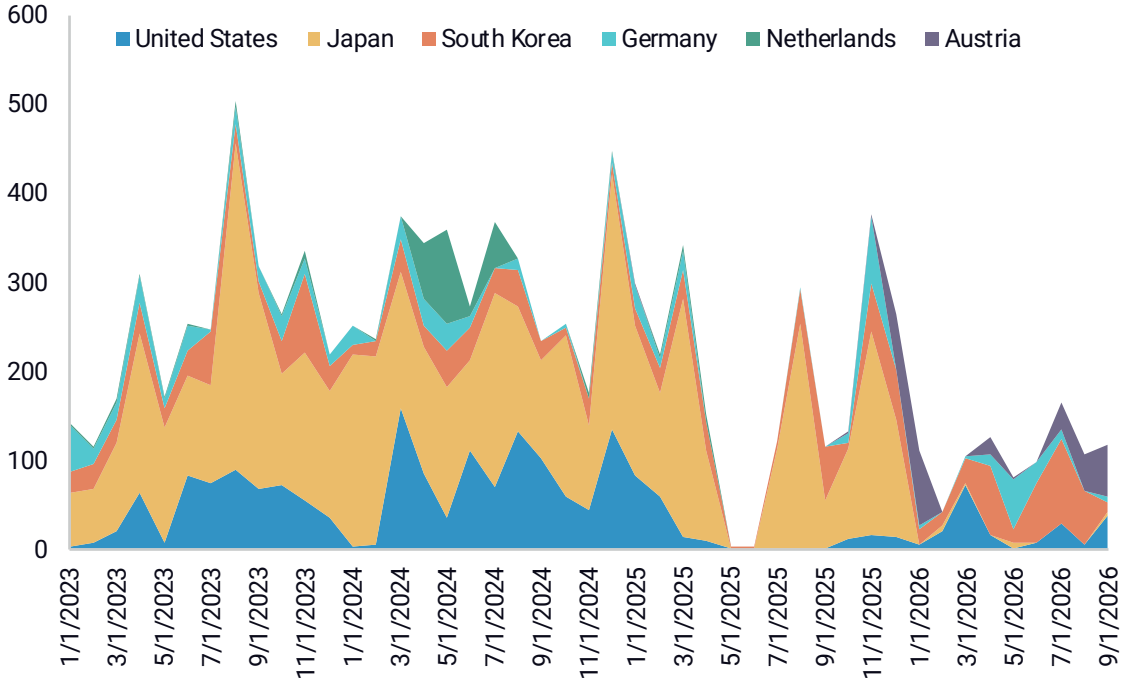
- **Blunt FCC import restrictions are not sustainable.** A stingy DOW/DHS exemption process combined with slow/uneven reshoring investments will make it extremely difficult for companies to adapt supply chains
- **But this will likely be a forcing function for broader exemptions centered on trustworthy standards.**
  - The Oct. 29 FCC vote on international carriers is a key indicator. Roughly 1,500 licensed carriers would disclose owners at a 5% threshold, certify baseline cybersecurity and no Covered List equipment, report border-crossing facilities and notify the FCC of material changes within 30 days.
- **This is the template to defining a trustworthy vendor:** ownership transparency, cybersecurity baselines, supply-chain exclusions and continuous reporting.

China's raw material export controls: leverage and moving up the value chain

Severe pressure on Japan, more selective pressure on EU and US, and greater support for South Korea

China exports of controlled rare earths

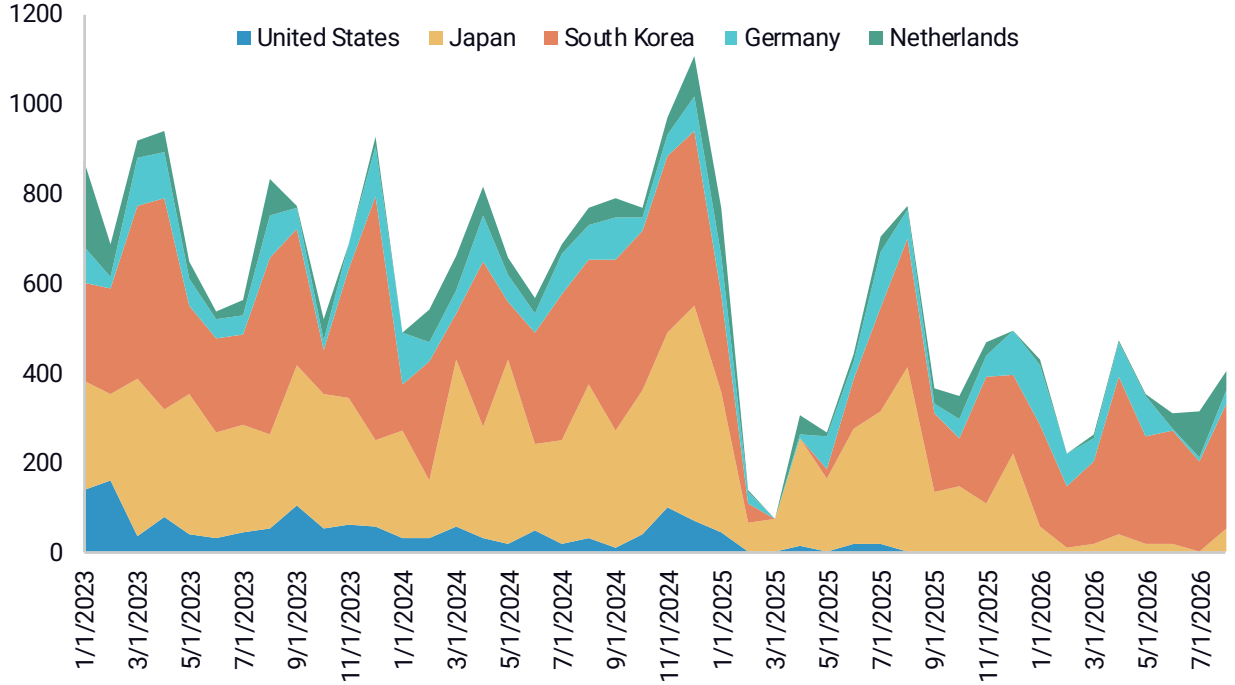
Thousand metric tons



Source: GACC. Includes dysprosium, lutetium, scandium, terbium, and yttrium.

China exports of tungsten products controlled in February 2025

Thousand metric tons



Source: GACC. Products on MOFCOM No. 10 of 2025, effective February 2025. Not inclusive of other controls separately targeting Japan.

- Chinese exports of controlled rare earth to Japan have fallen nearly to zero. Reduced overall exports shifting to South Korea as Beijing attempts to keep distance between Seoul and US tech coalition, and secure access to semi materials and HBM smuggling
- Tungsten powder exports to Japan necessary for semiconductor production (WF6) have fallen to zero, leading to reports of TSMC suppliers Kanto Denka and Central Glass halting production, but Japanese suppliers appear to be adapting

China builds up defensive toolkit with proposed updates to technology control list

MOFCOM and MOST's draft revision adds new prohibitions, restrictions, and reporting requirements on the transfer of AI, biotech, and solar PV technology overseas

What's newly controlled

Biotech	▪ Restricts novel target discovery and validation tech for cell and gene therapy/siRNA (automatic "licensing" for out-licensing of technology and outsourced CRO/CDMO services) ▪ Prohibits multi-drug process development platforms for cell and gene therapy/siRNA (with carveout for out-licensing & outsources services); gain of function pathogenic microorganism
AI models & agents	▪ Prohibits export of AI-powered, advanced offensive cyber capabilities and models trained on Chinese "core data" ▪ Restricts frontier models (≥10^26 FLOP, ≥2T parameters, or global top-10), models trained on "important data," and agents above task-decomposition thresholds; open-source releases of restricted tech qualify for automatic licensing
Semicon & AI compute	▪ Restricts design tech for certain AI processors, DRAM, and 3D NAND, and AI computing cluster technology ▪ Using foreign foundries and running data centers overseas qualify for automatic licensing
Solar PV	▪ 12 technologies across polysilicon production, wafer fabrication, and PV cell fabrication, with a focus on next-gen solar manufacturing ▪ Prohibits large-scale polysilicon processes, ≤70μm wafers, and perovskite/tandem modules; restricts TOPCon, XBC, and HJT cells

The draft addresses several strategic objectives:

1. **Prevent tech flight.** Any ownership or control change that puts Chinese tech under an overseas entity triggers registration (eg Meta-Manus), will give Beijing direct oversight.
2. **Preempt investor responses to US biotech outbound rules** (which followed a week later). US rules have carve-out for full buyouts of Chinese firms – which the Chinese rules now prevent.
3. **Insulate the self-sufficiency stack.** Shields workarounds to US controls such as multi-vendor AI clusters, AI and memory chip design, YMTC 3D NAND, Huawei logic-folding
4. **Gate frontier & agentic AI risk.** Open-source release qualifies for automatic licensing, in line with Beijing's tech-sharing pitch to WAICO members, but cyber capabilities criteria prevent the unchecked diffusion of the most capable models
5. **Undermine ex-China diversification.** Blocking PV equipment, process, and know-how exports undercuts US- and India-backed polysilicon, wafer, and cell capacity outside China

Source: MOFCOM, Rhodium Group

Testing the momentum behind data center buildouts

Three of four of the variables we test currently point to a slower buildout, and they all overlap in 2028.

Variable	Key signpost	Inflection point	Buildout trajectory
Energy	Transformer and turbine lead times, currently 2–3 and ~5 years	2026–2030	**Slows**
Hardware	Advanced packaging capex announcements and DRAM/HBM contract prices	Peaks 2028	**Slows**
AI demand	Agent deployment rate in enterprise	2027–2029	TBD
Capital	Hyperscaler capex guidance revisions	2028–2031	**Slows**

How they interact

- **Hardware gates demand and capital.** Deployment will slow if memory or CoWoS capacity is unavailable.
- **Energy gates hardware.** A project can have all the hardware it needs, but it won't matter if the permit doesn't get approved.
- **Demand from AI adoption determines whether capital holds up.** Weak agentic uptake means revenue won't be able to service the debt
- **A capital squeeze eases the hardware shortage.** If hyperscalers are forced to cut back spending, memory demand falls and the shortage ends sooner; Japanese materials and equipment suppliers lose volume and pricing

Efficiency cuts both ways

Better performance per watt eases the energy constraint and raises revenue per unit of compute, which helps service the debt. BUT, the same efficiency gains make the installed base obsolete faster, eroding the collateral behind that debt. If efficiency stalls, chips hold their value but revenue falls behind capex.

Three of four variables point to a slower buildout. The impact on Japanese suppliers depends on what's driving the slowdown: Supply constraints cap volume but give suppliers strong pricing power, while weak demand undercuts both volume and margin.

Democratic Sweep: Stronger checks on Trump, but not enough to override a veto

Results are a widespread rebuke of Trump, but overriding his veto is only plausible in must-pass bills like the NDAA

Key dates ahead

Nov 3
Democrats win both chambers

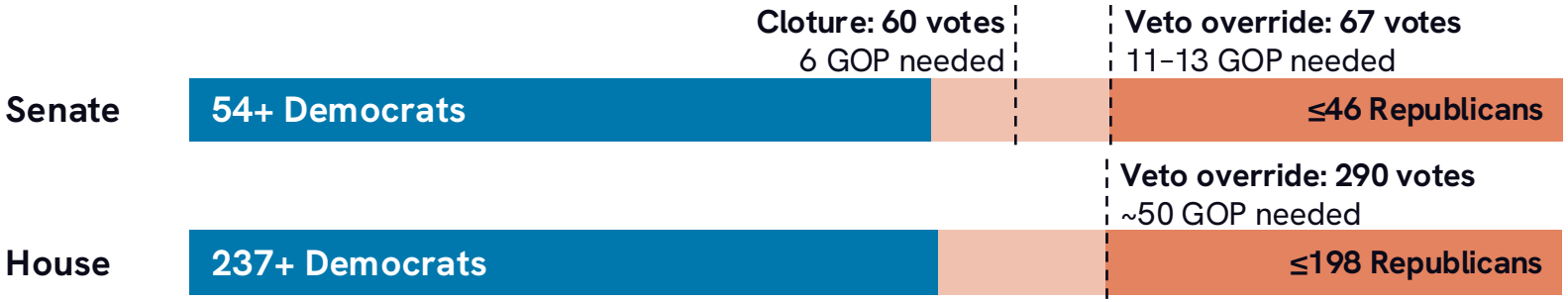
Nov–Dec
Lame duck: permitting reform, NDAA and CR carry China tech bills

Jan 3
120th Congress sits; vote on renewing the House China Select Committee

Jan 10
Deadline to renew the US-China Busan truce

Balance of power in the 120th Congress

Seats won as of Nov 4; remaining races still being counted



Shading marks GOP votes needed to override a veto; assumes a unified Democratic caucus. Source: Rhodium Group, Nov 4, 2026.

Watch White House reshuffles

- Commerce: Lutnick and Kessler likely out; Greer may expand his portfolio
- Vance v Rubio for 2028 ticket
- Hegseth becomes Iran war scapegoat

Data center slowdown

- Democrats won TX, OH, GA and AZ, the top four states for planned capacity
- Voters passed 38 of 41 local measures to ban or pause data centers
- Deceleration but not a halt: hardware supply already tight but slower pace would allow time to catch up, though financial exposure of AI labs will grow

Lame duck: A full plate

- Senate taking up permitting reform; A test of whether the Trump-backed compromise will hold
- Tech controls watch for NDAA: MATCH v STRIDE, Chip Security, AI OVERWATCH; Remote access urgency growing

120th Congress focus

- Trade: more oversight of tariff authorities possible, but no sweeping rollback
- Impeachment and probes into Trump-linked CRM deals now more likely
- Push to revive wind and solar tax credits
- Fewer GOP moderates to bargain with

What we're watching from Congress on chip and SME controls

Materials fall in STRIDE (alternative to MATCH) scope

Bill	Key measure	Opposition	Status
MATCH Act H.R. 8170 / S. 4281	China-wide ban on DUV immersion sales and servicing; allies align within 240 days or face FDPR	ASML, Dutch and Japanese governments on sovereignty; MOFCOM threatens countermeasures	**Cleared HFAC 36–8; not in House NDAA; contested**
AI OVERWATCH Act H.R. 6875 / S. 4456	Congressional block on chip licenses; codifies H200 rule	Nvidia, AMD; White House opposed	**Cleared HFAC 42–2; contested**
Chip Security Act H.R. 3447 / S. 1705	Location verification on exported AI chips	Nvidia, AMD oppose hardware changes; SIA says untested	**Cleared HFAC 42–0; likely in NDAA, modified**
Remote Access Security Act H.R. 2683 / S. 3519	Extends export rules to cloud and remote access	AWS, Azure, Google Cloud, Oracle on KYC burden	**Passed House 369–22; stuck in Senate Banking**
Chip Equip Act H.R. 6207 / S. 3301	Bars CHIPS-funded fabs from buying tools from foreign entities of concern	None public	**E&C cleared 39–0; possible in NDAA**

Where semiconductor materials falls in scope

- **STRIDE names them.** It covers "dual-use semiconductor technology materials, including photoresists, specialty gases, and advanced substrates," and defines semiconductor technology to include materials and specialty chemicals
- **But STRIDE imposes nothing.** It directs the State Department to pursue allied alignment and report to Congress. CBO scores implementation under $500,000 a year
- **MATCH reaches materials indirectly.** Its single reference locks in items that already require a license. The wider reach is its definition of an "applicable item" — anything subject to the EAR with more than zero percent controlled US-origin content — barred from facilities tied to SMIC, CXMT, YMTC, Hua Hong and Huawei

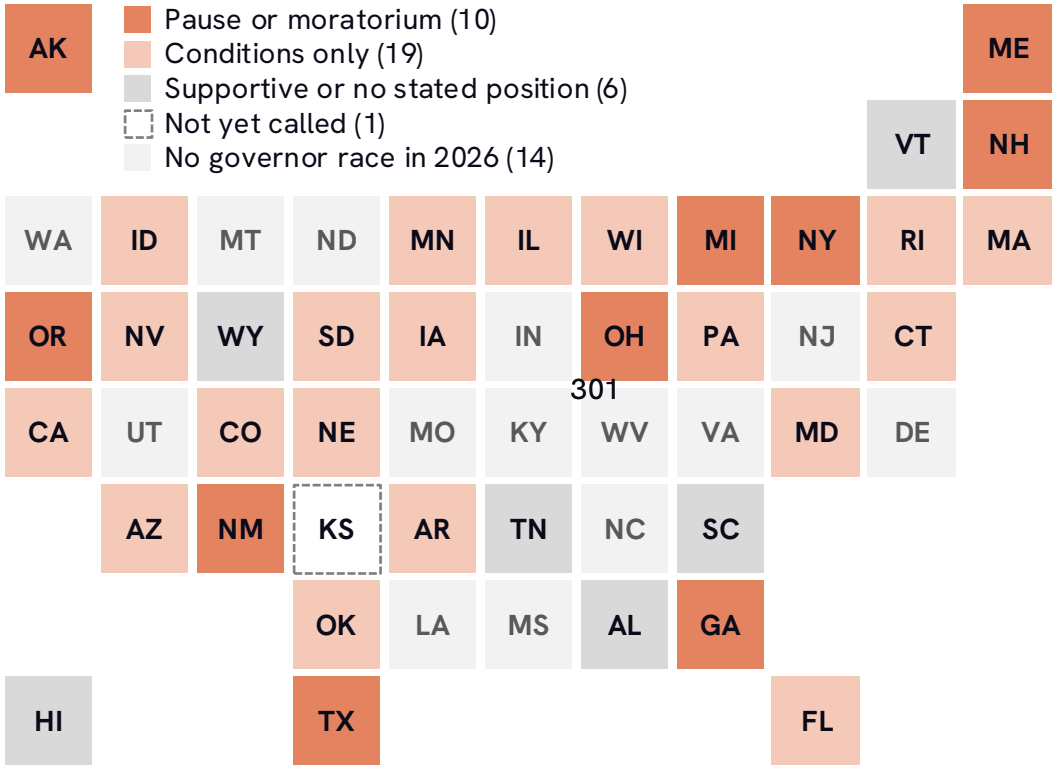
Outlook

- **MATCH advocates have turned pessimistic.** One Senate Banking member has said Congress is too divided to adopt contested tech controls
- **STRIDE is gaining as the more palatable alternative** because it drops the FDPR mandate for State-led alignment, which addresses Dutch sovereignty objections. Neither NDAA text includes it, so it would be new matter in conference
- **China began full enforcement of its Blocking Rules in May** and has used targeted critical raw material controls against ASML's suppliers

Pause candidates win in Texas, Ohio, Georgia; Watch for data center slowdown

Where governors-elect stand on data centers

Winner's stated position, 2026 governor races



2027 is locked in capacity, but not 2028

- Three-quarters of 2027 capacity is under construction; most of the 62.2 GW due in 2028 is not
- Voters passed 38 of 41 local ban-or-pause measures across 10 states

Texas: A longer pause?

- Texas holds ~30% of 2028 GW; Hinojosa's moratorium until new laws pass implies a hold of eight months to a year
- Abbott could still reopen permits after ERCOT's December 10 report, before Hinojosa takes office on Jan. 19

Restriction candidates won beyond Texas

- Democrats won Texas, Ohio, Georgia and Arizona, the four largest states for planned capacity
- Winners in Georgia and Michigan back a statewide pause, Ohio's Acton a conditional one; Pennsylvania and Arizona set conditions
- Georgia Democrats won the utility commission, influencing power supply for data center buildouts

Terms will tighten in the four largest states for planned capacity, which means 2028 capacity is more likely to arrive late than be canceled. A slower pace could give constrained supply (energy system inputs, HBM, CoWoS) time to catch up, but raises financial exposure for those funding the buildout

Note: Ohio's winner backs a conditional moratorium; Michigan reflects Benson's October-November statements; Kansas is uncalled (close-race audit). Source: MultiState (candidate positions, Sept. 18, 2026; results, Nov. 4, 2026); AP race calls as of Nov. 5, 2026; SemiAnalysis (Nov. 1, 2026); Rhodium Group (Nov. 4, 2026).

Appendix

China won't be able to veto every item on a building US tech controls agenda

US ADMINISTRATION PIPELINE

- **Semiconductor 232:** duty relief tied to committed front-end "like for like" capacity investments in the US; punitive tariff for non-investing origin firms
- **FCC rule on "logic-bearing hardware" components** (effective Oct 13) bars authorization of devices with chips or modules from Covered List entities; a follow-on proposal could extend this to all components from those entities
- **FCC Covered List expansion:** foreign-made routers (Mar), robotics and inverters (Jul) added; **optical transceiver** restriction in draft, expected by year-end
- **USMCA** local content requirements for auto-adjacent electronics
- **Outbound investment final rule** due by Mar 13, 2027

OTHER WATCH ITEMS

- **Pending BIS rule** on remote access to US AI compute
- **New AI diffusion rule**, incl econ security provisions aimed at blocking out China in AI infrastructure buildouts globally
- **USTR chasing China AI deals abroad** — disrupting overseas deals that violate US ARTs (Malaysia, RoK, UAE, Egypt)
- **SME & chip controls tightening** (see May 31 BIS "clarification" on AI chip controls to Chinese entities)
- **Restrictions on Chinese AI models** targeting adoption and developers:
  - Rumored EO holding entities liable for harm from adopting Chinese models
  - Fines, entity listings, sanctions on Chinese AI model developers/distillation offenders

CONGRESS — WATCH ON NDAA

- **MATCH Act** — imposes **country-wide bans on exporting and servicing covered SME** to countries of concern. Expands covered entities beyond current Entity List designations to **include CXMT, Hua Hong, and affiliates**. Requires allied suppliers to **harmonize export controls within 150 days or face US extraterritorial enforcement** *(in Senate version)*. If an adversary can meet 75% of domestic demand for a given tool with local supply, US controls on that tool are dropped.
- **Watch for STRIDE Act compromise** (softer version of MATCH Act, defers implementation to Commerce)
- **AI OVERWATCH Act** — **blocks advanced AI chip exports to adversaries for 18 months** and gives Congress arms-sale-style review of chip export licenses
- **Chip Security Act** — requires **location verification on export-controlled AI chips** to curb smuggling
- **Remote Access Security Act** — brings remote use of controlled GPUs in third-country data centers under the same export rules as physical shipments, closing the **"cloud loophole"**
- **Connected Vehicle Security Act (NDAA)** — Bans the import, manufacture, and sale of connected vehicles and related software and hardware linked to China and other adversaries; phases in Jan 1, 2027. **Extends beyond BIS ICTS scope** (VCS and connected software) to include safety equipment (airbags, seatbelt systems) and battery management systems. Does not explicitly rule out LiDAR, radar, and camera exclusions.

US-China Busan truce is on a short leash through January 10

Beijing is holding onto CRM leverage while US tech controls remain in play

TECH CONTROLS, AI SAFETY

White House proceeds with de-risking moves v. White House stalls pending FCC and BIS measures or intervenes against export-control bills in the NDAA;

Watch: Senate Democrat pushback into the midterms, Commerce reshuffle; Some rollback to US outbound regs

CRITICAL MINERALS

Rare earth flows to the US and tech-aligned partners stayed depressed through August, and MOFCOM licensing progress is mixed.

Firms will try to stockpile; watch for a crackdown on suspected hoarding as Beijing guards its leverage.

TRADE & INVESTMENT

301 excess-capacity rates coming, USTR building platform for trade defense coalition.

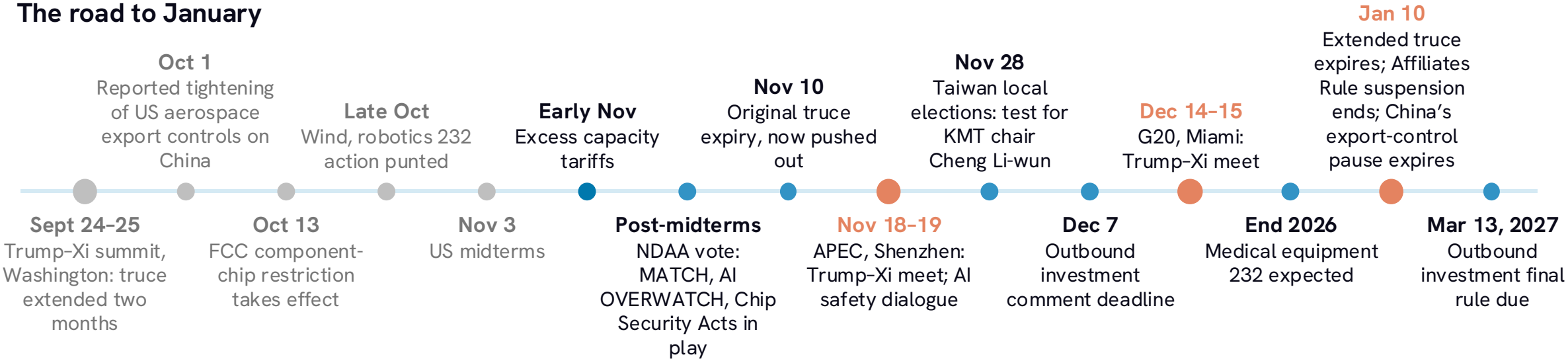
Watch Beijing's push on Board of Investment deal-making during Shenzhen summit, pushback to US outbound measures, Board of Trade expansion

IRAN & TAIWAN

US wants Beijing to help isolate Iran to drive Tehran to negotiations, US blockade has been effective; Beijing's price is Taiwan restraint

$14bn arms package delayed (munitions already backlogged), possibly split into smaller installments.

The road to January

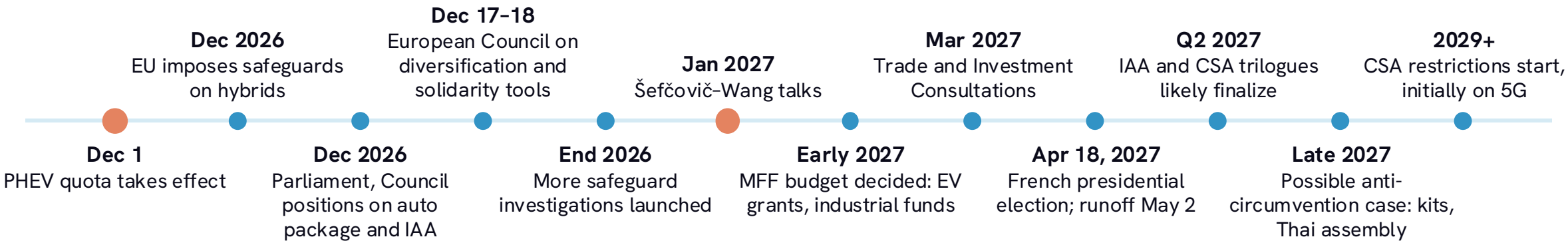


Watch EU-China negotiating track in parallel

Brussels is building trade defense while negotiating sector by sector. Beijing is pressing for broad restraint.

AUTOS	TRADE DEFENSE & FSR	CRITICAL MINERALS	TECH CONTROLS
PHEV quota from Dec 1: 350k, then +6% a year. Brussels calls it a one-off; Beijing wants wider restraint. **Watch:** EV price undertakings, anti-circumvention cases	**Deal leaves other sectors open; safeguards next in chemicals, plastics and machinery.** Beijing wants FSR/IPI/TDI cases paused; FSR in technical dialogue. **Watch**: IAA content rules, terms for Chinese inbound investment	**Beijing only vaguely pledges to "continue facilitating" rare earth and magnet licenses**. **Watch:** China's attempts to calibrate CRM restrictions to fracture emerging trade defense coalition	**Cybersecurity Act 2 and Dutch tech controls are emerging flashpoints.** US pressure on The Hague, Berlin could trigger Chinese retaliation. **Watch:** US long-arm measures limiting any EU-China understanding

EU-China friction points ahead



> *"If the EU introduces new tricks while negotiating, China's reserved measures will not be merely for show."*
> — State-backed Yuyuantantian account

Japan is building alignment architecture while absorbing retaliation

Tokyo is leaning toward Washington and will have harder limits on bargaining with Beijing compared to EU

TRADE DEFENSE

Cautious, incremental responses. More likely to use non-tariff barriers, including tighter EV subsidy eligibility, than high tariffs or bans.

Watch: whether Japan follows the EU's safeguard route, US pressure to align on trade defense

TECH CONTROLS & INVESTMENT SCREENING

Partial alignment on SME controls, in force since 2023. Active US pressure to expand plurilateral SME controls

No ICTS equivalent yet. JC-STAR, a four-tier security certification being written into government procurement, is the closest instrument (focus for now on network devices and cameras).

FEFTA reform takes effect Jan 4 for inbound investment screening: foreign-to-foreign acquisitions in scope, 1% notification threshold for investors ineligible for the prior notification exemption v 50% for others: state-owned entities and firms **subject to foreign-government information-gathering obligations**

Watch: whether Tokyo adds an outbound screening regime to align with the US; whether the new Japan Foreign Investment Committee uses its untested call-in powers; whether MATCH passes and starts a 240-day alignment clock

TAIWAN & SECURITY

Japan has built a "southwestern wall" across the Ryukyus, with Type-03 air defense missiles confirmed for Yonaguni, 110 km from Taiwan, in FY2030.

Deterrence still depends on the US security anchor.

Watch: Taiwan local elections November 28; whether the US $14B arms package advances in smaller installments

Chinese CRM retaliation in direct response to Japanese defense moves

CRITICAL MINERALS

Japan is the most heavily targeted G7 economy. Controlled rare earth shipments have run at zero since January 2026, and 40 entities have been added to Chinese control lists

Watch: Degree of US solidarity with Japan on CRM pressure in managing the Busan truce; whether MOFCOM formally extends its export control suspensions beyond Jan 10 or takes a different approach with Japan

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