12 Dec 2025

Japan and China: a rough start under Takaichi

Pivot To Asia

PIVOT TO ASIA ASIA

Since late October, Japan has been led by a **new government headed by Sanae Takaichi**, who made headlines worldwide as the country's first female Prime Minister. Yet, far greater attention was drawn by her foreign policy decisions after taking office, which **sparked a diplomatic crisis with the People's Republic of China** (PRC). Takaichi stated in early November that Japan would **intervene on the Taiwanese side** in the event of a Chinese military aggression. Beijing reacted angrily to the remark and argued that Takaichi is reviving some form of **wartime Japanese militarism** – an accusation rejected by Tokyo although Takaichi's stance on the historical legacy of imperialism remains controversial within Japan itself. However, with her remarks on Taiwan, the Japanese PM made explicit a stance that was already private knowledge in many circles – one that China was, in all likelihood, already aware of.

Why it matters

1. **Deterrence made explicit**. Although Takaichi's remark on the defence of Taiwan does depart from the Japanese policies elaborated during the last decade, it is still a meaningful development. Japan, despite its constitutional provision renouncing any right of belligerency, **asserts its right to collective self-defence** in case of an external attack to any of its partners that could constitute a survival-threatening situation. A conflict over Taiwan is likely to fall into this category, but, so far, Japanese PMs had refrained from identifying a Taiwan contingency as such a situation. The statement made by Takaichi in the Diet dissipates much of this **strategic ambiguity**, clarifying the line between what the government will tolerate and what it will not.

2. **A reality check on the row**. China has **displayed a wide array of measures to punish Japan** for Takaichi's unwillingness to retract her remarks. Japan's tourism, seafood, and entertainment industry have been affected, and the PRC has made subtle moves to throw into question Japanese authority over Okinawa. Yet, Japanese manufacturers in China – a key element of the bilateral relationship – did not register any major disruption, and the import ban on seafood covers a minor share of Japanese exports, which **make the retaliatory measure adopted by Beijing seem more ostentatious than biting.**

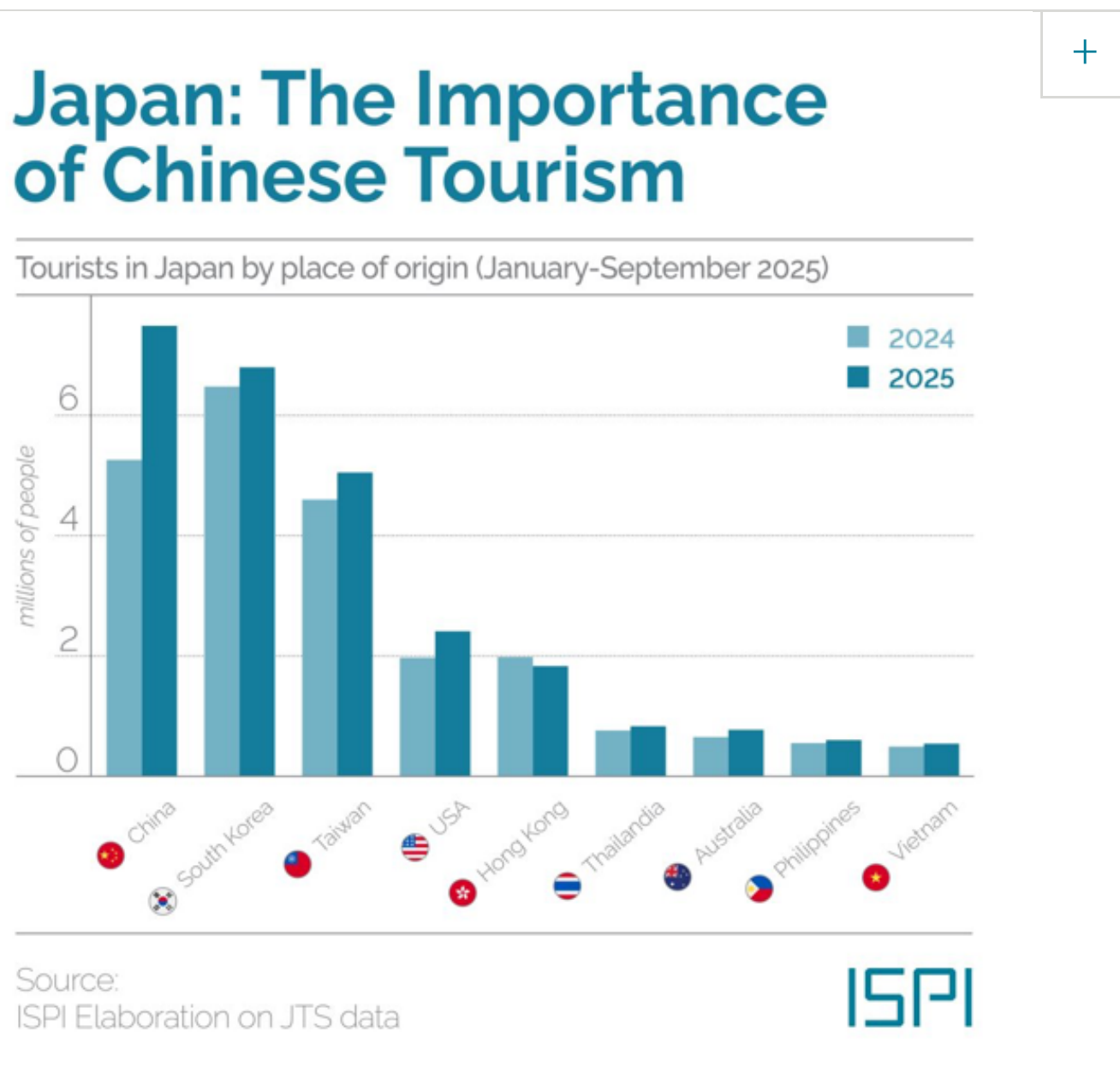
3. **Trump leaves Japan in the cold**. While the row with China was ongoing, US President Donald Trump had a phone call with Xi Jinping, which raised concerns for his Japanese ally. There is a significant **discrepancy** between China's public readout of the conversation and the White House's account, with **the Taiwan issue specifically discussed in the former but ostensibly absent in the latter**. However, a few hours later, Trump also called Takaichi and, according to the Japanese readout, explained to her the state of US-China relations. This quick succession, coupled with Trump's eagerness for a trade deal with Beijing, has fuelled speculation that he might view the current Taiwan row sparked by Takaichi's comment as **politically inopportune** and **sought to placate China by nudging Japan to tone down the controversy.**

4. **China's interpretation of the post-war order**. In the meantime, Beijing has been pushing its own position on the issue in international circles. The Chinese ambassador to the UN, Fu Cong, has sent two letters to the Secretary-General: one to report Japan's **"gravely erroneous and extremely dangerous" remarks** and its refusal to retract them, and the other to **anchor more openly China's claim over Taiwan** to the international order proceeding from the Allied victory during the Second World War as embodied by the UN. On the other hand, Japan has responded by emphasizing that it has "always respected and adhered to international law" and that its long-standing commitment is to ensure peace and stability in the region.

5. **A reminder of economic security**. Over a decade ago, in 2010, China-Japan relations frayed over a territorial dispute over the Senkaku-Diaoyu island: back then, Beijing retaliated by reducing rare earth exports, which kickstarted the Japanese pursuit of an economic security agenda. While the Chinese economic retaliation this time around seems much more restrained, it is a reminder **that economic overdependency on China can be problematic** and in fact Japan has continued to look around for partners. In the age of Trump, for instance, **Europe** has emerged forcefully as the **new partner of choice for Tokyo** and the two middle powers have a common interest in deepening cooperation in critical policy areas.

OUR TAKE

Takaichi's comment, whether intentional or not, fits into a wider **policy shift** undertaken by her new government. The current Japanese PM is taking several steps that point to the direction of **bolstering regional deterrence against unilateral changes to the status quo by force**. Ensuring the stability in the Taiwan strait is not only essential to the freedom of navigation upon which rests most of the global trade, but is also a central piece for the preservation of peace in the Indo-Pacific. Whether Takaichi's policy decisions will contribute in this regard or instead fuel increased instability will depend on the reactions of reginal players.



Source:
ISPI Elaboration on JTS data

SPOTLIGHT: Macron in China and the EU's New Economic Security Vision

On 3 December, the European Union unveiled its **new economic security doctrine**, signalling a stronger commitment to its de-risking strategy and entrenching the framework upon which Europe intends to engage with Asia amid intensifying geopolitical rivalry. The doctrine seeks to **strengthen the Union's resilience by reducing strategic dependencies on external actors** in critical domains – such as sensitive technologies, raw materials, and key supply chains. This framework is aimed at both systemic competitors such as China and increasingly unpredictable partners like the United States. In line with recent policy shifts, Brussels intends to focus on **protecting its industries and high-tech sectors and introducing a more structured risk-assessment framework**, aiming to prevent economic coercion and shield the bloc from sudden disruptions. Yet, amid this recalibration, individual EU member states seek to mitigate the impact of the doctrine. The recent visit of French President Emmanuel Macron to China underscored European leaders' the intention to keep the dialogue with Beijing open, especially with the intention of highlighting the need for a less dependent and more reciprocal relationship. Yet, along with France, Germany too is making an outreach towards China for the sake of **protecting European economic interests though engagement**: as showed by the visit of the German Foreign Minister to Beijing last week, Berlin is working to stabilize the trade relations and ensure the continuous supply of rare earths.

EXPERTS' VIEWS

What can we expect from Sanae Takaichi's approach to foreign policy?

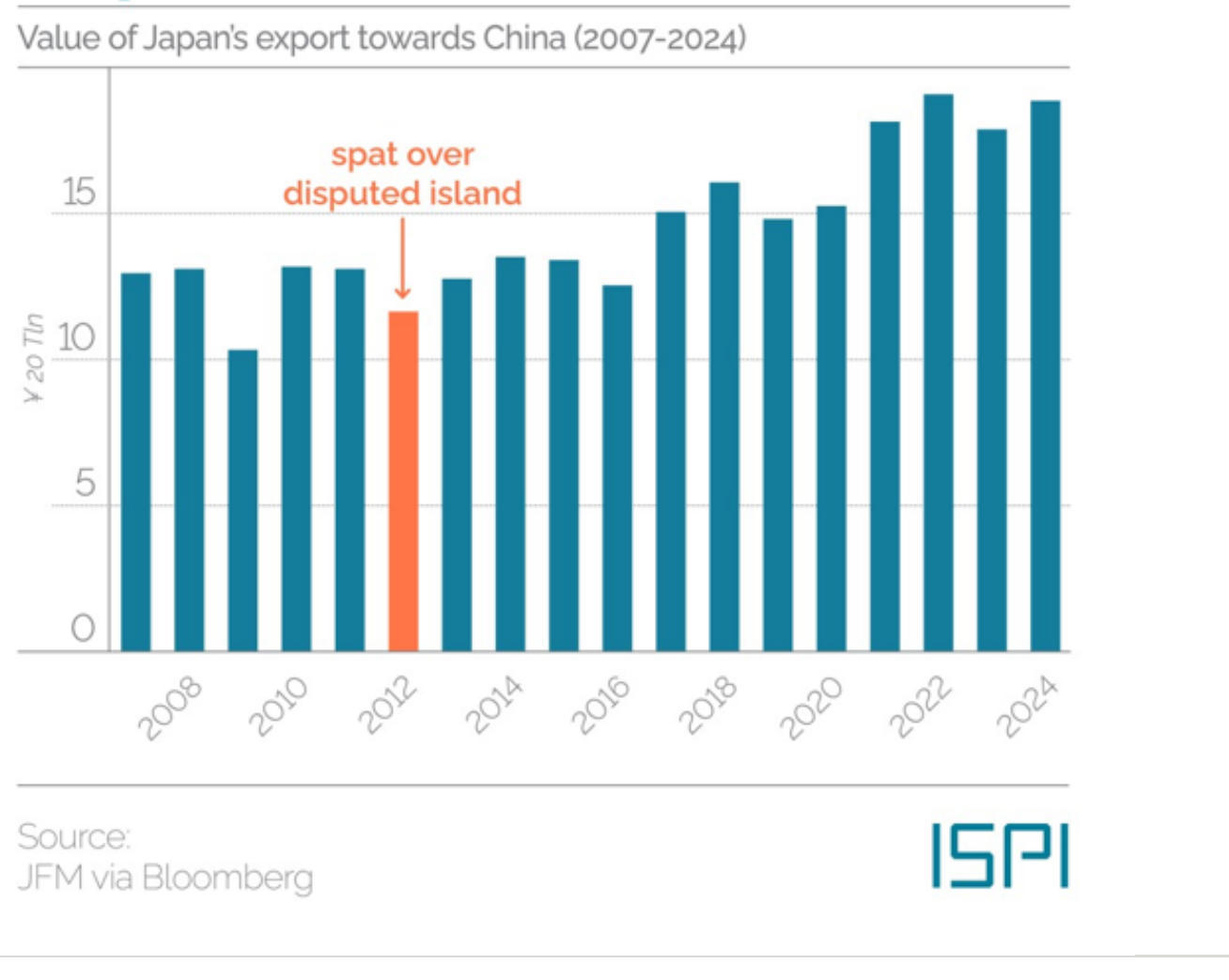
Takaichi's foreign and security policy is emerging very much as a continuation, if souped up version, of the 'Abe Doctrine' of her political mentor, previous prime minister Abe Shinzo. Takaichi is asserting a vigorous national defence policy, bringing forward the revision of the National Defence Strategy to 2026, and likely to include increased defence spending beyond the current 2% of GDP target, acceleration of cruise missile procurements, and starting down the road to acquire nuclear-powered submarines. Takaichi is also presenting herself as an indispensable ally to the US to head off concerns of abandonment by an unpredictable Trump administration. The current China-Japan tensions over Taiwan, although not necessarily planned for by Takaichi in her loose comments in the National Diet, demonstrate a resolve to face down Chinese pressure on issues of territorial defence and economic security, whilst still looking to engage China from a position of strength.

Chris Hughes, *University of Warwick*

How does the diplomatic dispute with China over Taiwan affect Japan's economic posture in the region?

Prime Minister Takaichi and the leading Liberal Democratic Party are now in coalition with a non-pro-China party, the Japan Innovation Party (Ishin-no-kai). This results in economic security considerations rising higher than ever. In a context where diplomatic pressure from Beijing is increasing in response to Takaichi's declaration that a Taiwan contingency may constitute an existential threat for Japan, her inauguration speech declared a 3-pillar approach, of which economic security covers a large part of the second pillar. The equivalent to almost 40 billion Euros is being mobilized, in particular to support public-private investments in chips manufacturing and shipbuilding, R&D of quantum technologies, and resources covering a Strategic Space Fund, low-orbit satellite infrastructure and undersea cables. While more details will soon be published, we can rest assured that Japan is fully aware of the increasing tensions in the region and it is fast advancing its economic security agenda.

Hitoshi Suzuki and Gabriele Maletta, *Institute of Geoeconomics*



Source:
JFM via Bloomberg

WHAT AND WHERE

Putin makes first trip to India since the beginning of the war

Between 4 and 5 December, the President of the Russian Federation, Vladimir Putin, went to New Delhi to meet President Narendra Modi for the first time since February 2022. The relationship between India and Russia has improved over the last three years and is now a pillar of both countries' external economic strategy. Indeed, India has always been the major importer of **Moscow's weapons**, and since 2022 it has increased its purchases of **Russian oil**, to the point that it is now the second largest buyer – making up for the Kremlin's lost energy markets in the West – just behind China. Other than the energy and military sectors, the Joint Declaration signed by the two leaders during their meeting included enhanced **economic cooperation in trade, connectivity, civil aviation and space**, and remarked the importance of partnership in people-to-people exchanges, counterterrorism. On the international stage, the message of this meeting was **mainly directed at China and the US**: India aimed to show that it is not willing to give up regional influence and protect itself from Trump's tariffs, including those specifically enforced due to New Delhi's purchase of Moscow's oil; in turn, Russia needs to secure a key economic partner, while showing the US and Europe that isolation is not working as they envisioned.

Trade pressure isn't enough: the return of violence between Thailand and Cambodia

Tensions between Cambodia and Thailand have once again escalated along their shared border, ending the fragile truce brokered by Donald Trump. The clashes broke out during the summer in disputed border areas and resulted in **armed confrontations and around forty casualties**. To prevent a broader escalation, Malaysia's PM Anwar Ibrahim initially offered to mediate a ceasefire, an initiative later taken up by Trump. The **US President pushed both governments to accept a ceasefire** by threatening to suspend ongoing tariff negotiations – a serious concern for Phnom Penh and Bangkok, which at the time were facing prospective tariffs on imports of 46% and 36% respectively. The strategy proved effective at first, bringing both sides to the negotiating table, but the reignition of the border conflict highlights the limitations of economic incentives as a long-term stabilizing tool. Indeed, once trade arrangements with Washington were secured, **tensions promptly resurfaced in November**. Thai soldiers were injured by a landmine explosion that pushed Bangkok to suspend the ceasefire. The situation has since deteriorated into a new face-off, causing additional casualties and forcing hundreds of thousands to flee border areas to avoid the fighting. This underscores that conflicts driven by identity, territorial disputes, and domestic political pressures are difficult to solve through economic pressure alone.

Bangladesh's former PM Sheikh Hasina sentenced to death after ICT trial

On November 17, Bangladesh's **former prime minister Sheikh Hasina** was sentenced to death by the International Crimes Tribunal of Bangladesh (ICT): she was accused of five charges, including **"incitement, conspiracy, planning, and order killing" of civilians.** The interim government led by Nobel Prize awarded Muhammad Yunus described this as a victory, marking a temporary break from the criticisms he had received for delaying democratic elections until early 2026. Hasina, sheltered in India since she was ousted in August 2024, opposed the results of the trial, even though her son and adviser Sajeed Wazed stated they will not appeal the ruling at the Supreme Court "unless a democratically elected government assumed office […] with the Awami League's participation". As Hasina's Awami League (AL) was banned from the February 2026 elections, the leading contender is now the Bangladesh Nationalist Party, the traditional challenger of the AL, followed by new smaller movements that formed from the student-led protests of last year. Those that will emerge victorious in the February 2026 elections **will face heavy tasks**, mainly including relieving the economic situation of the country, managing the recently extended IMF loan, and finding a new normal for relations with the great powers of the region, India and China.

Cambodia at the center of Southeast Asia's expanding scam city crisis

Across Southeast Asia, **"scam cities**" have become an increasingly difficult phenomenon to contain. These large, highly controlled compounds host transnational criminal enterprises involved in online fraud, forced labor, and extortion. Workers – often trafficked or lured with false job offers – are confined and tasked to operate elaborate scam networks targeting victims across the world. The scale, profitability, and, at times, political protection surrounding these hubs make it hard to dismantle them. In the region, Cambodia has emerged as one of the epicenters of this trend. Already during Hun Sen's long premiership – and continuing after the 2023 transfer of power to his son Hun Manet – **scam compounds have expanded rapidly**, and the issue is emerging urgently in the past years as it expands beyond Cambodia's borders. Current estimates indicate the presence of hundreds of scam centers, many concentrated in border areas which **offer several advantages to criminal networks**: lighter state oversight and easier cross-border movement. A**nnouncements by Phnom Penh hinted at a tightening of enforcement** – such as increased raids, visa restrictions, and cooperation with neighboring countries – and recently the Cambodian National Bank shut down a hub used to launder billions of dollars linked to criminal networks, online scam operations, and cybercriminals across the region. However, implementation remains uneven, and political complicity has also been documented. In 2024, US authorities investigated powerful senator Ly Yong Phat, a long-time ally of the ruling Hun family, for alleged **involvement in cyber-fraud and trafficking networks**. This ecosystem has also contributed to tensions along the Cambodia–Thailand border, where Thai authorities have dismantled multiple scam operations linked to Cambodian networks.

TREND: The Numbers of China's Role in the Rare Earths Sector

The bar chart portrays the expected evolution of the **rare earths industry** in the segments of mining and refining, highlighting the share that **China** holds in the market. In 2024, Beijing covered **over 60% of mining and 90% of refining activity**. Although, according to data from the International Energy Agency (IEA), the quantities they will be able to process are expected to increase during the next 15 years, the share represented by other countries is set to rise as well, and at an accelerated rate. However, China will continue occupying the dominant position in this sector, with **Australia and Myanmar gaining a more prominent role in the extraction** of rare earths; the US and Malaysia, instead, are projected to expand their foothold in the refining process, but **the segment is expected to remain dominated by Beijing** with a share of about 80% by 2040. Beijing's dominance over the rare earths industry well represents the current dilemma in the economic security paradigm: the much-debated necessity to reduce industrial reliance on China is utopistic in the short-run and, so far, there is no alternative source that could substitute it.

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