# Warning that Japan could play debt “card” in tariff war

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The decision by US President Trump for a 90-day pause, set to expire in July, on “reciprocal tariffs” imposed on a wide range of countries has calmed financial markets, at least for the time being.

But the negotiations—more akin to a series of diktats being issued by the US—are revealing deep conflicts and tensions that could rapidly erupt to the surface.

Apart from China, which has combined tariffs imposed against it of 145 percent, one of the significant targets of the Trump administration is Japan, which was hit with a 24 percent reciprocal tariff, as well as being subject to a 25 percent tariff on autos and auto parts.

Last week, as he departed for Washington for talks, Japan’s top trade negotiator, Ryosei Akazawa, pointed to the extent of the crisis starting to engulf the auto industry, which accounts for 3 percent of the country’s GDP.

“The head of an automaker we spoke to told us that his company is suffering a $1 million loss every hour,” he told reporters.

The International Trade Centre, a combined agency of the United Nations and the World Trade Organization, has estimated that Japan could lose as much as $17 billion from US markets as a result of the tariffs. Other estimates are even higher—up to $24 billion—with Toyota alone hit by a loss of revenue of $12 billion.

So far, Japan has come up empty-handed from the talks. Returning to Tokyo on Saturday, Akazawa said Japan had no intention of striking a deal with the US unless all its new tariffs were reviewed.

“We have pressed the United States to reconsider all of the series of tariff measures as we cannot reach an agreement if that is not properly addressed in a package,” he told reporters.

As the talks were taking place, the Japanese finance minister, Katsunobu Kato, publicly upped the ante in a television interview on Friday when he said the country’s holdings of more than $1 trillion in US Treasury bonds could be a “card” in trade negotiations.

Asked whether Japan would maintain its long-term stance as a non-seller of US assets, Kato said: “It does exist as a card; whether or not we use that card is a different decision.”

Underscoring the significance of the remarks, the Financial Times (FT) described it as a “rare baring of the teeth by America’s closest ally in Asia.”

Speaking on Sunday in Milan, Kato said Japan was not thinking of using its Treasury holdings as a bargaining chip. But despite the apparent walk back, the cat is very much out of the bag.

One of the factors behind Trump’s announcement of the pause on the reciprocal tariffs was the selloff in the US debt market and the decline in the US dollar in marked contrast to what usually takes place when there is a move into US assets in times of turbulence.

Trump pulled back after he was warned by Treasury Secretary Scott Bessent and other officials that if the selloff continued, it could lead to a crisis, a US weakness which Japan has clearly noted.

Any significant withdrawal by it from the US debt market or even indications that it could withdraw would have major consequences.

The imposition of tariffs against Japan has been characterized by Japan’s prime minister, Shigeru Ishiba, as a “national crisis.”

Commenting on the initial Kato remarks, Nicolas Smith, chief Japan strategist at the Hong Kong-based financial firm CLSA, told the FT: “This is a street fight: promising not to use one of your strongest weapons would be both naïve and reckless. You don’t need to use the weapon; just brandish it.”

Trump has insisted that he is operating from a position of strength because of the importance of the US market to all the major economies of the world. But at the same time, the US is dependent on the rest of the world to finance its growing public debt—now at $36 trillion and rising.

Long-time economic analyst of Japan, Jesper Koll, told the FT: “The fact that the usually guarded and diplomatic finance minister spoke up on national TV about what is arguably Japan’s biggest asset in dealing with America confirms the growing confidence of Japan’s elite in their dealings with the US.”

As the conflict intensifies, the effect of the US tariff hikes is ripping through some of the Asian economies.

In Vietnam, which is the subject of a possible 46 percent reciprocal tariff, one of the highest, textile and garment manufacturers are waiting with trepidation for what happens after the pause expires in July. Operating with narrow profit margins, some have started to cut jobs or have stopped hiring.

If the tariffs go ahead, thousands of Vietnamese firms that supply the US market could go under. Even if the pause is extended, this may not alleviate the situation because in conditions of great uncertainty, outlets in the US could decide to reorganize their supply chains.

The character of the negotiations with the US is illustrated by the case of Taiwan, which is the subject of a 32 percent reciprocal tariff.

This week, the Taiwan dollar continued its rise against the US dollar, taking its total rise to 10 percent since the start of April when the tariff war began.

It is widely believed that one of the reasons for the rise is that upward movement in the currency is a demand of the US Treasury Department in its negotiations on a trade deal.

Taiwan’s central bank issued a statement last Friday that this was not taking place. This only increased the belief it has, given the position of the Trump administration that a lower dollar is needed to improve the competitive position of the US in world markets.

Taiwan is also an illustration of how the tariff wars can set off a financial crisis.

Life insurance companies hold a considerable portion of Taiwan’s overseas assets of $1.7 trillion, much of it in the form of US Treasury debt.

The value of these holdings is falling because of the decline in the value of the dollar, leaving them exposed to losses because they have not hedged their dollar holdings sufficiently. Taiwan’s market regulator has held talks with some of Taiwan’s largest insurers to check on their position.

Ju Wang, a strategist at BNP Paribas in Hong Kong, told the FT: “Local exporters are panicking, and local lifers are under-hedged while equity-related outflows have ceased.”

The Taiwan situation, the “national crisis” in Japan, the threatened layoffs and closures in Vietnam are just three expressions, among many, of the economic and financial mayhem triggered by the Trump tariff war and the underlying crisis of the global capitalist economy.