



CLOSE UP: Automobile

Navigating Transformation: How Japan's Automotive Industry Adapts to Global Challenges

Key Takeaways

- **Industry Transformation:** Japan's automotive sector is adapting to sustainability regulations, digitalization, and rising competition from tech-driven firms.
- **Strategic Adaptation:** Leading automakers are pursuing diverse technologies (hybrids, hydrogen, EVs) and global partnerships, while others face challenges in restructuring and maintaining competitiveness.
- **Regulatory & Trade Risks:** Proposed trade tariffs and shifting policies are prompting companies to adjust exports, production strategies, and engage with policymakers to safeguard their market position.

The Japanese automotive industry is not only a pillar of Japan's economy but also a key player on the global stage. Contributing roughly 2.9% to Japan's GDP and accounting for one-fifth of the nation's manufacturing output, [this sector employs over 5.45 million people and is valued at approximately 47.3 trillion yen](#). With Toyota consistently ranked as the [world's best-selling car brand](#), capturing about [10% of global sales](#) for several years, Japan's carmakers have long been recognized for their resilience and innovation.

However, the industry is now undergoing a historic transformation driven by these key factors:

- **Sustainability and Decarbonization:** Global efforts to reduce emissions have prompted regulatory bodies to push for zero-emission vehicles (ZEVs). This poses both regulatory and technical challenges, as the industry adapts to software-driven vehicles. With tech companies and new entrants Tesla and Huawei, etc., challenging established OEMs, the stakes are high.
- **Advances in Digital and Autonomous Technologies:** Rapid developments in autonomous driving, connectivity, and AI are redefining mobility. Today, vehicles are increasingly software-defined, and consumers are shifting from owning a car to accessing a suite of mobility services.

Against this backdrop, how are Japanese carmakers adapting to these sweeping changes?

Japan's automotive industry navigates sustainability, digitalization, and global competition while adapting to evolving trade and regulatory challenges.





Toyota: A “Mobility Company” Pursuing a Multi-Pathway Strategy and Global Partnerships

As early as 2019, Toyota recognized the fundamental shifts transforming not only the car industry but the very concept of mobility. It announced its intention to evolve from being solely a carmaker into a “[mobility company](#)” — one that places people at the centre and develops comprehensive solutions (including, but not limited to, cars) to meet diverse mobility needs.

Toyota has chosen a diversified approach known as the “[multi-pathway strategy](#),” where it continues to produce vehicles that consumers need by offering a broad product lineup anchored by its popular hybrid models. This balanced strategy, despite criticism from environmental advocates and media during the EV boom, has proven effective. By 2024, the [waning of the EV boom](#) was reflected in sluggish sales as government subsidies and incentives began to phase out. Moreover, the new U.S. administration’s move toward technology-neutral competition, with plans to roll back EV subsidies, further underscores the risks of an all-in electric strategy.

Toyota’s approach also involves strengthening international partnerships. The company has teamed up with global giants such as [BMW](#) and [Hyundai](#) to explore future mobility solutions, including hydrogen fuel cell vehicles—an alternative zero-emission technology in which Toyota was the [first to mass-produce hydrogen fuel cell vehicles](#) over a decade ago. Despite mounting competition from Chinese manufacturers in key markets like Southeast Asia, Toyota’s diversified strategy and proactive partnerships have helped it maintain a leading position, being the biggest selling brand for five years in a row.

Nissan and Honda: A Planned but Collapsed Merger in a Time of Crisis

Nissan, Japan’s third-largest automaker by volume, has been grappling with a [series of crises over the past decades](#). Following the dramatic downfall of former CEO Carlos Ghosn, which wiped out 30–40% of the company’s market value, Nissan has struggled to capitalize on early innovations like the Leaf, the first fully electric passenger car introduced in 2010, and has not fully benefited from the strong market for hybrid vehicles.

In response to declining sales—especially in competitive markets like China—Nissan initiated a cost-cutting plan that included shedding 9,000 jobs globally and an executive reshuffle. In March 2025, Nissan and Honda, Japan’s second-largest automaker, entered merger talks with the aim of pooling resources to enhance competitiveness against EV brands. The proposed merger was designed to foster collaboration on key technologies, as well as leverage economies of scale through joint supply chains and shared battery technology. A successful merger would have created the world’s third-largest car company valued at \$60 billion.

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However, [talks eventually collapsed](#) when Honda's proposal risked relegating Nissan to a subsidiary. Despite this setback, the idea of a Nissan-Honda alliance remains appealing. Both companies face intense pressure from rapidly evolving market dynamics, and a successful partnership could help them regain ground.

A New Threat: Looming Trump Tariffs

On 14 February, President Trump made a bold but vague announcement of floating the idea of [imposing tariffs "in the neighbourhood of 25%"](#) on imported automobiles, set to be introduced on April 2. Automobiles accounted for 28%—or 6 trillion yen (\$40 billion)—of all exports to the U.S. last year, making them the largest single category by value. Auto parts, the next largest export category at 6%, could also be affected by these tariffs. Japanese carmakers have calculated this risk by [ramping up their exports before the tariffs](#) take effect, and by implementing [flexible production plans](#). The latter option is [viable mainly for major players](#) like Toyota and Honda, who have significant manufacturing capacities in North America and can shift production from Canada and Mexico to the United States to avoid tariffs. Nonetheless, high-tariff trade policies will continue to be a challenge under the current US administration.

Conclusion

Japan's automotive giants are at a crossroads. While Toyota's balanced approach has maintained its leadership (and time has proved Toyota right), Nissan (and potentially Honda) must find innovative ways to navigate persistent challenges. The industry's transformation, driven by rapid technological advancements and shifting consumer preferences, demands a delicate balance between leveraging legacy strengths and investing in future-ready technologies.

Equally critical is the need for proactive engagement with regulators, as well as robust interaction with government stakeholders. Japanese carmakers must work closely with domestic and international, most importantly U.S. policymakers. By engaging constructively with government agencies and political leaders, these automakers can help safeguard their competitive edge and ensure that their forward-thinking investments are well aligned with emerging market realities. As these companies continue to adapt, their ability to innovate, collaborate, and influence both the regulatory and political landscapes will be crucial in shaping the future of global mobility.

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