

Discussion in Washington on Trump 2.0 and Economic/Energy Situation

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On April 24-26, I had an opportunity to have discussions with U.S. government officials, experts, energy industry stakeholders, and others in Washington about Trump 2.0 and the economic and energy situation. The discussion was extremely interesting, with topics ranging widely from Trump 2.0 policies and Trump administration developments regarding reciprocal tariffs and other issues to their impact on the global economic and energy situation and how to proceed with Japan-U.S. energy cooperation. In the following, I would like to summarize the points that left a particular impression on me through the Washington discussion.

First, the Trump 2.0 tariff policy, including reciprocal tariffs that were announced and shook the world in early April, has sparked concerns about its possibility of serious negative effects on the global economy as a whole and countries around the world and a shocking triple decline in the U.S. dollar, stocks, and Treasury bonds. This leads me to strongly feel that the concerns and shock would exert complicated impacts on future developments regarding the policy. As for global economic growth, the International Monetary Fund's latest World Economic Outlook, released in April, predicts the world growth rate for 2025 to be 2.8%, down 0.5 percentage points from 3.3% as projected in January. Of course, the main reason for this substantial downward revision is that the IMF has taken into account the tariff policy's negative effects, such as global trade contraction and inflation. The largest downward revisions of forecast economic growth included 0.9 points for the United States and 0.6 points for China. Amid rapidly growing concerns about an economic downturn, many countries are making serious efforts to negotiate with the United States.

In the United States, the significant forecast economic growth slowdown has been combined with the triple decline in stocks, Treasury bonds, and the dollar, which indicated "U.S. selling pressure" and shook financial markets, as mentioned above. In the face of such a situation, the Trump administration seems to be stepping up its efforts to suppress the market concerns and stabilize markets, perhaps out of concern about an overreaction to the tariff policy. Against this backdrop, I had an opportunity to hear an opinion that Treasury Secretary Scott Bessent has gained an increasingly influential presence in the Trump administration's tariff and economic policy, which had been led by Peter Navarro, senior trade and manufacturing adviser to President Donald Trump. Although President Trump himself is set to make final policy decisions, Bessent's presence in the policy might have seemingly become conspicuous. I felt that it has become extremely important for the Trump administration to promote negotiations with major foreign countries on reciprocal tariffs and other issues and make "achievements" in order to successfully manage excessive market reactions and concerns.

Second, the Trump administration's tariff negotiation partners are classified by some analysts into three categories: countries for relatively easy negotiations, those for very difficult negotiations, and those for intermediate difficulty negotiations. The first category covers countries

running small trade surpluses with the United States, such as the United Kingdom and Australia. The most difficult negotiation partner in the second category is China. The fate of the U.S.-China trade war holds the most important key to influencing the entire global economy. Many of the other countries are covered by the third category. Among them, Japan has taken a frontrunner position in negotiating with the Trump administration, according to many of my discussion partners. It seemed that the Trump administration may emphasize successful negotiations with Japan, an important U.S. ally, as a significant factor that will affect subsequent bilateral negotiations.

There were various views on how to interpret President Trump's participation in the first Japan-U.S. ministerial meeting on tariffs that took place when Japan's Economic Revitalization Minister Ryosei Akazawa visited Washington in mid-April. Some of my discussion partners viewed Trump's participation in the meeting as demonstrating his priority given to negotiations with Japan and providing an opportunity for the Japanese minister to hear opinions directly from Trump. Of course, there is no doubt that the negotiations will be extremely tough for Japan. However, it was meaningful for me to feel that the Trump administration gives priority to negotiations with Japan and their outcome and that the negotiations are moving forward.

Third, I heard interesting opinions on Trump 2.0 policies, such as reciprocal tariffs and their impact on the energy market and industry. I felt that many of my discussion partners viewed the Trump 2.0 energy dominance policy for U.S. oil and gas supply expansion as positive for the energy industry, including oil and gas producers.

Through my discussion in Washington, however, I felt that the actual decline in crude oil prices under the Trump administration's preference for low energy prices and concerns about economic deterioration due to reciprocal tariffs and other factors is not necessarily anything that the U.S. oil and gas industry can welcome with open arms. Furthermore, there are concerns that reciprocal and steel tariffs may cause higher material prices and overall cost inflation, which may lead to a deterioration in the profitability of various projects. If the economy deteriorates due to the tariff issue, global energy demand growth may decelerate. Due to high tariffs, China's energy demand is slowing, with China's liquefied natural gas imports from the United States becoming more difficult from the perspective of economic efficiency. I felt that the effects of Trump 2.0 policies have been complex and diverse for the energy industry.

Fourth, some of my discussion partners told me that they were concerned that tariffs and other Trump 2.0 policies would exert negative effects on the United States' influence on the world, which would benefit China in relative terms. Some countries may become dissatisfied with or opposed to the United States, which had led free trade but is now levying high tariffs unilaterally and seeking bilateral talks with foreign countries to resolve problems under President Trump. If the Trump administration takes a backward-looking stance on climate change issues by withdrawing the United States from the Paris Agreement again and from an initiative for developed countries to provide developing countries with \$300 billion in assistance as agreed at the 29th Conference of Parties to the U.N. Framework Convention on Climate Change last year, developing countries will inevitably become dissatisfied with and critical of the United States.

Within the United States, the Trump administration could unprecedentedly streamline and restructure the federal government and slash defense and other government spending. It has also subjected research spending at universities and other research institutes/think tanks to cuts. I heard an opinion that these Trump policies would reduce U.S. hard and soft power in a manner to allow China

to increase its influence on and presence in the world, consequently benefiting China.

Fifth, I felt that the importance of Japan-U.S. cooperation was increasing under the circumstances described above. Future negotiations between Japan and the United States on the tariff issue are likely to have a rough going. As noted above, however, both Japan and the United States are required to seek reasonable solutions amid growing uncertainties about the U.S. economy and the world economy. Based on their respective domestic circumstances, Japan and the United States must fully grasp each other's needs and explore an agreement. From the viewpoint of emphasizing Japan-U.S. cooperation, I also felt that my discussion partners were strongly interested in Japan-U.S. cooperation in developing Alaskan LNG, as energy cooperation is included in the center of bilateral cooperation. It will be important for Japan to be fully aware of the Trump 2.0's strong interest in Alaskan LNG, demonstrate its goodwill toward bilateral cooperation, and discuss solutions to secure and enhance the economic efficiency of the Alaskan LNG development. The two countries should consider overall U.S. LNG supply capacity and not only Japan but also Southeast Asia, India, and other growth markets as U.S. LNG export destinations to expand the scale of LNG cooperation. It will also be extremely important for Japan and the United States to expand the scope of energy cooperation to cover not only LNG but also critical minerals and nuclear energy.

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