

Japan Event Flash

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Japan-U.S. Summit Considered a Success for the Japanese Side

On February 7, U.S. time, the leaders of the U.S. and Japan held a summit meeting and issued a joint statement touting “the pursuit of a new golden age for U.S.-Japan relations”. The content of the joint statement mainly stated that Japan and the U.S. will strengthen their security, defense, and economic cooperation, with China in mind. President Trump also accepted Prime Minister Ishiba's invitation to make an official visit to Japan in the near future. On the other hand, there was no mention of tariffs in the joint statement. Given that under President Trump, the US has decided to impose an additional 10% tariff on China and is expected to impose a 25% tariff on Canada and Mexico, and given that Japan had concerns about additional tariffs, the Japan-US summit can be considered a success for the Japanese side for now. Three main reasons for the successful conclusion of the Japan-U.S. summit are as follows.

The first point is that the U.S. trade deficit with Japan is not large in relative terms. While the U.S. trade deficit is large in China and Mexico, Japan's is not that large in relative terms (Exhibit 1). On top of that, after the Japan-U.S. summit, Japan has announced that it will increase its imports of liquefied natural gas (LNG) from the United States. Looking ahead, the U.S. trade deficit with Japan is expected to decrease through energy exports. For the Japanese side, increasing purchases of U.S. energy will be a positive aspect from the perspective of stable energy purchases, as Japan is currently dependent on energy from the Middle East, which has been susceptible to geopolitical risk.

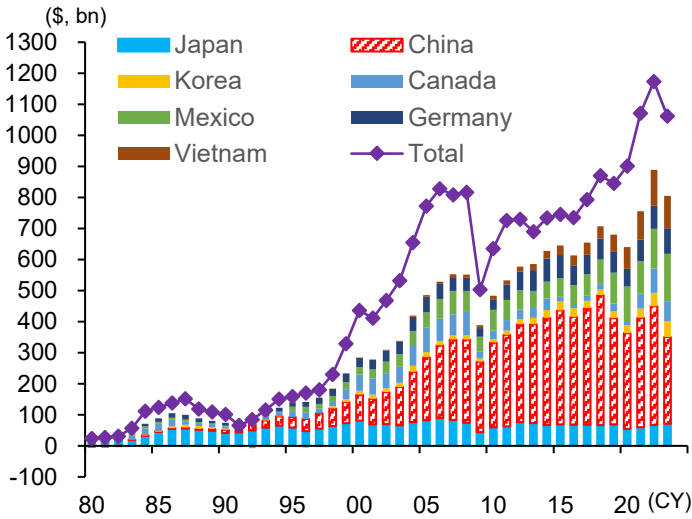
The second point is Japan's active investment in the United States. In terms of outstanding foreign direct investment in the U.S., Japan has been the leader for five consecutive years from 2019 to 2023, reaching \$783.3 billion at the end of 2023 (Exhibit 2). On top of this, after the Japan-U.S. summit, Japan announced that it would raise its investment in the U.S. to \$1 trillion (about 150 trillion yen). Concrete moves have already been made, with the SoftBank Group announcing a large-scale AI project that will invest \$100 billion (about 15 trillion yen) over the next four years and create 100,000 jobs. In addition, Isuzu Motors has decided to build a truck assembly plant in the U.S. in 2027, with an investment of about \$300 million (about 45 billion yen) and an expected annual production capacity of about 50,000 vehicles. Furthermore, Japan is the largest holder of U.S. Treasury bonds with approximately \$1.1 trillion (as of November 2024).

Third, Japan has committed to raising its defense spending. Although Japan's defense spending remains low among major countries at just over 1% of GDP, the Japanese government has already decided to raise it to 2% of GDP by FY2027 (Exhibit 3). In his press conference, President Trump positively evaluated Japanese arms purchases and Japan's doubling of defense spending compared to the first term of the Trump administration. Although specific numerical targets are not stated in the joint statement, Japan will fundamentally strengthen its defense capabilities

beyond FY2027.

For the Japanese side, the Japan-U.S. summit meeting can be regarded as a success, as Japan was able to successfully avoid President Trump's attacks through energy purchases and increased U.S. investment, and was assured of full cooperation from the U.S. in the security field. Although there is a risk that President Trump will use the additional tariffs as a weapon to demand further expansion of U.S. investment and higher defense spending, Japan is an important security and economic partner for the U.S. in its struggle for supremacy with China, and we believe that Japan will be able to get along relatively well with the Trump administration. Therefore, we do not expect the Japanese economy to be significantly affected directly by the Trump administration's policies.

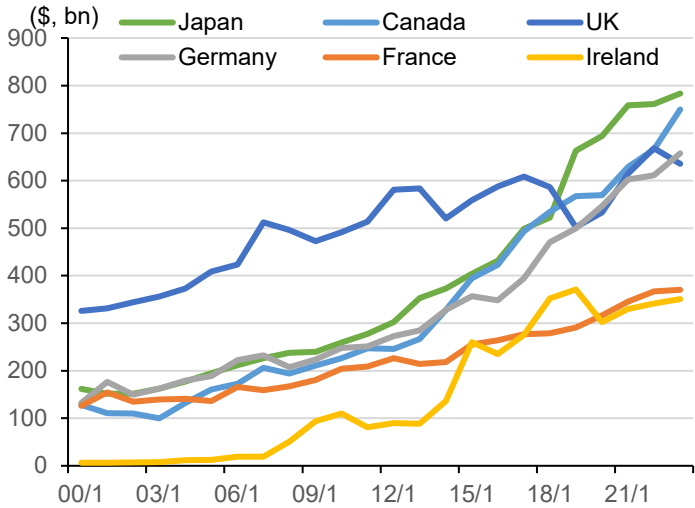
Exhibit 1: U.S. Trade Balance by Country/Region



Note: As of CY2023.

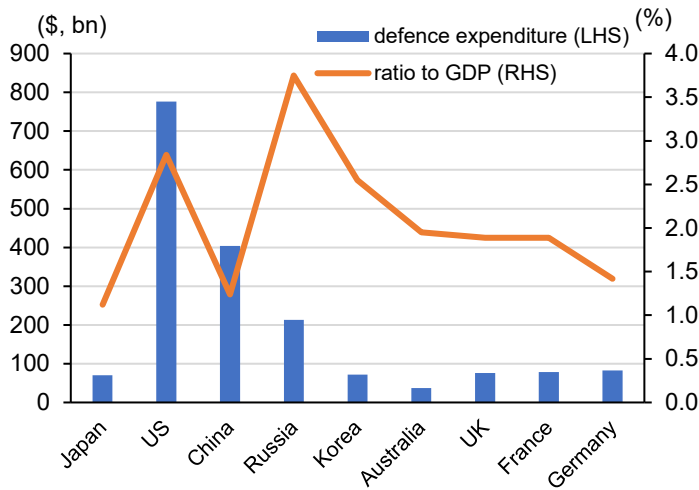
Source: U.S. Department of Commerce, MUFG: Trust Bank

Exhibit 2: Direct Investment in the U.S. by Major Foreign Countries



Source: BEA, MUFG: Trust Bank

Exhibit 3: Defense Expenditure in Major Powers



Note: As of FY2023.

Source: Ministry of Defense, MUFG: Trust Bank

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