

Why Japanese companies need to prepare for Trump 2.0

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On Jan. 12, as the new year got underway, TV Tokyo conducted an interview with leaders of major Japanese companies regarding 2024's risks, and many of them directly or indirectly viewed the Nov. 5 U.S. presidential election as a geopolitical risk. It is most likely that the election will be a rematch between incumbent U.S. President Joe Biden and former President Donald Trump, with the possibility that Trump might win. Under such a situation, the interviews indicated that Japanese business leaders are paying close attention to the growing uncertainty of U.S. politics. If Trump were to win, what would the economic security policies of the second Trump administration — or Trump 2.0 — be like?

Trump 2.0 will adhere to the America First policy under the slogan of “Make America Great Again,” just like Trump 1.0 did, but the new incarnation has a high possibility of differing from the first term in that the administration will likely consist of Trump's close “aides,” and its policies are predicted to be even more extreme. Trump 2.0 is likely to adopt much tougher policies with considerable impact, compared with those of the Biden administration, which has succeeded much of Trump 1.0's tough policies against China but has aimed at taking a “small-yard, high-fence” approach. This article will discuss the economic security policies that could be adopted by Trump 2.0.

policies, a book published last June by Robert Lighthizer, who served as U.S. trade representative during Trump's first term, has been attracting attention in the United States. Lighthizer is advising Trump's presidential campaign, according to U.S. politics-focused media outlet Politico, and The New York Times reported that he would most likely play a key role in a second term.

The book “No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers” indicates there is a high possibility that Trump 2.0 will adopt a tougher stance against China. In his book, Lighthizer argues that the current problem facing the U.S. is, from an economic viewpoint, “decimation for the American industrial base and the workers, families and communities,” which was caused by U.S. manufacturing offshoring based on the “radical free trade theory of the 1990s and early 2000s.”

From a national security viewpoint, he describes the U.S. relying on foreign supply chains for vital products ranging from “rare earth minerals to semiconductors,” placing the country in a critical situation. To solve these issues, Lighthizer advocates what he calls a “strategic decoupling” with China — a country labeled as a “strategic competitor” by Trump 1.0 and defined as a “competitor” by the Biden administration.

From the economic side, Lighthizer calls for decoupling from China by repealing the granting of Most-Favored-Nation status and imposing

Economic security policy

In predicting Trump 2.0's economic security

high tariffs as well as expanding the scope of the Committee on Foreign Investments in the United States (CFIUS) to restricting investments that will cause long-term economic harm to the U.S. The Washington Post reported in January that Trump has discussed with his advisers the possibility of imposing 60% tariffs on all imports from China.

From the national security side, Lighthizer states that the U.S. need to “stop technology interdependence” with China, strengthen export and import restrictions, expand restrictions on U.S. inbound investment and create a new authority somewhat similar to CFIUS to regulate U.S. outbound investment. In addition, during his first term, Trump signed three executive orders that banned certain Chinese apps, including TikTok, from operating in the U.S., with one of them issued approximately two weeks before Biden’s presidential inauguration ceremony.

The Biden administration revoked the orders, which could have been considered unconstitutional, but Lighthizer calls for stricter control over Chinese apps in his book. It is uncertain whether Trump will adopt Lighthizer’s views if he returns to the White House, but the America First Trade Plan announced by Trump’s campaign in February 2023 states that he will adopt policies to “completely eliminate U.S. dependence on China,” and many measures listed in the plan seems to be in line with the ideas advocated by Lighthizer. Japanese companies should prepare for the possibility of Trump 2.0 under the premise that U.S.-China competition will become even tougher.

Republicans in congressional elections

As for the congressional elections to be held on the same day as the presidential election, Republicans are at an advantage to win back the Senate majority, so if the party can keep its majority in the House of Representatives, there is a possibility that the situation of a divided Congress could end. Specifically, out of 100 seats in the Senate, 66 will not be up for election this year. Of those, 38 are held by the Republicans and 28 by the Democrats, indicating that the former party is in a favorable position.

According to 270toWin, a nonpartisan website that aggregates polls and election projections, it was forecast as of Jan. 30 that of the 100 seats, Republicans will secure 50 and Democrats 48, with two seats split. As for the House of Representatives, the forecast figures were 207 for Republicans, 204 for Democrats and 24 split.

Japanese companies have to keep in mind that if Trump runs as a Republican candidate in the presidential election and wins, with Republicans taking control of both the Senate and the House of Representatives, it will become easier for Trump 2.0 to implement its economic security policy.

Impact on Japanese companies

According to trade and investment statistics for 2022 released by the Office of the U.S. Trade Representative, the nation's goods and services trade deficit with China was the largest among countries at \$367.4 billion. Meanwhile, the U.S.

trade deficit with Japan amounted to \$70.3 billion, suggesting that Trump 2.0 will urge Tokyo to take measures to fix the trade balance, just as Trump 1.0 did.

The Washington Post reported in January that Trump has proposed a new 10% tariff on nearly all U.S. imports from around the world. New concerns are arising after the U.S. announced that Japan remained its top investing country at the end of 2022, having maintained the top position for four years in a row.

Nippon Steel is likely to come up as an important issue during the U.S. presidential election and will be seriously affected politically if Trump wins. The firm announced on Dec. 18 that it would acquire U.S. Steel for more than ¥2 trillion (over \$14 billion). The announcement of the deal to purchase the iconic steelmaker came under the spotlight as U.S. politicians were gearing up for the presidential and congressional elections.

The issue was particularly in the spotlight as Pennsylvania, where U.S. Steel is headquartered, falls within the Rust Belt — a region that was long dominated by manufacturing, steel making and coal producing but which faced dramatic industrial decline that resulted in widespread unemployment — and is also one of the swing states that could potentially be won by either candidate in the presidential election. In the 2020 presidential election, Biden narrowly won in the state, securing 50.01% of votes against Trump, who gained 48.84%. But it will not be easy for Biden to get a similar result in this year's election.

In addition, Japanese companies should bear in mind that Pennsylvania is also regarded as a

swing state in congressional elections. On the day Nippon Steel made its announcement, United Steelworkers, a labor union representing more than 850,000 members in North America who traditionally provided a base of support for Democrats, immediately released a statement criticizing the deal.

On the following day, three Democratic lawmakers from Pennsylvania — Sen. Bob Casey, whose seat is up for election this year, Sen. John Fetterman and Rep. Chris Deluzio, whose seat is also up for election — sent a letter to Treasury Secretary Janet Yellen, chair of CFIUS, urging CFIUS to block the proposed acquisition of U.S. Steel by Nippon Steel. They raised concerns over the national security implications of selling a company manufacturing for some of the nation's most important industries, including defense, power and infrastructure, to a foreign entity.

Three Republican Senators — Josh Hawley from Missouri, whose seat is up for election, J.D. Vance from Ohio and Marco Rubio from Florida — also sent a similar letter to Yellen on the same day. Amid such backlash over the acquisition, Lael Brainard, director of Biden's National Economic Council, said on Dec. 21 that the sale of U.S. Steel to Nippon Steel “appears to deserve serious scrutiny,” suggesting the need for an investigation by CFIUS.

Meanwhile, mixed reactions have come from officials who served in Trump's Cabinet during his first term. Willbur Ross, a Wall Street investor who served as commerce secretary during Trump 1.0, argued in an op-ed in The Wall Street Journal on Jan. 1 that “xenophobia drives

foes of Nippon Steel’s deal,” although it poses “no threat to America’s economic or national security.”

On the other hand, Lighthizer, who grew up in a small town in Ohio, one of the Rust Belt states, appeared on a Fox News show on Dec. 21 and expressed strong opposition to the deal, saying, “Do you think you could put together a bunch of money and go buy Nippon Steel in Japan? There is not a chance in the world. ... Countries don’t let this happen.”

On Jan. 31, when asked whether he would block the acquisition if elected, Trump said, “I would block it instantaneously. Absolutely,” Bloomberg reported. There is an increasing possibility that Trump will bring up the issue again and again as a key point of dispute in the presidential election.

Nippon Steel sent a delegation to Washington in mid-January to meet with lawmakers and think tank analysts for discussions over the U.S. Steel acquisition, Nikkei Asia reported. The firm retained a powerhouse team of nearly a dozen lobbyists from Akin Gump Strauss Hauer & Feld — including two former members of Congress — to work on the proposed deal, Politico reported.

The case has already become a political issue, and there is no silver bullet for this except to approach both the Biden administration and the Trump presidential campaign, and at the same time explain tenaciously to members of Congress from Pennsylvania and state legislators, as well as the Pennsylvania governor whose post is not up for election this year, how much the proposed deal would also benefit the U.S. and

Pennsylvania.

How to prepare for Trump 2.0

Unlike Japan, the U.S. adopts a presidential system dominated by two major political parties, which means presidential transitions tend to bring about changes in policies. And the changes are becoming much larger today as the divide within the country widens.

Japan, while understanding and respecting the decisions to be made by U.S. citizens, needs to be prepared to stabilize its relationship with the U.S., its key ally. On Jan. 16, the Yomiuri Shimbun reported that Prime Minister Fumio Kishida intends to make an official visit soon to the U.S. to build further trust with Biden, while pinning his hopes on Taro Aso, vice president of the ruling Liberal Democratic Party, to serve as a conduit to Trump.

So, are Japanese firms getting prepared for Trump 2.0? The Nippon Steel case is just one example of Japanese companies investing in the U.S., and such investments are likely to grow further. The firms must be prepared to cope with a divided U.S. landscape, because they will be more prone to U.S. domestic politics. It is necessary for Japanese firms to make preemptive moves by establishing an information network in the U.S., setting up an office in Washington in addition to their headquarters in the country, and creating a lobbying team.

In Washington, it is often said that politicians do not support companies even if they ask for help when they are in trouble unless the firms build a

trustful relationship with them during normal times. This is why Japanese companies should be prepared, in today's divided America, not only for Biden winning the presidential election but also for the scenario of a Trump victory.

The clock is ticking.



Profile



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