

Trump's America & Abe's Japan - Concrete Proposals

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Japanese Prime Minister Shinzo Abe is poised to be the first global leader to present President Trump with a concrete policy proposal that is designed to shape and promote Trump's "America First" agenda and, at the same time, to advance the US-Japan alliance. After meeting the then President-elect for the first time on November 17, Abe will meet Trump for the second time on 10-11 February and PM Abe appears very determined to impress the President by offering a concrete "deal" so that both countries can move from talk to action. If, as we suspect, the meeting goes well, the implications are poised to be positive for US-Japan economic and financial relations.

In our view, Trump's America and Abe's Japan are a "Match Made in Heaven" not just because both leaders share a basic "strongman leadership" and "my country first" philosophy, but because the economic and financial agendas are very much aligned: Team Abe is determined to make Trump look good by offering "funded by Japan" but "built by America" infrastructure projects. At the same time, Prime Minister Abe is expected to propose that the US-Japan bilateral trade and investment relationship becomes a blueprint for a new global trade and investment agenda. Make no mistake, this could be a bold and forward-looking agenda that should help markets understand how a Trump-led global economic and financial agenda could unfold.

Here is the Deal

Specifically, according to Japan's largest circulation newspaper, Yomiuri Shimbun¹ on February 3, PM Abe is preparing to offer a comprehensive "US-Japan Economic Cooperation Plan". At the bottom line, this deal is designed to create a US\$450 billion market in the US through railway and infrastructure investments and create up to 700,000 US jobs over a ten-year period. Japan would offer to seed-fund these projects with low-interest loans, mobilising resources from Japan's public pension fund and other public lenders.

In addition, the plan proposes that the US and Japan work together to create new cross-border trade rules covering all aspects from e-commerce, intellectual property, government procurement, labour and financials, among others. In other words, after President Trump pulled out of the Trans Pacific Partnership, Prime Minister Abe will likely propose that the bi-lateral US-Japan framework asserts itself as the new forward-looking model for President Trump to lead global economic developments.

In detail, PM Abe's deal for Trump reportedly focuses on five common goals for the US and Japan:

1. Developing the world's most advanced infrastructure in the United States;
2. Using US infrastructure development as a platform for joint-leadership in supplying global infrastructure demand;

3. Leading the development of robots and artificial intelligence and their applications;
4. Collaborating in new frontiers, such as space development;
5. Cooperating more closely on defence, and security systems development and security strategy.

Whilst items two to five are more strategic at this stage, there are concrete project proposals for US infrastructure, as reported by the Yomiuri Shimbun:

- + High-speed railway projects in Texas, California and the Washington-Boston North-Eastern corridor;
- + A commitment for Japan to replace 3,000 railway train and subway cars currently in use in the US;
- + Build more highly-efficient, gas-fired power plants in the US;
- + Build more nuclear power plants;
- + Jointly develop robots to decommission old nuclear power plants;
- + Jointly develop robots to inspect and maintain infrastructure (e.g. pipelines, powerlines);
- + Jointly develop the global standard for self-driving trucks, ships and planes.

How will Trump react?

At this stage, we still need to see more concrete details of the exact proposal PM Abe will offer Team Trump; however, the fact that a concrete deal is likely to be offered is in itself poised to open a new chapter in the Trump Presidency. How will he react? Who on his team will engage and lead a constructive dialogue?

In my personal view, PM Abe deserves a lot of credit for taking the risk and for wanting to be the first global leader to engage America's new leader in a proactive and constructive way that is designed to make the new President look good and also puts "America First". Certainly, Japan's top-level engagement appears to contrast with most other global leaders who appear to be more reluctant to engage the new leader in Washington.

Viewed from Tokyo, the possibility of a "win-win" dynamic development #between the US and Japan is high. Moreover, amongst Team Abe in Tokyo, the energy and enthusiasm with which they want to engage with the new team in Washington is extremely impressive – there seems to be plenty of positive energy amongst key policy makers in Tokyo for the first time in a very long time.

At the same time, Japan's all-out "America First" engagement draws a further hard line against relations with China. A worst-case scenario could be President Trump turning around and seeking greater engagement with China, although that possibility appears extremely low at this stage, in our view. In this case, the US-Japan security alliance assures an extraordinarily strong base for positive US-Japan economic relations.

Investment implications

The most immediate and concrete part of the proposal focuses on infrastructure projects as well as investment into applied robotics. Japan's capital goods sector is thus poised to benefit most directly. In addition, the greater and deeper the Trump-Abe relationship develops, the lower the risk of erratic bi-lateral frictions should become. Specifically, the more positive US-Japan economic cooperation, the less likely it should get for Japan to be suspected of manipulating its currency.

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