

# Message from the Trump administration: Ideology and rationality

- Interview with Takehiko Nakao  
by Shingo Konomoto -

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## Executive Summary

*Since taking office on January 20, US President Donald Trump has announced a host of policies aimed at realizing the pledges made during his campaign. Many of these policies have upset the existing global order and created turmoil around the world. We asked the Center for International Economy & Strategy's Takehiko Nakao, who has spent much of his career representing Japan on the international stage, for his thoughts on how to approach recent developments. (This conversation was recorded on March 10, 2025.)*

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### Takehiko Nakao

*Chairman, Center for International Economy & Strategy Ltd., former president of the Asian Development Bank*

Mr. Nakao graduated from the University of Tokyo with a degree in economics in 1978 before joining the Ministry of Finance. He was seconded to the IMF, served as the head of the International Organizations Division in the MOF's International Bureau, and became the Chief Budget Inspector in the Budget Bureau, where he was responsible for foreign affairs, economics and industry, and foreign aid. He was appointed Minister at the Embassy of Japan in the United States. He served as Director-General of the International Bureau before being appointed Vice Minister of Finance for International Affairs in 2011. From 2013 to 2020 he served as President of the Asian Development Bank (ADB). He subsequently became Chairman of the Institute at Mizuho Research & Technologies, Ltd. before taking up his current position in 2024. He is a visiting professor at the Graduate School of Public Policy, University of Tokyo, and at the National Graduate Institute for Policy Studies (GRIPS). He has a master of business administration from University of California, Berkeley (1982).

### Shingo Konomoto

*Chairman and Member of the Board, Nomura Research Institute*

Konomoto joined Nomura Research Institute in 1985 and served as a strategic consultant for global manufacturers. He was appointed Senior Managing Director in 2004. In 2010 he became Senior Corporate Managing Director and Division Manager of Consulting Division and in 2015 was promoted to Senior Executive Managing Director and Head of Business. He was then appointed president and CEO in 2016. In 2019 he became chairman, president, and CEO of the company, and since 2024 he has served exclusively as chairman. He is also an independent director at Sony Group Corporation and Kirin Holdings Company, Limited.



## Impressions two months into second Trump administration

**Shingo Konomoto:** We are roughly two months into the second Trump administration, which has been very active from the outset. What are your impressions of the new administration?



**Takehiko Nakao:** One reason why Mr. Trump won the election last November is that the Democratic Party is regarded as not paying enough attention to the working class. The Biden administration appeared largely indifferent to the social divide caused by globalization and high tech while emphasizing causes that reflected the liberal values of the elite, such as LGBT, gender issues, and affirmative action for minorities. As a consequence, working-class voters who had once supported the Democratic Party felt they had been abandoned and became increasingly dissatisfied and angry.

The Republicans secured majorities in both the House of Representatives and the Senate. And with President Trump now in his second term, he is confident that he has won the trust of the people based on the results of his first term. Not only did he emerge victorious in all of the seven so-called swing states, thus garnering a majority of Electoral College votes, but he also won a majority of the popular vote, and that has contributed to his sense of omnipotence.

President Trump is firmly committed to doing what he believes is best for America. It is the job of politicians everywhere to do what is in the best interest of their own people. Historically, however, “America first” has involved promoting the global liberal order—i.e., free markets and multilateral trade and payments systems, or democracy—based on the understanding that this would also be in America’s national interest. While that may have also been a reflection of US values and its sense of mission, I think it also benefited the nation economically and geopolitically.

When the Soviet Union still existed, communism—which sought to spark revolutions around the world—was a major rival that the liberal powers were forced to confront. But this kind of ideological conflict no longer exists today, which offers the question of why the US must continue to provide help to other nations.

In this changing environment, the Trump administration is trying to shift course and adopt policies that are more directly meant to benefit America. It is unilaterally choosing to ignore the existing global order and is seeking to further its own naked national interest.

The US is threatening Mexico and Canada with tariffs in an attempt to win concessions on illegal immigration and drug inflows. It is arguing that Greenland should become part of America claiming that it is strategically important and is now in the sights of China and Russia. The administration is seeking to expand US territory from a geopolitical perspective, arguing that the Panama Canal also should be returned to US control because it was Americans who funded its construction.

President Trump sees little value in international frameworks. This was underscored by the decisions to withdraw from the World Health Organization (WHO) and the Paris Agreement. The US was already refusing to appoint new judges to WTO's dispute-resolution body under the Biden administration, effectively preventing it from doing its job, and the current administration has doubled down on such actions. It has also argued that government must be streamlined and essentially dismantled the United States Agency for International Development (USAID) with no warning at all.

The administration also appears to believe the conflict between Russia and Ukraine is fundamentally an issue of European national boundaries and should therefore be resolved by Europe itself. Mr. Trump takes the view that the US has borne an excessive burden under NATO and believes the countries of Europe should shoulder more of the cost of their own national defense.

The administration seems to have resurrected mercantilism, which sees trade surpluses as good and tariffs as tool to achieve it, and imperialism, which seeks to expand a nation's geographic influence. But the original eras of mercantilism and imperialism were characterized by the presence of many monarchies that mutually recognized the importance of diplomatic protocol and based their actions on the premise that treaties would be upheld. In that sense, things may be even worse today.

**Konomoto:** The US currently enjoys a strong position relative to other countries. China faces a variety of domestic issues, and Europe has a fragile political base. I

think President Trump is seeking to take advantage of his nation's strong political and economic base to accomplish a variety of objectives at the start of his second term.

Mr. Trump also broached a number of issues with Japan in his first term. I think Prime Minister Abe worked hard to persuade him to go easy on Japan, telling him that "This may not seem like putting America first, but ultimately that is exactly what it will do." With respect to Prime Minister Ishiba's February visit to the US, I was surprised to see Mr. Trump take a relatively balanced approach to many issues. My sense was that this might be the legacy of Mr. Abe's persistent efforts.

Europe, Canada, and Mexico have all been thrown off their stride by the US president's unilateral posturing. He relies heavily on personal relationships, but the absence so far of another leader who can communicate persuasively is why so many of Mr. Trump's words and deeds seem to stand out. It is difficult to tell whether things will continue in this direction or whether a feedback loop might emerge at some point, leading him to review some of his positions.



**Nakao:** As you mentioned, Mr. Abe is said to have used the political ability of getting close to Mr. Trump in order to persuade America to take a less confrontational approach to Japan.

In contrast, the leaders of Europe and Canada have maintained their liberal posturing and a kind of looking-down, preachy attitude on the US. I suspect Mr. Trump has a deep resentment to their stance and sense of values. For better or for worse, Japan is not headed in an extremely liberal direction. Its efforts on the DE&I (diversity, equity, and inclusion) front have also been relatively moderate and in line with common sense of people. I think Japan should progress in this direction.

## Will US tariff policy be revised?

**Konomoto:** President Trump has announced a flurry of increased tariffs. Reducing the US trade deficit was one of his campaign pledges, and he is clearly trying to fulfill that pledge. But simply raising tariffs will not bring the deficit down immediately. I think he is also using tariffs as a negotiating tool.

It is not uncommon for him to announce a new policy only to revise his position the next day. People in private enterprise—and particularly at Japanese manufacturers—say they are considering a variety of contingency plans but are unsure when to act. The risk that Mr. Trump will walk back his earlier remarks is a major problem for them.

**Nakao:** President Trump strongly believes a trade surplus represents a national gain, while a trade deficit is a loss. In practice, of course, that is not necessarily the case—although the US may be running a trade deficit, its trading partners are financing US expenditures in excess of domestic production via the capital account.

The Trump administration's tariffs have been presented without warning and in a way that is extremely hard to predict. Moreover, the tariffs themselves are very high. Even if we ignore for now the various issues raised, such as whether the tariffs are in compliance with WTO law, this is a highly unusual situation. Apart from the issue of the policy's impact on Mexico, Canada, China, and other countries, the biggest question is what it will do to the US economy itself.

**Konomoto:** It may well have a negative impact on the US economy.

**Nakao:** That's right. Tariffs result in higher domestic prices. It is standard practice in our era for consumer goods retailers like Walmart as well as automakers and other manufacturers to establish global supply chains. If such a company is suddenly ordered to reconstruct its supply chain network, it will take time to build domestic factories and other elements of supply chain. I suspect US industry and consumers alike will be hurt badly by the tariffs.



President Trump is trying to revitalize domestic industry using tariffs instead of subsidies. However, manufacturing now accounts for less than 10% of US GDP and employment—instead, it is investment banks and platform providers that represent the strength of the economy.



We need to monitor how long these policies continue and how they change over time. I don't think we will know for a while yet whether President Trump's actions such as those over the last two months will continue, leaving America an entirely different country in terms of both domestic policy and its role regarding the global order. Such an environment poses many challenges for companies, but I think their only option for now is to avoid overreacting and provide for a variety of contingencies.

**Konomoto:** There are a number of Japanese automakers that have no US factories, and the 25% tariff starting in April will have a major impact since automobiles account for some 30% of the nation's exports to the US. There will be huge implications not only for the auto industry but for the Japanese economy as a whole. I think this may be a critical juncture for Japan.

**Nakao:** As many have noted already, President Trump likes to focus on deals and transactions, but there may be no absolute moral framework guiding his behavior. While he is probably fed up with the constant liberal correctness, I think he may be willing to revise his other policies including economic policies in response to the reactions of consumers, businesses, and the stock market.

**Konomoto:** Are there any other factors that might lead to changes in his policies?



**Nakao:** Decisions made by the judiciary branch may play a role. Although lower court judges have already placed injunctions on a variety of Mr. Trump's policies, the administration will probably take these cases all the way to the Supreme Court, and in the meantime the policies will effectively remain in place. Moreover, six of the nine sitting Supreme Court justices are viewed as being conservative, so it remains to be seen how much of a brake the judiciary will be on the administration's policies.

Since America is a collection of states, individual states may adopt policies that differ from those of the Trump administration. Climate-change initiatives, for example, may be pushed forward by states with liberal values such as California on the west coast and New York on the east coast.

Furthermore, given the relatively small gap in the number of seats held by the

Democrats and Republicans in both the House and the Senate, we cannot rule out a scenario in which more moderate members of the Republican Party refuse to support some of the administration's policies. In particular, I think things could change very much if inflation worsened, the business community grew increasingly unhappy, and stock prices fell.

## Trump administration's forex policy and the yen

**Konomoto:** I would also like to ask you about President Trump's currency policy. Mr. Trump has said he supports a strong dollar, but at the same time he says the cheap yen is extremely problematic. This sense of confusion seems to extend to the Fed, which has suggested it will not rush ahead with rate cuts.



What is your outlook for US forex policy and USD/JPY?

**Nakao:** I see three factors that are likely to boost the value of the dollar. One is that tariffs, tax cuts, and the deportation of illegal aliens will stoke domestic inflation, preventing the Fed from cutting interest rates and thereby leading to a stronger dollar.

The second is the impact of the so-called Trump trade, which is premised on the belief that the administration's deregulation efforts will provide a tailwind to business. If these expectations prompt overseas investors to invest in US equities, the dollar will strengthen. The third is that President Trump has emphasized that the dollar's role as a reserve currency is one aspect of US hegemony, and that requires a strong, stable dollar—a view once expressed by former Treasury Secretary Robert Rubin.

However, there are also factors that could cause the greenback to weaken. First, the theory of purchasing power parity suggests that the currencies of countries with high inflation rates should lose value over the long term. And if economic turmoil undermines confidence in the US, overseas investors will buy fewer US assets, thereby weighing on the dollar. There is also the question of how to view



President Trump's argument that other currencies are too cheap.

**Konomoto:** Recently the dollar has weakened against other currencies.



**Nakao:** That may be because the dollar-negative factors I mentioned are starting to attract more attention.

That said, I think the yen is simply too cheap. The IMF publishes exchange rate estimates based on purchasing power parity—that is, it estimates the level at which the cost of a given basket of products is the same in each currency. This method produces an exchange rate of somewhere around 95 yen to the US dollar.

Because the yen is so cheap, the world is buying up Japanese goods, services, real estate, and companies. Large corporations with overseas assets—typically exporters—may enjoy higher share prices, but consumers and small businesses are suffering heavily from the inflation caused by rising import prices. While many people seem to think a cheap yen is good because it makes exports more competitive and drives inbound demand, the current situation is one in which foreigners are cheaply acquiring goods and services produced in Japan while the Japanese themselves can no longer afford imported goods or overseas travel. This represents a worsening of the terms of trade and is not something to celebrate.

While some say the yen is cheap because the Japanese economy has lost much of its underlying competitiveness, the nation's unprecedented monetary policy experiment has also played a role. When I served as Vice Minister of Finance for International Affairs, the yen rose to 75 against the dollar between the summer and autumn of 2011, and we responded with official intervention, buying a total of \$170bn with ¥13.6tn. This was just after the Tohoku earthquake, and Japan's economy was not particularly strong. The main reason the yen appreciated to the extent it did was that the US and Europe had adopted far more accommodative monetary policies than Japan in the wake of the Lehman crisis. Differences in the central bank's monetary policy stance can have a major impact on exchange rates.

**Konomoto:** So the weak Japanese economy is not the sole reason for the

cheapness of the yen?

**Nakao:** I believe the Bank of Japan's prolonged ultra-accommodative monetary policy—its efforts to target a higher inflation rate with negative interest rates, large-scale purchases of government bonds, and yield curve control that sought to repress even long-term yields—was what triggered the excessive depreciation of the yen, including speculative attacks on the currency.

I think it would be a good thing for the yen to strengthen a certain amount as a result of Trump administration policies. If it happens too violently, of course, it could destabilize Japan's economy and make it more difficult for the Bank of Japan to normalize monetary policy.

**Konomoto:** Foreign companies and funds are now trying to acquire Japanese companies, and overseas investors are actively buying Tokyo real estate. There are unnaturally good bargains to be had in Japan at the moment. This is all due to the cheap yen. If this state of affairs continues for an extended period of time, nothing good will come of it.

**Nakao:** I agree entirely. This is a major problem that affects the national interest.

## Impact on China and Asia

**Konomoto:** How do you see the various Trump administration policies affecting China and other countries in Asia?

Since China is under central government control, I doubt that the advent of the Trump administration will suddenly spark domestic turmoil. However, do you anticipate significant economic damage, and do you think the nation will ultimately be able to survive it?



**Nakao:** The US as a whole is very strong: its population is relatively young and growing, and it is an economic success story. The biggest issues in the first half of the 21st century will be the outlook for the US and its evolving role as leader of

the global order, but also the outlook for the Chinese economy and the question of what sort of country China will become.

It once was regarded that the Chinese economy would hit a speed bump after the Beijing Olympics in 2008 and also after Expo 2010 in Shanghai, but the nation made it through those periods with infrastructure investment, real estate investment, and vigorous capital investment in factories and equipment. Now the world is awash in Chinese products, and oversupply has become a problem.

I think the recent bursting of the Chinese real estate bubble may prove to be an inflection point of sorts. Japan's real estate bubble was land-centric, but China's bubble was focused on condominiums and other residences, so the social impact of its collapse appears to be greater. When a real estate developer goes bankrupt and halts work on a project, it raises the question of how to rescue the people who have already paid for their units. With real estate-related expenditures estimated to account for fully 30% of Chinese GDP, I cannot help but think this will have a major impact on the Chinese economy.

Some argue that China's financial system has been more stable than Japan's was after the collapse of the bubble around 1990. This is because the Chinese real estate developers were funding themselves with trade credit and advance payments from buyers. Consequently, problems at those companies did not cause a substantial increase in nonperforming loans in the banking sector. I suspect problems—such as homebuyers falling behind on their mortgage payments—will eventually emerge. In addition, Japan's experience was that sellers and buyers alike stay out of the market when real estate prices start falling, obscuring the extent of the ultimate decline in prices. Chinese local governments are also experiencing fiscal problems since they previously generated 30% to 40% of their revenues by selling to real estate developers the land-use rights they had cheaply acquired from farmers.

Frictions with the US regarding trade and investment, and the policies of the Trump administration naturally present major challenges. In addition, the Chinese government is moving in the direction of increased regulation, and it is worrying that it seems to be prioritizing national security over economic development. The country must contend with a shrinking working-age population (relative to the total population) as the birthrate falls and society ages, and there is also the question of how to pay for medical and nursing care expenditures.

These are all negatives for the Chinese economy, but the policy of decoupling from the US may help promote domestic technological innovation.

**Konomoto:** I agree.

China's imports of the most advanced semiconductors from the US have been halted. When I visited Shenzhen in November, I asked whether difficulties in sourcing semiconductors were having a severe impact on innovation. They told me there was no need to worry because China would make its own semiconductors if such problems arose. The DeepSeek announcement came out very soon after that.

In terms of innovation, China has the ability to bring production home and start making things on its own if placed under external constraints. The real estate issue is clearly a problem for the country, but I do not think decoupling will stop innovation.

**Nakao:** China has an extremely high capacity for technological innovation today. There are many Chinese who have studied and worked overseas and built networks with people in other countries, and the large population means there is also a large pool of researchers. All of these are key strengths for the nation.

**Konomoto:** It is also highly competitive.

**Nakao:** Japan is spending a great deal of money on social security, but my impression is that China continues to prioritize R&D and education even as the population ages.

The flip side of that is the huge income disparities that have continued between different parts of the country. Public services such as education, healthcare, and pensions are all based on the family registration system and vary greatly between urban and rural residents. This is rooted in the concept of a planned economy, where the cities should be developed first along with heavy and chemical industries. The economy now needs to shift from investment to consumption, and therefore reforms in registration system and others are needed to expand the middle class, but this will not be easy since the current policies have created vested interests for urban residents.

**Konomoto:** What about southeast Asia?



**Nakao:** Southeast Asia is still growing, and the ten ASEAN nations now have a population of 700mn, or about half that of China. Japan needs to continue strengthening its relationship with this region. I suspect that rather than choosing to follow the US or China, southeast Asia will take the approach of trying to maintain good relations with both.

**Konomoto:** I recently visited Thailand and saw many electric vehicles made by BYD. China is making big inroads into this region in infrastructure, consumer goods, and durable consumer goods.

Southeast Asians do not have any particular preference for Chinese products or Japanese products; they are happy to buy anything that is inexpensive and of good quality. I think Japanese companies risk losing market share to Chinese rivals in the region unless they do something to address the competitive threat.

**Nakao:** Japanese businesses need to find products (and this is true not only in developed markets but also in China and southeast Asia) that only they can provide—higher priced products offering greater value that derives from quality, design, branding, and other factors.

## US deregulation and efficiency initiatives

**Konomoto:** The Trump administration is also moving ahead with domestic deregulation initiatives.

There appears to be a special focus on the financial sector. With the replacement of the SEC chairman, the prospect has emerged that regulatory bills will be scrapped and that the government will take a different approach to cryptocurrency. Does the US financial sector view these as positive developments?

**Nakao:** In the beginning, at least, I think the business community welcomed deregulation in the financial sector, antitrust law, AI and other high-tech areas, cryptocurrency, energy, and the environment. But if the administration ignores the democratic values the US holds dear—including the separation of the

three branches of government, checks and balances, and respect for different opinions—it could lead to greater uncertainty for businesses as well. Being elected does not give a president the right to do anything he wants.

Even in a democracy, allowing the majority to dictating everything will result in a tyranny of the majority. Instead of seeking justification for its policies just in the election results, the democracy should pay more heed to the separation of powers, respect for expert opinions, and the broader field of free voices that includes the media and academia.

**Konomoto:** The administration has also created the Department of Government Efficiency (DOGE) with the objective of making government more efficient.

**Nakao:** The hiring of Elon Musk to lead DOGE was another key decision of the second Trump administration. Mr. Musk is of course looking out for his business interests in IT, EVs, and social media, but there is also an ideological component: he is heavily opposed to liberal causes like LGBT, and he believes government and the bureaucracy are spreading regulation to defend their own vested interests. I suspect that, as a member of the “techno-elite,” he believes that technology can solve nearly all problems and that the nation itself can be run efficiently with AI.



He is in fact trying to dismantle a variety of government organizations. But while there are certainly many areas where greater efficiency is needed, government organizations exist because there is a need for what they do. The reality is that the role of government has gradually expanded in response to the need for social security, the pandemic, the aging of society, and the need for economic security. I think Mr. Musk’s way of doing things could create a great deal of confusion and may eventually have to be rolled back significantly.

**Konomoto:** He fired about half the employees when he bought Twitter, and yet the company continued to function. He also let go a significant percentage of the workforce when Tesla was experiencing difficulties only to rehire critical employees later on. He likes to start from a clean slate. His experience is that doing so



results in a lean, muscular organization, and I suspect that is why he is taking this approach to government agencies as well.

**Nakao:** There are many areas of government that require a human presence and human decisions, such as the protection of children and the weak, nuclear safety investigations, and air traffic control. Managing those services with an X-like approach would lead to turmoil. There already appears to be quite a backlash within the US.

**Konomoto:** I think we are seeing the pendulum swing back after having gone too far in the direction of regulation, liberal causes, and US intervention around the world. But as you say, the correction could create great confusion if it goes too far.

Thank you for joining us today and discussing the implications of Trump administration policies. It was most informative.

## about NRI

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