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Connecting Markets East & West

The Driver of Three Ts:
Trump, Tariff and Trade

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See Appendix A-1
for important disclosures and
the status of non-US analysts.

October 28, 2025

Exhibit 1. Japan Is still Running Trade Surplus with the US

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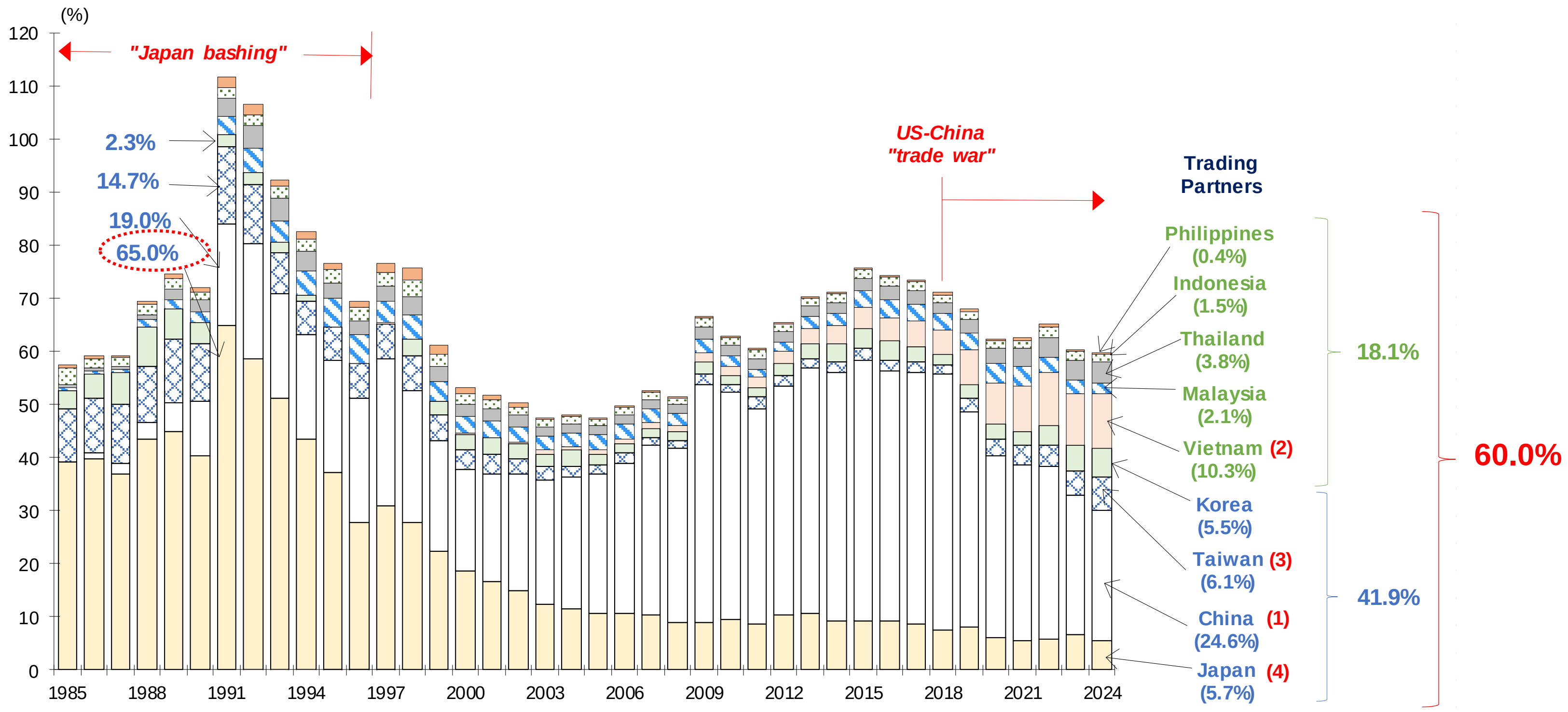
Share of East Asia in US Trade Deficits



Source: Nomura Research Institute, based on data from US Census Bureau

Exhibit 2. Divisive Economic Developments Helped Trump

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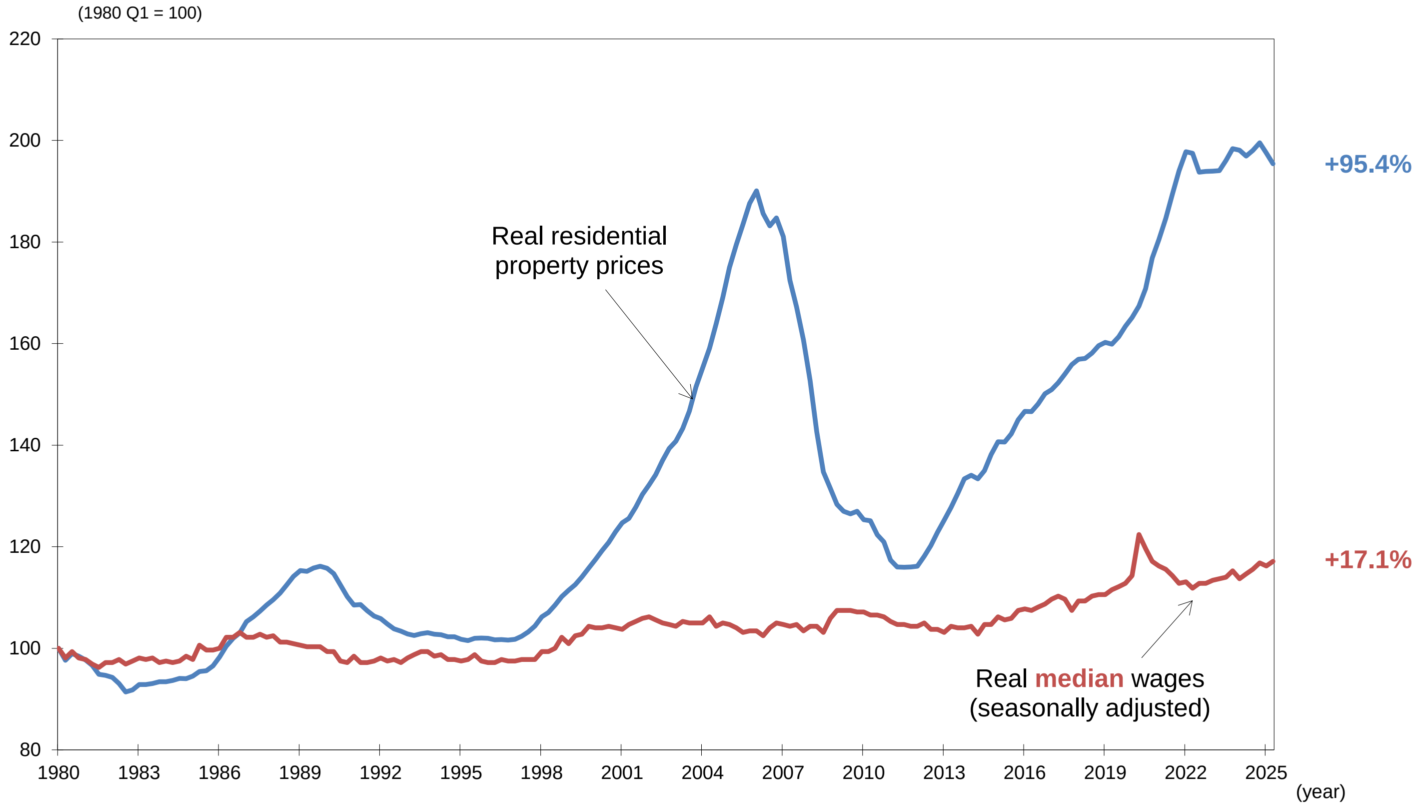

Source: Nomura Researxh Institute, based on data from BIS and US Bureau of Labor Statistics, retrieved from Fred, Federal Reserve Bank of St. Louis

Exhibit 3. US Allowed Huge Trade Deficit to Continue for over Four Decades

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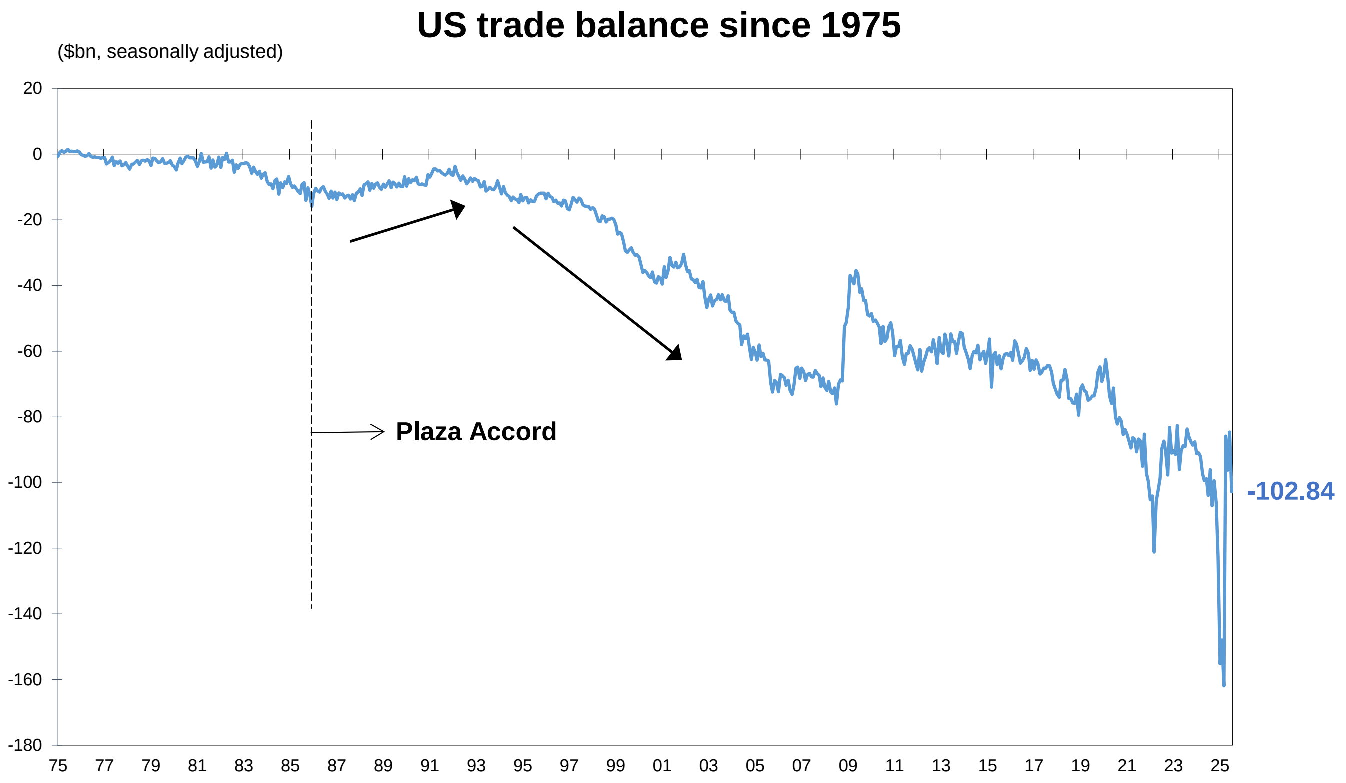

Source: US Census Bureau

Exhibit 4. U.S. Lost Income Equivalent to 157 % of GDP due to Trade Deficits over the last Four Decades

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Cumulative external balances from 1980 to 2024

	Trade balance			*Current account balance*
	Amounts in US$, bn	% of GDP	In today's US$, bn	% of GDP
Germany	+$6,374	+218.2%	+$10,167	+150.4%
Japan	+$1,529	+44.5%	+$1,791	+117.6%
Italy	+$850	+43.2%	+$1,026	+0.7%
Canada	+$523	+85.1%	+$1,907	-63.3%
France	-$1,128	-46.7%	-$1,477	-1.6%
U.K.	-$4,633	-187.8%	-$6,843	-91.9%
U.S.	-$22,088	-156.9%	-$45,792	-118.3%

Brexit

Trump

Source: Nomura Research Institute, calculated with data from the World Bank *World Development Indicators,* IMF, *World Economic Outlook Database April 2025*, and Ministry of Finance, Japan, *Trade Statistics*

Exhibit 5. Real Effective Exchange Rate for USD Has Reached Plaza Accord Levels

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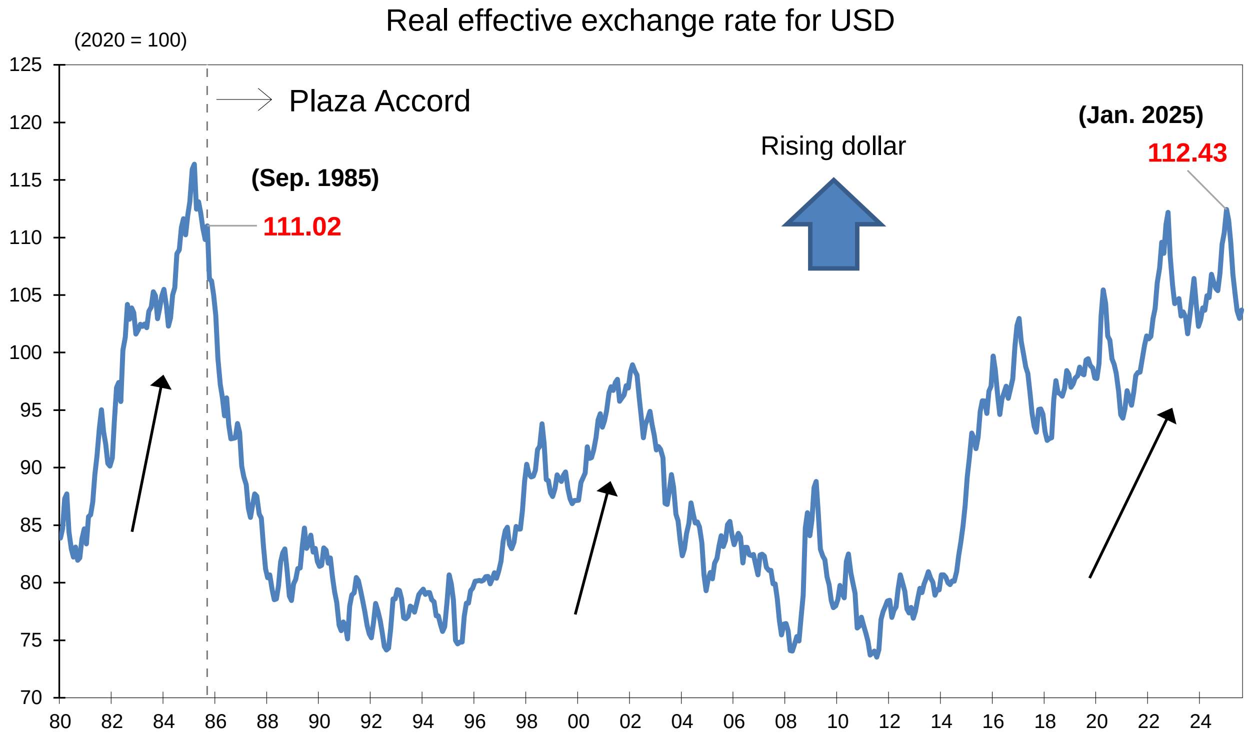

Note: Narrow index compiled using data from 26 economies.
Source: Nomura Research Institute, based on BIS, “Effective exchange rate indices”

Exhibit 6. Economists' Flawed Notions Prevented Governments from Correcting Over-Valued Dollar

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Error (1): Free trade always creates more winners than losers

Error (2): US trade deficit is due to the lack of savings in the country

Error (3): Market-determined exchange rate is best

Error (4): Governments cannot affect exchange rates

↓

If the above is true, the only solution to trade deficit problem is protectionism

↓

Trump

Two Ways to Correct Trade Imbalances

(1) Tariffs

Advantages

- Easy to implement

Disadvantages

- Might invite retaliation with devastating results (e.g. 1930s)
- Arbitrary application invite uncertainty and misallocation of resources
- Easily subverted by exchange rate movements in opposite direction
- Products produced are not internationally competitive

(2) Exchange rates adjustments

Advantages

- Free trade is maintained
- No productivity or efficiency losses
- Products produced are internationally competitive

Disadvantages

- Temporary disruption of financial markets possible during adjustment
- Coordination with foreign monetary authorities needed

Exhibit 8. Fundamental Problem

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Before 1980	***After 1980***
Exporters and importers dominate FX markets	Portfolio investors dominate FX markets
⇩	⇩
Tend to push exchange rate to equilibrate trade imbalances	Tend to push exchange rate to equilibrate return on capital across countries
⇩	⇩
Free trade flourishes	No mechanism to reduce trade imbalances
	⇩
	Deficit countries embrace protectionism

Exhibit 9. US Made the Mistake, but Others Benefited from that Mistake

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Problem

US establishment made the mistake of not correcting over-valued dollar which led to protectionist Trump Administration

↓

But non-US countries benefited massively from the US establishment's mistake

↓

Solution

Non-US countries must jointly correct over-valued dollar to make sure that the Americans who consider themselves *losers of free trade do not outnumber the winners*

↓

Save free trade

Exhibit 10. Factors in favor of Reaching a Second Plaza Accord

- Threat to the survival of free trade is much more serious now than in 1985.
- Currency devaluation is the correct remedy to reduce trade deficits.
- Plaza allowed the global economy to maintain its stability, and the US inflation accelerated only slightly after the Accord.
- Plaza proved that US trade partners *will* accept appreciation of their currencies against the US dollar in order to save free trade.
- Coordinated dollar devaluation should have no negative impact on trade between non-US countries.
- European countries struggled to join the Accord in 1985 because they had to keep the German Mark, French Franc and Italian Lira within the EMS. This difficulty does not exist now because they have all adopted the single currency Euro.

Exhibit 11. Factors against Reaching a Second Plaza Accord

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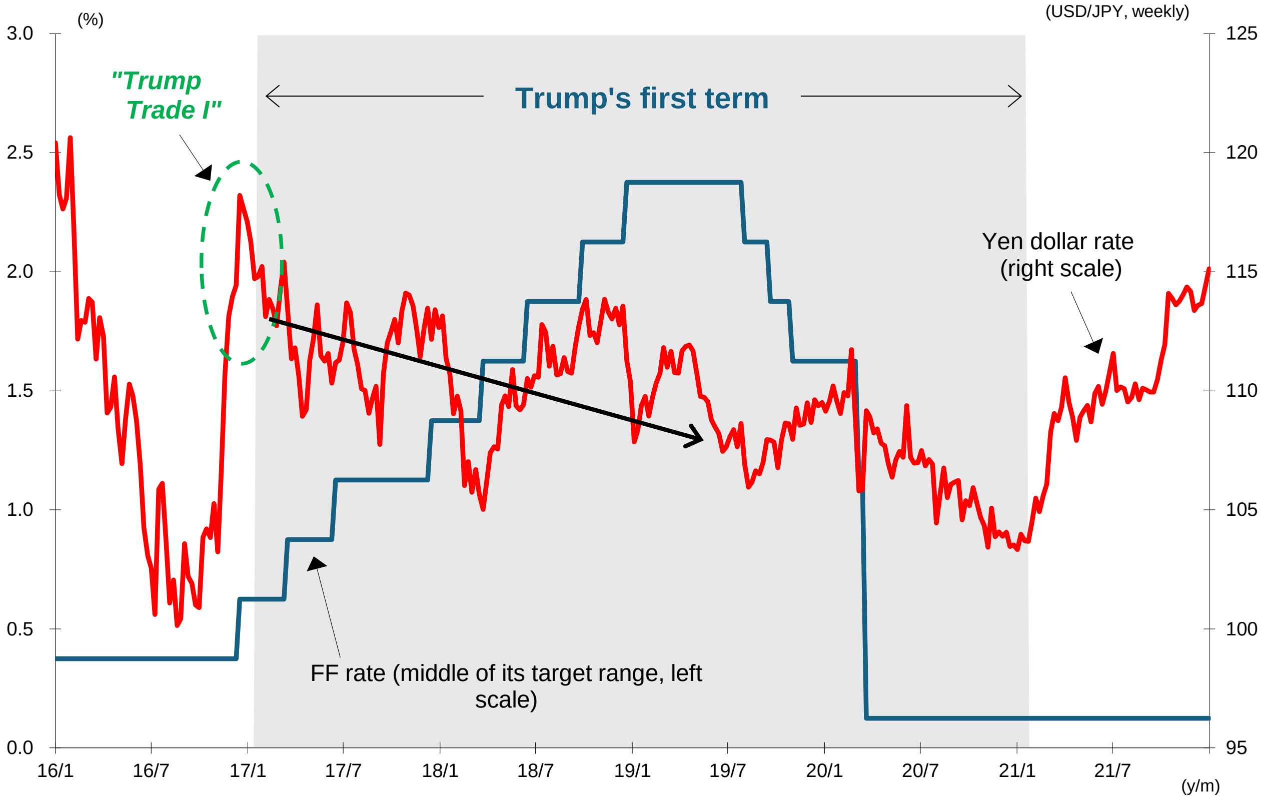
- President Trump himself is a hard-core protectionist, unlike President Reagan in 1985.
- In the absence of US leadership, it is not clear which country will provide the necessary leadership to put together the second Accord.
- China is on guard against any Plaza-like policies because its policy makers believe that the 1985 Accord was a US plot to derail the rising Japan.
- US interest rates might increase temporarily during the adjustment.
- Governments must keep their policy coordination mechanism even after the adjustment by setting “target zones” or “reference zones” to make sure that exchange rates do not deviate too far from trade-equilibrating exchange rates.
- Many academic and market economists think such an Accord is neither desirable nor feasible.

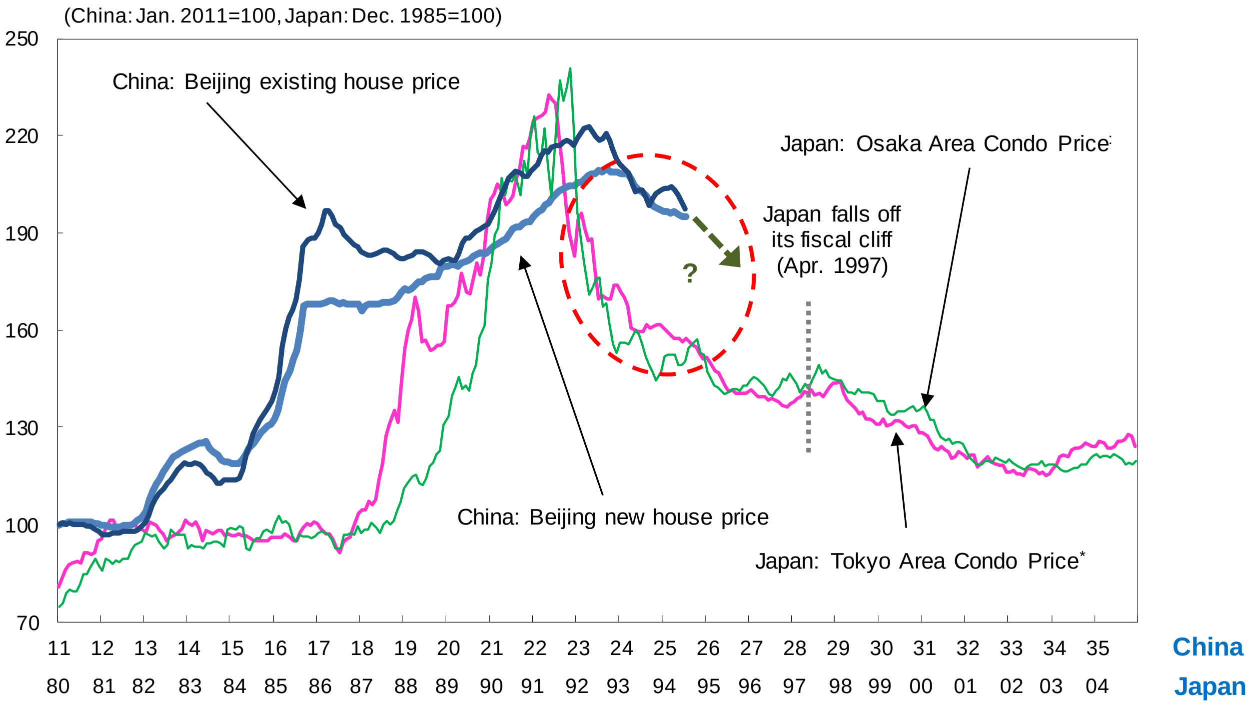
⇒ However, if the world takes no action, it will revert to the 1930s.

Exhibit 12. Lesson from Trump's First Term: Higher Fed Rates Do Not Bring Stronger Dollar verses the Yen



Source: Nomura Research Institute, based on data from FRB and Bank of Japan

Exhibit 13. Recent Beijing House Price Increases Resembling Tokyo/Osaka House Price Increases Three Decades Ago



Note: per m^2, Japan's condo prices in this exhibit are 5-month moving average.
Sources: Nomura Researchi Institute, based on data from Real Estate Economic Institute, Japan; BIS

Exhibit 14. Weakness in Construction Sector Will Have far bigger Impact on Economy in China than in the US or Japan

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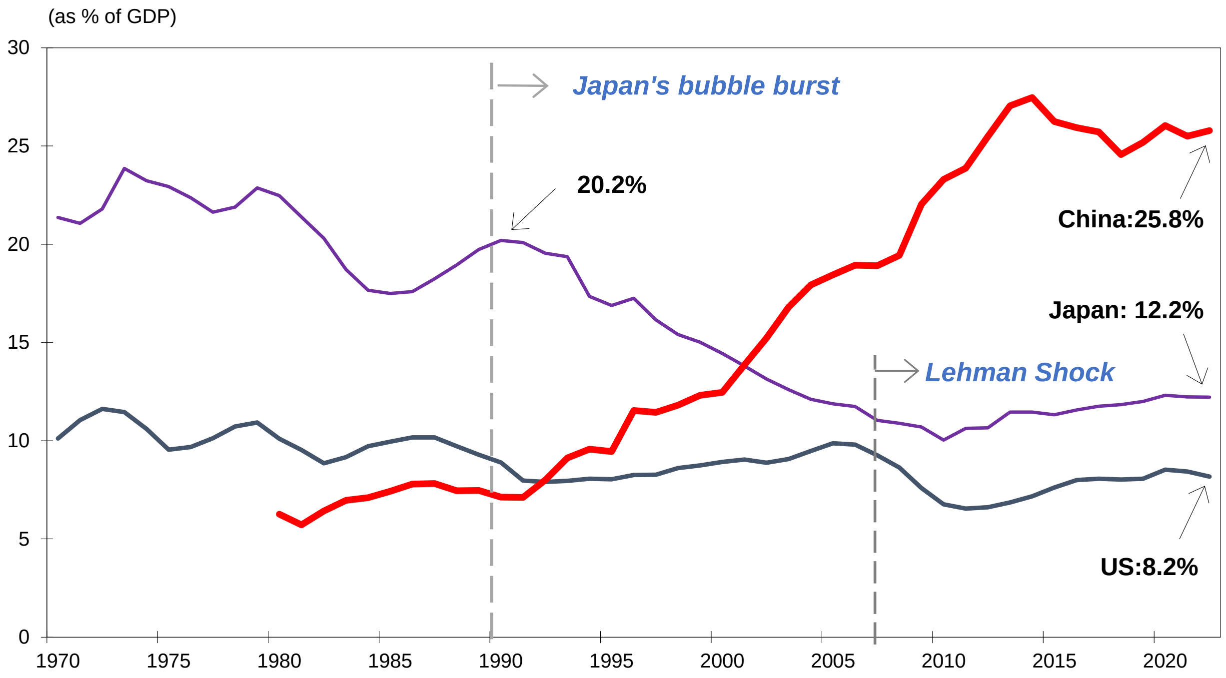
Construction sector as a percentage of GDP in Japan, US, and China



Note: Figures for Japan and US represent construction sector output in GDP data (before deducting intermediate inputs) divided by nominal GDP; figures for China are gross output value of construction divided by nominal GDP.
Source: Nomura Research Institute, based on Cabinet Office's National Account Statistics, US Bureau of Economic Analysis, National Bureau of Statistics of China, and CEIC Data

Exhibit 15. China's Leading Indicator, as well as its Production of Cement and Steel Have Been Falling

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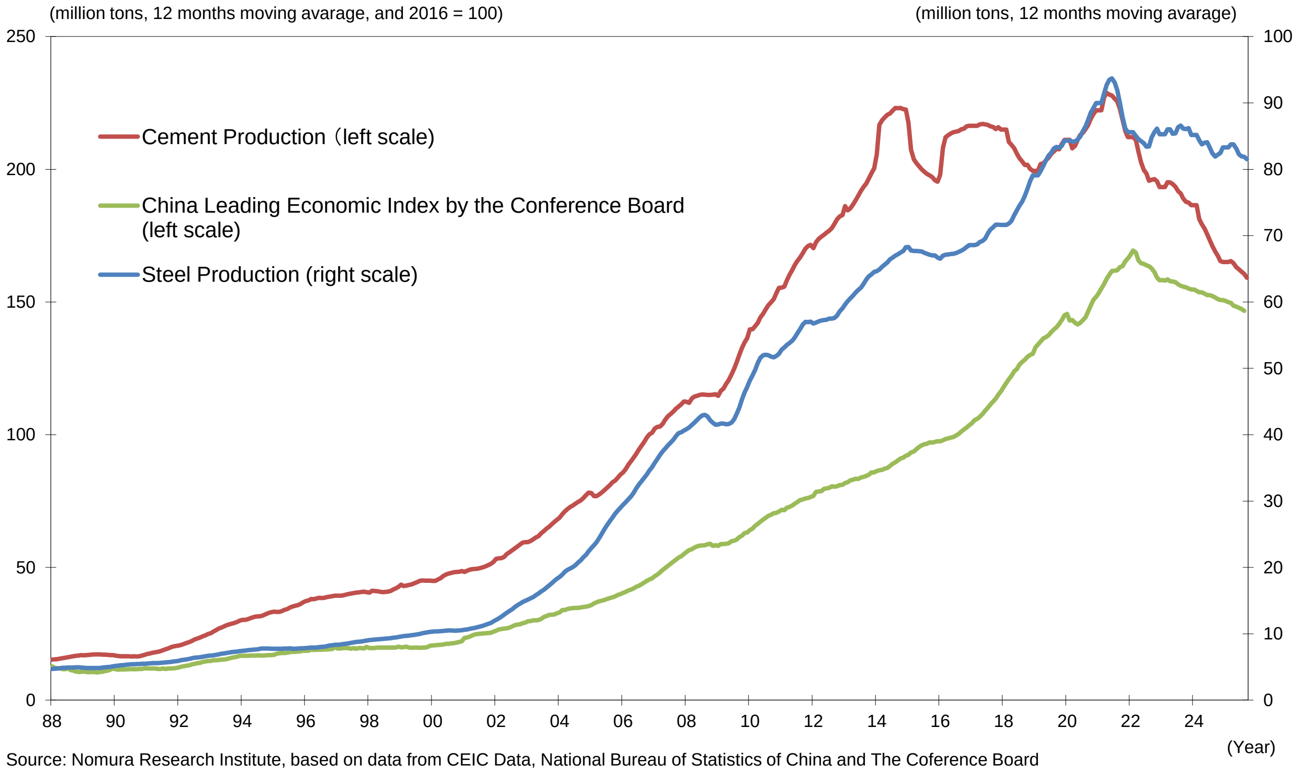

Source: Nomura Research Institute, based on data from CEIC Data, National Bureau of Statistics of China and The Coference Board

Exhibit 16. However, China's Electric Power Generation Is still Increasing

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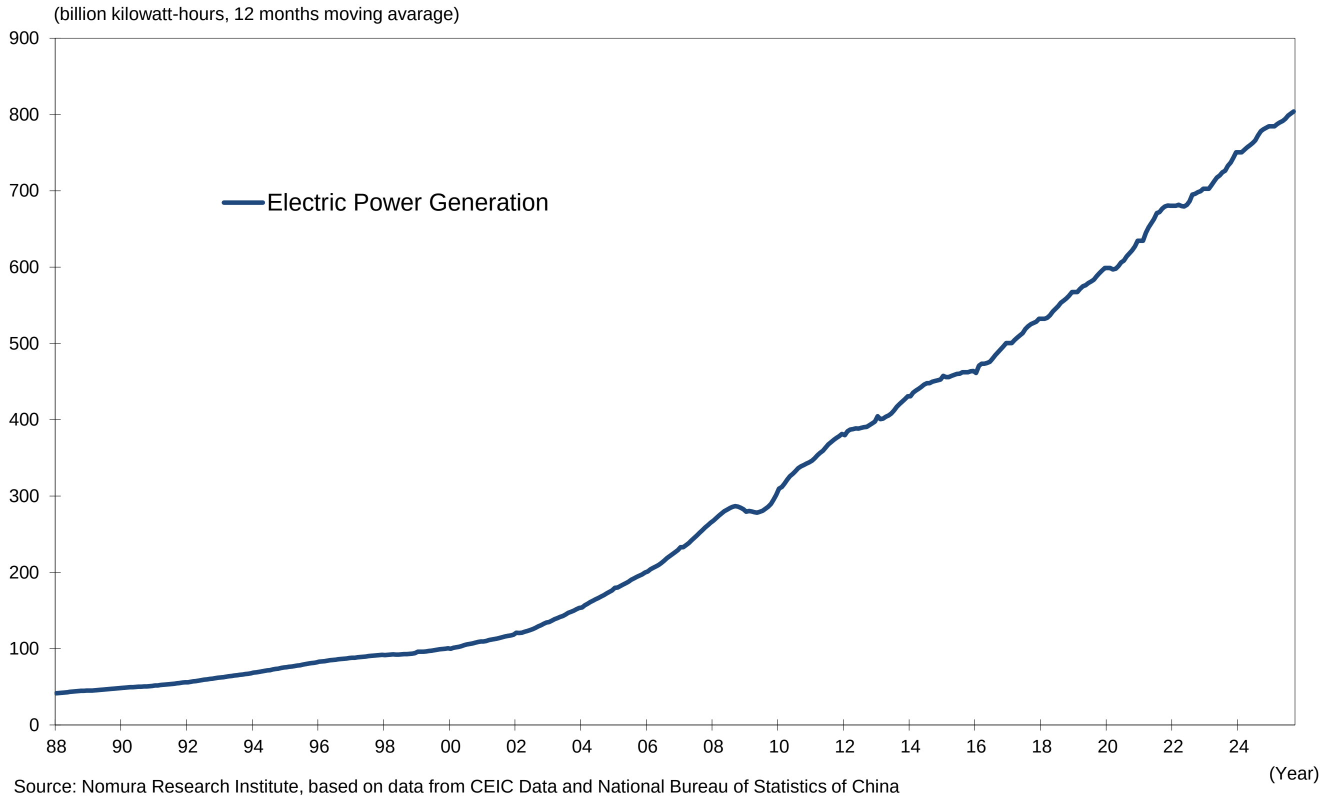

Source: Nomura Research Institute, based on data from CEIC Data and National Bureau of Statistics of China

Exhibit 17. China Is Experiencing a Decline in Government Bond Yields

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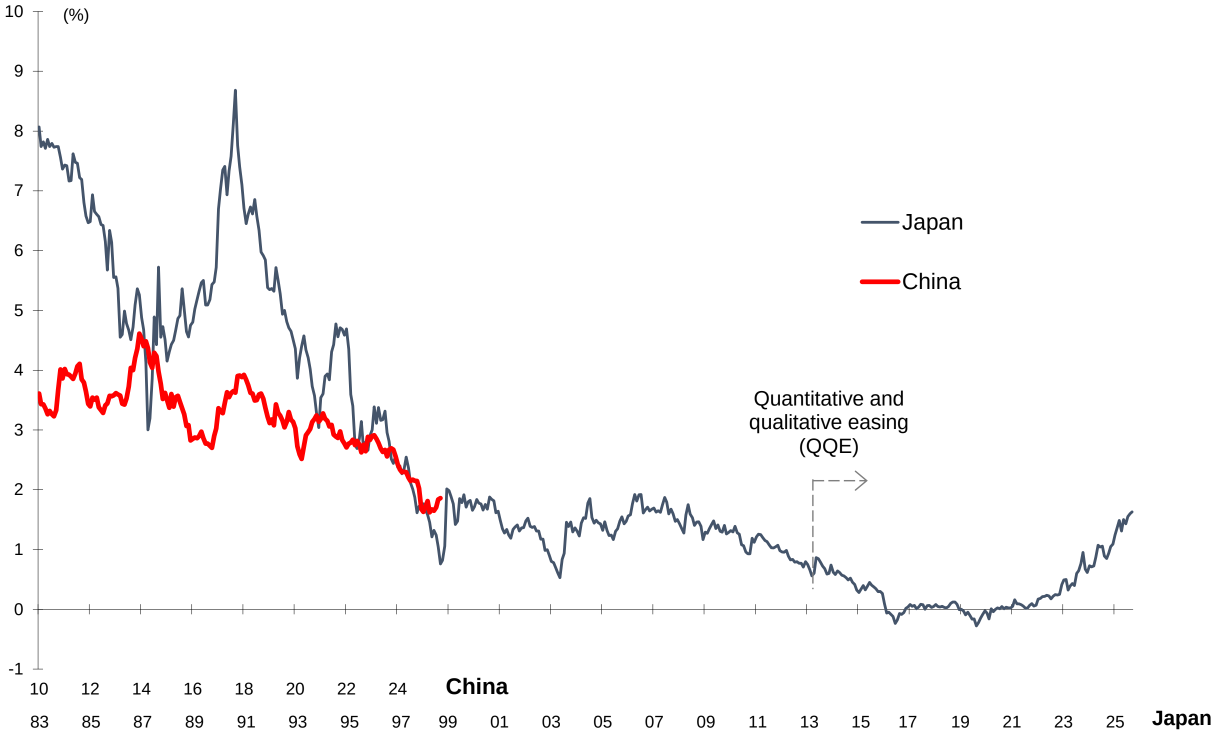
10-year government bond yields in Japan and China



Source: Nomura Research Institute, based on data from CEIC Data and Japan Bond Trading Co.,Ltd.

Exhibit 18. China Has Addressed Post-Bubble Lender-side Problems but not Borrower-side Problems

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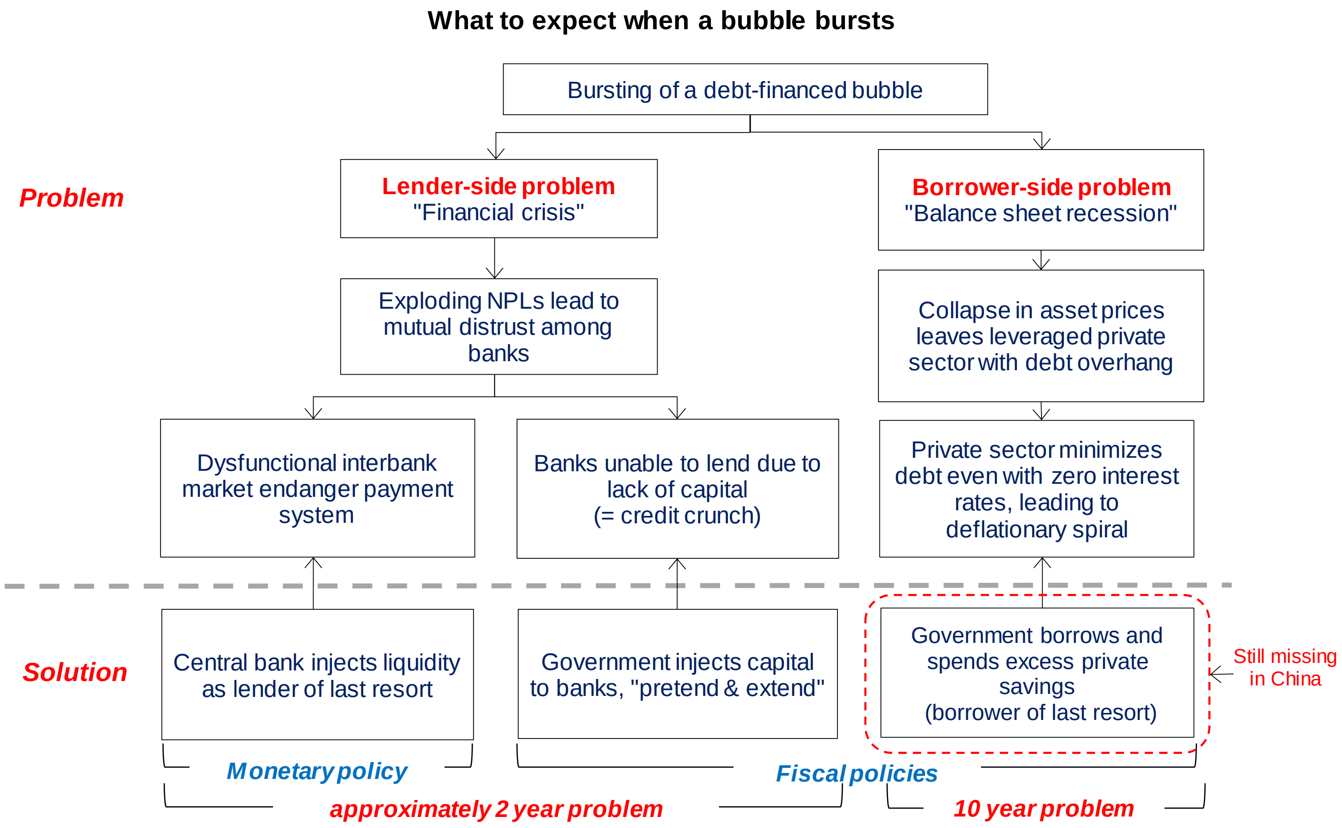

Exhibit 19. Reasons for Less Borrowing and Investment (I): Population Decline

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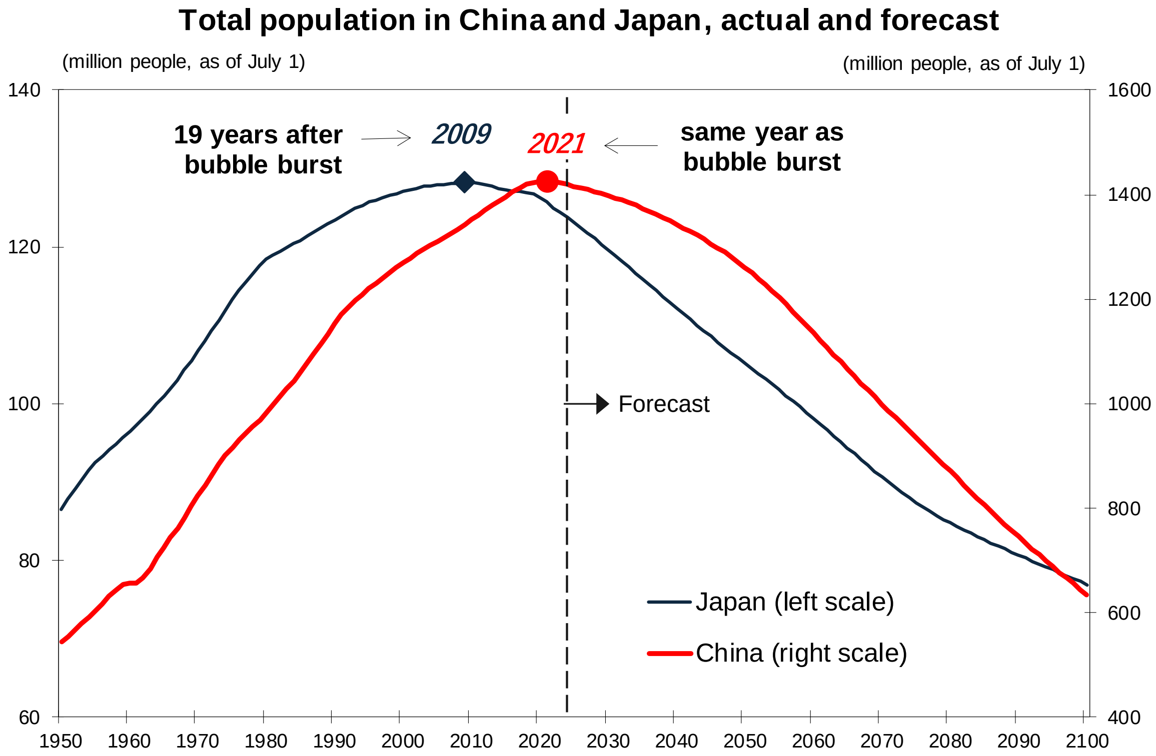
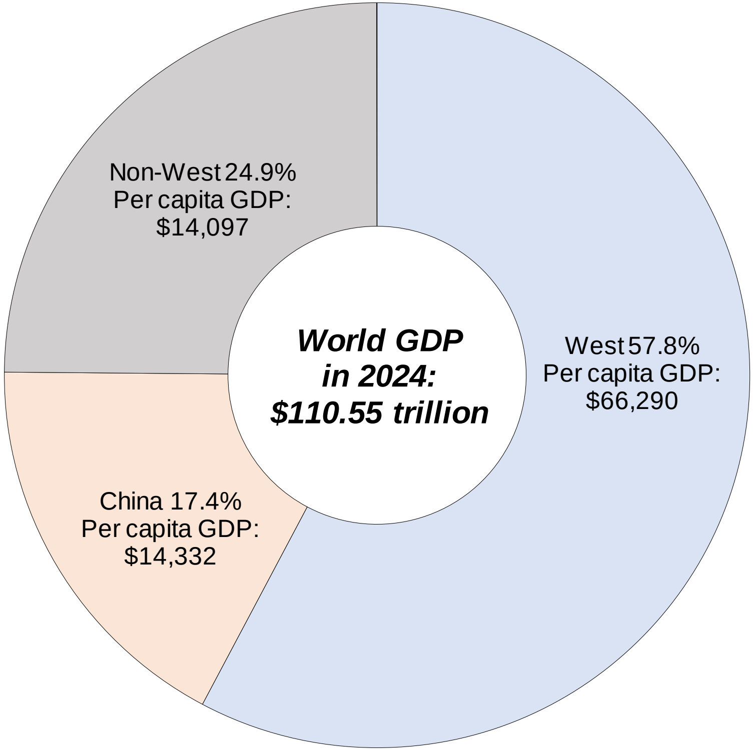


Source: Nomura Research Institute, based on data from United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects 2024, Online Edition..

Exhibit 20. Reasons for Less Borrowing and Investment (II): Geopolitical Tensions with West



Source: Nomura Research Institute, based on data from IMF's World Economic Outlook Database in April 2025.

Exhibit 21. China Faces Far More Challenges in 2025 than Japan Did in 1990

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Japan’s challenges in 1990

1) Bursting of the asset price bubble and subsequent balance sheet recession

2) US-Japan trade friction

China’s challenges in 2025

1) Bursting of the asset price bubble and subsequent balance sheet recession

2) Construction recession

3) Businesses reducing borrowing and investment since 2016

- Middle income trap
- Regulatory tightening and uncertainty in real estate, financial, IT and education sectors
- Population decline
- Reduced financial resources for businesses, regional governments and households due to Covid 19 lockdowns
- Geopolitical confrontation with the West

Appendix A-1

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