

# Chapter 3

## THE ECONOMIES OF JAPAN AND KANSAI: RECENT DEVELOPMENTS AND OUTLOOK

### Section 1

#### U.S.–CHINA MACROECONOMIC TRENDS AND TRADE WITH JAPAN/KANSAI: EVIDENCE FROM THE DATA

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### Introduction

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From January 2017 to January 2021, Donald Trump served his first term as President of the United States. Then, in January 2025, he was inaugurated again, beginning his second term. Over the eight years since 2017, the economies of both the U.S. and China have undergone significant changes. Given Japan's strong economic ties with both nations, shifts in U.S.-China economic performance are likely to exert various impacts on Japan's trade transactions. Under the second Trump administration, U.S.-China trade friction is expected to intensify further, while simultaneously, the macroeconomic landscapes of both countries are highly likely to undergo additional changes.

This section analyzes Japan's export trends over the past eight years in relation to the economic performance of the U.S. and China. This analysis serves as a preliminary study for projecting the future outlook of both the Japanese and Kansai economies

The Chapter is constructed as follows: Section 1.1 outlines changes in the U.S. economy, while Section 1.2 covers changes in the Chinese economy. Specifically, it compares 2017—the start of the first Trump administration—with 2024, the period immediately preceding the start of the second Trump administration. Sections 1.3 and 1.4 examine changes in exports within the Japanese and Kansai economies, considering the state of the U.S. and Chinese economies. Section 1.5 examines the characteristics of the U.S. trade structure from a medium-to-long-term perspective. Section 1.6 provides a summary of the insights gained from the analysis in this paper.

## 1. Changes in the U.S. Economy

First, let's look at changes in the U.S. economy. [Table 3-1-1](#) compares key economic indicators for 2017, when the first Trump administration began, with those of 2024, just before the start of the second Trump administration. Real economic growth in 2024 stands at 2.7%, showing little difference from the 2017 growth rate (2.5%) and indicating solid performance. This point is also confirmed by the unemployment rate (4.4% in 2017, 4.0% in 2024). The inflation rate (CPI change) has risen moderately, from 2.1% in 2017 to 2.9% in 2024, signaling potential signs of an overheating economy.<sup>1)</sup>

The situation appears to be fueled by growth in the labor market resulting from increased immigration. Looking at the number of immigrants, it was 44.525 million in 2022 and is projected to reach 47.831 million in 2024, an increase of over 3 million. To provide a broader perspective on the longer-term change,

Table 3-1-1

Comparison of Key U.S. Economic Indicators

	2017	2024
Real GDP Growth	2.5%	2.7%
Unemployment Rate (%)	4.4%	4.0%
Inflation rate (%)	2.1%	2.9%
GDP deflator	1.8%	2.4%
Current Account Balance (as a percentage of GDP)	-1.8%	-3.8%
Manufacturing Value Added (as a percentage of GDP)	10.80%	10.00%
Value Added in the Service Industry (as a percentage of GDP)	12.40%	13.10%
Number of immigrants (Number of immigrants as a percentage of total population)	44.525 million people (13.7%)	47.831 million people (14.3%)
Income inequality (Gini coefficient)	0.414	0.418

Source: Survey of Current Business

1) Strictly speaking, the increase in the number of the labor force due to immigration is thought to enhance the contribution to the potential growth rate, resulting in a sustained robust change in the growth rate. Within the Congressional Budget Office's (CBO, February 2024 release) projected potential growth rate for 2025 (2.5%), the contribution from the labor force reaches 1.2% (Congressional Budget Office (2024)). This point is also carefully explained in Hosoo (2024). Specifically, U.S. population growth is primarily driven by an increase in undocumented immigrants. These immigrants have boosted employment in sectors such as "building and grounds cleaning and maintenance," "agriculture, forestry, and fishing," "building and natural resource extraction," "healthcare support occupations," "manufacturing," and "cooking and food preparation occupations." By mitigating labor shortages and unlocking latent demand, these factors are fueling the continued recovery of the U.S. economy. Iwamatsu (2023) offers a clear analysis aligned with the perspectives of U.S. policymakers, noting that authorities generally view the economic impact of immigration inflows in a positive light.

Figure 3-1-1 shows the rate of immigrants relative to the total population since 1970.

Figure 3-1-1 confirms the fact that the rate of immigrants in the U.S. has been increasing over the past half-century.

Next, let us examine changes in income inequality based on the Gini coefficient<sup>2)</sup>. This rose slightly from 0.414 in 2017 to 0.418 in 2024. Figure 3-1-2 shows the trend in the Gini coefficient.

Examining the trends since 1990 reveals that, despite short-term fluctuations, the overall trajectory remains upward, confirming a widening gap in income inequality.

Finally, let's examine the rate of manufacturing and services in U.S. GDP. The manufacturing rate decreased slightly, from 10.8% in 2017 to 10% in 2024. Conversely, the services rate increased, from 12.4% in 2017 to 13.1% in 2024.

Figure 3-1-3 shows changes in the rates of both sectors. In the early 2000s, the manufacturing rate was higher than the services rate, but this reversed around 2010.

Since then, the manufacturing sector's share has trended downward, while the services sector has exhibited a steady increase. These structural shifts in industry are intrinsically linked to changes in trade patterns, a relationship that will be examined in greater detail in the following sections.

Through the above observations, the changes in the U.S. economy from the late 2010s to the present can be summarized as follows. While inflation

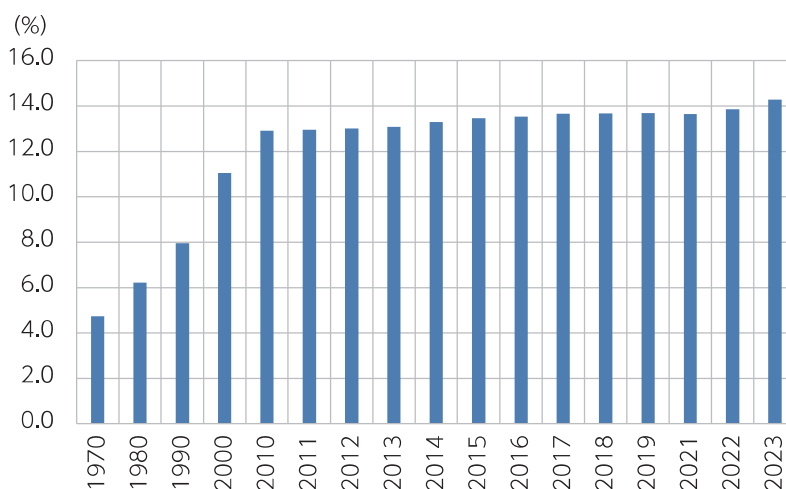
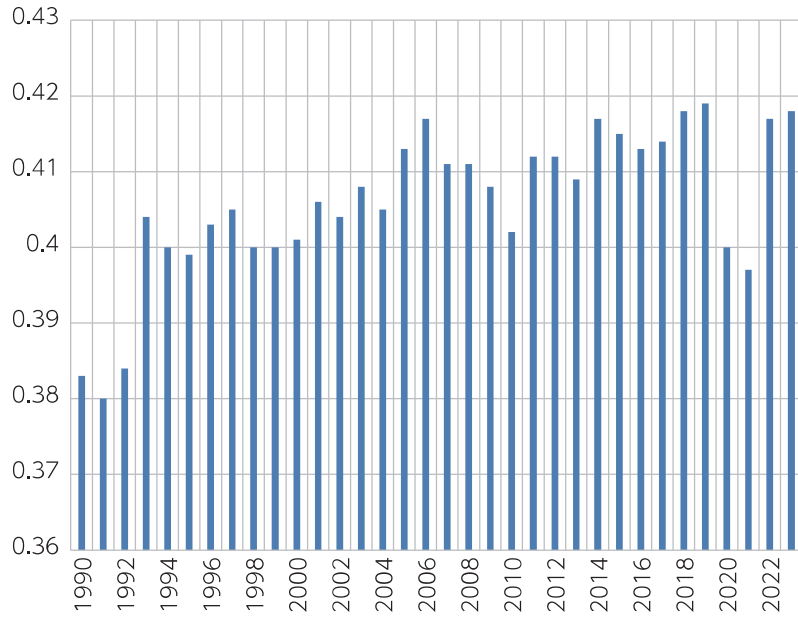


Figure 3-1-1

Changes in the Ratio of U.S. Immigrants to Total Population

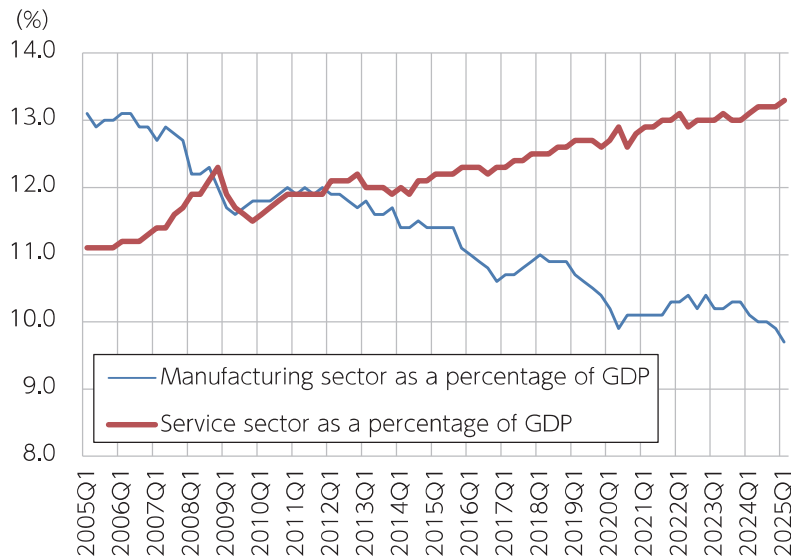
Source: Survey of Current Business

2) The Gini coefficient is an indicator of income inequality, represented by a value between 0 and 1. A value closer to 0 indicates greater equality, while a value closer to 1 indicates greater inequality.



**Figure 3-3-2** Changes in the Gini coefficient in the U.S.

Source: OECD



**Figure 3-1-3** Changes in the Share of GDP of U.S. Manufacturing and Service Industries

Source: Survey of Current Business

has risen slightly, the real economy has generally changed robustly. However, income inequality has widened, and the decline of manufacturing has become more pronounced. Crucially, profound shifts in economic structures—including demographic composition, income distribution, industrial frameworks, and trade patterns—have continued to evolve in ways that macroeconomic indicators alone cannot fully capture.

## 2. Changes in the Chinese Economy

Next, based on the summary in Table 3-1-2, we will examine the changes in the Chinese economy.

Real economic growth in 2024 stands at 4.9%, a 1.9 percentage point decline compared to the 2017 growth rate (6.8%). The inflation rate (CPI change rate) has fallen from 1.5% (2017) to 0.2% (2024). However, the GDP deflator turned negative in 2024, registering -0.7%. This indicates that China's economy has significantly slowed between 2017 and 2024. Key factors behind this slowdown include: 1) Balance sheet adjustments by companies, involving debt reduction and fixed asset compression due to excessive corporate debt; 2) Sluggish consumption driven by uncertainty stemming from a trend of falling real estate prices, a declining birthrate and aging population, and inadequacies in the social security system; 3) Declines in exports and production resulting from U.S. tariff hikes. The slump in real estate prices is clearly reflected in the trend of new housing prices (falling from 10.2% in 2017 to -5.3% in 2024). Furthermore, the contraction in household sentiment is pronounced, evident from the change in the consumer confidence index (falling from 109.2 in 2017 to 86.2 in 2024). The current account balance as a percentage of GDP has increased slightly, suggesting the export reduction effect of the 2018 tariff hikes was likely temporary (this point will be examined in detail in Section 1.4)<sup>3)</sup>.

Based on the above analysis, the Chinese economy experienced a significant deceleration between 2017 and 2024. This trend reflects a structural, medium-to-long-term shift rather than cyclical volatility, suggesting that economic stagnation is becoming entrenched.

Table 3-1-2

Comparison of Key Chinese Economic Indicators

	2017	2024
Real GDP Growth	6.8%	4.9%
Unemployment Rate (%)	5.0%	5.1%
Inflation rate (%)	1.5%	0.2%
GDP deflator	4.1%	-0.7%
New Housing Price Change Rate (YoY)	10.2%	-5.3%
Consumer Confidence Index (2016=100)	109.2	86.2
Current account balance (as a percentage of GDP)	1.5%	2.3%

Source: IMF Data Mapper, CEIC

3) As noted by the Asia Pacific Institute of Research (2024), China has addressed the increase in excess production accompanying its economic downturn by lowering prices and selling overseas (export drive).

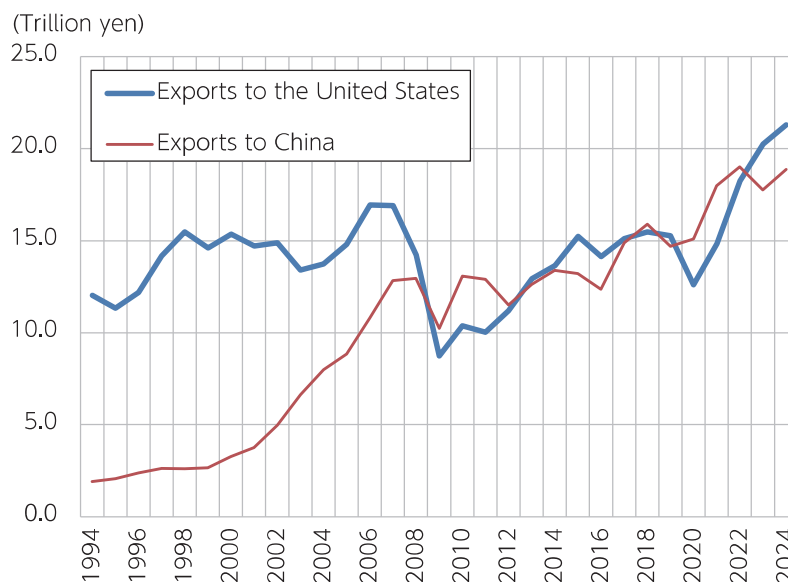
### 3. Changes in Japan's Exports to the U.S. and China

First, we examine the change in Japan's total exports to the U.S. and China since 1994, as shown in [Figure 3-1-4](#).

From the 1990s to the 2000s, exports to the U.S. were significantly higher than exports to China and showed an increasing trend. However, exports to China grew rapidly after the 2000s. Exports to the U.S. declined sharply from 2008 to 2009, the period of the Lehman Shock, and were surpassed by exports to China in 2008<sup>4)</sup>.

The trends from the late 2010s were analyzed based on [Figure 3-1-5](#), which illustrates the annual rate of change.

In 2018, under the first Trump administration, the U.S. rapidly imposed successive tariff hikes on China. This intensification of U.S.-China trade friction forced a decline in China's exports to the U.S. and also caused a downturn in domestic production. As discussed in detail later, Japan's exports to China are primarily comprised of capital and intermediate goods integrated into the production process. Consequently, a slowdown in the Chinese economy directly triggers a contraction in Japan's export volume to the region.<sup>5)</sup>



**Figure 3-1-4**

**Changes in Japan's Total Exports to the U.S. and China**

Source: Prepared by the authors from the Ministry of Finance's 'Trade Statistics'

- 4) The change in exports to the U.S. and China since the 2000s is also projected in the Ministry of Economy, Trade and Industry (2020).
- 5) This point is explained in detail in the Asia Pacific Institute of Research (2019).

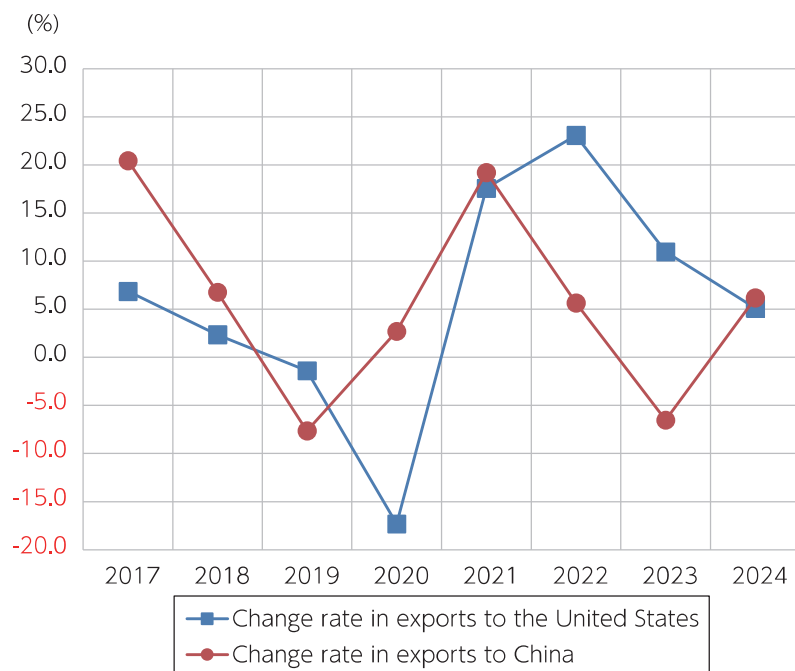


Figure 3-1-5

### Percentage Change in Japan's Total Exports to the U.S. and China, 2017-24

Source: Prepared by the authors from the Ministry of Finance's 'Trade Statistics'

The significant decline in 2019 (-7.6%) reflects this situation. While the impact of the COVID-19 outbreak was not particularly noticeable, the growth rate turned negative again in 2023 (-6.5%), and the 2024 growth (+6.1%) lacks the momentum seen in the 2000s. As noted in Section 1.2, the key factor behind this is the prolonged nature of China's economic slowdown.

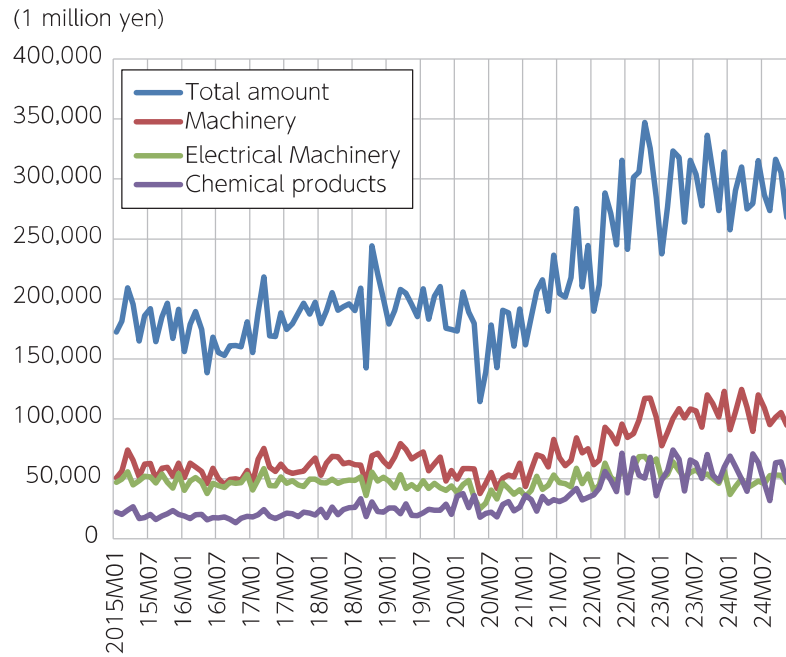
In contrast, exports to the U.S. have generally maintained a positive growth trajectory, notwithstanding the downturn during the 2020 COVID-19 pandemic. As established in Section 1.1, this resilience is primarily driven by the robust macroeconomic fundamentals of the U.S. economy, which stand in sharp contrast to those of China.<sup>6)</sup>

## 4. Changes in Kansai's Exports to the U.S. and China

Next, we examine Kansai's exports to the U.S. and China. Figure 3-1-6 shows Kansai's exports to the U.S. since 2015, broken down by total value and major product categories.

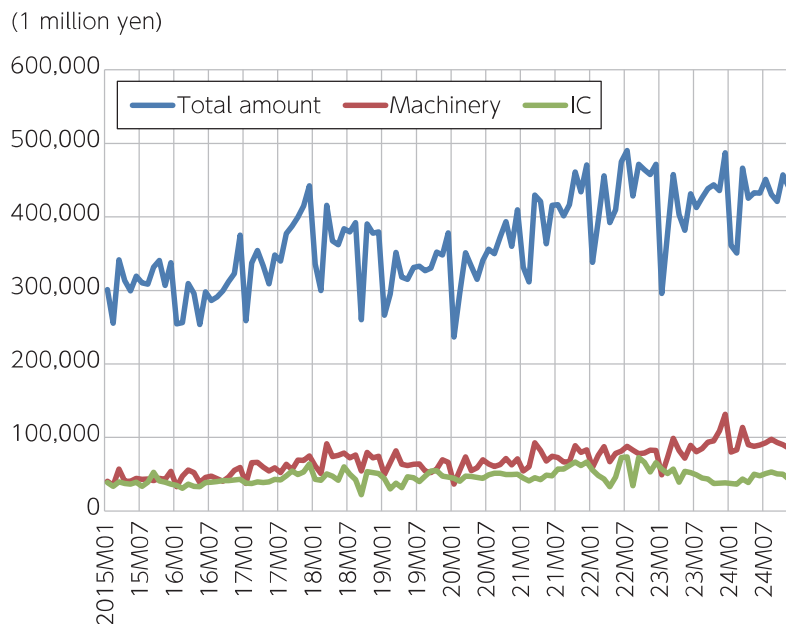
The change in total value broadly mirrors that of Japan's overall exports to the U.S. Since 2021, this has shown steady growth. Major exports to the U.S., such as machinery and chemical products, exhibit similar patterns.

6) This point is also noted in the Nikkei (2024).



**Figure 3-1-6** Changes in Kansai's Total Exports to the U.S.

Source: Prepared by the authors from the Ministry of Finance's 'Trade Statistics'



**Figure 3-1-7** Changes in Kansai's Total Exports to China

Source: Prepared by the authors from the Ministry of Finance's 'Trade Statistics'

As shown in **Figure 3-1-7**, exports to China are larger in scale than those to the U.S.

Specifically, comparing January 2015 figures, exports to the U.S. totaled 172.1 billion yen, while exports to China reached 301.2 billion

yen—approximately 1.8 times larger—confirming Kansai’s deep economic ties with China<sup>7)</sup>.

The overall change closely mirrors Japan’s total exports to China. Following the domestic economic downturn triggered by U.S. tariff hikes on China, exports experienced a significant decline in 2018. While they have since staged a recovery, they notably lack the strong momentum observed in exports to the U.S. The movements of major export items like machinery and ICs (integrated circuits) follow a similar pattern.

## 5. Characteristics of the U.S. Trade Structure

### (1) Changes in the U.S. Trade Balance

So far, we have examined export performance for both Japan as a whole and the Kansai region, taking into account the shifting economic dynamics between the U.S. and China. While the second Trump administration appears poised to implement a range of bold initiatives, these policies are underpinned by a profound sense of crisis regarding the U.S. economy’s heavy reliance on external markets. In particular, a mistaken perception has spread that the significant expansion of the trade deficit is evidence of the U.S. economy’s decline. Therefore, we will now examine the U.S. trade structure in detail from several perspectives to gain a deeper understanding of its characteristics. These findings offer a critical foundation for assessing the suitability and potential impact of the second Trump administration’s policy initiatives.

Figure 3-1-8 shows the U.S. trade balance with major countries from 1999 to 2024.

In 1999, the trade deficit with China was approximately \$68.7 billion, with Japan it was \$74.4 billion, with Canada it was \$34.4 billion, with Mexico it was \$23.7 billion, and with Vietnam it was \$300 million. At that time, the deficits with China and Japan were not significantly different. However, since the 2000s, the deficit with China has increased significantly, reaching approximately four times the level (USD 268.2 billion) ten years later in 2008, and approximately six times the level (USD 417.2 billion) twenty years later in 2018. Meanwhile, the deficit with Japan did not worsen significantly, with a change of around \$70 billion. The deficit with Canada began to improve in the 2010s. Deficits with Mexico and Vietnam also showed a trend of increasing.

7) As noted by the Asia Pacific Institute of Research (2019), the United States was Kansai’s largest export destination until 2002. However, since 2003, China has replaced the United States as the top export destination, with the value steadily increasing each year.

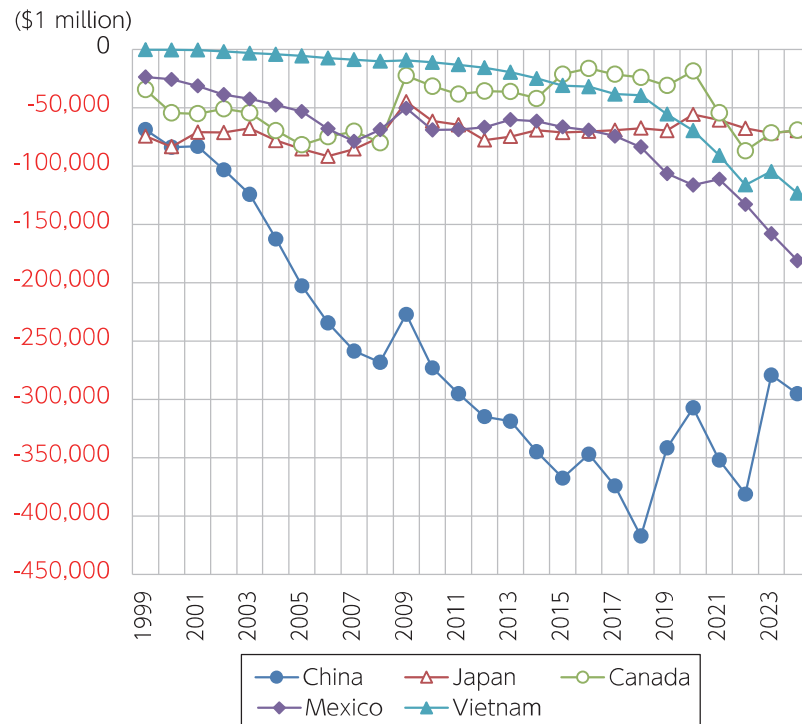


Figure 3-1-8

## Changes in the U.S. Trade Balance with Major Countries

Source: Survey of Current Business

Consequently, the expansion of the U.S. trade and services deficit is largely attributable to the marked deterioration of the balance with China. It is precisely this reality that fuels the intense trade friction between the two nations. However, the deficit has narrowed somewhat since 2018, and the 2024 deficit level (\$295.3 billion) is roughly the same as in 2011.

As [Figure 3-1-9](#) shows, the key point is that since 2018, exports to China have increased slightly, while imports from China have begun to decline. A key factor driving the post-2018 trend is the decline in imports from China following tariff hikes on Chinese imports.

However, it is also highly likely that exports to the U.S. are increasingly being rerouted via Mexico and Vietnam. This factor may also explain the worsening trade balances with Mexico and Vietnam since 2018.

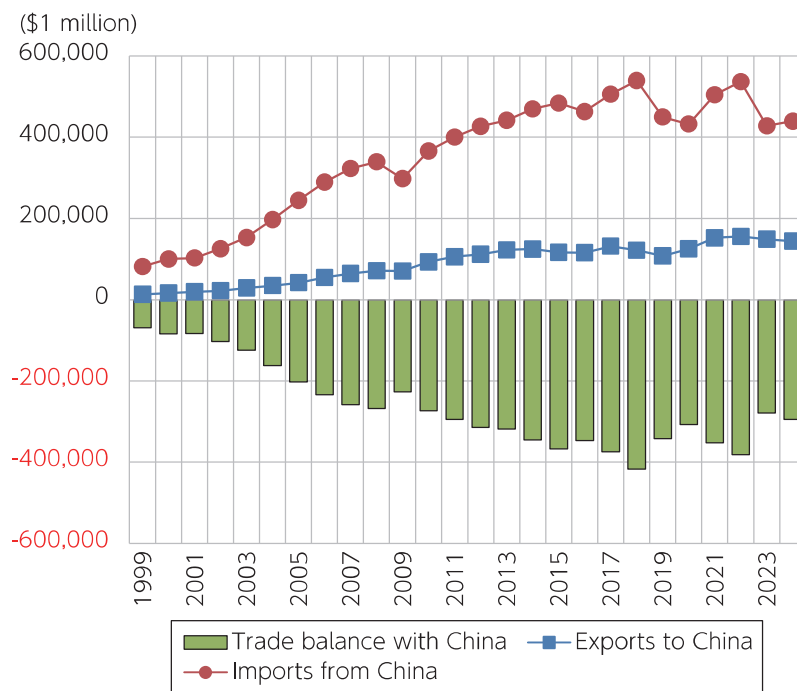


Figure 3-1-9

Changes in the U.S. Trade Balance with China and Imports and Exports

Source: Survey of Current Business

## (2) Characteristics of the U.S. Trade Structure

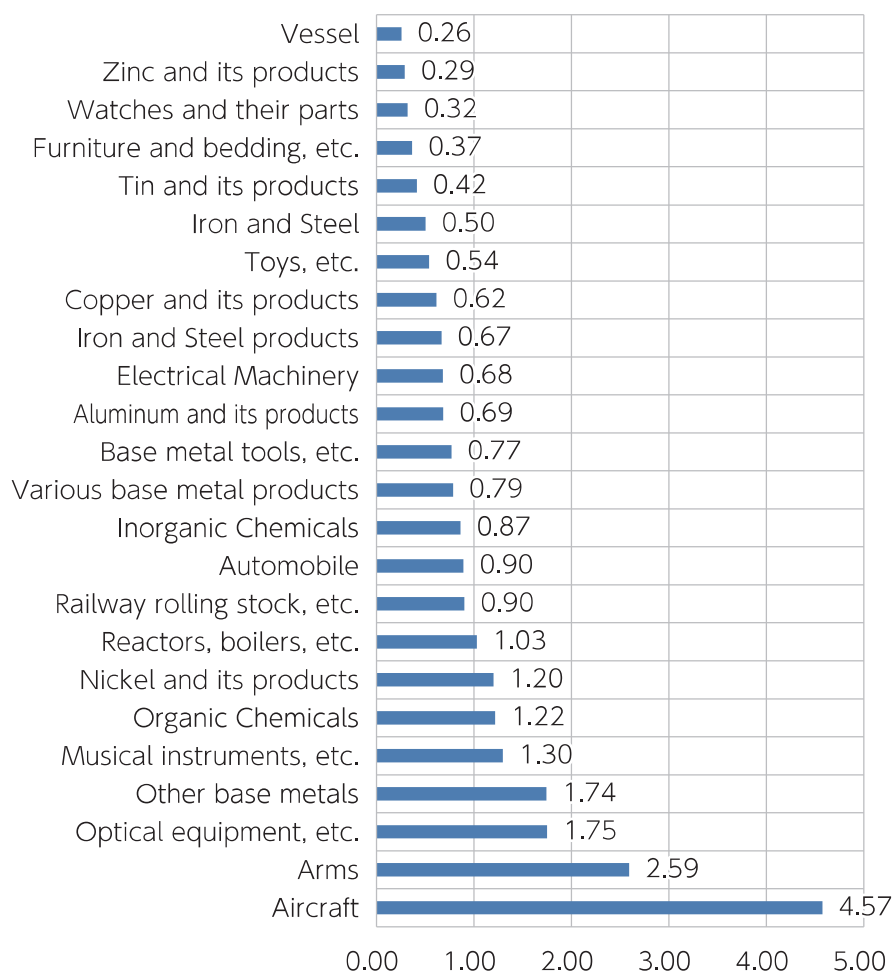
As noted earlier, the U.S. runs a substantial trade deficit. What specific trade dynamics underpin this situation? When a country produces certain goods more efficiently than others, it is said to have a “comparative advantage” in those goods. In simple terms, comparative advantage refers to a nation’s relative efficiency in producing certain goods or services compared to its trading partners. Conversely, goods that are less efficiently produced compared to other countries are said to be at a “comparative disadvantage.” Comparative disadvantage can be described as an area of weakness in trade<sup>8)</sup>.

For example, suppose a country possesses a comparative advantage in automobiles but a comparative disadvantage in wheat. By exporting automobiles—its area of relative strength—and importing wheat, the nation can optimize its resources and conduct economic activity more efficiently.

Let us now examine the comparative advantage and disadvantage situation in U.S. manufacturing. Figure 3-1-10 shows the measured values (RCA index) for the degree of comparative advantage in major U.S. items for 2023<sup>9)</sup>.

8) In economics, the theory of comparative advantage was first proposed by David Ricardo and articulated in his seminal work, *Principles of Political Economy and Taxation* (1817).

9) RCA stands for Revealed Comparative Advantage.



**Figure 3-1-10** Comparative Advantage of Major U.S. Products

Source: Calculated by the authors based on UN Comtrade data

For a given product, an RCA index greater than 1 indicates comparative advantage and high export competitiveness. Conversely, an RCA below 1 indicates comparative disadvantage and low export competitiveness. As shown in [Figure 3-1-10](#), the only U.S. manufacturing products with RCA indices significantly above 1 are aircraft and arms. Conversely, most manufacturing-related products have indices below 1. Specifically, these include automobiles (0.90), aluminum and aluminum products (0.69), Electrical Machinery (0.68), Iron and steel products (0.67), iron and steel (0.50), and vessel (0.26). Thus, major U.S. manufacturing-related goods are in a state of comparative disadvantage and are being imported from other countries. The assertion that ‘U.S. manufacturing is accelerating its decline’ can be more precisely framed as: a significant portion of the U.S. manufacturing sector currently holds a comparative disadvantage from a global perspective.

On the other hand, the U.S. holds a comparative advantage in digital-related services within the services sector. Specifically, these include management

consulting and related services, online advertising fees, commissioned software development, cloud services, and royalties for copyrights and similar rights.

**Table 3-1-3** summarizes the digital-related exports, imports, and balance for the U.S. for 2023 and 2024<sup>10)</sup>.

Exports of other business services (such as professional and management consulting) reached \$142.3 billion in 2023 and \$159.9 billion in 2024, significantly outpacing exports in other categories. This demonstrates that management consulting and related services, exemplified by GAF A, constitute a major portion of U.S. services trade.

Furthermore, the digital-related balance recorded a surplus of \$99.9 billion in 2023 and a surplus of \$126.0 billion in 2024. The 2024 surplus level substantially exceeds the U.S. trade deficit with Japan for that year (\$69.6 billion), suggesting the strong comparative advantage of U.S. digital-related services. This point can also be confirmed by the RCA index introduced earlier.

**Table 3-1-4** shows the RCA indices for digital-related items in the U.S., the EU, and Japan for 2022. While the RCA indices for consulting and advertising services (classified as “Other Business Services” in **Table 3-1-3**) are below 1 in both the EU and Japan, the U.S. index is relatively high at 1.97. These findings reinforce the fact that the U.S. holds a significant comparative advantage in the digital services sector, particularly in high-value fields such as management consulting.

**Table 3-1-3** U.S. Digital-Related Balance of Payments

Category	Item	Exports		Imports		Trade balance	
		2023	2024	2023	2024	2023	2024
Intellectual Property License Fees	Copyright and Related Fees	40,833	50,873	15,637	14,315	25,196	36,558
Telecommunications, Computer, and Information Services	Communication Services	6,705	7,170	5,852	4,535	853	2,635
	Computer Services	61,255	72,313	55,967	63,441	5,288	8,872
	Information Services	10,523	11,301	4,331	4,659	6,192	6,642
Other Business Services	Specialized Management Consulting Services	142,338	159,983	79,945	88,631	62,393	71,352
Digital-related		261,654	301,640	161,732	175,581	99,922	126,059

Source: Survey of Current Business

10) The items constituting the balance of services in the Balance of Payments statistics do not explicitly include any items corresponding to digital-related services. Therefore, following Matsuse et al. (2023), digital-related services are organized as shown in Table 3-1-3.

Table 3-1-4 Comparative Advantage of U.S. Digital Products

	Intellectual Property	Communications, Computer and Information	Consulting, Advertising, etc.
US	3.05	0.73	1.97
EU	1.13	1.55	0.96
Japan	3.65	0.37	0.43

Source: Based on Gaku (2024), modified by the authors

As these observations show, while the U.S. holds a comparative disadvantage in many manufacturing items, it possesses a comparative advantage in digital-related services. In other words, by importing manufactured goods where it holds a comparative disadvantage—such as iron, steel, automobiles, and aluminum—and expanding the production and export of digital services where it maintains a comparative advantage, the U.S. economy can maximize its overall welfare<sup>11)</sup>.

Crucially, for the U.S. to realize the benefits of this trade structure, labor must flow efficiently from disadvantaged manufacturing sectors into high-growth service industries. This requires high levels of inter-sectoral labor mobility. For example, if workers previously employed in the iron and steel industry transition to management consulting roles, it becomes possible to export more management consulting services.

Transitioning between these industries is challenging because of the high barrier to entry. Management consulting requires a level of technical expertise and IT proficiency far beyond that of traditional manufacturing, preventing a smooth or immediate labor reallocation. In other words, labor movement from sectors with comparative disadvantages to those with comparative advantages incurs significant adjustment costs. For instance, acquiring the skills needed for management consulting work requires substantial time and expense for education and training. Furthermore, various matching costs arise for workers employed in declining industries to find suitable employment in digital-related service industries. The presence of these substantial adjustment costs implies that the reallocation of labor from declining industries to growth sectors is a protracted process that requires considerable time. The longer this period, the less smoothly industrial structural change proceeds compared to changes in the

11) Matsui (2025) provides a straightforward explanation of the current state of the U.S. economy based on the principle of comparative advantage.

trade structure<sup>12)</sup>.

Throughout this transitional period, the hardships and frustrations of workers in declining industries—those in sectors with a comparative disadvantage—often evolve into a powerful demand to restore the nation’s past industrial glory. “Make America Great Again” is precisely such a cry. This sentiment is directly translated into policy through the protection of industries in decline. Indeed, the Trump tariffs serve as a clear example of protectionism aimed at bolstering comparatively disadvantaged sectors.<sup>13)</sup>

## 6. Future Export Trends and the Japanese Economy

Section 1 provided an overview of the U.S.-China economic landscape over approximately eight years starting in 2017, when the first Trump administration began, and examined in detail the change in exports from Japan and the Kansai region during this period. During this period, the U.S. economy remained robust, while China experienced prolonged economic stagnation. These divergent macroeconomic performances between the two nations have also led to differing patterns in export trends to the U.S. and China. Japan’s exports to the U.S. generally changed robustly, and the same holds true for the Kansai region. Conversely, exports to China, against the backdrop of prolonged economic deterioration, lack their former momentum. This point is also confirmed in the trend of Kansai’s exports to China.

Given this situation, what can we expect for exports to both the U.S. and China after 2025? Two points are key for exports to the U.S. The first is the outcome of Trump’s tariff policy. Under the second Trump administration, Japan has also become a target of tariff policy, and the U.S. response has been inconsistent since April. In the most recent negotiations (as of July 23, 2025), mutual tariffs stand at 15%, with automobile tariffs also at 15% (a combination of the reduction from the current 25% to 12.5% and the base tariff of 2.5%). However, the possibility of further changes cannot be ruled out, meaning uncertainty

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12) Bakas et al. (2024) analyze inter-industry labor mobility across 48 U.S. states using Lilien’s (1982) indicators. Analysis results (Bakas et al. (2024), Figures 1 and 2) reveal that in both 1990 and 2016, inter-sectoral mobility was extremely low in the U.S. Midwest states (the so-called “Rust Belt”), where heavy and capital-intensive industries form the core. Furthermore, Matsubayashi and Luon (2025) employ a multi-country, multi-good Ricardian model within a multi-sector general equilibrium framework. Assuming smooth inter-sectoral mobility, their simulation analysis demonstrates that shifts in comparative advantage within the trade structure lead to smooth changes in industrial structure.

13) Trump’s tariff policy is based on the “declining industry protection theory,” which lies outside the realm of economics. This point is also noted in Yoshikawa (2025).

surrounding exports to the U.S. remains high. The second point is that the bold policy initiatives of the Trump administration could heighten uncertainty for U.S. households and businesses, potentially precipitating an economic downturn. Considering these factors, a scenario where exports to the U.S. slow down going forward is entirely plausible.

For exports to China, China's economic trends are key. The Chinese economy has been clearly in recession since the late 2010s, and no signs of improvement are yet visible. The intensification of U.S.-China trade friction under the second Trump administration is highly likely to prolong the economic downturn, meaning Japan's exports to China may not regain their former momentum going forward.

Due to its geographical proximity to China relative to the Kanto and Chubu regions, combined with its specialization in intermediate and capital goods, Kansai became deeply integrated into the China-centric global supply chains that emerged after the 2000s. In light of China's shifting economic outlook, Kansai's deep-seated reliance on Chinese markets is increasingly being viewed as a structural vulnerability, prompting a reassessment of the region's economic orientation.

It is no exaggeration to say that under the rapid globalization since the 2000s, the Japanese economy has barely maintained growth through expanding exports. However, as Fukuda (2025) also points out, external demand is always exposed to risks, and a growth model reliant solely on external demand has its limits. More fundamentally, achieving stable and sustainable growth in domestic demand is essential. The uncertain outlook for exports to the world's two largest economies, the U.S. and China, underscores the urgency of this transition.

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