

PREFACE:

THE U.S.-CHINA NEGOTIATION CONTINUES

HONDA, Yuzo

Looking at recent economic indicators in the U.S., the unemployment rate stood at 4.6% in November 2025, while the Consumer Price Index (CPI) inflation rate was 2.7% in December 2025. These figures are quite respectable from a historical viewpoint. Furthermore, economic growth rates were -0.5%, 3.8%, and 4.3% for the first, second, and third quarters of 2025, respectively (Dept. of Commerce, US government). Overall, these figures suggest that the US economy is on a solid and steady path now.

China, the second-largest economy in the world, is sending out mixed signals. On the one hand, the economy seems to be doing well, driven by the high-tech sector. The Chinese government is intensifying efforts to drastically improve the level of the scientific and technological self-reliance, encouraging investments in technological innovation, notably in the fields of AI, semiconductors, and others. According to official figures released in January 2026, the Chinese economy grew an inflation-adjusted 5.0 % in 2025 from the year before, meeting the government's target (NHK, Reuters).

On the other hand, the Chinese economy has been suffering from a prolonged real estate recession. In September 2021, the prices of newly built condominiums in 70 major cities declined for the first time in six years and five months. Even though more than four years have elapsed since then, there seems to be few signs of recovery in the real estate sector. Real estate development investment from January through September 2025 decreased by 13.9% compared with the same period in 2024 (National Bureau of Statistics of China (NBSC)).

The persistent downturn in the real estate market seems to have been adversely affecting the goods and service market, reinforcing sluggish domestic demand. Reflecting this situation, the producer price index remained in year-on-year deflation throughout 2025 (NBSC).

Beyond these short-term economic developments, the United States and China remain locked in an intense conflict, seeking global hegemony across four key domains: the economy, currency, technology, and military power.

The gains of achieving dominance in any one of these four fields are beyond measure. Since the end of World War II, the United States has maintained leadership across all four. However, China's rapid rise in recent decades has increasingly challenged US hegemony.

Recognizing China as a potential rival, the first Trump administration in

2017 took one of the earlier actions to curb the rapidly rising Chinese influence by imposing higher tariff rates on imported goods from China, triggering trade frictions between the two countries.

The subsequent Biden administration continued efforts to safeguard the U.S. hegemony, especially in the field of high technology, most notably through the so-called “Small Yard, High Fence” strategy, imposing strict export and investment controls (“High Fence”) around core high-tech sectors (“Small Yard”), while encouraging commerce in other sectors.

The current second Trump administration returned to an aggressive tariff-based approach in 2025, which became known as the “Trump Tariff”.

There are at least two major factors behind these moves. The first one is that the U.S. has been running a huge trade deficit with China each year. The other one is that the role of the Chinese government in the industry of the nation is different from that in the U.S.. It is also worth noting that three consecutive government administrations, both Republican and Democrat, consistently agree on their policy on China, despite the fact that Republicans and Democrats very often disagree on many other policy issues.

In response, the Chinese government has implemented retaliatory measures against each U.S. policy.

Since this confrontation started taking a significant economic toll both on the U.S. and China, the two countries have been making efforts to alleviate the situation. In late October 2025, President Trump and President Xi Jinping met in Busan, South Korea, where they discussed agendas, including China resuming soybean purchases from the U.S., suspending its rare earth export curbs for a year, and the U.S. lowering tariffs on China by 10% (Reuters). Negotiations continue.

Economic developments in U.S., China, and other countries in the Asia-Pacific have profound implications for the Japanese economy. Part I of this year’s *Economic Outlook* discusses the economic status quo in the major economies along the Pacific Rim surrounding Japan. Part II outlines the performance of the Japanese economy in general, and that of the Kansai area in particular. Given that Expo 2025 was held in Osaka, we have added an EXPO 2025 chronology in Part III for your convenience. Part IV contains a statistical annex. Although this *Economic Outlook* is an abridged English-language version of the original *Economic Outlook 2025* published by APIR in Japanese, some of the authors have updated their manuscripts in order to provide readers with the latest available information. (Preface written as of January 21, 2026)