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Japan and the United States Should Strike a Quick Bilateral Trade Deal

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FROM THE EDITOR

On April 15 and 16, 2019, United States Trade Representative Robert Lighthizer and Japan’s Economy Minister Toshimitsu Motegi will convene in Washington for the first round of bilateral trade talks per a joint statement issued by President Trump and Prime Minister Shinzo Abe in September 2018. This meeting is expected to set the stage for an upcoming summit between Trump and Abe later this month.

In this sixth issue of the Debating Japan newsletter series, the CSIS Japan Chair invited Dr. Mireya Solis of the Brookings Institution and Professor Yorizumi Watanabe of Kansai University of International Studies to assess whether the two governments should move quickly to strike a trade deal.
U.S.-Japan trade talks have been moving in slow motion. The agreement both sides hammered out as part of the larger Trans-Pacific Partnership (TPP) undertaking became moot after President Trump swiftly withdrew the United States from the deal. Tokyo did not agree with the notion that a bilateral trade agreement—negotiated under the auspices of an “America First” doctrine—would offer a better alternative, and its eventual nod aimed mostly to forestall the possibility of tariff hikes on automobiles under the pretense of safeguarding U.S. national security. Last fall, bilateral trade talks received clearance at the highest level with a Trump-Abe joint statement carefully referencing sensitive areas for each side (agricultural opening for Japan, automobile manufacturing for the United States) in an effort to smooth the way for negotiations. But no trade talks ensued. The United States became consumed with its bilateral quest to cajole structural reforms from China, and Japan was none too eager to put the bilateral talks on the front burner.

With the opening round of trade negotiations, however, both sides will be better served by a quick sprint to the finish line. Protracted negotiations carry significant risks: the re-emergence of trade friction with old irritants (rice and cars) dominating the economic dialogue; the sidelining of U.S. farmers as producers from the relaunched TPP use tariff benefits to briskly increase their market share in Japan; the danger of severe economic dislocation at both ends of the Pacific if President Trump were to pull the trigger on auto tariffs out of frustration with stalled talks; and if these scenarios materialize, the overall deterioration in U.S.-Japan relations with a breach of trust and a diminished sense of shared economic interests between the two allies.

A fast outcome on bilateral trade talks should not be pinned on the false hope of replicating the TPP exercise at the bilateral level. A “TPP for two” is not in the cards; both sides have moved on. Japan has consolidated its position as a leader in rules-based trade

Japan is not in a rush to make a quick deal with the United States. It is the United States that is more in need of a preferential trade deal with Japan.

A major issue area for the United States is tariffs on U.S. agricultural products. Competitors of the U.S. agricultural exporters have been enjoying advantages in tariff treatment in the Japanese market thanks to the Economic Partnership Agreements (EPAs), such as the Japan-Australia EPA, the Japan-EU EPA and the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP). U.S. beef has been overwhelmed by Australian beef in Japan, as Aussie beef enjoys preferential import duty, which is substantially lower than the most-favored-nation (MFN) duty rate of 38.5 percent. Chilean wine now champions in the Japanese wine market even superseding French wine in quantity because it enjoys zero-duty treatment based on the Japan-Chile EPA, which has been in force since 2007. Wine from the EU member states will soon enjoy similar treatment due to the Japan-EU EPA, through which EU wine exporters obtained duty-free entry to the Japanese market immediately after the coming-into-force of the agreement on February 1, 2019. The same holds true for all other agricultural products that the United States has been competing with other suppliers; dairy products, notably cheese and butter, pork meat, chocolate, and so on. The U.S. government is now under heavy pressure from its agricultural lobby because of this widening gap in tariff treatment of the agricultural products and agro-processed products due to lack of a preferential deal with Japan.

If the United States wants to fill this gap, the best way to do so is, as the Japanese government has been arguing on several occasions, to come back to the trade deal that the United States had reached in the bilateral market access negotiations during the Trans-Pacific Partnership (TPP) talks successfully concluded in October 2015. Therefore, it is clear that the demandeur of the upcoming trade negotiation is the United States. And it is always the case in trade talks that the demandeur should pay more for a successful conclusion.
liberalization with two mega trade agreements under its belt: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Japan-EU Economic Partnership. In contrast, the current U.S. administration touts the benefits of bilateral deals with the primary goal of reducing trade deficits, has resuscitated managed trade practices through quotas, and has actively used tariffs (or the threats of tariffs) to gain leverage in negotiations and to protect specific sectors.

Without a doubt, the bilateral trade negotiations will be vexing. Both parties first have to agree on the sheer scope of talks (goods plus a few services or a full-fledged free trade agreement (FTA)); and a number of red flags for negotiators are already visible: export restraints on autos, binding currency rules in the body of the agreement, agricultural liberalization beyond TPP levels, and the potential adoption of a clause discouraging trade negotiations with non-market economies that surely lands flat as Prime Minister Abe aims to put relations with China on better footing. Still, speed is good counsel.

A timely conclusion of negotiations has two major upsides. First, speed can improve the quality of the bilateral trade agreement because it will encourage compromise. The contours of that compromise are not hard to fathom: to set aside trade-reducing demands (quotas that cut back Japanese automobile exports to the United States) to enable a brisk negotiation result leveling the playing field for U.S. producers in the Japanese agricultural market. This bargain is not a pipe dream, keeping in mind that the 232 report on auto tariffs has already achieved what U.S. Trade Representative Lighthizer intended (bringing reluctant parties to the negotiation table), but there is no domestic constituency for the actual implementation of tariff hikes that would wreak economic havoc. A quick result on agricultural opening is important to the Trump administration as the fate of the United States-Mexico-Canada trade deal is more than uncertain, the “historic” deal with China may not lead to a swift lifting of tariffs, and the retaliatory measures applied by several nations in the wake of U.S. tariffs on metals are still biting.

Second, once the United States and Japan get past the bilateral trade talks, they will be better poised to shape together Asia’s economic architecture. Both of the talks. Japan should wait until the United States could offer some concessions such as its eventual return to the TPP.

However, it is not clear what the United States wants at the end of its trade talks with Japan. One can argue that it wants to reduce the bilateral trade deficit with Japan by reducing the number of units of cars to be exported to the United States. In realizing this objective, neither import control by the United States nor export restraints by Japanese car manufacturers are possible means to achieve it as they are violating the General Agreement on Tariffs and Trade’s (GATT) Article XI (General Prohibition of Quantitative Restrictions). Even the so-called “voluntary export restraints (VERs) cannot be instrumentalized because they are no longer the “grey-area measure” under the World Trade Organization (WTO). Japan is not in a position to perform VER, which constitutes a breach of the WTO rule. Instead, Japanese car companies have been increasingly investing in the United States, now producing over 3.7 million units of cars in the States, while the number of directly exported cars from Japan to the country has sharply declined from 3.8 million units in the 1980s to 1.7 million units in 2017. At the same time, Japanese car manufacturers created more than 87,000 direct jobs, and indirect employment reached 1.5 million jobs. This kind of development should be taken into consideration while discussing the ways and means to reduce trade imbalances. Japan should not go along with recent U.S. trade policy, which has been heavily weighted with narrow bilateralism resulting in “managed trade deals” rather than “free trade deals.”

Trade talks between Japan and the United States around this time will be structured and conducted in accordance with the joint statement of the Japan-U.S. summit on September 26, 2018. The statement recognized the sensitivities of both sides, namely agriculture to Japan and the auto sector to the United States. Negotiators from both parties will respect the guidelines set forth by their leaders regarding these sensitivities. It is also quite interesting to note that neither a time frame nor deadline has been set in the statement unlike the U.S.-China trade talks, which set a 90-day timeline. Thus, the first stage of the talks should be dedicated to a “scoping exercise” which defines the negotiating agenda as well as the level of
sides share an abiding interest in preserving and expanding an open digital economy, codifying and disseminating rules that address the distortions of state capitalism (disciplines on state-owned enterprises and industrial subsidies, rooting out forced technology transfers, etc.), and pooling resources to finance critical infrastructure in the region to improve development outcomes and avoid overdependence on the Belt and Road Initiative.

Bilateral trade negotiations can be a dead weight if they tie the United States and Japan to a perennial wrangling over tariffs and quotas, or they can be a stepping stone toward coordinated economic statecraft. What will it be, Washington?

ABOUT THE AUTHORS

MIREYA SOLIS is director of the Center for East Asia Policy Studies, Philip Knight Chair in Japan Studies, and a senior fellow in the Foreign Policy program at Brookings. Prior to her arrival at Brookings, Solís was a tenured associate professor at American University’s School of International Service. Solís is an expert on Japanese foreign economic policy, U.S.-Japan relations, international trade policy, and Asia-Pacific economic integration. She is the author of “Banking on Multinationals: Public Credit and the Export of Japanese Sunset Industries” (Stanford University Press, 2004) and co-editor of “Cross-Regional Trade Agreements: Understanding Permeated Regionalism in East Asia” (Springer, 2008) and “Competitive Regionalism: FTA Diffusion in the Pacific Rim” (Palgrave Macmillan, 2009). Her most recent book, “Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order” (Brookings Press, 2017), offers a novel analysis of the complex tradeoffs Japan and the United States face in drafting trade policy that reconciles the goals of economic competitiveness, social legitimacy, and political viability. “Dilemmas of a Trading Nation” received the 2018 Masayoshi Ohira Memorial Award.

YORIZUMI WATANABE is professor of international political economy and dean of the School of International Communication, at Kansai University of International Studies (KUIS), and emeritus professor of Keio University.

His distinguished career has featured significant engagement in the major bilateral and multilateral trade negotiations in which Japan has been involved in the past two decades. This includes postings to Japan’s diplomatic missions in Geneva and Brussels.

He was deputy director-general of the Economic Affairs Bureau, Ministry of Foreign Affairs of Japan from 2002-2004 and served as chief negotiator for the Japan-Mexico Economic Partnership Agreement (EPA) and the Working Party on Russia’s Accession to the WTO. He was special assistant to the Minister for Foreign Affairs of Japan in 2004.

He has been a member of some task forces such as the one on the Japan-EU EPA as well as on the Japan-India EPA, and more recently on Japan-US Economic Relations under Minister for Foreign Affairs of Japan in 2016. Professor Watanabe serves on the Panel on BREXIT issues organized by the Keidanren (Japan Business Federation).

Since April 2015, Professor Watanabe has been statutory auditor at Mitsubishi Fuso Truck & Bus Company, which is affiliated to Daimler AG.

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