



# U.S. - Japanese Free Trade Agreement

## How essential? - How to Proceed if the TPP Is Dead

*Compiled by Arvind Sinha*



Days before U.S. President-elect Donald Trump takes office, there are few that hold out hope for the survival of the Trans-Pacific Partnership (TPP). Outgoing U.S. President Barack Obama's failure to push the 12-nation pact through the U.S. Congress allowed it to become a political football in the 2016 presidential election, disavowed by both Trump and his opponent, Hillary Clinton. The majority of Congress members also found it too toxic to touch in an election season dominated by populist discussion about protecting U.S. workers from the ravages of free trade.

Some of Trump's senior advisers, such as Peter Navarro, incoming head of the new National Trade Council, have declared that the TPP will not be resurrected. Other voices, including the economists Larry Kudlow and Stephen Moore, have supported the TPP in the past and indicated that it might be renegotiated. Having made a public announcement just after the election that he intends to withdraw from the TPP on "day one," however, Trump will find it difficult to back down, at least without a backup plan.

Such a backup plan has already been hinted at by the president-elect, who on multiple occasions has noted his preference for transparent bilateral trade agreements that do not harm U.S. workers. Critics who say that Trump is an economic mercantilist opposed to free trade thus caricature his position without fully acknowledging the free trade policy he might in fact pursue.

### TPP, RIP?



Trump's opposition to the TPP is perhaps the final nail in the coffin for large free trade pacts. Since the demise of the World Trade Organization's Doha Round negotiations in 2008, there has been almost no movement on a global trade agenda. Instead, the TPP and its cousin, the Transatlantic Trade and Investment Partnership, represented a new era of major yet still regional free trade negotiations.

In spanning the Pacific and incorporating nearly 40 percent of global GDP and one-third of global trade, the TPP was the most important regional trade pact negotiated during the Obama administration. And now even such geographically limited agreements seem off the table.



Just as significant, the deal brought together, for the first time, the United States and Japan, the world's first- and third-largest economies, into a free trade agreement (FTA), along with the United States' North American Free Trade Agreement partners, Canada and Mexico. By excluding China, the TPP focused almost exclusively on liberalized, open economies (Vietnam being the one major exception) with comparatively low levels of government control or state-owned enterprises.

It also served the strategic purpose, repeatedly invoked by Obama, of creating a trading community of open, mostly liberal nations committed to international law, binding principles, and established mechanisms for ensuring standards and fair competition.

Although Japan's formal tariffs have dropped sharply in recent decades, other, non-tariff barriers to U.S. goods remain, including particular standards, licensing restrictions, and closed supplier chains. These particularly affect agriculture, automobiles, and information and communication technology products.

The TPP was designed in part to reduce these barriers, so spiking it means losing the opportunity for some U.S. manufacturers and farmers to expand their markets in Japan. A U.S. failure to pass the TPP also means that the Japanese economy will miss a chance to become more competitive and to further globalize itself.

Indeed, Japanese Prime Minister Shinzo Abe's economic reform plan, popularly known as "Abenomics," depended in part on the TPP as an enforcement mechanism, especially for agriculture. In fact, for many countries, the TPP would have urged economic reform that would have been difficult to pass domestically.

Trump and other TPP critics zeroed in on the pact's complexity and lack of transparency. Mirroring the arguments of advocacy groups, Trump decried the TPP for making it easier to ship jobs abroad, giving corporations more power, and proffering byzantine regulations. Instead, Trump promised, his administration would aim for simpler, less top-heavy bilateral pacts that would be more transparent and accountable to U.S. officials, thereby making them easier to renegotiate if necessary.

If he is serious about keeping free trade alive, then the best place for Trump to start would be with Japan. Total trade in goods and services between the two countries reached \$283 billion (representing a \$52 billion deficit for the United States) in 2014. Although the trade in goods has been flat, if not in slight decline, for over two decades, services have increased. Even with agricultural restrictions, Japan remains a major market for U.S. farmers. Outside of agricultural products, American exports are all high-value, high-tech goods. Between 1998 and 2011, U.S. investment in Japan doubled. According to the East-West Center, every U.S. state exports at least \$100 million in goods and services to Japan every year, while fully 31 states export \$1 billion or more. (California, not surprisingly, exports the most, at \$20 billion.)

For its part, Japan is the second-largest foreign investor in the United States, after the United Kingdom, with \$373 billion in U.S. holdings. Its main exports include machinery, electronics, and optical and medical instruments. The Japanese automobile industry, which began shifting production to the United States in the 1980s, employs 1.36 million U.S. workers directly or indirectly, according to trade association figures. Just as important, numerous small and midsize Japanese firms are integral parts of the high-tech global supply chain for consumer items such as smartphones, smart televisions, and the like.

The framework for a U.S.-Japanese bilateral FTA already exists in the TPP. Indeed, hints from the Trump team that they want to renegotiate, not simply trash, current trade agreements means that there is a chance the two sides could jump-start bilateral negotiations by basing them on modified parts of the TPP. Whether that will satisfy Trump's demands for transparency and simplicity is unknown, but elements of the TPP not relevant to the trade between two advanced countries, such as on state-owned enterprises, can easily be dropped. Similarly, given the high labor and environmental standards in both countries, other relevant chapters may be simplified.

Still, a U.S.-Japanese bilateral FTA needs to include the agreements made on scrapping long-standing restrictions on U.S. products in Japan. Thus, the TPP chapters related to reducing non-tariff barriers on autos and eliminating tariffs on U.S. dairy products, wine, beef and pork, and soybeans should be replicated. Since Japan is the United States' largest overseas beef market, accounting for \$1.6 billion in sales (even with a 38.5 percent tariff), as well as being a major importer of U.S. pork and soybeans (even with a 21 percent tariff), ensuring a level playing field should be the top priority for the Trump administration in any bilateral negotiations.

One sticking point to a bilateral deal will be the likely reluctance of the Abe administration to abandon the TPP. Abe took a political risk by pushing the agreement through the Diet and was criticized by parliamentarians from his own party as well as opposition parties. Given the amount of effort he expended, he is not interested in hastily dropping the TPP, even in modified form. However, given Trump's clear statements against the deal, showing a willingness to consider a bilateral substitute may serve Japan's interests better in the long run.

A potentially positive sign for a U.S.-Japanese bilateral FTA is the recent announcement that Trump will name Tennessee businessman William Hagerty as U.S. ambassador to Japan. Mr. Hagerty, who lived in the country for three years earlier in his career, served as Tennessee's commissioner of economic development and has worked in private equity.

An ambassador with experience in developing business opportunities, including in Japan, may well be able to make the best case to both Washington and Tokyo why pursuing an FTA is beneficial.

During the Obama administration, Tokyo and Washington deepened their formal alliance and continued close cooperation on issues such as ballistic missile defense and cybersecurity. Building off those achievements by negotiating a bilateral free trade pact would further strengthen the strategic basis of U.S.-Japanese relations. It may also serve to allow for a future broadening of free trade agreements to other partners in Asia. In the end, a bilateral FTA may be the best route to ensuring the ultimate formation of a community of interests in the Asia-Pacific linked by free, fair trade.

***Complied and Sourced by:***

**Arvind Sinha** - CEO & Chief Advisor

Business Advisors Group

Cell No. 9820062612

Email ID: [lionasinha@gmail.com](mailto:lionasinha@gmail.com) / [arpsinha09@gmail.com](mailto:arpsinha09@gmail.com)