

Japan Holds the Reins of the US-Japan Trade Talks

By Kyoko Suzuki

The US-Japan negotiation framework was affirmed in a joint statement issued in New York in September 2018. This simple seven-paragraph document allows for various interpretations. Paragraph three of the statement indicates that the two Parties will first discuss trade in goods, and some early achievable key issues. Paragraph four mentions negotiations on other trade and investment issues “after the completion” of that “discussion”.

Why did the two governments feel compelled to agree to these ambiguous expressions, which suggest that trade in goods comes first and “other key issues and services” later? On the Japan side, there could be three main reasons.

First, there remains a resistance among Japanese stakeholders towards facing the United States over trade negotiations. In fact, until recently the Japanese government had consistently stated that Japan was not going to enter into a negotiation of a bilateral free trade agreement (FTA) with the United States. Therefore it is important to make the framework sound different from a normal FTA.

Second, proposing a narrower scope than what the United States wants will give Japan more bargaining chips, because Japan must be ready to be forthcoming on a broader range of issues, as long as the concessions do not exceed those in the scuttled Trans-Pacific Partnership (TPP). Of course, shelving difficult issues will ease the process of agreement.

Third and most important, Tokyo’s long-term objective is to convince the United States to rejoin the TPP or the modified TPP, now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). By limiting the outcome of the bilateral talks to be far less comprehensive than those of TPP, Japan can leave on the table an incentive for the United States to re-consider the TPP.

On the US side, it is true that Washington’s main concern is agriculture and autos; however, the United States also has to respond to American stakeholders’ concerns in much broader areas of business. If the negotiation only covers issues on goods, it will be very hard to get approval from the US Congress. From this point of view, Washington will insist that the joint statement does not mean that the negotiations on goods and those on other issues are totally separate processes. Instead, the United States can argue — diverging from Japan’s perception — that the statement clearly endorses the possibility of discussions on any issues, including investment and services. This statement is carefully designed to reflect each government’s concerns.

Kyoko Suzuki,
Visiting Fellow at the
East-West Center in
Washington, explains
that “It is important [for
Japan] to make the
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Highlight of the Negotiation: the Treatment of “TPP-suspended” Issues

From Japan’s standpoint, there are at least two grounds for concern in facing the United States over trade negotiations. The United States Trade Representative (USTR) report on negotiating objectives for a US-Japan trade agreement published last December is very clear that the United States will aim to create a pact similar to the United States-Mexico-Canada Agreement (USMCA). There is a fairly high probability that the Trump administration will table the “new issues” dropped from CPTPP but included in the USMCA. Washington could also demand that Japan agree to rules that might restrict Japan’s car exportation to the United States. Another undeniable possibility is that Washington could link security issues to the discussion. In that case, the trade talks could turn into a political game and Japan should be prepared to play alternative diplomatic cards.

However, prolonging the negotiations because of such issues would not benefit the United States very much, since a delay would simply prolong the disadvantage faced by US industries, which is currently increasing. Along with other members of CPTPP, Japan has made concessions on market access on the assumption that the United States would become a member. The same logic applies to rules, standards, and other issues like services and investment. As long as Japan remains firm and the United States is satisfied with TPP-level measures, a Japan-US agreement could be reached fairly quickly.

Establishing a completely “TPP-equal” agreement could remove any US motivation to come back to the TPP. If the US-Japan talks prove that bilateral negotiations can reap satisfactory outcomes for the United States, the Trump administration would move on with more bilateral pacts with the rest of CPTPP member states, namely Vietnam, Malaysia, and Brunei (The United States already has an FTA with Singapore). If this happens, US membership in the TPP/CPTPP will be a dead letter. The Abe administration should therefore make maximum efforts to leave unresolved some key issues that could be used as a lure. In this sense, it will be interesting to see how Japan treats the suspended provisions of CPTPP; for example, those of Investment (Article 14), Government Procurement (Article 15), and Intellectual Property Rights (Article 18). These are extremely important for the United States, especially in terms of fostering US investments in Asia, but as part of the conclusion of the CPTPP, the eleven remaining parties agreed to suspend a number of provisions in those Chapters. If Japan managed to put those issues on the shelf, Washington would probably stay hungry enough to rethink its withdrawal from the TPP.

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Japan is Waiting for the Start of Negotiations with Open Arms

Leaving the United States behind, the entry into force of the two “mega-FTAs”, CPTPP and the Japan-EU EPA, will improve the competitiveness of agricultural exports from major agricultural powers, namely Australia, New Zealand, Chile, Mexico, and European countries. Japan’s import tariff on beef, for example, has already been reduced from 38.5% to 27.5%, and will be continuously reduced to only 9% in 16 years for those countries in CPTPP and/or the Japan-EU EPA. The United States should take action to maintain the competitiveness of its agricultural industry.

Abe’s incentive for trade talks with the United States is more politically concerned. In anticipation of the increasing presence of China, Japan views forming an international economic order with the biggest economic powers as an urgent need. Observing President Trump’s clear hostility toward multilateral frameworks like TPP, the Abe administration is prepared to face Washington squarely in bilateral talks, instead of taking a wait-and-see approach.

Japan has already ratified and launched both the CPTPP and the Japan-EU EPA and is now ready to sit at the negotiating table. Is Mr. Trump going to pass up a deal with Japan after Congress approves the USMCA (if it does), after finishing the talks with China, or even after the next election?

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