

Congress Should Support a Limited Trade Deal with Japan—But Push for a Comprehensive One

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KEY TAKEAWAYS

The U.S. and Japan have signed a trade deal that removes or reduces tariffs on up to \$13 billion worth of cross-border trade, but the U.S. should push for more.

Congress should support the Trump Administration's trade deal with Japan but also push negotiations toward a new, comprehensive free trade agreement.

Congress should also reform an out-of-date Section 232 to ensure U.S. trade policies focus on real security issues, not protectionism masked as security concerns.

U.S. and Japanese trade negotiators have signed a limited agreement covering the trade of some agricultural and industrial goods. They have also signed an agreement covering digital trade and data governance. These trade agreements will reduce or eliminate tariffs on \$7.2 billion worth of agricultural exports to Japan and \$40 million worth of exports to the U.S. and will remove barriers around the exchange of digital information.

Despite its limited role in U.S.–Japan trade negotiations up to this point, Congress should welcome this deal. However, Congress should not let negotiations end here. The U.S. and Japan should still pursue a comprehensive free trade agreement (FTA) that removes barriers to trade and investment far more broadly.¹ The White House should ensure the current agreements go into force by announcing that the import of Japanese automobiles and parts are not a

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threat to U.S. national security and removing the associated prospect of imposing new tariffs—a potential issue that could undo the current agreements. Congress should work to reform Section 232 of the Trade Expansion Act of 1962 to remove any further uncertainty about the threat these tariffs pose to all future trade negotiations.²

From 22 Negotiating Objectives to Three

Since April 18, 2017, the U.S. and Japan have held high-level economic dialogues led by Vice President Michael Pence and Deputy Prime Minister Taro Aso in an effort to deepen the strong U.S.–Japan economic relationship. The result of these efforts led to President Donald Trump and Prime Minister Shinzo Abe announcing on September 26, 2018, that both Administrations will enter into negotiations for a U.S.–Japan trade agreement.³

The Office of the U.S. Trade Representative (USTR), as required by the Bipartisan Congressional Trade Priorities and Accountability Act (TPA) of 2015, laid out a series of 22 negotiating objectives for the trade talks.⁴ These included the trade of goods, technical barriers to trade, regulatory practices, investment, and digital trade. The USTR is still looking to negotiate a comprehensive agreement with Japan with these objectives, which is also required by U.S. and Japanese commitments to the World Trade Organization’s Article XXIV.⁵ In the meantime, President Trump and Prime Minister Abe have decided to move forward with a limited deal that addresses only three objectives: agricultural, industrial, and digital trade.

The U.S.–Japan Trade Agreement (USJTA) will reduce or eliminate tariff and non-tariff barriers (such as quotas) on key agricultural trade of a variety of goods. The U.S. exported \$14.1 billion worth of farm and agricultural goods to Japan in 2018, making Japan the third-largest U.S. agricultural export market in 2018.⁶ Roughly \$7.2 billion of these exports were either subject to a tariff or quota of some kind. The removal of these barriers will help U.S. farmers in their fight to regain preferential treatment they have lost to Australian, Canadian, and New Zealand producers—competitors for many U.S. agricultural industries—that have secured better access to Japanese markets after these countries entered into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which went into force in December 2018.⁷

Japanese imports of beef and pork increased between 2018 and 2019. While the share of U.S. products in Japan’s total beef imports for the first half 2019 increased by roughly 1 percent, the share of U.S. pork has decreased by over 3 percent compared to the same period in 2018.⁸

Once the USJTA is ratified by the National Diet of Japan and goes into force in 2020, Japan will immediately eliminate tariffs on \$1.3 billion worth of U.S. goods that include almonds, blueberries, cranberries, walnuts, sweet corn, grain sorghum, food supplements, broccoli, and prunes.⁹ Japanese tariffs on these goods currently range between 2.4 percent and 11 percent. The tariff on \$3 billion worth of other goods will be lowered and eliminated over a five- to 10-year period. These goods include wine, cheese, ethanol, frozen poultry, processed pork, fresh cherries, beef offal, frozen potatoes, oranges, egg product, and tomato paste.¹⁰ The tariff on these goods is currently anywhere between 8.5 percent and 32 percent. And the tariff on \$2.9 billion worth of U.S. fresh and frozen beef and pork will be reduced over a five- to 15-year period, but not entirely eliminated. The tariff on these goods is currently between 20 percent and 38.5 percent.¹¹

The U.S. will reduce and eliminate tariffs on roughly \$40 million worth of Japanese agricultural imports, including cut flowers, persimmons, green tea, chewing gum, certain confectionary products, and soy sauce.¹² The tariff on these goods is currently between 1.4 percent and 20 percent. The U.S. will also remove and eliminate tariffs on a number of non-agricultural imports roughly valued at \$5.4 billion in 2018.¹³ These goods include machine tools, steam turbines, certain metal products, television screens, fishing equipment, bicycles, tennis rackets, camera parts, and golf equipment.

The current agreement, however, excludes a number of goods, such as U.S. exports of butter, skim milk powder, evaporated milk, and rice. These goods will need to be addressed as part of the comprehensive trade agreement.

Barriers to a Deal

More than one-third of imports from Japan are vehicles and parts (\$51 billion in 2018). However, the White House currently considers Japanese auto imports a potential threat to U.S. national security.¹⁴ There has been little-to-no justification for this assumption. If the White House proceeded with a 25 percent tariff or quotas on the import of Japanese automobiles and auto parts, this could undo the work of U.S. and Japanese negotiators.

Negotiators have suggested there is no longer a threat of tariffs because President Trump and Prime Minister Abe announced in a joint statement: “While faithfully implementing these agreements, both nations will refrain from taking measures against the spirit of these agreements and this Joint Statement.”¹⁵ But this is a vague commitment that brings little confidence tariffs are off the table. And as a part of the USJTA text reads, “Customs

duties on automobile and auto parts will be subject to further negotiations with respect to the elimination of customs duties,” suggesting the threat may not be entirely eliminated.¹⁶

Finishing the USJTA

The White House will need to clarify that the import of Japanese automobiles and auto parts is not a threat to U.S. national security if it wants to guarantee the USJTA goes into force in 2020. Congress can help the USJTA's implementation by:

- **Welcoming the U.S.–Japan trade agreement.** Congress should support the Trump Administration's efforts to liberalize trade for over \$13 billion worth of traded goods.
- **Pushing USTR to continue negotiating a comprehensive, broader free trade agreement with Japan.** Congress should make sure that USTR pursues the negotiating objectives it outlined in the TPA, which are also in line with U.S. commitments to the World Trade Organization. In return for adhering to its objectives, the TPA applies fast-track procedure treatment for the FTA. Such a broader agreement would require votes in Congress.
- **Reforming Section 232 to remove any ambiguity regarding Japanese auto imports as a threat to U.S. national security.** At a minimum, Congress needs to reform this out-of-date statute to ensure U.S. trade policies focus on real security issues—not protectionism masked as security issues.

Conclusion

The U.S. and Japan are significant partners in trade, investment, and security matters. Both countries should strive to build a free and open relationship by pursuing more opportunities for trade and investment. The USJTA is just one step to building this relationship.

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Endnotes

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