Japan and the United States: Next Steps for Alliance Trade and Technology Policy Coordination

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Event Summary
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Over the course of two separate, hour-long public sessions, expert panelists with experience in government, business, and academia discussed U.S. and Japanese trade policies of the recent past and potential directions for collaboration in the future. The first session, titled "Pros and Cons of an 'America First' Trade Agenda," was an evidence-based assessment of the past four years of U.S. trade policies, how they affected Japan, and their impact on the international trade system. Featured panelists included John Murphy (U.S. Chamber of Commerce), Yorizumi Watanabe (Keio University), Mitsuru Claire Chino (Itochu International), and Meredith Miller (Albright Stonebridge Group). The second panel, "Next Steps for U.S.-Japan Trade and Technology Policy Coordination," featured former U.S. Trade Representative Susan Schwab (Mayer Brown), Fran Stewart (Ohio Manufacturing Institute), Heizo Takenaka (Keio University), and Marc Mealy (U.S.-ASEAN Business Council). Both panels were moderated and organized by James L. Schoff, senior fellow in the Carnegie Endowment for International Peace's Asia Program.

The first session provided a retrospective discussion of the trade policies of Donald Trump's administration. Murphy identified three primary areas for evaluation: 1) exports and market access; 2) imports and tariffs; and 3) trade balances. On the first of these measures, he noted that the Trump administration departed from the traditional U.S. agenda of seeking international trade liberalization for greater export-market access. The trade negotiations that the Trump administration did engage in were narrower in scope. The results included a revised North America trade deal that altered some trade rules but that could hardly lift tariffs that were eliminated years ago and a "Phase One" U.S.-China Economic and Trade Agreement that produced some limited structural reforms (e.g., on intellectual property protections). The U.S.-Japan Trade Agreement in goods, concluded in 2019, marginally liberalized access but was more noteworthy for a companion digital trade agreement.

On the second issue of tariffs, Murphy cited the Congressional Budget Office when explaining that the imposition of import duties on nearly $400 billion worth of goods had amounted to a net decrease in average U.S. household purchasing power by $1,200 per year, though the same projections by the noted that this loss would be attenuated over time. In retaliation against U.S. increases in dumping and countervailing duties, foreign tariff barriers caused contractions in trade-sensitive industries such as agriculture, according to Murphy, despite otherwise strong macroeconomic conditions (prior to the COVID-19 pandemic).

On the third issue, Murphy observed that not only has Trump's idiosyncratic obsession with bilateral trade deficits been criticized by economists as a poor measure for national economic performance, Trump's policies failed to rectify the trade imbalance that he stressed was so important. The U.S. goods trade deficit, for example, widened by more than 20 percent over the course of Trump's term.

Watanabe presented a Japanese evaluation of Trump's trade legacy. He described how two major global shocks in 2016—Brexit and Trump's election—generated uncertainty in the global business environment that had a detrimental effect on Japan. He noted that Trump's protectionism, as manifested in the U.S. withdrawal from the Trans-Pacific Partnership (TPP) and ongoing trade wars had exacerbated the damage from this uncertainty. Watanabe further described the diplomatic landscape of trade agreements. He explained that following Trump's withdrawal from the TPP, China lacked the diplomatic impetus to pursue free trade agreements. Instead, China pursued the Belt and Road Initiative (BRI) as part of its trade diplomacy. Japan, Watanabe described, sought to fill the vacuum left by the United States' absence and pursued multilateral agreements in the form of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). He added that Japan can play a pivotal role in the future to link the eastern Pacific and the United States to the CPTPP and RCEP trading blocs, and hopes that the United States will consider joining these multilateral trade agreements during Joe Biden's administration.

Chino, an executive with Itochu—one of Japan's largest trading companies—described how Trump's trade policy had affected business generally. She recalled that U.S. agricultural exports to China fell precipitously as Chinese importers instead made purchases from other countries. Moreover, it appears that agricultural purchase commitments made under the Phase One agreement had granted Chinese state-owned enterprises greater buying power, creating monopsony distortions to the detriment of U.S. farmers' profitability. Chino added that, for the most part, firms appear to have passed on the added costs of import tariffs to American consumers. With respect to the investment environment left in the wake of Trump's trade wars, Chino noted that the U.S. climate had soured for firms not from "white-listed" countries as determined by the Council on Foreign Investment in the United States, including Japanese companies. In addition, she cited an American Chamber of Commerce China Business Climate Survey published in the last quarter of 2020 that showed 50 percent of respondents believed that the Chinese business climate was "improving," and that 61 percent were "confident" that Beijing was committed to continuing economic liberalization.

Miller began by explaining that U.S.-China trade tensions were actually the manifestation of much longer-term trends, including growing skepticism of globalization, fragmenting support for international institutions like the World Trade Organization (WTO), and the relative decline of the United States in geopolitical terms. Thus, U.S.-China relations have deteriorated to a nadir in the post-rapprochement era. She added that private business interests are taking note of this and relocating supply chains and investment to other destinations in Southeast Asia such as Malaysia, Indonesia, and Vietnam to avoid China-targeted import tariffs. Miller added that the political economy of tariffs makes them much easier to impose than to repeal and she expected the Biden administration to take a "cautious and measured" approach to any (unilateral) liberalization. She also noted that U.S. net-inward FDI had fallen some 30 percent between 2017 and 2019, a pattern even more acute for Chinese-origin FDI.

The panel was in broad consensus that the United States is likely to repeal its Section 232 tariffs on steel and aluminum (imposed against allies for ostensibly national security purposes) before repealing Section 301 tariffs that had been imposed as retaliation to ostensibly unfair trade practices (primarily against China). Panelists also pointed out that China had developed a "blocking statute" that would allow it to sanction and deny market access to specific companies, a legacy of Trump's trade war that would last well beyond his presidency. Further comments suggested that the United States and Japan should work with each other and with other like-minded allies to develop harmonized standards and rules to develop a more robust trading bloc. Initial issues that could be raised in multilateral settings included pharmaceuticals, supply chain resilience and security, and digital trade.

The second panel focused on questions of how the United States and Japan could coordinate in the short- and long-run on questions of trade policy and strategically important parts of the economy. Schwab began by noting that though the Biden administration is in many ways different from the Trump administration, it is similar to its predecessor in its willingness to erect trade barriers. That is, while the tone of Biden's trade policy is different, particularly when it comes to allies, so far much of the substance is the same. Points of divergence likely include trade related to human rights and climate change issues, and how those disagreements translate into trade policy actions, according to Schwab. She suggested that with the expiration of Trade Promotion Authority in summer 2021, the Biden team's best option to achieve a trade agreement for the foreseeable future will be with the United Kingdom in the months to come.

Takenaka, who had previously publicly described the Trump administration as a "passing rain cloud" over global progress toward trade liberalization, noted that it was not yet clear if Biden would constitute a proverbial break in the rain. Though he hoped that the United States would consider joining trade agreements that Japan has spearheaded, the CPTPP among others, he thought that this would remain unlikely.

Stewart, who had previously worked with the Carnegie Endowment for International Peace on a report titled "U.S. Foreign Policy for the Middle Class: Perspectives From Ohio," stressed the importance of not casting Trump's political base as being anti-trade in the way that Trump was himself. Many of the former president's political supporters in Ohio have jobs directly or indirectly affected by trade, including workers in agriculture and manufacturing industries that have been hurt by Trump's trade barriers or retaliatory tariffs, according to Stewart. She added that one takeaway from the Carnegie project was for the need to "flip the trade script" from an emphasis on what is good for the country or big business in the United States to ultimately benefit local communities, and instead focus on the benefits that international agreements can deliver for local communities directly, which ultimately benefit the country. Stewart commented that the public also demands diligent enforcement of trade rules to make sure that other countries are abiding by their agreements. Stewart added that firms of all sizes dislike uncertainty and that Biden could win support among the business community by providing clear signals of policy.

Mealy went on to describe the effects that Trump's trade policies had on U.S. firms' activities abroad. He noted that in response to U.S. tariffs on imports from China, U.S. companies had moved some of their supply chains to Southeast Asian nations, much to the benefit of those new host nations. He added that American absence from trade liberalization forums and agreements such as the WTO, RCEP, and CPTPP may not negatively affect U.S. firms directly, but probably will indirectly, as those agreements promote intra-Asian trade that would supplant inter-regional trade between the United States and Asia. As a consequence of this regional liberalization, Mealy forecasted that U.S. firms facing competitive tariff disadvantages in terms of access to growing Asian markets might need to find new destinations for their exports in the coming months and years.

On this point, Schwab added that small and medium-sized enterprises (SMEs) would likely be the ones that suffer the most from protectionist actions because they lack the institutional bandwidth of larger companies to adjust to these large structural changes. Takenaka again added that the United States could mitigate these damages if it were to more closely participate in those same regional trade networks, by joining the CPTPP, for example, in part or in whole.

The panel then turned to questions of what constituted "unfair" trade practices, a charge often levelled at China. Schwab pointed to instances in which Chinese government industrial policy and accompanying subsides generated global overcapacity and "dumping" effects in foreign markets. She added that, to date, the WTO had been ineffective in handling theses systemic nonmarket economy issues. On the WTO, Stewart described how intellectual property violations, another unfair trade practice, could be adjudicated but not quickly enough to make litigation worthwhile, particularly for small firms. Both noted that domestic and international laws and institutions ought to be reformed to better handle these "grey areas" of international trade issues.

An additional point of international contention was raised by Takenaka, who noted that China's trade competitiveness may be aided by the People's Bank of China artificially depreciating the renminbi. Mealy added that what makes many of these issues seemingly intractable is continuing domestic and international disagreement on definitions of terms such as "state-owned enterprise," or "currency manipulation," adding that others can accuse the United States or European nations of similar transgressions by taking advantage of these gaps.

The panel ended in a general consensus that the complexity of domestic and international politics of trade issues has been exacerbated by nationalistic sentiments driven by the COVID-19 pandemic. Members of the panel supported a more cooperative, multilateral thrust for future trade negotiations and liberalization by the United States and Japan.