Insight

Assessing President Trump's Trade Deal with Japan

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President Trump last week signed an agriculture-focused trade deal with President Abe of Japan that lowers both U.S. and Japanese barriers to bilateral trade. The agreement mirrors parts of what would have occurred under the Trans-Pacific Partnership (TPP) – a previously negotiated trade agreement from which President Trump withdrew in his first week of office – but it not as extensive as TPP in what it covers. Further, this deal does not prevent the 25 percent tariffs on Japanese autos and auto parts that President Trump has threatened, a threat that is looming over the United States and its trading partners.

The U.S.-Japan trade agreement covers two main areas: agriculture and digital trade. In agriculture, $2.9 billion of U.S. beef and pork will face reduced tariffs from Japan. Furthermore, Japan will immediately eliminate tariffs on $4.3 billion of U.S. fruits, nuts, and other agricultural products, and it will phased out tariffs on $3.0 billion of further agricultural goods. For its part, the United States, which started with lower overall tariffs than Japan, agreed to eliminate or reduce tariffs on $40 million of Japanese goods such as green tea, soy sauce, and plants, as well as increase market access for Japanese beef.

TPP would have also reduced or eliminated tariffs facing these agriculture products, but with added benefits: It would have eliminated tariffs on U.S. tobacco and soybean products and established a certain level of U.S. rice that would be allowed to enter Japan duty-free.

The second part of the trade deal establishes much-needed rules for digital trade using provisions originally outlined in TPP. These provisions prohibit tariffs on electronically transferred products and ensure the free flow of data across borders. They also forbid discrimination, such as unfair tax treatment, on digital products and ban forced data localization, a practice that mandates firms place physical servers in locations where they do online business.

As a part of the deal, the United States also agreed to reduce or eliminate tariffs on certain Japanese industrial goods and machinery, as well as bicycles and musical instruments.

While this agreement is good, it has some obvious omissions. First, it does not address services – a sector in which Japan imposes serious barriers to trade, especially in the insurance industry. Pursuing an agreement like TPP that liberalizes the trade of services would only help the United States.

Second, without an agreement on auto trade, the president's threat of auto tariffs still looms. Earlier this year, the United States found that auto imports threaten national security under Section 232, empowering the president to impose 25 percent tariffs on autos and auto parts. Section 232 auto tariffs would significantly harm U.S. consumers: Estimates suggest that they would cause overall tariffs to triple, increasing the average price of imported cars by over $4,000 and the price of imported trucks by over $5,000. Tariffs on auto parts, meanwhile, would increase the price of U.S.-made cars by over $1,000. These price increases would in turn result in a net loss of 157,000 U.S. jobs.

While President Trump continues to pursue exclusively bilateral trade agreements with nations including Japan, other nations are moving forward into multilateral trade agreements without the United States. TPP, for example, entered into force absent the United States as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) last year. As a result, the United States has been denied the preferential tariff treatment and expanded market access that other TPP nations such as Australia and Canada are receiving in the Asia Pacific. At the same time, President Trump is continuing to impose new tariffs on U.S. imports. To date, he has imposed tariffs on over $500 billion of annual imports, increasing nationwide costs for U.S. consumers by roughly $115 billion per year.

Removing trade barriers at home and abroad is one of the most effective ways to spur economic growth and improve our standard of living. The U.S.-Japan trade agreement is an excellent step toward those goals. That being said, its main achievement is to replicate, at least in part, the benefits the United States would have enjoyed if President Trump had not prematurely withdrawn from TPP.