



A DEALMAKER TRUMP TEES UP HIS GAME OF TRADE WAR

BY YOICHIRO SATO

Yoichiro Sato (yoichiro_sato@yahoo.com) is dean of international cooperation and research at Ritsumeikan Asia Pacific University.

US President Donald Trump's state visit to Tokyo ended without either concrete agreement or public pronouncement of specific disagreements on trade. While credit for this silence has been given to Japanese Prime Minister Abe Shinzo's well-planned entertainment offensive for the president, including a visit to the sumo tournament, a round of golf, a meeting with the new emperor, and a visit to Japan's naval destroyer, signs are visible that Trump has "teed up" his "America First" trade negotiation.

Ahead of Trump's arrival, US Trade Representative Robert Lighthizer met Japan's Specially Appointed Minister for Economy and Finance Motegi Toshimi to discuss bilateral trade issues including automobiles and agricultural products. Motegi's assignment is indicative of Abe's resolve to run negotiations with the United States in a centrally controlled, Cabinet-led manner, as opposed to giving more freedom to individual ministries, such as the Ministry of Economy, Industry, and Trade (METI) and the Ministry of Agriculture, Fishery, and Forestry (MAFF), which supervise the automobile and agriculture industries, respectively.

The United States has threatened Japan with imposing a 25% tariff on passenger vehicle imports by invoking a "threat to national security." Meanwhile, Japan has been trying to persuade the United States to remove the present 2.5% tariff on passenger vehicles and the 25% tariff on light trucks. The definition of light trucks in the US customs classification includes popular two-door sports utility vehicles, making

export of this type of vehicles from Japan-based factories uncompetitive. Japan earlier pursued its objectives in the Trans-Pacific Partnership (TPP) negotiations, but US withdrawal from TPP left these goals unrealized. The defensive position of the United States, however, has been converted into a highly offensive stance with Trump's threat of a "national security" tariff.

On the agriculture front, Japan used its bargaining card in the TPP negotiation by lowering tariffs on major import items. While Japan's concessions were available to all members of the TPP, US withdrawal from TPP left higher tariff rates on major US agricultural exports to Japan such as beef products, and potential export products such as milled rice. The US beef exporters suffer from 8 to 12% tariff disadvantages vis-à-vis other exporting countries that have free trade agreements with Japan, including TPP. US exporters of milled rice would have to pay a tariff at the rate of 402 yen per kilogram of rice, while TPP members can export rice to Japan with no tariff within the import quota, which was set by Japan in the WTO agreement in 1995. Leveling the competitive ground vis-à-vis TPP members on agricultural trade with Japan is thus a critical minimal objective for the United States, but Trump has also indicated that the US negotiating position is not bound by the terms of the TPP agreement. Japan has repeatedly emphasized that the TPP-level concession is the maximum Japan can agree to, however.

During the welcome reception on the night of his arrival, Trump expressed his expectation that Japanese manufacturers would invest more in the United States. Executives of Toyota, Nissan, and Honda were present at the reception. Trump, however, confided to a Fox News reporter that he was willing to wait for a concrete agreement on trade until after the Japanese election for the Upper House of Parliament (expected in late July 2019). Whether Japan can avert US imposition of a punitive auto tariff largely depends on the scale of Japanese investment and job creation in the United States. Abe had previously indicated that he would press for \$40 billion in Japanese investment in the US automobile sector. Pledges by the auto makers remain far below

Abe's number, indicating it was not based on a bottom-up summation of corporate commitments.

Japan's election and legislative calendars were likely the major subject of bilateral talk during Trump's visit. Putting a strong demand on Japanese market opening for farm products before the Upper House election would put Abe in a tough position. Meanwhile, there is speculation in Nagatacho (the Parliament district of Tokyo) that Abe would dissolve the Lower House and call a snap election to coincide with the Upper House ballot. "Double" elections this summer would catch the opposition parties unprepared and divert their campaign resources, increasing the odds of victory for the ruling coalition. Abe may even announce postponement of the consumer tax hike from 8% to 10% (scheduled in October 2019) before the election to aid the coalition.

Trump is expected to be back in Japan in late June for the G20 summit in Osaka. There, the United States and Japan will most likely look to demonstrate closer political unity in the face of growing security concerns about China and the pressing issues of nuclear development by North Korea and Iran. Together with Japan's electoral factors, these diplomatic considerations will likely keep US-Japan bilateral trade issues from the media spotlight in June and July, unless progress in bureaucratic-level talks is deemed too slow by Trump. However, as his own presidential election campaign starts accelerating in the fall, he may resort to harsh trade rhetoric against Japan in his tweets.

Meanwhile, Abe is reportedly preparing bilateral summit meetings with the leaders of Iran and North Korea. Working closely with US counterparts, Abe sees great opportunities to show his leadership by taking the initiative in the two global diplomatic quagmires. Abe's role will be limited to clearing the path for Trump's summit meetings with the leaders of Iran and North Korea, however. Success in brokering this diplomacy will depend on many unforeseen factors: those opportunities also carry the risk of a failure and a loss of his hard-earned closeness to Trump. Even if the meetings are successful, Japan will have to provide substantial economic aid.

With North Korea, Trump has stuck with his soft policy, despite his "no deal" summit with Kim Jong Un in Hanoi. Abe has quietly dropped "progress on the abduction issue" as a precondition to a summit with Kim. With Iran, in contrast, Trump's sanctions on oil exports from that country forced Japan to toe the line when the list of exempted countries (including Japan) was let expire. What may appear to be Abe's "initiatives" are in fact desperate "reactions" to the major shifts in the US policy under Trump. In the game of Trump's diplomacy, Abe does not get to tee up his game.

PacNet commentaries and responses represent the views of the respective authors. Alternative viewpoints are always welcomed and encouraged. Click [here](#) to request a PacNet subscription.