



TPP: U.S.-Japan Issues

Overview

The United States and Japan are among the 12 parties to the proposed Trans-Pacific Partnership (TPP) free trade agreement (FTA). The agreement would reduce and eliminate tariffs and non-tariff barriers (NTBs) on goods, services, and agricultural products. It would also establish trade rules and disciplines that expand on commitments at the World Trade Organization (WTO) and address new “21st century” issues, such as digital trade and state-owned enterprises. Signed in February 2016, the TPP now awaits ratification in each country before it can enter into force. For the United States and Japan, ratification entails action by the U.S. Congress and the Japanese Diet (parliament). The Diet is expected to consider the TPP in the fall of 2016. Japanese Prime Minister Shinzo Abe has promoted the TPP, and his ruling coalition has a large majority in the Diet. Observers widely expect that the Diet will pass TPP. The timeline for possible U.S. congressional consideration of TPP remains uncertain, but many observers agree that it is unlikely before the November elections.

Japan’s participation in the TPP has a number of implications for the United States due to Japan’s economic and strategic importance. Among U.S. negotiating partners in the TPP, Japan is the largest economy and largest TPP member without an existing U.S. FTA (**Figure 1**). In 2015, Japan was the fifth-largest overall (goods and services) U.S. export market (\$107.2 billion) and fourth largest source of U.S. imports (\$164.0 billion). Japanese firms are the second-largest source of U.S. foreign direct investment, and Japanese investors are the second-largest foreign holders of U.S. government debt. Japanese companies are also key links in global supply and production chains. The United States and Japan are both high-income countries, and U.S. trade with Japan differs considerably from U.S. trade with most other TPP partners without U.S. FTAs, which are generally not high-income nations, such as Vietnam and Malaysia. Japan’s participation has drawn the interest of a wide range of U.S. industries.

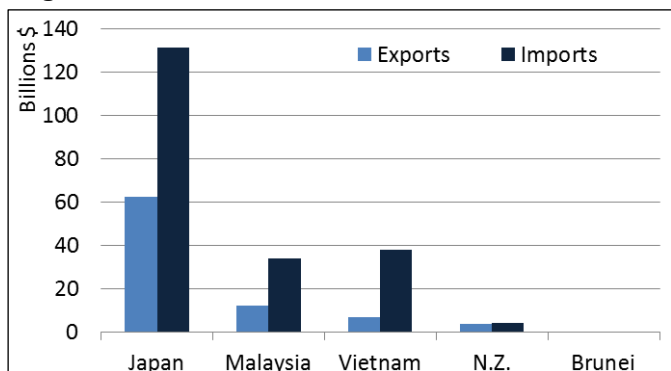
Key U.S.-Japan Provisions in the TPP

Agriculture

Increased U.S. access to the heavily protected Japanese agriculture market, already the largest U.S. export market for a number of commodities, is projected to be a significant benefit to U.S. agriculture producers. Japan would eliminate tariffs on 82% of its agriculture tariff lines but shield its most politically sensitive products from complete liberalization. USDA estimates that over 50% of U.S. farm product exports (by value) to Japan would be immediately duty-free. U.S. agriculture producers largely support the TPP. Japanese commitments on major U.S. exports (for varying years after entry into force) include:

- *Beef*: Tariff on fresh, chilled, and frozen beef reduced from 38.5% to 9% by the 16th year.
- *Dairy*: Many cheese tariffs (ranging to 40%) eliminated within 16 years and whey tariffs within 21 years.
- *Fruit and Nuts*: Tariffs eliminated on cherries (8.5%) and apples (17%) over six and 11 years and on almonds (2.4%), pecans (4.5%), and walnuts (10%) immediately.
- *Pork*: Minimum import price lowered from ¥482/Kg to ¥50/Kg, and a 4.3% tariff eliminated, both by year 10.
- *Rice*: 50,000 ton country-specific quota established for U.S. rice rising to 70,000 tons by year 13—Japan currently has a WTO-wide quota of 682,200 tons.

Figure 1. U.S. Trade with Non-FTA TPP Partners



Source: U.S. International Trade Commission.

Notes: Trade data only include goods trade, and are from 2015.

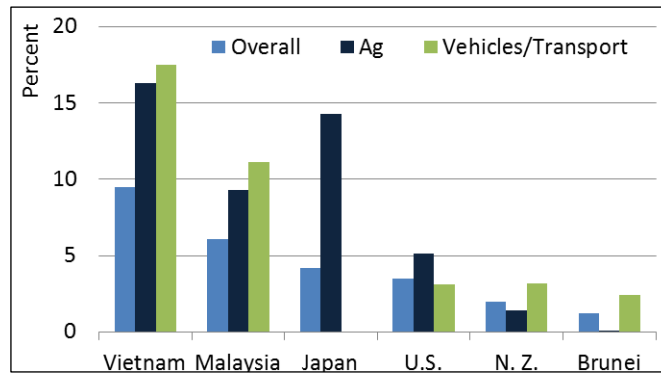
Motor Vehicles

Motor vehicles and parts accounted for more than one-third of U.S. goods imports from Japan in 2015. Although Japan has no auto tariffs (**Figure 2**), import penetration in the Japanese market is extremely low, which U.S. producers have attributed to NTBs. U.S.-Japan side letters to the TPP agreement would establish a special joint dispute resolution process and commit Japan to address certain NTB issues, but some U.S. industry stakeholders question whether these provisions would help increase U.S. vehicle exports to Japan. Through the TPP, the United States would phase out its 2.5% auto tariff from years 15 to 25 and eliminate the 25% truck tariff in year 30.

Some manufacturers and unions are concerned about TPP’s rules of origin (ROOs) for motor vehicles and parts. ROOs determine how much of a product must be made within TPP countries to be eligible for the agreement’s tariff benefits, affecting the potential use of supply chains extending beyond TPP countries. The TPP’s ROOs would require 45% value content from TPP countries for vehicles and

35% for parts. These stakeholders note that the North American Free Trade Agreement ROOs are 62.5% for vehicles and 60% for parts, although these figures are not directly comparable. In addition, some U.S. auto producers are disappointed that the agreement does not include enforceable commitments on currency manipulation, which they argue Japan has used to make its exports more competitive.

Figure 2. Average Tariffs by Product Category
(Selected TPP Countries)



Source: WTO Tariff Profiles.

Notes: Most favored nation tariffs. Ag refers to Agriculture.

Insurance and Express Delivery

Japan is the world’s second-largest insurance market behind the United States. Japan Post, the Japanese state-owned postal service and among its largest banks and insurers, has been moving toward privatization but remains majority-owned by the government. Historically, U.S. firms have found it difficult to enter certain segments of the Japanese market and have argued that Japan confers preferential treatment on insurance and express delivery subsidiaries of Japan Post. In the TPP, Japan has agreed to allow competing insurance providers access to the distribution network of Japan Post, which includes more than 20,000 branches throughout the country. The TPP would also require that licensing and other regulations affecting insurance providers do not disadvantage private competitors. Regarding express delivery, the TPP would require independence between regulators and providers and prohibit (1) requiring express delivery providers to offer universal postal service as a condition of market access, (2) fees on express delivery providers for the purpose of funding other such providers, and (3) cross-subsidization of express delivery by postal monopolies.

Strategic Implications

The TPP, the primary economic component of the Obama Administration’s “rebalancing” of U.S. foreign policy priorities to the Asia-Pacific region, has several strategic implications for U.S.-Japan relations and for the geopolitics of East Asia. Few observers believe that the future of the U.S.-Japan alliance directly depends on the passage of the TPP, as Japan’s own strategic and political calculations—including perceptions of threats posed by China—appear to be drivers of its moves to deepen strategic cooperation with the United States. Instead, many arguments about the TPP’s strategic importance to U.S.-Japan relations center on the indirect effects of the agreement. For some, the TPP is a

symbol of U.S. credibility in the region during a time when China’s rise and North Korea’s growing nuclear and missile capabilities are testing the international order and challenging U.S. influence. If the TPP increases Japanese economic growth, it could also increase Japan’s ability to become a more valuable diplomatic partner for the United States. Prime Minister Abe has also cited the TPP as an important component and driver of his structural economic reforms, though many observers say Abe’s promotion of these reforms has been inadequate.

Japan’s participation in the TPP may also advance the Obama Administration’s goal of using the TPP to establish updated trade rules. Japan’s economic significance and strong trade ties with other regional actors expands the reach of the rules established in the TPP and has likely increased neighboring countries’ interest in joining. Japan is also participating in and potentially could influence the ongoing Regional Comprehensive Economic Partnership (RCEP) negotiations, which include China and 15 other Asia-Pacific countries but not the United States. Some observers perceive RCEP as a potential alternative to the TPP in establishing regional trade norms, though others argue that the two agreements may be mutually reinforcing rather than competing, particularly with seven TPP countries in both negotiations.

Implications for Congress

As an ally and major trading partner of the United States, Japan’s involvement in the TPP may factor into congressional consideration of the trade agreement. From a foreign policy standpoint, although congressional passage of the TPP may not fundamentally alter U.S.-Japan relations, Japanese policymakers could interpret an unsuccessful TPP vote as the United States’ inability to assert leadership and a symbol of declining U.S. influence in the Asia-Pacific region. In economic terms, proponents highlight the potential benefit to U.S. firms and workers of gaining additional access to the Japanese market—particularly for agriculture products—and establishing new trading rules in areas such as services and digital trade. Opponents stress concerns over potential increased import competition and its effect on employment, notably in motor vehicle trade with Japan.

More Information

For more information, see CRS Report R44489, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, and CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*.

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