JAPAN-UNITED STATES ECONOMIC RELATIONS IN THE POST-TRANS-PACIFIC PARTNERSHIP ERA

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Executive Summary

1. Japan and the United States have agreed to discuss a post-Trans-Pacific Partnership (TPP) bilateral trade framework during the Abe-Trump meeting in February 2017. While President Trump would like Japan to import more American goods, Prime Minister Abe emphasised balancing China's emergence through the bilateral economic engagement.

2. The motives to deepen economic relations differ from those in the past. The United States opened up its market for Japanese goods in the 1950s in exchange for Japan's adherence to its geopolitical policy against the Communist regime while Japan was reliant on the United States for its national security and economic development.

3. Since 1976, Japan has registered constant trade surplus with the United States. Even with the implementation of institutional measures to balance the bilateral trade and Japanese yen's large appreciation since the 1980s, Japan's trade surplus with the United States has remained large (US$62.7 billion in 2016).

4. In 2016, 77% of Japan's trade surplus with the United States came from vehicles. This was due to Japan's comparative advantage in car making and America's huge market for car consumption. In 2015, Japan was the third largest car producer in the world while the United States was the second largest market for vehicle sales.

5. Large vehicles exported to the United States accounted for only a quarter of Japanese cars sold there in 2015; the other three-quarters were made in Japan's North American factories. Auto parts are not the cause for the auto trade imbalance as local parts are mostly used.

6. The United States has a comparative advantage in trading services due to Japan's relatively low productivity and low value-added service production at home. In 2016, Japan ran US$14.9 billion of service trade deficit with the United States, with travel services and other business services as the largest sources.

7. Japan invested US$411.1 billion in the United States in 2015, much greater than the US$108.5 billion made by American investors in Japan. Japan’s recent investment growth came mainly from the manufacturing sectors. On the other hand, the United States invested mostly in Japan’s financial services.

8. Japan’s massive investment since the 1980s has boosted employment in the United States, notably more than 1.5 million jobs in 2015. Abe’s commitments in infrastructure investment are expected to generate 700,000 more jobs in the United States.

9. To reward Japan’s support of Trump’s economic agenda, the United States has promised to defend Japan, including the disputed Senkaku islands. While Japan has continued to rely on the United States for its export-oriented economy and national security, the United States seems less able to manage the impact of globalisation on its domestic economy and China’s emergence.