



Hype hovers over Japan-US trade deal

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The most fascinating thing about Donald Trump's free-trade-agreement talks with Shinzo Abe is how the latter is adopting the former's leadership idiosyncrasies.

The Japanese prime minister's first Trumpian turn was pulling a trade-control move on South Korea. His action, that placed controls on Korea Inc's access to materials vital to making semiconductors, was right out of the US president's playbook.

The latest has Abe indulging in dubious claims so pal Trump won't be caught lying about the mooted free trade agreement between Japan and the United States.

Deploying rhetorical gymnastics, Abe is helping Trump create the illusion that Tokyo will essentially bail out US farmers going broke amid America's trade brawl with China. Rather than deny Trump's claim that the Japanese private sector will buy "hundreds of millions of dollars of corn," Abe cited an infestation of "insect pests" impacting Japan's own – tiny – corn sector.

That was news to farmers and those who watch the industry.

"There are no reasons for Japan to boost corn imports," says economist Akihiko Hirasawa of the Norinchukin Research Institute, who studies the agricultural sector.

There you have it. Japan's second-longest-serving leader has been reduced to spinning corn for a fact-challenged White House.

Yet Abe's frankly bizarre assertions open a window onto why investors should lower their expectations about a bilateral trade deal – one sure to be more hype than substance.

An old deal, recast as new

Abe already has ample reason to distrust Trump. Among his first acts as president in January 2017 was pulling out of the Trans-Pacific Partnership, something Abe pleaded with Trump not to do.

The TPP was Tokyo's insurance policy against Chinese domination. Yet Trump's recent antics in Biarritz, France, left Japan alarmed anew.

Desperate for a win as trade talks with China unravel, Trump declared that the US and Japan had a deal.

When asked about this by reporters, Abe had to admit that wasn't the case. Abe, too, had to push back on Trump's claims Tokyo was giving away the store to the "Art of the Deal" president, including private Japanese companies buying billions of dollars of US goods.

Abe had to explain that, essentially, Japan isn't China.

But Trump's haste and desperation for a deal – any deal – with the world's third-largest economy greatly reduces the odds that the US-Japan trade relationship will undergo notable change.

Trump hopes to sign the big deal during the United Nations General Assembly, which starts in New York on September 17. Consider, though, the vagueness of the language being bandied about.

At present, both governments have an agreement on "core principles" that any ultimate deal will touch agriculture, industrial tariff levels and digital trade.

For now, says economist Kimberly Ann Elliott of George Washington University, the draft US-Japan deal is "based on what was already negotiated in the Trans-Pacific Partnership," even if Trump claims otherwise.

Doing so, she adds, is aimed at offsetting the competitive advantage that regional exporters, such as Canada, are now enjoying as a result of Japan's tariff cuts under the salvaged TPP minus the US.

This is something Trump doesn't want US voters to know. He's not scoring new market access to Japan, he is just recreating in aggregate what he gave away in January 2017.

Trump's trade negotiator Robert Lighthizer is certainly trying. Mostly, though, his team is flooding the rhetorical zone with talk of a coming boom for American beef, dairy products, ethanol, pork, wheat and wine.

In reality, this is largely what then-President Barack Obama negotiated before Trump came along.

Abe's big fear

Abe still needs to sell any deal at home. He spent vast amounts of political capital joining TPP and signing a trade deal with the European Union, and now needs a new infusion of capital to amend Japan's pacifist postwar constitution, a Herculean political task.

Giving away too much to a US leader imperiling Japan's economy and national security would scuttle Abe's lifelong ambition to once again field a conventional military.

Here, Trump's continued insistence that "many other things" are on the discussion table put Abe and his lead negotiator Toshimitsu Motegi on edge. Both men fear falling into the mercurial president's crosshairs and suffering the kind of trade bludgeoning that China is enduring.

To Japanese officials, "other things" is code for automobiles. One issue is Washington's existing 2.5% tax on car imports. Trump's folks say this tariff won't change, but Tokyo still hopes the US might scrap it.

The bigger worry is Trumpian quotas on autos imports and a 25% tax on all cars and parts entering the US. Abe wants an ironclad agreement that Trump won't impose such taxes, which would slam a \$50 billion Japanese flagship industry.

But all Trump will commit to is to say that he is "not at this moment" considering such a step, one based in a 1962 national-security law. Yet he also continues to say "it's something I could do at a later date if I wanted to."

This kind of talk must surely spook Japan.

All talk, no walk?

One of Lighthizer's talking points is to deliver a "gold standard" trade pact. Yet even "silver" might be an overly kind description for what Team Trump may come away with in what has been a very hastily done deal indeed.

It may all end up simply as an exercise in branding.

That was certainly the case with Trump's much-ballyhooed renegotiation of the US-Korea trade deal that Obama and then-South Korean President Lee Myung-bak signed in 2011.

Even the Republican-leaning think tank Cato Institute admits that "renegotiation made only minor changes to the agreement and could be taken to mean that the reality of Trump's trade policy may not always match the rhetoric."

Similarly, Trump's deal with Abe is sure to be touted as a big victory for corporate America. In reality, it looks far more likely to leave big-picture dynamics between the globe's No 1 and No 3 economies little changed.