



## **Trump-Abe meeting portends potential trade deal with Japan**

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Japanese Prime Minister Shinzo Abe will meet with President Trump Friday in Washington, D.C., and a possible trade deal is near the top of their agenda.

Japan and the U.S. thought they had such a deal already, as part of the broader Trans-Pacific Partnership (TPP) negotiations. But Trump withdrew from the TPP before it could come into force.

The question now is whether Japan and the U.S. can salvage the hard negotiating they did as part of the TPP and work out a bilateral replacement.

With all the economic nationalist rhetoric coming from Trump and some of his advisers, new trade negotiations might seem unlikely at this point. How can the U.S. manage to free up trade in an atmosphere in which foreign companies and governments are constantly bashed as cheaters?

But if you parse the statements coming from the Trump folks carefully, what you find is criticism of many existing trade arrangements but positive statements about bilateral trade deals that are done properly.

Much of their criticism is actually directed at U.S. trade negotiators, not at trade deals, per se. In their view, it seems, a team of tough negotiators, in the mold of Trump, could devise a good trade deal that the president could sign off on.

In this context, what are the prospects for a U.S.-Japan free trade agreement? For many years, Japan was the United States' biggest trade rival, and tensions were high. The situation has

changed significantly, however, and the Japan-U.S. relationship is mostly positive these days for a number of reasons.

Japan's economy has stagnated in recent years, and it seems like less of a threat. Japanese companies have invested heavily in the United States and are seen as good corporate citizens. Moreover, China's rise has made it the focus of trade critics, letting Japan off the hook a bit.

In Congress, representatives of farm-heavy states see Japan as a lucrative export market. They have pushed hard for the United States to negotiate freer trade with Japan.

Finally, as noted, many of the key terms of a trade agreement between Japan and the United States have already been worked out in the context of the TPP. There, the U.S. was able to achieve substantial lowering of Japanese tariff barriers on U.S. exports, such as beef, pork, poultry and dairy.

Special provisions were signed to help deal with non-tariff barriers to selling U.S. cars in Japan. As a starting point for a U.S.-Japan trade agreement, these provisions could be separated out from the TPP and used as the basis for a bilateral deal.

All of this bodes well for a trade deal between the two nations. But Trump will want to make his mark and negotiate his own deal.

He is unlikely to simply accept what was done before he took office. On the campaign trail, Trump complained about high Japanese tariffs on beef. As noted, the TPP already made progress on this issue.

All Trump can do, if he wants to claim credit for a better deal, is fight to bring those tariffs down even further. U.S. trade negotiators worked very hard on the TPP, but perhaps they spent too much political capital on other issues.

If Trump wants to emphasize particular barriers, such as beef tariffs, it is possible he can achieve more.

While Trump would no doubt like to be negotiating from a position of strength, he should be aware that U.S. producers are already at a disadvantage. Japan has been negotiating free-trade agreements with other countries, including Australia, with whom U.S. producers compete for the lucrative Japanese agricultural market.

As a result, there is pressure on U.S. negotiators to come up with an agreement soon so U.S. companies are not handicapped in their trade with Japan.

In theory, a Japan-U.S. deal can be hammered out quickly from the remains of the TPP, but modern trade deals are complicated. They include provisions dealing with a wide range of issues, such as intellectual property, labor rights, and e-commerce.

Before negotiations even begin, the Trump trade policy team will need to work out what exactly it wants in a trade agreement. It should be noted that this team is not fully in place yet.

As a result, what we can probably expect from the Abe-Trump meeting this week is some positive talk about the prospects of a trade agreement, but actual negotiations might not start for several months, at least.

Nonetheless, a trade deal with Japan appears to be at the front of the queue for the Trump administration, and it is likely to be one of the first trade negotiations to get going.

As such, it could provide an early test for Trump's trade policy, to see whether he can deliver on some of his most prominent campaign promises.

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