

U.S.-Japan Free Trade Agreement

Will Create Freer Markets, More Opportunities with Important Partner

- Japan's e-commerce market is one of the largest and fastest growing in the world.
- Japan has one of the highest per capita income levels in Asia and middle class consumption that ranks second only to the United States.
- Japan is the third largest source of foreign direct investment (FDI) into the U.S. and supports more than 856,000 jobs.

BACKGROUND

In October 2018, the United States and Japan announced negotiations toward a potential U.S.-Japan free trade agreement (FTA). Japan is the third largest economy in the world, the fourth largest importer of U.S. goods, and the fourth largest source of imports into the U.S.

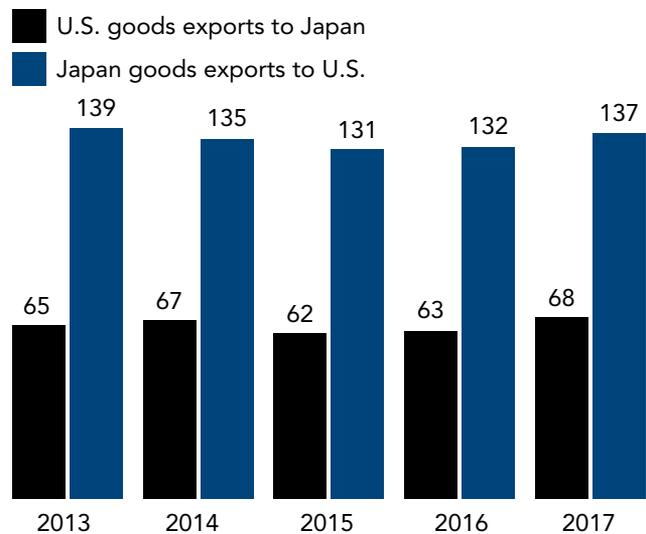
At the beginning of his administration, President Donald J. Trump withdrew the United States from the Trans-Pacific Partnership (TPP) in which the U.S. and Japan were leaders. Japan took the lead in passing TPP in the remaining 11 countries, rebranding it the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP-11). The agreement is in effect this year, and may eventually include other nations.

The TPP-11 will reduce tariffs in countries that together amount to more than 13% of the global economy, a total of \$10 trillion in gross domestic product (GDP). With the United States, the agreement would have represented 40% of the global economy. Even without the United States, the deal will span a market of nearly 500 million people, making it one of the world's largest trade agreements.

IMPACT

The United States is a large supplier of chemicals, transportation equipment, and computer and electronic products to Japan.

JAPAN-U.S. TRADE



Source: U.S. Census Bureau/AFP Graphics

Japan is also one of the largest U.S. foreign markets for agricultural products. U.S. exports to Japan were \$67.69 billion in 2017, making it the fourth largest export destination for the U.S. Imports from Japan to the United States were \$136.5 billion, with transportation equipment accounting for 44%.

According to the most recent figures, U.S. direct investment to Japan totaled \$129 billion in 2017, largely in financial, software and internet services. Foreign direct investment (FDI) from Japan into the United States was \$469 billion in 2017, making it the third largest source of FDI in the U.S. In 2016, Japanese FDI in the U.S. supported 856,100 jobs and contributed \$8 billion to research and development, as well as another \$75.7 billion to expanding U.S. exports. The top industry sectors for Japanese FDI are: auto components, industrial machinery, automotive original equipment manufacturer (OEM), metals, plastics, and textiles. (Select USA)

In 2017, by country of ultimate beneficial owner, the third largest investing country into the U.S. was Japan, investing more than \$34 billion. (Bureau of Economic Analysis)

California continues to be the top exporting state to Japan,

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INTERNATIONAL TRADE

accounting for 18.9% of total U.S. exports. Japan has remained California's fourth largest export market since 2010, after Mexico, Canada and China. California exports to Japan, the world's third largest economy, totaled \$12.85 billion in 2017. Computers and electronic products accounted for 20.3% of total exports. Imports into California from Japan were \$40.5 billion, with transportation equipment accounting for more than half of total imports. California is currently the top importing state in the United States for products from Japan. In addition, California buys more products from Japan than any other country besides China and Mexico.

PREVIOUS ACTIVITY

The United States has been in meetings with Japan regarding economic partnership for several years. In 2018, the U.S. Trade Representative met with the Japan Minister of Economy and the EU Commissioner for Trade three times. The ministers agreed to deepen cooperation and exchange of information, to find effective means to address trade-distorting policies of third countries and to pursue dispute settlement proceedings at the World Trade Organization.

After the trilateral meetings, the U.S. announced its intent in October 2018 to enter into free trade agreement (FTA) negotiations with Japan.

ANTICIPATED ACTION

On October 16, 2018, the U.S. Trade Representative (USTR) officially notified Congress that the Trump administration intended to start negotiations following the completion of necessary domestic procedures. This began a congressionally mandated 90-day consultation period under Trade Promotion Authority before the launch of negotiations.

In December 2018, the USTR released a Summary of Specific Negotiating Objectives. The aim in negotiations with Japan is to address both tariff and non-tariff barriers and to achieve fairer, more balanced trade in the following areas: trade in goods;

sanitary and phytosanitary measures; customs, trade facilitation, and rules of origin; technical barriers to trade; good regulatory practices; transparency; trade in services; digital trade; investment; intellectual property, pharmaceuticals and medical devices; state-owned and controlled enterprises; competition policy; labor; environment; anti-corruption; trade remedies; government procurement; small and medium-sized enterprises; dispute settlement; and currency.

The U.S. and Japan will begin FTA negotiations in 2019 with the goal of expanding bilateral trade in a mutually beneficial way to achieve freer and more balanced trade, as well as encourage economic development. It is hoped that the U.S. and Japan will expand areas of cooperation and deepen their understanding of each other's respective views and positions.

CALCHAMBER POSITION

The California Chamber of Commerce, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business.

Strengthening economic ties and enhancing regulatory cooperation through agreements with our top trading partners that include both goods and services, including financial services, is essential to eliminating unnecessary regulatory divergences that may act as a drag on economic growth and job creation.

Agreements like this have the capability of ensuring that the United States may continue to gain access to world markets, which will result in an improved economy and additional employment of Americans.



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