



ICYMI: Auto industry gets tough on Japan in trade agreement talks

Good morning,

As the Trans-Pacific Partnership (TPP) debate approaches its final stage, the American Automotive Policy Council (AAPC) wanted to make sure you had seen a recent article in the Youngstown Vindicator that highlights why Japan needs to reform its currency and trade policies before the TPP talks are finalized.

As the recent August auto sales made clear, Chrysler, Ford and GM are increasing market share and creating thousands of jobs. However, Japan's entry into the trade pact with their notoriously closed market threatens American auto companies and their workers. As the piece explains, "the country has long been protectionist and it is considered among one of the most-closed automotive markets in the world."

Find the piece [here](#).

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The American Automotive Policy Council, a trade group representing the Big Three automakers, is pushing back hard against Japan's new place at the negotiating table for one of the most comprehensive free-trade deals in years.

Initially conceived as an 11-country bloc when it was announced in Nov. 2011, the Trans-Pacific Partnership agreement aims to create a free-trade group with countries such as Vietnam, New Zealand and Malaysia. In July, during the 18th round of negotiations, Japan joined the talks, and the countries involved ambitiously hope to wrap up the discussions in October.

Japan's place in the negotiations has the AAPC wary, as the country has long been protectionist and it is considered among one of the most-closed automotive markets in the world, with a 6 percent import penetration rate versus most other countries that have a 45 percent import penetration rate.

Mainly, the organization is opposed to Japan's participation in the trade pact unless it commits to major changes in its currency policy. In a brief filed with the Office of the U.S. Trade Representative, the government's chief trade negotiator and principal adviser to the president on trade matters, the AAPC called Japan a "Perennial Currency Manipulator."

"That gives foreign automakers like Japan a real competitive advantage and it affects U.S. sales. Japan is generating a windfall profit of billions of dollars on an annual basis that they can reinvest into their industry," said Matt Blunt, president of the AAPC and former governor of Missouri, in a telephone interview. "We do believe they should be forced to open their marketplace to American, European and Korean companies. It's more critical, though, to include strong language in the TPP agreement that prohibits this kind of currency manipulation."

Specifically, the organization is lobbying for enforceable currency disciplines and the elimination of nontariff barriers. Although Japan's tariff on automobiles is zero, the country relies heavily on what the U.S. auto industry has deemed restrictive measures such as safety and environmental regulations, auto-related taxes and zoning laws that make selling there a burden.

Officials with the U.S. Trade Representative's office said they did not welcome Japan into the TPP until the country agreed to bilateral negotiations on a range of automotive issues that will go beyond the bloc's commitments, with agreed-upon terms that cover regulatory transparency, standards, certification, new technology vehicles and financial incentives.

Overall, the TPP agreement calls for increasing U.S. exports to a region of expanded growth that accounts for more than 40 percent of global trade.

In 2012, the U.S. auto industry was the country's largest exporter, shipping \$132.7 billion overseas.

Yet, while the U.S. exported \$2 billion worth of product to Japan in 2012, Japanese imports to the U.S. were \$53.9 billion last year, according to the U.S. Commerce Department.

Tom Mock, plant communications manager at GM Lordstown, said the facility serves only U.S. and Canadian markets.

But a large part of Ohio's American auto industry, like its other manufacturers, relies heavily on exports. In 2010, 27 percent of manufacturing jobs in the state depended on exports to trans-Pacific markets, said Mousa Kassis, an international trade adviser at Youngstown State University's Williamson College of Business.

"Japan has always been this way. The thing is that now is a crucial time to put pressure on them — Japan's economy is coming back and growing again," Kassis said.

Kassis added that the AAPC could see some of its objectives met because of the current geopolitical situation in the South Pacific as China looks to assert its dominance in the region. That, Kassis said, could go a long way in at least making some of Japan's trade

policies more lenient.

Since October 2012, Japan's currency, the Yen, has depreciated by 30 percent. The AAPC claims that Japan's government and its central bank played a primary role in weakening the yen to make its exports more competitive.

Artificially low currency rates helped to boost the profits of Honda, Toyota, Mazda and Nissan by \$20.6 billion from October 2012 to May of this year, according to research from Morgan Stanley.

But excluding Japan from the trade agreement could cost the U.S. in additional exports. The Peterson Institute for International Economics, which has conducted the most in-depth study of TPP's likely economic impact, said by including Japan, export gains for the U.S. could more than double from \$54.8 billion to \$123.5 billion by 2025.

After joining the talks, Japan also announced it will more than double the number of motor vehicles eligible for import into Japan under its Preferential Handling Procedure, a simpler and faster certification method often used by U.S. auto manufacturers to export to Japan.

To be sure, Japanese automakers employ thousands of employees in the U.S. According to the automotive information website Edmunds.com, Honda employed 28,000 U.S. employees last year while Toyota employed 31,000 at the same time to build and export vehicles from the U.S.

"We want to be very clear that we welcome foreign direct investment; it creates jobs and economic opportunity," Blunt said.

But with nearly 200,000 direct company employees working for U.S. automakers, indirect positions and the jobs expected to be created as a result of the Big Three's resurgence, Blunt said it is equally important that U.S. investments are not undermined in the process.

The 19th round of TPP agreement negotiations concluded last month, and Blunt believes it will be difficult for member countries to reach an agreement by the end of the year.

In July, the AAPC and the United Auto Workers union released 84,000 petitions, with more than 10,000 coming from Ohio, that called on Congress to work toward strong currency manipulation rules in the TPP agreement.