Peterson Institute for International Economics

The state of US-Japan economic relations in a changing global economy
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[00:00:18.20] - Marcus Noland

Hello, I'm Marcus Noland. I am Executive Vice President and Director of Studies here at the Peterson Institute for International Economics. It is my pleasure to welcome you to today's discussion on the state of the U.S.-Japan economic relations in a changing global economy. This webinar is supported by a grant from the Japanese Ministry of Economics, Trade, and Industry. METI has had no influence on the selection of panelists or the selection of topics that we will discuss. I think that if one looks over the horizon of U.S.-Japan economic relations, two terms that come to mind are policy instability and uncertainty. So we have with us this morning, or this evening in Japan, three impressive speakers to examine these issues. First is my Peterson colleague Mary E. Lovely. She is the Anthony M. Solomon Senior Fellow at the Peterson Institute. She has held a variety of other positions, including the 2022 Carnegie Chair in U.S.-China Relations at the Kluge Center at the Library of Congress and is Professor Emeritus of Economics at Syracuse University's Maxwell School of Citizenship and Public Affairs. Following Mary, we will hear from Shujiro Urata, who is Chairman Emeritus of the Research Institute of Economy, Trade, and Industry, RIETI, the think tank of the Ministry of Economics, Trade, and Industry.

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He is also Professor Emeritus at Waseda University, specially appointed fellow at the Japanese Center for Economic Research, and distinguished senior fellow at the Institute for Developing Economies. The meetings department at Peterson Institute has provided me quite a long bio for Xu, which I will not read. But interestingly, they omitted the key, the key factor here. As a high school exchange student, Xu made the New Jersey All-State baseball team. Now, making the All-State baseball team is an impressive accomplishment, but to do it as an exchange student is absolutely extraordinary. And you can't really tell from looking on the Zoom, but Shu is not the size of Shohei Ohtani. Shu is actually a fairly small man, and so it makes this accomplishment as being an All-State third baseman even more extraordinary. Last but not least, we have a voice from the private sector. Layla Aridi-Afas is Vice President of Global Public Policy and

Strategy at Toyota Motor North America. Layla is responsible for developing and executing strategies to further Toyota's global business goals. She coordinates across cross-functional and cross-cultural teams to successfully advocate policy positions. She also provides insight on geopolitical trends, economic policies, and market developments to Toyota's senior leadership.

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Toyota is a corporate supporter of the Peterson Institute. Previously, Leila was appointed by President Obama to support the goal of doubling U.S. exports in 5 years following the 2008 financial crisis. And as an appointee at the U.S. Trade and Development Agency, Leila supported record-breaking return of $76 in U.S. exports for every dollar program. That's real bang for the buck. My plan is to ask each speaker to make a brief presentation, Then I will pose a few questions. We will then open it up to the audience. If you were watching on Zoom, you can use the little Q&A button at the bottom of your screen to submit a question to the panel. And with that, I turn it over to my colleague Mary E. Lovely.

[00:04:17.13] - Mary E. Lovely

I'm going to try to share my screen. See what comes up here. And now see your screen. Okay, is there anything you can see?

[00:04:33.06]

No.

[00:04:33.29]

Okay, it says I'm sharing my screen. Stop sharing. I'll try to share again. Sorry. Okay, let's see.

[00:04:48.10]

Ah.

[00:04:49.03]

Can you see that? No.

[00:04:50.09] - Marcus Noland

Yes.

[00:04:51.01] - Mary E. Lovely

Yes. Wonderful. Very good. Very good. Okay. So I'm going to open up the session by talking about U.S. trade policy and a little bit about its implications for Japan. And then my colleague Shuyurata will really dig into Japanese-U.S. trade flows and what they look like and what the implications are. So I think we'll have a nice— and then Leila, of course, will come in and talk about what it looks like on the ground. So I think we have a nice 3-part harmony here. And I'll start it off by the following. What we've seen in US trade policy is a move from what was a rules-based design to what we might call surplus extraction, where President Trump has decided that US has left too much on the table in trade relations. And used an announcement of very high tariff rates last April, the so-called Liberation Day tariffs, to begin a series of negotiations to extract certain concessions from our trading partners. The tariffs then were, of course, negotiated down somewhat with bilateral negotiations between the United States and each individual trading partner.. And before the recent Supreme Court of the United States, or SCOTUS, decision, the rates were— had settled down at a number of different tiers.

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Japan was in a tier with other advanced economies at 15%. And the rate that Japan received included— sort of was a maximum on certain very important exports of Japan. So Japan had settled down at a place in its bilateral negotiations with the US where it was at least not handicapped vis-à-vis other providers of similar goods, including Korea, Taiwan, European Union. Taiwan, of course, had a slightly higher rate, but still, you know, Japan was at least not disadvantaged. Other countries, particularly middle-income countries, received higher rates, 18%, 19%, 20% even. And of course, President Trump had still retained very high rates on Brazil of 50%, 50% after having negotiated down the rate with India from 50% to 18%. That state of play changed last week with the announcement of the Supreme Court decision invalidating the authority under which President Trump had issued these— levied these tariffs, the so-called Emergency Powers Act, and In its place, the president invoked Section 122. And Section 122 is a section of the Trade Act of 1974. It granted the president the authority to quickly impose import restrictions under certain conditions. Now, the lawyers are going to be arguing for some time whether or not those conditions are met.

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But in the meantime, the president is imposing duties of 10% right now against all of our trading partners and against most of their exports. There is a lengthy list of exceptions to these tariffs. And those exemptions, in fact, are very similar to— almost identical to those that were in place with the Emergency Powers Act tariffs. So really, the exemptions haven't changed. What has changed is the rate. It's down to 10%. This morning, papers are reporting that Secretary of the

Treasury Bessant has announced that the rate will be raised to 15% next week. So we're looking at a 15% across-the-board tariff for the United States. Importantly, in the executive order for these Section 122 tariffs, it's clear that the applied rate of now 10%, soon to be 15%, will be superseded by the Section 232 or national security tariffs, which among other things cover the motor vehicles. So this particular feature of the new tariffs is important for Japan. Now, one of the interesting things to think about as we look at this SCOTUS decision and the move to across the board, 10%, soon to be 15% tariffs, is to think about how it influences U.S. bargaining power.

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One of the key features of the Emergency Powers Act tariffs was that they were differentiated across countries, and that allowed President Trump to have bargaining power on these countries, each of whom wanted to have a rate no higher than its closest competitors. And that feature of U.S., the president's authority for now has been muted. There is a growing list of Section 232 or national security cases. This list includes autos, of course, and steel and aluminum, copper, timber, pharmaceuticals, other types of investigations which are ongoing, including some investigations on digital service taxes.

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This—

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the US is asking its partners to remove under threat of a Section 232 case against them. So there are a whole bunch of other tariff investigations and authorities which can influence US-Japanese relations moving forward. So we're not going to be at the 15% rate for very long in many sectors. Of course, many people on this webinar will remember that the president's deals with individual companies included extensive promises in other realms, including purchases of U.S. exports. But most spectacularly was the announcements of future investments in the United States by foreign entities. The Japan commitment was up to $550 billion. Our colleagues Greg O'Clair and Anand Mazurai have put together an extensive overview of these deals. It's really a fascinating piece of work. What they found in going through each of the individual commitments is that the total projected value of these deals at the maximum would be $1 trillion, $370 billion. Of course, Japan would be a— the Japan commitment is a major piece of that over $1 trillion commitment. As we can see in the lower left-hand corner, Japan's contribution would be about 30% of the total contributions that have been announced. So we might ask whether U.S. policy will reshape supply chains.

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And I— my quick answer is it will reshape supply chains that serve the United States. The key features of the so-called Liberation Day tariffs were that they varied by country. And that feature, of course, now has been ruled unconstitutional. Well, one of the— those tariffs have now been ruled unconstitutional. We're still going to have variation by goods, although not by country. And we have variations in tariffs on goods by use. In particular, civilian aircraft is singled out for no tariffs in many cases. So the US is really looking at shaping supply chains by changing the rate of taxation by good and even by use. Another important way in which the US is trying to shape privately designed supply chains is by asking its trading partners to begin to fight against what it calls dumping and unfair trade by foreign invested enterprises, including most clearly those that are exporting from China. So it's really the beginning of a move by the United States to really shape the supply chains that come in that serve the U.S. market. The differential tariff rates that were in the original IEPA tariffs were quite varied and bestowed enormous advantages to those countries that received lower rates in their negotiations with the United States.

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Those differentials are now, of course, gone, but we can see that just since 2017 differential tariffs. And in particular here, we have the fact that China has received much— has been subjected to much higher US tariff rates on its exports. That alone has already had a dramatic impact on US import shares. And as shown here, you can see that China's share of exports imports in the United States has really declined dramatically since 2017. We have here 2017 to 2020, 2017 to 2024. Oops, sorry. And then, of course, 2017 to 2025, the dark blue. And you're seeing that the US is importing much more from Vietnam, Mexico, Taiwan,, and some other countries is particularly in Asia and has had dramatic declines, particularly from China, but also from Japan. Interestingly enough, this is in terms of market share, not value. Chinese exports have also been deflected as they've been shifted away from the US market, at least directly. The US has decreased its share of Chinese exports. That's the dark blue line at the bottom, as have other high-income countries, the red line. Well, we're seeing Chinese exports to lower and upper-middle countries and low-income countries increasing dramatically.

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So supply chains are adjusting to the changes in U.S. trade policy. Now, just to begin the discussion before I turn it over to my colleague, what are the implications for U.S.-Japan commercial relations? Well, there's many. But just to say, the US-Japan relationship is extremely important. It can't just be pushed aside. Japan is among our top US inward investors.

So Japan remains a very important investor in US industries. The US and Japan will continue to work together on new investment deals. In fact, 3 are already under discussion, ready to begin work on planning those deals. It's important for Japan to safeguard its relative tariff status with the U.S. This looks like it will be easily done under the current authorities that the president is operating on, but we don't know how it will work out as he goes good by good. Or sector by sector, because some of the sectors will turn out to be very important to China— I'm sorry, to Japan, while others will be more important to other exporters like China. And then lastly, Japan should be, and I'm sure is, monitoring the US-China dealmaking very closely to see what happens there, in particular whether we will see any changes in the US tariff on Chinese exports and whether we will see any new Chinese investment into the United States.

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Lastly, of course, there's been a need for many countries to begin to think about hedging the risk that they face from U.S. policy uncertainty. Should they be moving away from the United States as a source of its own imports, particularly inputs into its industrial sector? Should U.S. trade partners begin import substitution, so-called deglobalization or reshoring? Instead of deeper integration with the United States. Of course, as we look forward to the emergence of new industries, including fully autonomous driving, automate— automation of factories using AI, these questions of how deeply to rely on the US stack, so to speak, become very important. And then, of course, there's the impetus to new and deeper bilateral and plurilateral agreements, including with the expansion of the Comprehensive and Progressive Trans-Pacific Partnership, of which Japan is a foundational member. And lastly, they have to— I think countries including Japan who are trying to hedge risk from U.S. policy uncertainty need to create a strategy to meet what is likely to be U.S. demands for lower Chinese value in its exports. For Japan, this should not be too high a— too hard a lift because Chinese value added in Japanese exports, at least to the extent that we can see using trade and value added statistics, is quite low.

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So I will leave it there and turn it over now to my colleague, Dr. Urata. Thank you.

[00:19:37.24] - Shujiro Urata

Yeah, can I just go on, Marc?

[00:19:39.28] - Marcus Noland

Yes, please.

[00:19:41.01] - Shujiro Urata

Okay, thank you. Uh, thank you, Marc. Uh, can you see my slides?

[00:19:49.17] - Marcus Noland

Yes.

[00:19:50.17] - Shujiro Urata

Okay, good. Uh, I'd like to talk about two things. Oops, how do I move? Let's see. Yes, one is, uh, recent developments in the US-Japan trade and investment relations And the other is Japan's international economic policy in cooperation with the United States. I reviewed recent developments in trade and investment first. Let me use a pointer. Oops, sorry. I was going to use this pointer. Right. As you can see, this is trading goods. Trading goods between the US and Japan increased quite sharply from the 1980s through the 1990s, but since then, the levels, the volume, or this is value, sorry, stagnated with some fluctuations. But throughout the period, as you can see, blue is Japan's export to the US, And this orange bar is Japan's imports from the US. Throughout the period, Japan has a persistent surplus, trade surplus, vis-à-vis the United States. And indeed, during the 1980s and 1990s, this trade imbalance was the major reason for trade friction between these two countries. And on the right, you can see the US trade deficit. This line shows overall US trade deficit, and this orange line shows the US trade deficit with Japan, and this yellow line is vis-à-vis China.

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And during the 1980s, as I said earlier, Japan had a large share of US trade deficit. But these things changed quite drastically in the 21st century. As you can see, Japan's share is much, much smaller. China's, Chinese share is much, much larger compared to that of Japan. However, there's still a trading imbalance favoring Japan that has been the cause of contentious issue. That is one of the contentious issues which I'll talk about later. Now, this, the figure on the left shows the share of US in Japan's trade, and also for comparison, comparative purposes, I put the numbers for Japan's trade with China. This line, gray line, shows the share of US in Japan's total exports that declined quite substantially from the 1980s through the present time. A similar pattern can be observed for Japan's— US share in Japan's total imports. By contrast, Chinese share increased over time. Although US share declined over time, US is still very important trade partner, trading partner for Japan. And indeed, the US is the largest export destination for Japan and the second largest import source for Japan. And when it comes to product composition of US-Japan trade, For Japan's exports, about 30% of them are in passenger cars.

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So as Mary said earlier, auto exports are a very important part of Japan's export to the US. When it comes to imports, Japan imports a large amount of crude materials, and products, on chemical products, on machinery products from the United States. Let me quickly come to trading services. Trading services on the left, this bar shows Japan's exports to the US in trading services in blue, and orange bar shows Japan's imports from the United States. And the pattern is very different, exactly kind of opposite from what we observe on trading goods. Japan has a persistent trade deficit vis-à-vis US in terms of commercial services. And among the different kind of services, Other services, other business services, which include consulting, research and development related services, intellectual property rights related services, constitute a substantial share in Japan's services trade deficit vis-à-vis the United States. And let me quickly come to foreign direct investment, or FDI. Japanese FDI in the US increased quite sharply, you know, substantially in the 21st century, since this, particularly from 2010 onward, whereas US FDI into Japan on a much, much smaller scale increased up until like 2020, but then it declined over time.

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And then in 2024, it is negative. There are greater amount of withdrawal than new investment. That's what happened in 2024. And then in terms of— this is the investment flow, by the way. And in terms of stock, Japan's FDI position in the US here is much, as you can see, much larger than US position in Japan. By the end of 2024, Japan's FDI stock in the United States was just under $800 billion. And Mary talked about this new investment project, and that amount to $550 billion. That is a pledge that Japan made. And you can see how large that the pledge was, considering the total kind of, you know, investment so far in the US amounted to $800 billion. And so despite, you know, these numbers show how important US has been for Japan's trading and investment partner, and for— to maybe lesser extent, same thing can be said about the US. Despite the depths of economic relationships through trade and investment between these two countries, several contentious issues still remain. Bilateral trade imbalance, which I showed earlier, and this trade imbalance has been cited as by the US as a justification for imposing high tariffs.

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So US tariffs is a contentious issue for both countries. And although I didn't talk about this, but Japan's non-tariff barriers have been the issues that the US tried to, I guess, deal with Japan. And then it comes to foreign direct investment, Low level of FDI in Japan is an issue, which I showed the numbers. And then Japan's pledge of $550 billion US investment in the US is an issue too. Now let me quickly come to the next subject, that is Japan's international economic policy. The goals of Japan's international economic policy, like, you know, many other countries, are to achieve sustained economic growth and enhance economic security. Japanese government must pursue the policy to achieve these goals under very challenging international economic political environment. From an economic perspective, two major sources of uncertainty and instability are China and the United States. China, building on its rapid economic development under what is sometimes described as a state capitalist model, has expanded its influence in the international economic order to advance its national interests. By making other countries dependent on Chinese financing, critical minerals, and other strategic goods, China has gained leverage to exert economic pressure and influence policy decisions abroad.

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The United States, on the other hand, led the creation of the open and rules-based international economic order after World War II, and everybody knows that system contributed, contributed significantly to global economic growth. However, in recent years, the US has also become a source of uncertainty. Particularly because of frequent changes in tariff policies, which we heard from Mary, that are not always consistent with international agreements. Given these challenging circumstances, Japan must pursue, I think, two complementary international strategies to achieve these goals. Successfully implementing strategies, which I'll just explain later, would also help reduce some of the bilateral tensions I mentioned earlier. The first strategy is the cooperation and collaboration with the United States. This includes joint infrastructure development, build and rebuild infrastructure. On cooperation in research and development, R&D. R&D collaboration is especially important as R&D is a source of dynamism, very often source of dynamism and dynamic economic growth. Joint investment in physical infrastructure, recently agreed upon by the Japanese and US governments, is another example. These initiatives contribute to rebuilding infrastructure in the United States and enhancing economic security for both countries. Although the U.S. government took the lead in proposing these projects, the participation of the Japanese government and firms, following careful evaluation, can be justified on economic grounds, I think.

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Another important area of cooperation is strengthening resilient supply chains. A notable example here is the United States-Japan Framework for Securing the Supply of Critical Minerals and Rare Earths Through Mining and Processing. This is an agreement signed October last year. If successfully implemented, this framework would reduce both countries' dependence on

China for critical minerals and rare earth elements. The second strategy is diversification. This includes expanding the CPTPP, Comprehensive and Progressive Trans-Pacific Partnership, and also promotion of WTO reform and advancing bilateral trade agreements such as agreements on digital trade. Japan would Japan would like to work together with the United States on these initiatives. However, given the current direction of U.S. policy, this may not always be feasible. Therefore, Japan should also act independently or, and cooperate with like-minded middle powers, such as the EU member states, Australia, Canada, and South Korea. I have discussed Japan's international economic policy for achieving sustained economic growth and economic security. This international strategy must be complemented by prudent domestic economic policies, which I have not discussed today because of time constraint. Let me end there. Thank you, Marc.

[00:35:10.07] - Marcus Noland

Thank you very much. And now we turn to Leila.

[00:35:14.28] - Leila Aridi Afas

Great. Thank you so much. It's such a pleasure to join you this morning. And many thanks, Adarshan and Mary and Marcus, as well as the Peterson Institute for inviting me to join you. I have to say it's quite humbling as the only private sector voice among such esteemed economists. So I really appreciate your remarks and I look forward to a robust dialogue. And I know Marcus has some very intriguing questions for us, so I'll keep my remarks short. But I just wanted to say that, you know, from my perspective, I come to this conversation from the factory floor representing Toyota as much as I do from the policy world, given my prior experience before joining the company. And I really think Toyota is such a terrific example of how far the bilateral relationship has come. In the last year alone, Toyota sold over 2.5 million vehicles in the United States. 3 out of every 4 of them are made right here. We're very proud of the fact that we have 12 plants across the country, including a joint venture with Mazda in Alabama and our largest plant in the entire world in Georgetown, Kentucky, where we make our all-famous Camrys.

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And I'm also delighted to show that our relationship, I think, really exhibits the evolution of the cooperation between both the United States and the government of Japan. And I think the clearest example of that is our latest plant, which is in Liberty, North Carolina, and it's a battery plant. And it really is, I think, symbolic of how steadfast cooperation is and not just economic relations, but also economic security. And that plant really represents the single largest investment that Toyota has made in a single place in our nearly 89-year history. And we made it right here in the United States for such a critical technology. And I think it's, it's important too to note that Toyota is one of the only automakers that is building its own batteries. And considering how critical a technology it is for the entire world, I think that shows sort of the durability of the relationship. And as we've heard, you know, Japanese companies are the leading investors in the U.S. market. That's independent of the $550 billion pledge the government of Japan had made to invest in the United States. We were excited to learn about the first tranche of those projects in the energy sector a couple of weeks ago.

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But now 14% of all FDI into the United States is from Japan. That's over $800 billion, and that supports hundreds of thousands of American jobs all across our country. And so when we, we really talk about US-Japan economic relations today, we're not just talking about trade flows, right? It's not just imports and exports. We're talking about shared industrial capacity. Shared workers, and increasingly shared supply chains for critical technologies, most notably critical minerals, as we noticed the agreement that was reached a couple weeks ago as well when the US hosted the inaugural Critical Minerals Ministerial. And I think that's a very exciting development. And before we turn the mic back to Marcus for his questions, From my vantage points, I think there are three sort of questions that are front of mind. The first is how do we strengthen economic security without fragmented the allied supply chains that we've spent decades building and that have really shown enormous resilience as we've had just unprecedented shocks with COVID the chip crisis, and now wars on multiple fronts. The second question is how the upcoming 6-year review of the US-Mexico-Canada Agreement, the USMCA, and other regional frameworks will help keep North America a genuinely competitive platform for both US firms and Japanese firms that have really made the United States an export hub.

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And I say that considering the fact that Toyota exports its US-built products to over 60 markets. And so we want to ensure that any changes here don't prevent us from doing that. We're very proud of that. We want to continue to do that. We want to expand the ability to do that. And we were very pleased to see the government of Japan's recent move to accept the safety standards for U.S.-built vehicles, which opens the door for us to, to export those Camrys built in Kentucky or Highlanders built in Indiana. Into the Japanese market? And then my third question before I turn back to you, Marcus, is how do we invest in the workforce and communities that make this bilateral relationship durable at home in both countries and really competitive globally? So thank you again for inviting me to join you, and I look forward to a robust discussion.

[00:40:38.04] - Marcus Noland

Thank you. And I promise that Leila and I have not been doing a Vulcan mind meld. Because looking at the questions that I had prepared for this morning, looking over the, the White House fact sheet on this recent agreement reached between the US and Japan, one of the aspects of it, it says Toyota plans to export its US-made vehicles to Japan and open its distribution platform in Japan to US automakers. As a result of Japan's commitment to accept for sale in the US— uh, sale in Japan, excuse me— US-manufactured and US safety-certified vehicles without additional testing. For us to do those things, the United States has to be, um, a cost-effective platform for export. Um, and so the question is, uh, something that you alluded to at the end of your remarks. Looking ahead to the 2026 USMCA review, what are the most important steps that the parties can take to make sure that North America and the US specifically remains a globally competitive production base, especially on autos, EVs, and batteries, while addressing economic and security concerns? So what specifically would you like to see coming out of the USMCA review?

[00:42:05.08] - Leila Aridi Afas

First and foremost, we would like to see the continuation of the USMCA as a trilateral agreement. It really does allow all three countries to create a common manufacturing platform, which is so incredibly critical for the auto industry, given how incredibly complex supply chains are and how many parts and components go into every single vehicle that we build. And secondly, to make sure there's continuity in the rules and that we can account that the rules are in place when we make multibillion-dollar investments, remain in place throughout the lifecycle of those investments. And so I would say those are our two overarching goals. And I think there are definitely opportunities to improve the agreement, and, and we really welcome the opportunity to work with our colleagues across the industry, and that includes our supplier partners. As well as working with the three governments and how to do that in an effective way that again allows the United States to continue to be a manufacturing superpower, really, and able to export all over the world. And also focuses on some issues that really weren't at the forefront when the agreement replaced the NAFTA in July 2020. And Marcus, you alluded to that, is that now we have much more need for secure and resilient supply chains when it comes to critical minerals and rare earths.

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How can we do that? How can we make sure that we, we create that right here in North America and make it a system that is basically bulletproof in the sense that it doesn't— it's not susceptible to price shocks or to other geopolitical instability, which You know, is increasingly common these days. And so how can we do that? I think there are ways that we can do that and also increase the integrity of the agreement moving forward. And in addition to working with our colleagues in the auto industry, we're really keen to work with our colleagues in other industries because we all benefit from preserving the USMCA. As a trilateral agreement. If you zoom out and look at it in the greater geopolitical context.

[00:44:30.03] - Shujiro Urata

Thank you.

[00:44:30.26] - Marcus Noland

Mary Xu, is there anything you'd like to add to this? If not, we can move on.

[00:44:40.07] - Mary E. Lovely

I would just like to add that to the extent that value added from China is a big issue or is an important issue in the, in the review, I think that there needs to be an awareness that these vehicles need to be globally competitive and there has to be some imported content. And the question is, where is that imported content going to come from? The US in the past has pressed for more US content in vehicles that are made in North America. And I think that it's unwise to think that that does not come at the cost of the size of the market that the US is able to serve. So I think the US government, and I believe it will work closely with the companies that actually build the vehicles to make sure that we have an agreement that is, has the full integrity, that is, it isn't being undermined by external actors and yet does provide a platform for truly North American vehicles that are price competitive. I would also add that we need to look ahead, and it's going to be very difficult in this review for thinking about the future of EV production in the United States.

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Leila mentioned critical minerals and what we can do there. I think it's very important to look beyond the next few years toward the future where most of the— by many forecasts, much of global sales will be in EVs, not in internal combustion vehicles. So I think we need to see what niches in the market the North American vehicles can continue to dominate, but then also to look where the future— how this agreement will look, you know, 6 years from now when the market has continued to change.

[00:46:47.27] - Marcus Noland

So we have a, um, a question that's come in from the audience, and I would like to put a somewhat different spin on it and, um, direct it to Mary. Um, the question is, do you anticipate new investment pledges or other notable announcements following the PM's visit to the White House later this month? I would actually put it the other way. These agreements, not just with Japan, but all these countries were made under duress. The United States threatened them with these IEPA tariffs and extracted these commitments. And then Supreme Court took away the IEPA tariffs. So my question to Mary, and she can either answer the viewer's question about new commitments or answer my question, which is, would you anticipate Japan trying to essentially ease its way out of some of these commitments now that the club of AIPA has been taken away from the president?

[00:47:49.07] - Mary E. Lovely

Well, I'm sure Dr. Arata will have something to say about this. He's the expert. But I think most observers expect that Japan will continue to fulfill its obligations as it sees them and based on its own understanding of the deal that was reached. Part of the U.S. Clout, so to speak, has always been the security guarantees that it has offered to its allies. And for them to date, that has not changed. Japan has been steadfast in its commitment to the United States and to the bilateral relationship. I believe that the agreement was made in good faith. Obviously, it was made under duress. But as Dr. Yurata said in his presentation, Many or most of these projects can be justified on economic grounds with some support, perhaps in terms of government assistance, in terms of both in the United States and in Japan in getting them done. But I think that many of these investments would really be good for the bilateral relationship and could exist independently of the way in which, in a sense, they were born under duress. Dr. Urata, would you agree with that?

[00:49:10.19] - Shujiro Urata

Yes, I do agree with you, Mary. And as I said in my presentation, you know, Japanese government and Japanese firms are, as I understand it, involved, so to speak, in making this decision. And this, you know, particular like infrastructure building is important not only for US but for Japan as well in terms of, you know, securing, I mean, in terms of promoting economic security. And on top of that, when Prime Minister Takahashi comes to US, she doesn't want to jeopardize her relationship with President Trump. That's another reason that she will not, I don't think she'll raise this issue of say renegotiation. But in my view, maybe we could, or maybe Japan could raise this issue, say renegotiate part of the deal, maybe very detailed one. For example, distribution of profits between Japan and the US. As I understand it, it's 90% US, 10% Japan. That kind of, you know, condition doesn't seem to be fair. I mean, I don't know the details, so just my feeling is that that kind of, you know, clause may be subject to negotiation, but overall, I don't think, uh, uh, it should be renegotiated. Thank you.

[00:50:55.29] - Marcus Noland

I wouldn't call it renegotiation. I would call it adjustment. So maybe adjust the profit sharing formula, adjust the time horizon, adjust, you know, Japan's role in project selection. Anyway, clearly there's an issue, uh, of how to kind of manage the US at this point. And the United States has abandoned commitment to the most favored nation status, uh, or, or, uh, most favored nation, uh, uh, principle, is unenthusiastic about multilateral and regional agreements. And so, Xu, at the end of your remarks, you talked about, um, the WTO, you talked about CPTPP. Are Are there particular reforms within the WTO? Are there particular kinds of expansions of CTPP? CPTPP. It's early in the morning here. Are there particular candidates you have in mind? Are there particular plurilateral agreements that you think would be useful as a way of kind of continuing to develop Japan's economic integration in the world while dealing with the United States, which is not behaving particularly constructively in this realm?

[00:52:19.12] - Shujiro Urata

Yes, thank you, Marc. Before I respond to your question, I forgot to thank you for generous introduction of myself, and I was nervous and I was excited, so I forgot to thank you for that introduction. And yes, Japan is eager to expand CPTPP. Now the UK joined CPTPP, you know, that became effective, I think last December, wasn't it? And then Costa Rica, I guess, is there. And there are many other countries which have applied, so to speak. For the membership. And I think current CPTPP member, all of them have to agree whether they can start negotiation for, you know, new accession for the applicants. But again, there are a number of, well, countries I understand have applied and Japan like to see that the CPTPP expanded. And also in East Asia, as you may know, there is an FTA called RCEP, Regional Comprehensive Economic Partnership, which is a 15-country FTA. And countries such as Bangladesh, Sri Lanka, the South Asian countries are interested in joining RCEP, and Japan would like to see RCEP, in addition to, of course, CPTPP, RCEP to be expanded. And hopefully many more will come in and join. And of course, we'd like— the US is always welcome, you know, if they decided to come back to CPTPP.

[00:54:14.29]

And then when it comes to plurilateral trade agreements, I mentioned digital trade. That's one of them. There are others, I think 3 or 4 ongoing discussions with selected number of WTO members. So they're negotiating kind of within or outside, it's hard to really see whether it's inside or outside, but they are negotiating these agreements covering digital trade, investment, trade facilitation, and so on. So Japan is trying to, I guess, well, maintain rules-based trading system as much as it can by doing such things as expanding FTAs, you know, promoting bilateral agreements. And so on. I think so. That's how Japan is trying to do.

[00:55:17.13] - Marcus Noland

So Leila, I was surprised to learn in your remarks that Georgetown, Kentucky is the largest Toyota plant in the world.

[00:55:23.25] - Shujiro Urata

A lot of people are.

[00:55:25.08] - Marcus Noland

Yeah, I had no idea. One of the big issues we face here in the United States is labor quality and labor supply. And I've been surprised to learn that it's also an issue, I suppose, with rapid aging in Japan, the labor shortages and rising costs. So what more can governments do to support workforce pipelines and make those investments that we've discussed earlier this morning durable or viable over the next decade?

[00:55:59.14] - Leila Aridi Afas

Well, that's a great question. And I think, you know, in addition to sort of just the labor force itself, I think one of the key things that gets missed is what you need in a labor force. And I think this is an interesting development that we're seeing in the bilateral relationship because it's, it's moving. The US-Japan alliance is not just a diplomatic one. It's increasingly becoming an industrial one. And I think a lot of companies— I know, Shu, we had the dip in 2024, but we are seeing is actually more US investment in Japan. And that is, seems shocking considering the demographics and the high labor costs. But I think the reason why is when it comes to advanced manufacturing, particularly in these critical industries, what companies are looking for is really execution reliability, right? And that's where they want a labor force that, you know, world-class manufacturing, elite engineering, and honestly low attrition. I think is something Shu would— I'm sure you'd agree with me on that one. Very different dynamic and also process discipline and experience. And in some ways that outweighs things that, you know, like labor costs because you can have sort of less expensive labor, but you want to make sure that they, when it comes to these critical industries, you want the best.

[00:57:21.17]

And that's why I think the American workforce and the Japanese workforce are really offer that. And that's really important as we move forward and to ensure that that continues. We're very proud that here in the United States we have an apprenticeship model that really focuses on crafting these, these elite manufacturers for the future. And it begins at the very early stages. And we're very proud of the fact that a model that we developed has been taken by the Manufacturing Institute and replicated on a national scale all across America because it is so critical. And we want to ensure that we have that pipeline for our factories across this country. But what's an interesting dynamic right now is what we're seeing with American firms in Japan, most notably Palantir and what they're doing there. And I think, you know, sort of having this different view on what that looks like, and we can't ignore what's happening with artificial intelligence and what that looks like as we, as we move ahead. And that's why I'm really proud to work for a company where they hold as their North Star respect for people. And so as we sort of develop and learn more about these new technologies and grapple with all kinds of economic headwinds and tailwinds, you know, what does that look like?

[00:58:46.14]

But the one thing that will not change is that commitment to people. And I think it's demonstrated in the quality of our products because it all comes down to the quality of our outstanding workforce.

[00:59:00.11] - Marcus Noland

Thank you. So we're approaching the, our endpoint. There were two questions that submitted from the audience. They both had to do with the exchange rate, which has been a contentious issue in U.S.-Japan relations at times in the past. U.S. dollar is down against a broad basket of currencies in the last year, but the yen is down even against the dollar. And just as we go out, I would pose this to Mary and to Xu. Do you see anything in the horizon with, with respect to how to manage the exchange rate or if it needs managing or if it's going to become contentious? And please be as succinct as possible in your response.

[00:59:42.20] - Mary E. Lovely

I'll be very brief. I think that the U.S. government right now does not have a plan on how to manage the exchange rate vis-à-vis— I said placed against its objectives for trade, so including reducing its reliance on China and building up its relationships with allies.

[01:00:07.18] - Shujiro Urata

I don't think there's a way that the exchange rate can be managed in this floating exchange rate system. Of course, you can intervene, but the market will understand, you know, when they intervene. So that doesn't really have a maybe expected impact. So I don't think there's a way, or I don't think there should be an attempt to manage the exchange rate.

[01:00:39.09] - Marcus Noland

Okay. Well, I think all of you watching will agree with me, this has been a very interesting and very informative presentation with really complementary perspectives from Mary E. Lovely, Shuhrata, and Laila Afas. And I would like to thank our three guests for their participation today. And with that, I declare this meeting adjourned. Thank you.

[01:01:05.14] - Leila Aridi Afas

Thank you.

[01:01:06.18] - Shujiro Urata

Thank you very much.