

Redefining U.S.-Japan Trade Relations Under Trump

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The Trump administration has had no qualms about going against conventional U.S. policy norms and long-established rules of engagement. Thinking outside of the box has not been without its merits; it has certainly led to much-needed reassessment of practices that could benefit from change. The greatest risk of such change, however, is when policy shifts are sudden, unexpected, and unexplained, especially with long-established partner nations. In the two years since President Donald Trump took office, the single biggest challenge for key U.S. allies has been to scramble to adapt to those drastic changes. That, in turn, has led them to reexamine and even alter their own longer-term strategies. For Japan, the pressure to adapt to such changes has been particularly intense, given its continued dependence on the United States for security in an increasingly unstable region on the one hand, and its reliance on robust trade relations with the world's largest economy on the other. At the midway point of the Trump administration, Japan has actually emerged stronger over the past two years, at least on the trade front. Against the odds and defying expectations, it has succeeded in strengthening its position as a stabilizing force amid ongoing uncertainties in global trade rules. Yet, its success so far does not mean that the latter half of Trump's tenure will be smooth sailing for Tokyo. In fact, Prime Minister Abe Shinzo's balancing act of managing robust relations with the United States while ensuring Japan's own economic interests may prove to be more difficult. The challenge is to further the gains it has made as an economic stabilizer, even as that outcome will redefine its broader role as a champion of the liberal international order, which has been put on shakier ground.

New Expectations for Japan

Japan's role as a regional stabilizer should not be taken for granted. The first test of Japan's own commitment to the international order and free trade in particular came within hours after Trump became president. Granted, his hostility towards the Trans-Pacific Partnership (TPP), which was to be the roadmap for a new multilateral approach to trade, was not unexpected. On the campaign trail, he repeatedly attacked the multilateral deal as "the greatest danger yet," adding that it "would be the death blow for American manufacturing."¹ Yet, amid the growing U.S. tide of the anti-globalization movement, his opponent Hillary Clinton had also ultimately come down against the trade agreement as she ran for president, stating that she would "stop any trade deal that kills jobs or holds down wages, including the Trans-Pacific Partnership."² TPP was vilified by the populist wing of both the Republicans and Democrats alike, but at the same time, expectations for both Trump and Clinton to reshape the deal, rather than scrapping it altogether post-election, remained high. Such expectations were quickly dashed, however, as Trump officially announced U.S. withdrawal from the TPP within days of his inauguration. The message was clear: the new administration had no interest in signing onto any new multilateral trade deal. Rather, it would focus on reinforcement of existing agreements and also renegotiate current deals that did not address its goals. In short, the U.S. exodus from TPP seemed to be the death knell of the world's most ambitious trade deal to date. It certainly seemed that the TPP's allure would diminish for Japan, which had been the last country to sign on to the agreement, motivated in part to have a trade deal with the United States.

U.S. Hurdle to Japan's Winning Streak as a Multilateral Leader

The unshakeable truth remains that Japan has the third-largest trade deficit with the United States, to the tune of \$67 billion, after China's \$375 billion and \$71 billion with Mexico.³ With cars accounting for \$51 billion of the total deficit,⁴ Washington has been focused on reducing Japanese auto exports, even though Japanese automakers have been deliberate in investing in the United States over the past three decades, and nearly half of all Japanese cars sold in the United States are actually made domestically. Such arguments, however, have seemingly made little headway with the Trump administration, and Tokyo is well aware of the administration's singular focus on the auto industry. Yet, unlike making concessions in the politically sensitive yet shrinking agricultural sector, compromising the automobile sector would strike at the heart of Japan's industrial base and could prove to be a blow from which the Abe administration would find it difficult to recover. In bilateral negotiations, Japan would find itself cornered to make more concessions to the United States than it would in a multilateral framework.

That fear has undoubtedly been one of the driving forces for Tokyo to want Washington back in the TPP. During the first year of the Trump presidency, the Abe government's strategy had been not only to focus on promoting Japan as the leader of the CPTPP in the absence of the United States, but also to bring the United States back to the framework either under the current administration or under a new leadership. Keeping the door open for U.S. re-entry had been a hallmark of Abe effectively acting as a custodian of the free market principles. Yet even as the CPTPP drew ever closer to coming into effect by the end of 2018, U.S. interest in negotiating a bilateral trade deal over which it would have the upper hand, became clear by September. The compromise has been to embark on trade negotiations that focus just on goods, and not services.⁵

Yet, it seems increasingly likely that not only would the auto sector be targeted for tariffs by the United States, but that there would also be a comprehensive trade deal that would include services as well as goods in addition to dealing with currency-related issues—all of which would put pressure on Japan. At the public hearing on the bilateral negotiations in Washington in December 2018, for instance, representatives from the U.S. auto sector in particular were quick to argue that Japan was deliberately lowering the value of the yen in order to make its exports more competitive, thereby giving Japanese manufacturers an unfair advantage in the United States.⁶ Currency manipulation had been a source of tension between the two sides for well over three decades, yet in the TPP negotiations, the divisive issue had been avoided. Instead, the 12 TPP member countries had agreed not to have currency issues in the main agreement, but rather to include them as a side agreement with no specific details about what constitutes currency manipulation and what actions would be taken against it.⁷ Pervasive anxiety about Washington taking action against Japan's foreign exchange policy has been one driving factor for Tokyo to continue pushing for the United States to rejoin the TPP in its new form. In bilateral trade talks, Japan, like all countries with the possible exception of China, will be at a disadvantage in negotiations on key issues including, but certainly not exclusive to, currency markets.

Spillover Effect of U.S.-Japan Trade Tensions

The TPP had been touted as an ambitious deal not just for reducing tariffs and non-tariff barriers, but also for uniting countries divergent in their stages of development and place in the political spectrum. No other comprehensive free trade agreement has been able to unite countries such as Vietnam and Australia under one framework. The TPP had also, therefore, been seen as a diplomatic tool, enhancing working relations and trust between countries as they work together in pursuit of common trade objectives. The reverse argument, however, could be made, namely that backtracking on commitments to move forward to enhance trade ties could be seen as a regression in broader ties for the U.S. The TPP could have been an opportunity not only to improve U.S. trade relations with Japan as well as with the other 10 countries, but also to deepen political as well as security ties. The net positive as a result of lower tariffs and reduction of non-tariff barriers would have facilitated commercial ties between the United States and the Asia-Pacific region. But the strategic value of Washington being committed to the TPP could have been far greater. Abandonment of the TPP, coupled with the Trump administration's decision to withdraw from the Paris climate agreement in 2017, has shaken confidence in Asia and beyond about U.S. commitment to take collective steps to address cross-border issues.

Washington's decision to take punitive action against long-standing allies only increased wariness about the Trump administration's commitment to ensuring that alliances thrive. The White House's decision to slap Japan, the EU, and other key nations with steel as well as aluminum tariffs in the name of national security with the exception of South Korea, Brazil, and a handful of other countries, took Tokyo by surprise.⁸ The fact that Abe, unlike most other leaders of major industrialized countries, had seemingly cultivated strong personal relations with Trump, was seen as a safeguard against the United States taking any significant action against Japan's own interests. Indeed, Abe's nimbleness in reaching out and courting Trump soon after his election was noted by other global leaders, and perceived as key to establishing good working relations with the new administration. Tokyo's political calculus had been that the personal connection between the two leaders would trickle down to ensure that Japan's relations with the U.S. would remain strong. While Trump withdrawing from the TPP was a tremendous blow for Japan, given Abe's own political gambit in joining the trade deal as the last of the 12 founding member countries in 2013, the expectation was that there would be a marked improvement in trade relations, or at least in the trade rhetoric, of Trump regarding Japan. After all, Japan is the third-largest foreign investor in the United States at \$477 billion, after the UK and Canada. But with the possibility of Trump expanding Section 232 into the auto sector still in the cards, a growing sense of unease about the outlook for trade ties and broader relations can be noticed.

Granted, bureaucrats on both the U.S. and Japanese sides are quick to note that bilateral ties remain strong, if not stronger than before. At first blush, that seems to be the case. After all, U.S. commitment to the bilateral security alliance has not been impacted by the trade tensions to date, and working-level discussions on defense as well as economic issues continue to move forward. In fact, personal relations between the two leaders may have even gotten stronger, or at least Abe seemingly remains committed to flattering the president as a means to ensure that relations remain strong. One anecdotal piece of evidence would

be the fact that Trump said the Japanese prime minister had actually nominated him for a Nobel Peace Prize to acknowledge the president's contributions to take the first steps in ensuring peace by engaging with North Korea.⁹

Such moves to woo the U.S. president may have initially been welcomed by the Japanese public when Trump first came to office. But in spite of the multitude of golf outings, dinners at Mar-a-Lago, and lengthy phone conversations, Abe has not had much to show for his overtures, given that Japan's key interests have actually taken a hit over the past two years. After all, the prime minister has not only been unable to persuade the United States to rejoin the TPP, but Japan is now being hit with steel and aluminum tariffs in the name of national security, in spite of the very public overtures by the premier to accommodate the U.S. leadership. At the same time, Japan had been unable to avert what it had tried to avoid from the beginning of the administration, namely to negotiate a bilateral trade deal that would focus on reducing Japanese exports of automobiles and auto parts into the United States. Given that Japan imposes no import tariffs on U.S. autos, it is likely that Washington will focus on tariff reduction in Japan's agricultural sector.¹⁰ Japan had already made considerable concessions in agriculture in order to join the TPP, opening its market to beef and pork imports as well as dairy from member countries—a political gamble for Abe at that time, but a risk that paid off, especially as Japan is now regarded as a nation committed to free trade and to multilateral agreements, especially in light of the U.S. retreat. But just how much it would have to concede to the United States in a bilateral framework has yet to be seen.

Of course, trade liberalization is good for consumers and their pocketbooks by reducing prices. Even though the CPTPP entered into effect only at the end of last year, Japanese shoppers are already seeing beef and pork prices coming down, and those cuts will continue over the next 15 years. At the same time, the concessions made in the agricultural sector in order to join TPP in the first place may well not only bolster Japan's competitive edge in agriculture, but also spur much-needed structural reform more broadly in the longer term. Yet, public wariness about the outlook for U.S.-Japan trade relations and bilateral ties in general has only increased. There have been growing fears that Trump's repeated remarks warning of the threat of Japanese exports reflected the realities of three decades ago and not the current reality, and could stoke the flames of widespread anti-Japanese sentiment. Worries about the spillover effects of the "America First" policy have increased steadily in Japan as well as in other countries that consider themselves key U.S. allies. Granted, some of the more controversial issues espoused by the president that the Democrats have strongly opposed, such as taking extreme action against illegal immigration, have garnered sympathy in Japan, which has a much more strident immigrant policy. But for Japan, the two key issues at stake in its relations with the U.S. are trade and the increasingly unstable situation in the region as a result of North Korea as a nuclear power and China's continued militarization. On both accounts, Tokyo has clearly not progressed in achieving its objectives in spite of Abe's proactive approach to relations with the Trump administration.

The end result is that whilst Japanese voters may be comfortable enough with bilateral relations for now, they are increasingly worried about the outlook moving forward. According to Japanese broadcaster NHK's opinion poll in May 2018, 80 percent said they

were concerned about the outlook for U.S.-Japan relations, even though 55 percent responded that current relations were either “very good” or “fairly good.”¹¹ The same poll found that 52 percent of respondents still believe that the United States should take an international leadership role, while 72 percent of those polled in the United States said they expected the U.S. to play a global role. Meanwhile, a Pew Research poll in February 2019 found that more countries now find U.S. power and influence a greater threat to their own security than China’s rise or Russia’s expansion. Japanese cited China’s growing power as a bigger threat to national security than U.S. influence, but only just.¹²

U.S. Trade Policy Worries Lead to Sino-Japanese Detente

Washington under Trump’s leadership has shaken the established norms and narratives of East Asia. Engaging directly with Pyongyang has undoubtedly been a game-changer in defining how the international community deals with the nuclear threat posed by North Korea. The other, of course, is how Washington has come to confront China not only on the ballooning trade deficit, but on its unfair trade practices in general. In short, Washington is currently fighting a trade war against China on two fronts. The first is tackling its deficit in goods with China, accounting for 63 percent of the total U.S. trade deficit. The second front is far bigger and systemic, i.e., to challenge China’s ambitions in redefining the global economic order.

For Japan, Washington’s focus on tackling its massive trade deficit of goods with any country including China has been a source of anxiety. By leveraging Section 232 of the 1962 Trade Expansion Act which allows the U.S. president to impose restrictions on certain imports seen to threaten national security, Washington had already made clear that even traditional allies would not be exempt from being targets of tariffs in order to bring down the U.S. trade deficit. No distinction had been made between Japan, the European Union, and China when it came to steel and aluminum. Moreover, Tokyo’s concerns persist about the White House putting aside the need for strong diplomatic relations and not shying away from imposing the penalties on other sectors.

At the same time, China has already overtaken the United States as Japan’s single biggest trading partner, accounting for nearly 20 percent of its export market at \$144 billion in 2018, compared to 19 percent for the United States. Of course, Japan is not alone in its concerns about how the trade war between Beijing and Washington could hamper its growth prospects, not least because of the disruptions to supply chains, but more significantly because of the anticipated downturn in the Chinese economy. With China already well-established as the region’s economic hegemon, most Asian countries including Japan have been concerned about how the trade war between China and the United States would hurt their own growth prospects. China had already been hit by three rounds of tariffs by the United States since Trump came into office, totaling over \$250 billion. While Beijing had retaliated with \$110 billion worth of tariffs against the United States, in May of 2019 the tariff war escalated, hitting the Chinese economy and threatening global growth. The IMF has had to lower its projections for global growth this year as a direct result.¹³

Growing concern about U.S. trade policy impacting not just China, but the Asia-Pacific region at large, has undoubtedly been a major factor in improving relations between Beijing and Tokyo. In October of 2018, Abe met with President Xi Jinping for the first bilateral summit in seven years, leading to a thaw in relations between the two neighboring countries. Abe called for the two sides to move from confrontation to collaboration, culminating in an agreement to cooperate on nearly 50 projects in third countries, largely in Southeast Asia. Some have argued that such a move ultimately aims to normalize relations between the two sides.¹⁴ That may well be, but the fundamental assumption is that China and Japan will continue to skirt issues that remain sources of contention, not least the ongoing conflict in the East China Sea and dispute over claims to the Senkaku islands. At the same time, the two sides have effectively agreed not to delve too deeply into topics that have led to conflict, including the politicization of history and the memories of World War II in particular. Issues related to China's rapid militarization over the past decade were also shelved at the summit meeting and are unlikely to be discussed, at least publicly.

Rather, there has been a conscientious effort on both sides to decouple economic interests from persistent political tensions. One positive result of this deliberate thaw is the marked turnaround in public opinion, especially on the Chinese side. According to Japanese NGO Genron's October 2018 opinion poll, the number of Chinese surveyed seeing Japan favorably exceeded 40 percent for the first time in 14 years. That, however, contrasts sharply with Japanese sentiment, with nearly 90 percent of those surveyed still holding unfavorable views toward China.¹⁵

For China, there appears to be an assumption that as Tokyo focuses on furthering economic cooperation with Beijing, bilateral relations would move beyond bolstering trade between the two sides, including moving forward on economic initiatives including the Regional Comprehensive Economic Partnership (RCEP) agreement as well as the bigger and far more ambitious Belt and Road Initiative (BRI).¹⁶ China may have concluded that Japan is now on board not only with BRI, but with the Asian Infrastructure Investment Bank as well, in spite of Tokyo remaining the leader of the longer-established rival Asian Development Bank, with both Japan as well as the United States remaining among the few holdouts of the AIIB.

There are enough indications to suggest that Beijing should feel confident about its economic statecraft. While China may prove to be more vulnerable to an all-out war of escalating tariff barriers against the United States in the near term, the conflict has demonstrated that tensions between the two countries go far beyond economic rivalry. The trade war may simply be the beginning of a new Cold War between two opposing ideologies. The post-WWII narrative had until now been that economic prosperity, open markets, and political freedom went hand-in-hand, with countries like Japan following the U.S.-based development model flourishing over time. China's rise, however, has clearly not followed that model, and its success has exemplified a different path for growth.¹⁷

Japan's economic strategy has been to hedge against the zero-sum approach to trade that the Trump administration has been taking over the past two years. It has done so in two effective ways. First, through continuing to pursue multilateral trade deals, it has pushed forward with the TPP without the United States, and is shepherding the CPTPP successfully.

It has also succeeded in pursuing trade deals with other countries, most notably by pushing ahead with the EU-Japan Economic Partnership Agreement, which entered into force in February of 2019. Second, Tokyo has broken through its diplomatic impasse with China and is looking to increase partnerships in infrastructure development in Southeast Asia in particular. China and Japan signed \$2.6 billion in business deals following the summit meeting in Beijing, with Abe accompanied by nearly 1,000 corporate executives for the visit. With promises of developing nearly 50 joint infrastructure projects across Southeast Asia, the prospects for new business deals are certainly tantalizing. In addition, the two sides agreed to cooperate in financial markets as well, most notably by renewing and expanding their currency swap agreement that had expired in 2013. Moreover, Japan and China agreed in principle to establish new frameworks to look into opportunities for technological cooperation as well as intellectual property protection.¹⁸

Yet, the fact remains that the single biggest factor that has driven Beijing and Tokyo to improve relations has been a shared concern about how U.S. trade policy could hamper growth in Asia, and thereby hurt the domestic economy. In short, Japan is not seeking out China as a partner with shared values, given that China has its own model of development that it is now seeking to spread rapidly across the region, rather than trying to adapt to a Western model that Japan has embraced. The desire to pursue stronger economic ties with China is hardly unique to Japan, and Xi Jinping's visit Tokyo in June for the G20 summit meeting could well lead to more investment partnerships between the two countries. Yet, Tokyo is confronted with the conundrum of seeing Beijing as its single biggest security threat as well. How it decouples these two conflicting realities will be closely watched by neighboring countries facing similar challenges.

A United Front Against Unfair Trade Practices

To what extent Tokyo can decouple economic interests from security concerns will define how Japan can move forward in its relations with China. That means even with the best-case scenario of reaching a satisfactory conclusion on flashpoints including the Senkaku Islands, Japan will still not be able to have as comprehensive a relationship with China as it does with the United States. In spite of persisting worries about the outlook for bilateral trade negotiations, Japan remains a staunch supporter of the international liberal order, which had been championed by Washington. That rules-based world order has been not only the bedrock of U.S. postwar global dominance, but also the foundation of Japan's own success over the past seven decades. In spite of the deeply rooted cultural ties with China that span centuries, Japan still remains alienated from Beijing when it comes to rules of engagement in the global economy.

The United States continues to fight its trade war against China on two fronts. The first front involves tackling its massive trade deficit in goods, which has been a source of friction not only with Beijing, but also with other major trading partners that also have deficits with the United States, including Japan. But when it comes to Washington confronting China with its systemic unfair trade practices, the Trump administration has actually succeeded in garnering support from its traditional allies, most notably Japan and the EU. Specifically, the three have worked together since late 2017 through the World Trade Organization to

draft new rules regarding forced technology transfers, intellectual property rights, digital trade, and broader WTO reform to bolster transparency. Together with promoting the Indo-Pacific strategy, the trilateral effort to pressure China to change its system is a clear example of the Trump administration seeking out multilateral efforts to challenge Beijing's strategic ambitions. Yet, it should be noted that Japan, the United States, and the EU have deliberately avoided antagonizing China, noting in their latest joint statement, for instance, that they have a "shared objective to address non market-oriented policies and practices of third countries that lead to severe overcapacity, create unfair competitive conditions for their workers and businesses, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade."¹⁹ Nowhere is the word "China" to be seen in any of the trilateral texts, underscoring the challenges of dealing with China's strategic ambitions in the longer term, with divergent views even among like-minded nations.

As the leading voice keeping the CPTPP together, Japan is fully aware that expanding membership beyond the current 11 countries is critical for its continued success. That includes not only keeping the door open for the United States to return to the multilateral fold down the line, but also encouraging China to join the framework as well. As such, Japan's strategy would be to continue strengthening economic relations with both Beijing and Washington and encouraging both to join the free trade agreement eventually.²⁰

Differences in Dealing with the China Threat

There are a number of hurdles for Japan to overcome in pursuing the above strategic vision, not least whether it can decouple relations by furthering economic ties with Beijing on the one hand whilst dealing with its neighbor's military ambitions on the other, as it seeks to hedge against U.S. trade policy uncertainties. Another looming obstacle is how the United States decides to move forward on dealing with China's economic influence worldwide. Japan's multilateral vision is at odds with that and with the current U.S. vision, focused on negotiating trade deals bilaterally not just with China, but with its long-established allies. Yet, there remains a divide within the Trump administration itself on how to assess and deal with China's economic threat. In renegotiating the North American Free Trade Agreement with Mexico and Canada last October, the United States added a provision that would allow it to veto the newly signed U.S.-Mexico-Canada agreement should the United States object to the Canadians and Mexicans negotiating a trade deal with China, or a non-market economy.

For Japan, the possibility of the United States replicating that same "poison pill" approach to isolate China from the global trade regime by pressuring other countries not to enter deals with Beijing has been particularly worrisome. Not only does that stance make it difficult for Tokyo to reach out to Beijing to join the CPTPP eventually, it could also jeopardize progress that has been made to conclude RCEP, which would strengthen Japan's ties not only with China, but also with India as well as the 10 ASEAN countries. As Tokyo looks to limit trade negotiations with Washington solely to goods, the anti-China poison pill provision adds yet another issue for which Japan would have to confront the United States. With U.S. commerce secretary Wilbur Ross stating publicly that the USMCA non-market economies

deal establishes a precedent for other trade deals, one can expect the “no agreements with non-market economies” provision to be a prerequisite for reaching a deal with the United States.²¹ Taking a firm stance against China, pushing back against the Made in China 2025 industrial policy in particular, has been one of the few issues that has garnered support from both the Republicans and Democrats. Yet, the prospect of the United States having the ability to isolate China from the international trade regime goes against Japan’s own national interests. The fact that there is also a schism within the Trump administration could well be in the Abe administration’s favor.

Just how accurate the June 2018 report is by the newly established White House Office of Trade and Manufacturing, outlining how China has been acquiring critical U.S. technologies from artificial intelligence, remains debatable. But whether or not China has targeted over 600 technology assets to acquire over \$20 billion in U.S. intellectual property, such fear has been a driving force for U.S. trade policy vis-à-vis China.²² It is also a fear that is shared by Japanese corporate executives. The vice chairman of Panasonic, Matsushita Masayuki, for instance, has said that the consumer electronics manufacturer has struggled to compete in China with the government favoring state-owned enterprises and forced technology transfers, as well as intellectual property violations.²³

Huawei as a Litmus Test in Confronting Chinese Rules

When it comes to assessing the threat China poses in rewriting the rules of global industry and competitiveness, the possibility of a widening gap cannot be dismissed. The latest development over Huawei is an example. U.S. investigations began in 2012 into the security threat posed by the telecommunication giant Huawei as well as ZTE. Yet, it was Australia and New Zealand that first announced in 2018 that they would exclude Huawei from their next-generation 5G network, citing security concerns. Fears of Huawei being a tool for the Chinese government to spy on rival countries, escalated rapidly following the arrest of its CFO, Meng Wanzhou, in Vancouver last December. Since then, Huawei has become a test case to measure not only the extent to which major Chinese entities can be independent of the Chinese Communist Party, if at all, but also the degree to which the United States can rally other nations to its side in taking action against Beijing for jeopardizing national security. The question remains, however, whether the Trump administration can succeed in convincing its traditional allies to view Huawei as a threat to exclude its equipment from global 5G networks.

Japan was one of the first countries to side quickly with Washington by banning Huawei as well as ZTE from its official government contracts in December of 2018, citing security risks as outlined by the United States. That view, however, has not been shared as widely as Washington had anticipated. There is growing speculation that the UK, as well as Germany, may well buck the U.S. trend and continue to incorporate Huawei technology into their respective 5G infrastructure.²⁴ As the battle between Huawei and the Trump administration continues, the question is whether a divide over Huawei and 5G technology could lead to a deeper divide between the United States and its security allies. For Tokyo, the price of continuing to side with Washington against Huawei without the backing of other major

industrialized nations is particularly high. First, it could hamper economic opportunities with China, which may be a blow for Japanese telecommunications and technology companies. Second, it may antagonize the Chinese leadership from adopting data protection practices that would benefit Japan in the longer term, and also decrease the CCP's willingness to embrace the CPTPP in the future.

Japan's Future as a Stabilizing Force

The Trump administration has presented a unique opportunity for Japan to take on some of the roles that the United States has embraced in the Asia-Pacific region, most notably on trade. By succeeding in shepherding the TPP to evolve into the CPTPP and ensuring that it came into effect, Abe has been able to steer Japan to take on the role of champion of multilateralism and the rule of law. The fact that Tokyo has been able to sign an ambitious trade deal with the EU at a time when Washington continues to press for bilateral agreements is a landmark development since Trump took office. Yet, with the U.S.-China trade war remaining one of the biggest risks to growth worldwide, Japan's role in stabilizing the global economy has only increased. Whether or not Abe will have the ability to do so remains in question, not least because of uncertainty over how he can work together with the United States to achieve stability.

Steps have been made towards bilateral cooperation to address structural challenges in the global economy. On the trade front, trilateral efforts between Japan, the United States, and the EU to reform the WTO, have won strong domestic support in these countries and in other industrialized countries as well. Tokyo and Washington have coordinated closely in slowly fleshing out the Indo-Pacific strategy that would bring together like-minded nations to support a rules-based order, bringing forward some of the political objectives that the Obama administration had highlighted for the TPP.²⁵ Unlike calls for free trade, which have antagonized the anti-globalization movement, efforts to rein in China's unfair trade practices continue to be a popular political move at home, and to win support from the international community at large as well.

Yet, risks to a robust economic partnership between Japan and the United States remain. Economic nationalism continues to be a key factor driving U.S. trade policy, and the risk of pressing Tokyo for a bilateral trade deal that would hurt Japanese exports, especially in the critical automobile sector, could lead Japanese auto makers to reconsider their investments in the United States, which in turn would hurt the U.S. job market. Unlike the U.S.-Japan trade war of three decades ago, Japanese auto manufacturers are now heavily invested in the United States and support over 1.5 million jobs.²⁶ Cutbacks in investments into the United States would have a longer-lasting impact on the U.S. economy than forced reduction in imports of goods from Japan.

Another risk that could drive a wedge between Tokyo and Washington is how the threat of China as a rule-breaker is assessed. While the Abe administration has been quick to support the White House in pressing Beijing for structural reform including data security, Abe has also leveraged the U.S.-China trade war to improve relations with Beijing and hedge against the uncertainties resulting from the Trump administration. Tokyo's strategic vision remains to bring Beijing into the fold of the international liberal order and encourage it to

open markets as a means to ensure its own longer-term growth. The United States adding a provision that would effectively bar Japan from negotiating a free trade agreement with China as part of a bilateral deal would be a demand that Tokyo would not be able to swallow as easily as Mexico and Canada did.

As the United States gears up for the presidential elections in 2020, the White House may be under greater pressure to deliver results and portray a strong America. Japan's challenge will be to reassure the Trump administration that "America First" does not mean America alone, while making the case that the United States would benefit from a China that continues to prosper and be enticed to follow the principles of free and fair trade, assuming that this option is on the table.

Endnotes

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