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USA urges Japan to sign trade agreement quickly

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Japan

Japan is currently affected on several levels by US President Donald Trump's trade policy. On the one hand, the heavily export-dependent Japanese economy is feeling the effects of the US trade conflict with China; on the other hand, Japan is currently negotiating its own trade relations with the US. After his recent state visit to the country, Trump had urged Japan to quickly sign a trade deal.

The goal of the negotiations is a free trade agreement between the two countries and an expansion of economic relations. However, Japan's large trade surplus with the US bothers Trump, who wants to correct this imbalance in the negotiations. In 2018, the USA had a trade deficit with Japan of around USD 67.6bn.

Japan

Note: Past performance is not indicative of future development.

Free trade agreement to be sought

Consequently, the US president is calling for Japan to open its market wider to US products, such as agricultural goods. However, a significant portion of the surplus is a result of Japan's car exports to the USA. The US government is therefore considering additional import duties on Japanese cars, a measure that Japan absolutely wants to avoid. On this point, the negotiating partners are unlikely to find any consensus soon.

Japan's monetary policy has also been repeatedly criticised in the past. The country is accused of keeping the yen low through an ultra-loose monetary policy in order to maintain lower prices for its products abroad and improve its export opportunities. In order to support the economy, the central bank has been keeping its interest rates at practically zero for a long time while also trying to keep yields on the capital market at around zero by buying government bonds.

In view of the uncertain economic outlook, the currency authorities announced after their monetary policy meeting at the end of April, that Japan's central bank intends to maintain very low interest rates for at least another year, as Japan is also affected by the US trade dispute with China, resulting in weak demand from China as well as impacting supply chains.

Japan's economy surprisingly strong recently despite decline in exports

For the fifth consecutive month, Japan's companies sold fewer goods abroad in April. Exports declined by 2.4 per cent compared to the previous year, according to Japan's Ministry of Finance. Exports to China dropped even more – by 6.4 per cent – according to official statistics. (Source Japanese Ministry of Finance, http://www.customs.go.jp/toukei/shinbun/trade-st_e/2018/2018_117e.pdf)

Japan's economic performance has not yet been affected by weakening exports. The decline in exports was however recently mitigated by an even stronger drop in imports. Japan's gross domestic product (GDP) grew by a surprisingly strong 2.1 per cent in the first quarter, whereas Analysts had anticipated an average decline of 0.2 per cent. At the end of 2018, Japan's economic output had shown a growth of 1.6 per cent.

However, experts warn of an impending economic downturn. "The economy has already reached its peak," said Hiroaki Muto, chief economist at the Tokai Tokyo Institute. The economist is expecting a potential slight recession. Many experts therefore expect Prime Minister Shinzo Abe to postpone the increase in VAT from eight to 10 per cent previously announced for October.

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