

# Updates on Japanese Business and Economy

VOL.5 July, 2018

## 1. Mr. Nakanishi, New Keidanren Chairman

Hitachi chairman Nakanishi Hiroaki has been appointed the fourteenth chairman of Keidanren (Japan Business Federation) as of May 31, 2018. Mr. Nakanishi takes over from Dr. Sadayuki Sakakibara who was at the helm for 4 years.

Chairman Nakanishi declares that Keidanren will work more strongly than ever on the below policy agendas, in order to create a bright future and hand over a vibrant economy and society to future generations:

1) Society 5.0

"Society 5.0" is a super smart society that arises after several developmental stages of human society: from hunter-gathering, settled agriculture, industrialization, and today's information society. Keidanren's aim to realize Society 5.0 is to achieve not only economic growth but also solutions to social issues through the development of science and technology. Therefore Society 5.0 can be described as a future society where the Sustainable Development Goals (SDGs) adopted by the United Nations will have been achieved.

2) Structural reform

In order to realize Society 5.0, Keidanren encourages the Japanese Government to develop solid economic and social bases by promoting regulatory and tax reform, as well as establishing sustainable fiscal and social security systems.

3) Multidimensional economic diplomacy

In the context of rising anti-globalization sentiments globally, it is necessary to urgently maintain and develop free, open, and rule-based international trade and investment environment. To this end, Keidanren intends to expand relationships between key economic partners including the United States, China and the European Union.

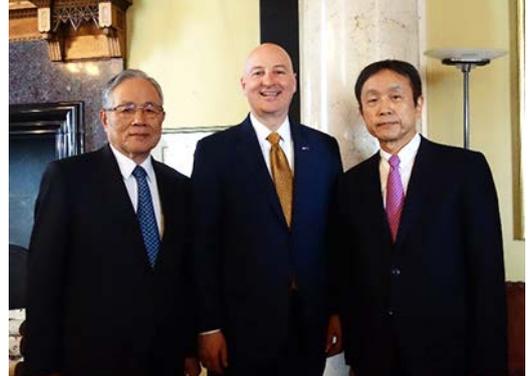


## 2. Keidanren Mission visits Nebraska, Texas and Washington D.C.

Since 2015, Keidanren has annually dispatched high-level Mission to the United States to further strengthen the economic partnership between the U.S. and Japan. This year, May 2- 10, the delegation led by Chairs of Keidanren Committee on U.S. Affairs, Mr. Shigeru Hayakawa (Toyota Motor Corporation) and Mr. Haruo Murase (Canon Marketing Japan) visited Nebraska, Texas and Washington D.C., and met with congressional members, federal government officials, governors as well as business leaders. At the meetings, the delegation sought better understanding on (1) the contribution made by Japanese companies to the U.S. economy through vigorous investment, (2)

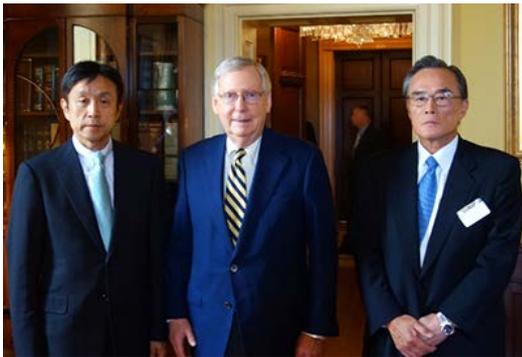
the importance of the U.S.-Japan relationship, as well as (3) the value of free and fair trade framework such as NAFTA and TPP.

The delegation first visited Lincoln, NE, and met with Nebraska Governor Pete Ricketts. In the meeting, he emphasized that Nebraska and Japan have built a strong relationship and Japan is the largest foreign direct investor. Also, he stated the state of Nebraska highly recognizes the importance of a framework of free trade and investment such as NAFTA and TPP as they are indispensable for the growth of Nebraska economy. The delegation also visited the manufacturing facility of Kawasaki Motors Manufacturing, who is the first foreign company to start vehicle manufacturing in the United States as early as 1974.



Governor Ricketts

The delegation next traveled to Texas. In Austin, they had the pleasure of meeting with Governor Greg Abbott. He expressed gratitude for Japanese companies' large investment in Texas and advised them to advocate aggressively to the Trump administration that Japan's investment



Senate McConnell

performance in the U.S. is outstanding and that exports by Japanese affiliated companies in the U.S. (75.7 billion USD) exceeds the U.S.'s trade deficit with Japan (68.9 billion USD) by about 7 billion USD. In Huston, Mr. Hayakawa delivered a keynote speech at "Japan-Texas Economic Summit". In the speech, he explained about the contribution of Japanese companies to the U.S. and Texas economy as well as their activity as good corporate citizens.

In Washington DC, the delegation had the privilege of meeting with the Senate Majority Leader Mitchell McConnell, Senator Ben Sasse, Congressman Andy

Barr, Congressman Richard Neal and Administrator of the Environmental Protection Agency Scott Pruitt respectively. In the meetings, they appreciated Japan's investment in the U.S. and agreed with the significance of free trade in global market. Mr. Everett Eissenstat, Deputy Director of the National Economic Council and Deputy Assistant to the President for International Economic Affairs expected Japan to assume a key role in the global trading system. Additionally, the delegation raised concerns about tariffs on steel and aluminum and serious effects on the entire global economy by this measure at the meeting with Mr. Gilbert Kaplan, Under Secretary of Commerce for International Trade in the United States Department of Commerce.



Administrator Pruitt

### **3. Comments for the Section 232 Investigation of Imports of Automobiles and Automotive Parts**

<http://www.keidanren.or.jp/en/policy/2018/054.pdf>

Dear Secretary Ross:

On behalf of Keidanren, this submission responds to the Department of Commerce's ("Commerce's") notice inviting comments on the effects on the national security of imports of automobiles and automotive parts in connection with its investigation initiated on May 23, 2018 pursuant to Section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. § 1862) ("Section 232"). Keidanren is a comprehensive economic organization with a membership comprised of 1,376 representative companies of Japan, 109 nationwide industrial associations, and 47 regional economic organizations in all 47 prefectures. The core mission of Keidanren in the United States is to facilitate more engagement by the Japanese business sector with the U.S. policymaking community, and to promote the very real contributions (in terms of investment and jobs) being made by Japanese companies to the U.S. economy.

For the reasons set forth below, Keidanren respectfully submits that imports of automobiles and automotive parts from Japan do not threaten to impair U.S. national security within the meaning of Section 232.

#### **I. Japanese Companies Have Made Substantial Investments in the U.S. and Consistently Create and Support U.S. Jobs in a Wide Range of Industries Through Investment and Trade**

The United States and Japan are close economic partners and global leaders who have continuously demonstrated their mutual commitment to one another through strong trade and investment ties. The United States is the top destination for Japanese foreign direct investment ("FDI") and Japan is one of the United States' largest foreign investors. At \$421 billion stock and \$34 billion flow, Japan is one of the top investors in the United States. Furthermore, Japanese investment in the United States is of high quality. For example, Japanese investment in the United States is characterized by a large and growing research and development ("R&D") component. In 2014, Japanese FDI accounted for \$57 billion in R&D in the United States. Since 1997, direct Japanese R&D spending in the United States has increased from \$2 billion to about \$10 billion, and continues rising.

There is no doubt that Japanese enterprises are leaders in creating and supporting U.S. jobs, having created over 856,000 jobs through direct investment in 2015. In fact, many U.S. corporations have robust production and strategic relationships with Japanese partners – from arrangements with local suppliers, to joint ventures and co-production, to R&D and distribution – even as they compete with each other in global markets. For instance, materials supplier Toray Industries, Inc. recently built a \$1 billion production facility in Spartanburg County, South Carolina that will supply carbon fiber for Boeing jetliners and will create 500 U.S. jobs.

Additionally, trade with Japan creates almost 1.3 million jobs all across the United States, generating more than 30,000 jobs in 12 states, and more than 10,000 jobs in 24 states.

Moreover, Japanese companies are leaders in corporate social responsibility and frequently establish charitable foundations to empower U.S. communities and engage at a local level. From Alabama to Wyoming, Japanese corporations endow cultural events at museums and theaters; provide disaster relief and donate to hospitals for disease prevention; send employees into the community to volunteer to tutor at elementary schools; provide job training for high schoolers and underemployed adults; cook meals at shelters; and engage in numerous other charitable activities.

The existence of the rule-based free and fair trade/investment framework has enabled Japanese businesses to bring such contributions to the U.S. economy. Having such a framework as a solid foundation to guarantee a level playing field, the businesses can structure their supply chains across borders making optimal choices in locating production sites and procuring from diverse business partners, and continue to gain competitiveness in the global market. The automobile industry is one of the most successful examples of such business models

## **II. Japanese Auto Companies Strengthen the U.S. Economy By Consistently Creating and Supporting Jobs for Americans in the Automobile Sector**

The Japanese automobile industry is deeply intertwined with the U.S. automobile industry and undoubtedly strengthens the U.S. economy by creating and supporting jobs in communities throughout the country. Japanese auto-related companies, including Toyota, Nissan, Honda, Mitsubishi, and Subaru employ hundreds of thousands of Americans, including in factories in Kentucky, Ohio, Tennessee, Indiana, Michigan, and Texas. Japanese-branded automakers operate 24 manufacturing plants and 44 R&D facilities in 19 different U.S. states. And, this investment is growing. For example, Hino Motors Manufacturing is planning to open a \$100 million plant in Mineral Wells, West Virginia in 2019, and Mazda and Toyota have established a joint venture company to manufacture automobiles at a \$1.6 billion plant in Alabama by 2021. The Japan Automobile Manufacturers' Association ("JAMA") estimates that when indirect employment is included, Japanese automakers employ over 1.5 million Americans, and that number will certainly increase given the two new plants currently under construction. Many of these jobs are highly-skilled and include worker training programs, premium wages, and benefits packages.

President Donald Trump himself has praised Japanese companies for creating so many U.S. jobs. During a recent meeting in Tokyo with Japanese business leaders, the President thanked the leaders for "creating jobs for our country for a long, long time," adding that "we love it when you build cars – if you're a Japanese firm, we love it . . ." During his 2018 State of Union Address, President Trump thanked Toyota and Mazda by name for opening the new plant in Alabama. The President has also commented on other Japanese auto parts companies, such as Denso, a Japanese supplier of advanced automotive technology, systems, and components. Just last November, President Trump stated that "we're very pleased that . . . Denso announced that it will invest \$1 billion to expand its activities in Tennessee, a great state . . ."

Abruptly shifting course and placing tariffs on Japanese imported automobiles and automotive parts would not only directly contradict the President's laudatory statements on the benefits of Japanese automobiles to the U.S. economy, but would also significantly affect automobile consumers, confuse businesses and impair predictability, which is an essential factor for a sound business judgment on when and where to invest. Furthermore, it would substantially hurt U.S. manufacturing and negatively impact U.S. jobs.

### **III. Unilateral Measures Will Discourage Investment in the United States**

As indicated above, over the last 30-40 years, investment by Japanese businesses in the United States has increased significantly and the amount and proportion of imports have decreased considerably. As a result, Japan's trade surplus with the U.S. to the U.S. nominal GDP has decreased substantially, from -1.2 percent in 1987 to -0.4 percent in 2016. In order for Japanese businesses to continue investing in the United States, a stable and predictable business

environment is indispensable, and access to competitive automotive parts procurement is a critical factor when making investment decisions. There is no question that Japanese automobile companies wishing to invest in the United States may be left with no choice but to reconsider investment decisions if faced with tariffs on imports. Unilateral trade measures, which do not necessarily comply with internationally-agreed rules, will increase unpredictability and discourage investment. The negative impact on investment appetite will not be limited to auto and auto-related industries, as businesses in general would raise concern that the similar policy measures may be taken in other sectors as well.

To the extent the Department is concerned about the impact of the Japanese auto sector on the economic welfare of the U.S. auto sector, President Trump recently stated that "our car industry is doing well and our product is fantastic." Tariffs on imports will cause price increases, harming both U.S. consumers and U.S. industry's global competitiveness. For the sake of national security, it is important to improve competitiveness through sound competition on quality products.

### **IV. Imports from Japan Do Not Threaten to Impair U.S. National Security**

Keidanren submits that the indelible security and economic relationship between Japan and the United States ensures that imports of automobiles and automotive parts from Japan do not pose a national security threat to the United States. Ultimately, it is in Japan's own selfinterest to see a strong and secure United States: a country that has provided decades of leadership and security in the Indo-Pacific region. As such, Japan's investments and job creation in the United States are aimed and designed to benefit both countries and contribute to the strengthening of our critical alliance. In recent months, President Trump has highlighted the unique bond between the United States and Japan, declaring that that "[t]he friendship between Japan and the United States has never been closer," and the "bonds between our people have never been stronger." He also recently stated that "[t]he steadfast alliance between Japan and the United States is an enduring force of peace and stability in the Pacific region and around the world," adding that he has been working with Japanese Prime Minister Shinzo Abe "to expand our cooperation in a range of areas, including defense and commerce," as well as science, medicine and technology. President Trump and Prime Minister Abe are working to continue a "decades-long tradition of shared economic successes between [the] two nations."

In addition, the robust U.S.-Japan partnership is built upon a long-running and strong foundation. Our security relationship continues to grow and strengthen in light of the uncertain security environment in the Asia-Pacific region. President Trump has reiterated the "close cooperation between the United States and Japan on the issue of North Korea and our common defense,"<sup>18</sup> and that "[t]he unshakable U.S.-Japan Alliance is the cornerstone of peace, prosperity, and freedom in the Asia-Pacific region." The strong U.S.-Japan relationship can balance the myriad

geopolitical issues in the region, and the close military relationship between the United States and Japan confirms the two countries' common interests in safeguarding national security. Including Japanese imports in any national security investigation is inappropriate given the strong and lasting alliance between U.S. and Japan.

## V. Conclusion

In sum, Japanese imports of automobiles and automotive parts into the United States do not cause harm to or threaten U.S. national security in any way. The additional tariffs on automobiles and automotive parts will have a significant negative impact on the U.S. economy, discourage investment not only for automobile and automobile-related industries, but also for other businesses, and may lead to the loss of jobs. Keidanren is grateful for the Department's consideration of these comments. Please do not hesitate to contact the undersigned with any questions concerning this submission.

Respectfully submitted,

Masakazu Kubota  
Director General and President  
Keidanren (Japan Business Federation)

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Editor: Keidanren USA

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