Trans Pacific pact's benefits debated
Ohio senators opposed; auto industry fears Japan to gain edge at expense of U.S. vehicles

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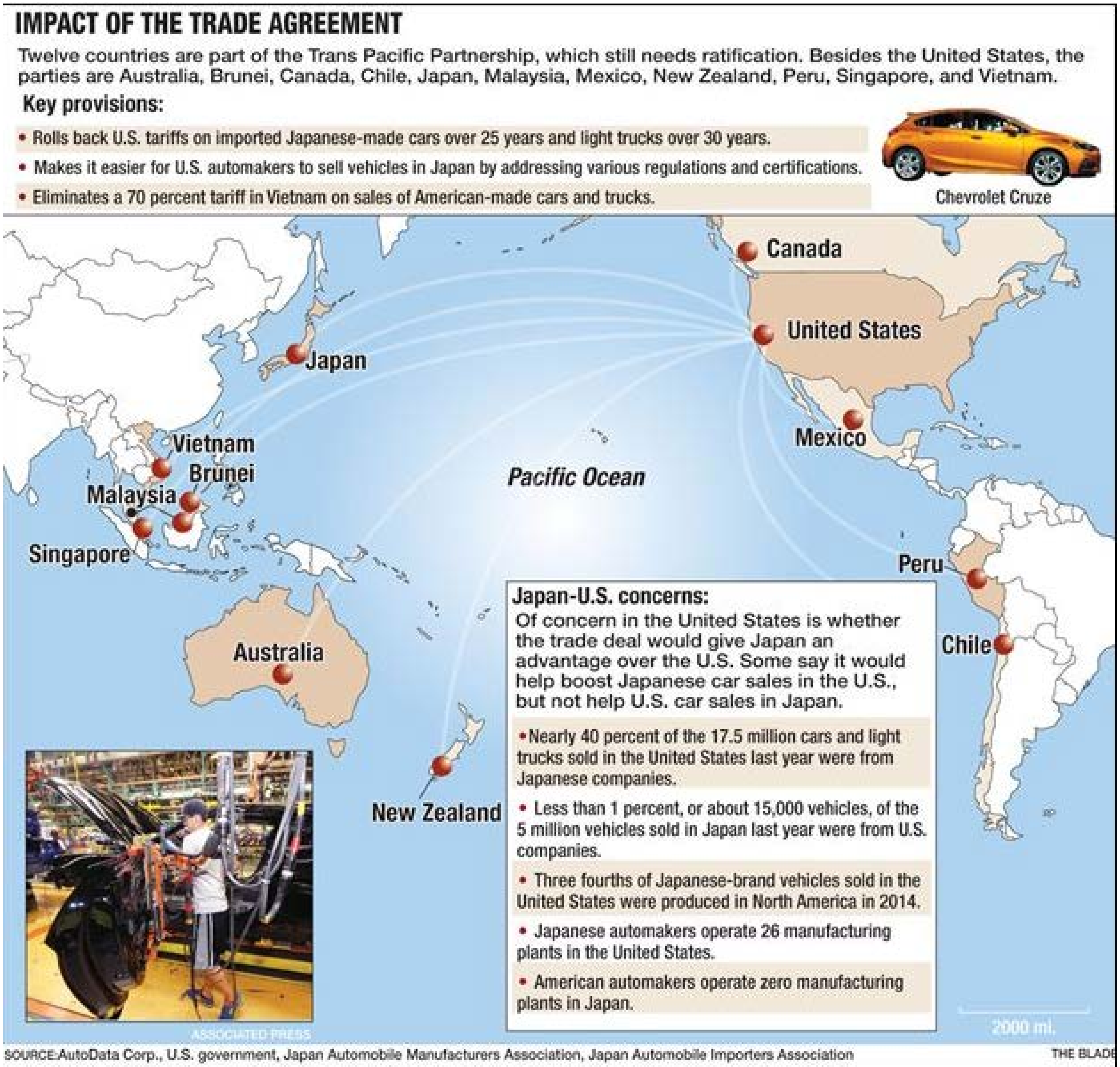

Opponents of a massive free trade deal that will affect 40 percent of the world's economic activity are raising concerns that the deal is too sweet for Japanese automakers at the expense of their U.S. counterparts.

The Trans Pacific Partnership sets rules on things such as labor standards, ecommerce, and state-owned enterprises while cutting tariffs on thousands of products ranging from Kentucky bourbon to copper wire. The pact was signed by officials from the United States and 11 other Pacific Rim countries this month, but it still must be approved by Congress.
So far, that's been a hard sell to members of both parties.

"There are certainly some things in the agreement that can work for American agriculture and other things, but the auto language is worse than NAFTA's was," said U.S. Sen. Sherrod Brown. The Ohio Democrat has long argued the North American Free Trade Agreement involving the United States, Mexico, and Canada cost Ohio thousands of manufacturing jobs.

The automotive industry is only a part of the Trans Pacific Partnership, but the provisions affecting it are noteworthy — and to some, controversial.

Labor groups, including the United Auto Workers, have taken an especially strong position against the deal, warning that this agreement will be worse than NAFTA for American workers. The labor-backed Economic Policy Institute has estimated NAFTA, enacted in the 1990s, cost almost 700,000 U.S. jobs.

"We have concluded the TPP, regrettably, fails and repeats many of the mistakes of prior trade agreements that contributed to stagnant wages, rising income inequality, and plant closings in the United States," UAW President Dennis Williams said in a statement released in December.

Though no one is harping on the TPP provision about Vietnam agreeing to lift its 70 percent tariff on American-made vehicle imports, the pact's provisions relating to Japan have proved more divisive.

Among the concerns are a failure to address currency manipulation and worries that Japan won't do enough to ensure U.S. companies have open access to its market in return for the United States rolling back tariffs on Japanese-made vehicles. One of the largest worries, though, are rules that could allow Japan to extensively use less expensive Chinese-made parts.

The trade agreement stipulates how much of a vehicle's content must come from a member-country to get duty-free status. That's common in trade agreements, but critics such as Mr. Brown say the threshold is too low. While NAFTA required at least 62.5 percent of a vehicle's content to originate from North America to be tariff-free, the Trans Pacific agreement sets the bar at 45 percent

"This was a total giveaway to Japan," Mr. Brown said. "You can see the loophole that was created and the havoc that can be wreaked on American companies and American workers."

Republican Sen. Rob Portman of Ohio said he would not vote for the deal in its current form, saying the deal doesn't provide a level playing field for American workers.

“From currency manipulation, to rules of origin for automobiles, to protection for U.S. biologics — we can do better,” Mr. Portman said.

Mr. Brown has vowed to do all he can to stop the new trade pact from passing in Congress. The deal hasn’t yet been presented for ratification.

It also hasn’t raised much notice among this year’s candidates running for president.

Among the Republican candidates, Ohio Gov. John Kasich and former neurosurgeon Ben Carson have said they support the deal and Texas Sen Ted Cruz and businessman Donald Trump oppose it. Florida Sen. Marco Rubio voted in favor of a measure giving President Obama authority to negotiate the deal and present it to Congress, but the candidate has not said whether he would vote to approve the deal.

The two Democratic candidates, Vermont Sen. Bernie Sanders and former Secretary of State Hillary Clinton, have said they oppose the deal, though Ms. Clinton supported it while serving as Secretary of State in the Obama Administration.

The Obama Administration and other proponents of the agreement say the trade deal rules are fair and present a significant opportunity for U.S. firms to increase exports of autos and auto parts. President Obama, whose staff negotiated the deal, made that argument in a column published by Bloomberg late last year, saying the deal makes it more likely to see Detroit-made cars on Japanese roads.

“Not every American will support this deal, and neither will every member of Congress,” the President wrote. “But I believe that in the end, the American people will see that it is a win for our workers, our businesses and our middle class.”

Optimism low

Auto and parts manufacturing is a significant part of the U.S. economy. The U.S. Bureau of Labor Statistics says the industry supports 921,000 U.S. jobs. General Motors, Ford Motor, and Fiat Chrysler employ nearly 11,000 in the Toledo region alone. Several thousands more work in automotive-parts supplier jobs in the area. For now, the two Toledo-built Jeeps don’t appear to be at any risk from the agreement.

In spite of the President’s expectations, many experts are doubtful that U.S. automakers will find that the deal will help with sales in Japan or in the other countries included.

“It’s hard to see Japan as what I would call an aggressive growth market,” said David Cole, chairman emeritus of the Center for Automotive Research.

Mr. Cole sites a variety of reasons — a low birth rate, limited immigration, an aging population, and a general tendency to buy domestic. But the bottom line is, Tokyo is unlikely to be flooded with

Chevrolets any time in the near future. That said, Mr. Cole doesn't see the new trade deal so much as unfair as mostly inconsequential.

"You're probably going to see some companies benefit and some companies hurt on both sides. I don't think this is one of these things that is going to assure the Japanese are going to wipe the Americans out," he said.

Much of the focus has been on Japan because it and the United States have two of the world's largest and most influential automotive industries. Neither country wants to see the other gain a leg up.

Though Japan is the world's third largest market for new car sales, American cars represent just a tiny fraction of sales there. GM, Ford, and Fiat Chrysler brands represent less than 1 percent of the total sales there, according to the Japan Automobile Manufacturers Association.

Ford has given up even trying. The company announced this year it was pulling out of Japan, saying the situation is untenable, and it doesn't see the new trade deal improving things.

Jeep has been one of the few brands with any type of success at all. Last year, Jeeps comprised half of all U.S. vehicles sold in Japan.

Some trade experts argue that Japan has mastered keeping its market closed even without tariffs, but officials with a group representing Japanese automakers dispute that.

"It's not that there are barriers, but that the Detroit Three don't offer the small cars that Japanese consumers want so it's just not a good fit," said Ron Bookbinder, Japan Automobile Manufacturers Association's general director in Washington.

While U.S. firms specialize in trucks and more sport utility vehicles and crossovers, more than 90 percent of the Japanese market is made up of compact, subcompact, and mini vehicles, he said. Just 10 U.S. offerings were in the category in 2014, the group said.

Win for Japan?

Mr. Bookbinder rejects the idea that the trade agreement benefits Japanese companies over the Americans, or anyone else.

"I think lowered trade barriers benefit all automakers, not just Japanese automakers," he said.

Still, some trade experts think the deal is clearly more beneficial to Japan than the United States.

Clyde Prestowitz, the founder and president of the Washington think tank Economic Strategy Institute and a former trade official in the Reagan Administration, said it's almost unbelievable that U.S. negotiators didn't ensure that currency protections were included.

Automakers are concerned that foreign governments, including Japan, could artificially weaken their currency in an effort to simultaneously make imported vehicles less costly in the United States and imported U.S. vehicles more expensive.

Even putting currency aside, Mr. Prestowitz argues the deal opens the door to more Japanese imports

Currently, Japanese-made car imports face a 2.5 percent tariff in the United States while Japanese-made truck imports face a 25 percent tariff. The tariff on trucks is so high that it’s effectively stopped any automaker from even entertaining ideas of importing pickups into the United States.

Under the deal, those tariffs will be respectively rolled back over a period of 25 and 30 years, with the majority of the cuts coming toward the end of that period.

Mr. Prestowitz and other critics said that, as the U.S. rolls back its tariffs on Japanese-made imports, companies such as Honda Motor, Toyota Motor, and Nissan will begin shipping far more cars into the United States than they do now, hurting both the domestic producers and workers at Japanese-owned auto plants in this country.

“I look at it this way, Japan has the capacity to produce something like 12 million vehicles. they’re only selling 9 million at the moment,” he said. “They’re in a recession, they’re desperately trying to restart their economy. If we remove these tariffs on Japanese autos and light trucks, I think it’s very likely the Japanese are going to increase their exports to the U.S.”

Mr. Bookbinder, of the Japan Automobile Manufacturers Association, said that doesn’t make sense. Last year, three of every four Japanese brand vehicles sold in the United States were made in North America. Japanese companies, he points out, have invested $43 billion in U.S. plants through 2014 and spent $66 billion on parts to supply those plants that year.

“When you have that level of investment, you’re not going to change and switch back manufacturing of pickup trucks to Japan or anywhere else,” he said. “That’s just not going to happen.”

Edward Alden, senior fellow at the nonpartisan Council on Foreign Relations, said the truth probably is between floods of Japanese imports and maintaining the status quo. As time goes on and the tariffs are phased out, the cost advantage of manufacturing in the United States will narrow. That’s particularly true with trucks.

However, Mr. Alden said, the tariff rollback will take 30 years under the agreement, a length that’s unprecedented in trade deals and represents a political concession to the U.S. auto industry to try to get their support.

China bigger threat

Though Ford has spoken out against the trade deal, GM and Fiat Chrysler Automobiles have been mostly quiet. A GM spokesman told The Blade the company is continuing to evaluate the agreement and hasn't taken a position. A spokesman for Fiat Chrysler said the company had no comment.

Though organized labor has envisioned the possibility of manufacturing jobs being shipped out out to other, low-cost countries, experts say that doesn't seem likely.

"I don't really imagine a NAFTA-type scenario where a lot of vehicle or parts production moves to Malaysia or Vietnam," said Mr. Alden. That's not really plausible at the moment."

The bigger threat, he said, is China taking advantage of the new trade deal's rules-of-origin thresholds. Even though China isn't a part of the deal, with the agreement allowing up to 55 percent of a car's components to come from non-TPP countries, there are worries that China could become a major player in the supply chain. That could potentially mean domestic and transplant factories in the United States using significant quantities of Chinese-made parts.

More likely, at least in the short term, is the possibility that Japanese companies take advantage of China's low-cost manufacturing for cars it makes in Japan.

"You could potentially import even a majority of the components from very low cost producers in Asia, assemble them in Japan and export them," Mr. Alden said.

While Mr. Alden generally supports the trade deal and what it does both from economic and geopolitical standpoints, deciding whether it's good or bad for U.S. interests in the automotive sector is murky.

"It's a little harder to come out really strongly one way or another," he said.

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