THE JAPANESE AND AMERICAN AUTO MARKETS AT A GLANCE

The Japanese and American auto markets are a stark contrast. In Japan, an extensive system of non-tariff barriers keep imports and investment out and give Japanese auto companies the run of the market. This "sanctuary," in turn, allows Japanese companies to build a formidable export platform to take advantage of the open U.S. market. American companies lose twice, both by being shut out of Japan and with increased competition in the United States.

Agreements with Japan in the 1980s and 1990s were incapable of changing this equation because Japan uses non-tariff barriers to close their market that those agreements were not effective at addressing. Japan's participation in TPP could make matters worse by putting the 2.5% U.S. car tariff (and the 25% truck tariff) on the table. Given razor-thin profit margins in the auto industry, eliminating the tariffs would provide a one-sided benefit to Japan, leading to more Japanese imports, less American production, and fewer American jobs.

JAPAN

- In 2012, the Big Three sold only **13,637** cars in the Japanese market – **less in a year than Japanese companies sold in a day in the United States.**
- Import penetration in the Japanese market is approximately **6%**, the **worst** of any major OECD auto markets by far.
- Japan's auto sector produces **10 million cars** for a **5 million car domestic market**, depending on protection at home and exploitation abroad for its survival. Export pressure will increase as the population ages and shrinks.
- Hyundai-Kia, Korea's top automaker, pulled out of Japan in 2009 because of struggling sales. European auto companies oppose an FTA with Japan because they cannot sell cars there.
- Japan is a **sanctuary market** – guaranteed market share allows Japanese companies to establish economies of scale and drive down costs, which is important to building a formidable export platform.
- The tariff for autos is zero; Japan relies on **deep, shifting, impenetrable non-tariff barriers** to keep out foreign autos (e.g., currency manipulation and discriminatory taxes, standards, entry procedures, distribution structures, and zoning requirements). **Repeated negotiations have failed to remove these barriers.**
- Japan has a **long history of intervening in currency markets** to weaken the yen to boost Japanese exports and dampen import competitiveness in Japan. The yen has depreciated 8% this year; 20% since last fall. **U.S. free trade agreements have never before addressed currency.**
- **Not a single foreign auto company has production in Japan** because of the closed investment atmosphere.

UNITED STATES

- In 2012, Japanese auto companies sold **5,343,579** cars in the U.S., supplying nearly **40%** of the U.S. market. This amounted to **14,640** cars per day.
- Import penetration in the American market is annually over **40%**, **consistent** with most other major OECD auto markets.
- The United States is the **world's largest auto market** after China and already the destination for Japanese excess capacity. Increasing export pressures in Japan will exacerbate the situation.
- Japan's non-tariff barriers **add significant costs** to imports, hurting their competitiveness (e.g., a Ford Focus Hatchback costs $18,300 in the U.S., but $29,558 in Japan).
- The United States has only a **tariff measure** in place – 2.5% for autos and 25% for trucks. FTAs have historically been used for, and very effective at, lowering tariffs.
- Japan is the **second-largest source of the U.S. trade imbalance** after China, and, in 2012, automotive products accounted for **more than two-thirds of the deficit**. The automotive deficit with Japan is **longstanding and growing**. 20 years ago, it was **$31 billion**. Last year it was **$53.5 billion** (including an auto parts deficit of $15.5 billion, compared to $9.8 billion 20 years ago).