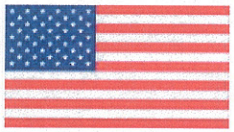
U.S.-Trans-Pacific Partnership Free Trade Agreement Including Japan: Advice on the Probable Economic Effect of Providing Duty-Free Treatment for Imports

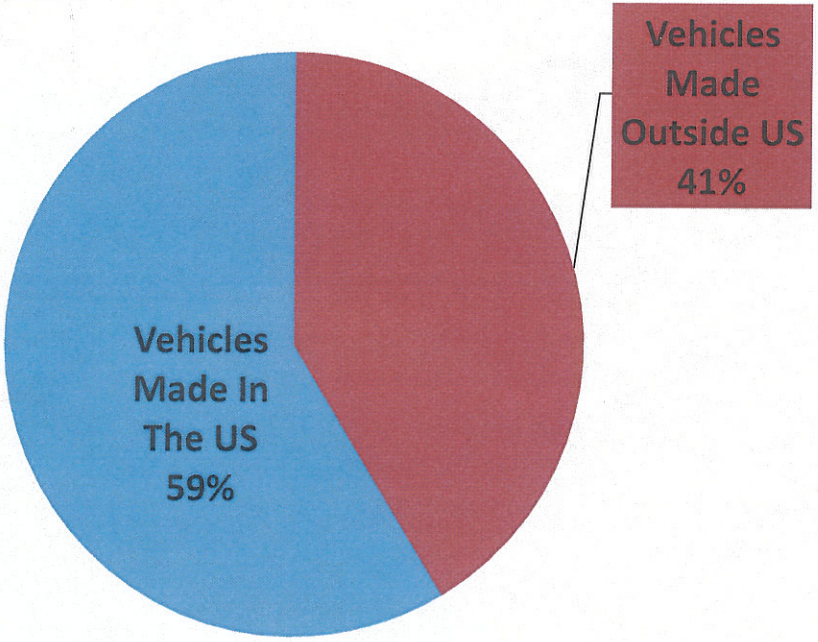
June 11, 2013

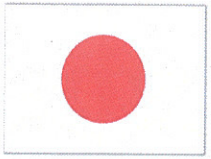
Josh Nassar, Legislative Director

U.S. Auto Market = OPEN
Japan's Auto Market = CLOSED

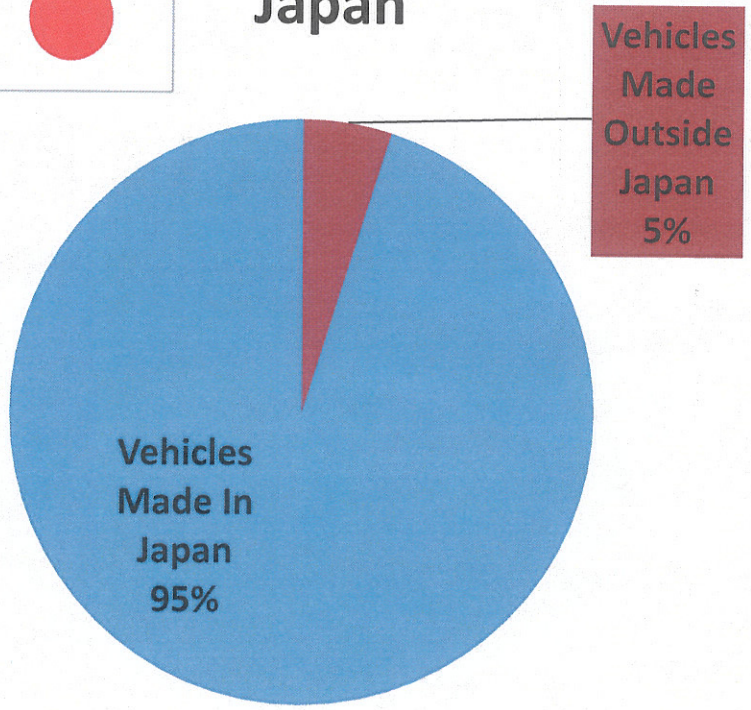


United States

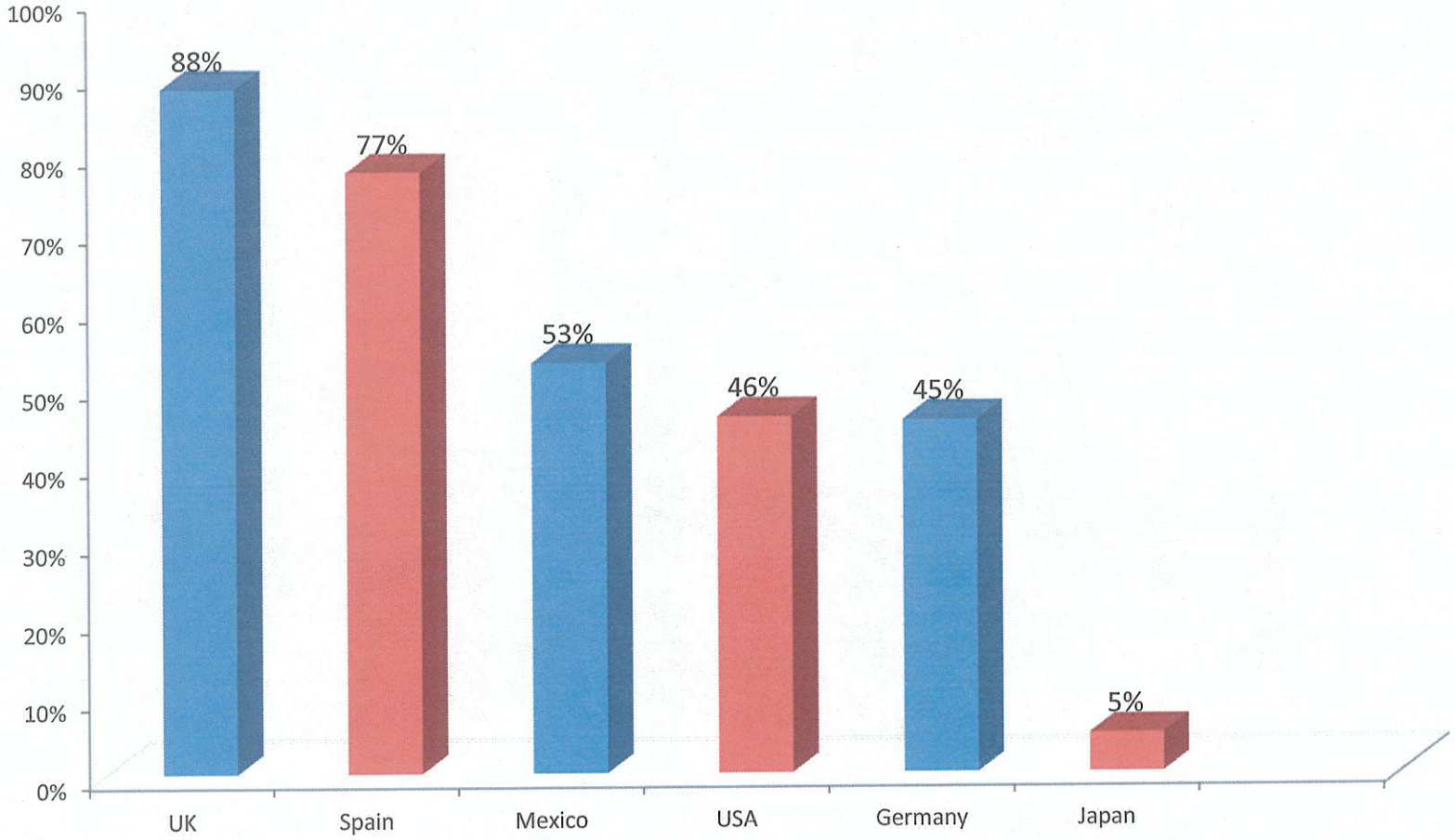




Japan



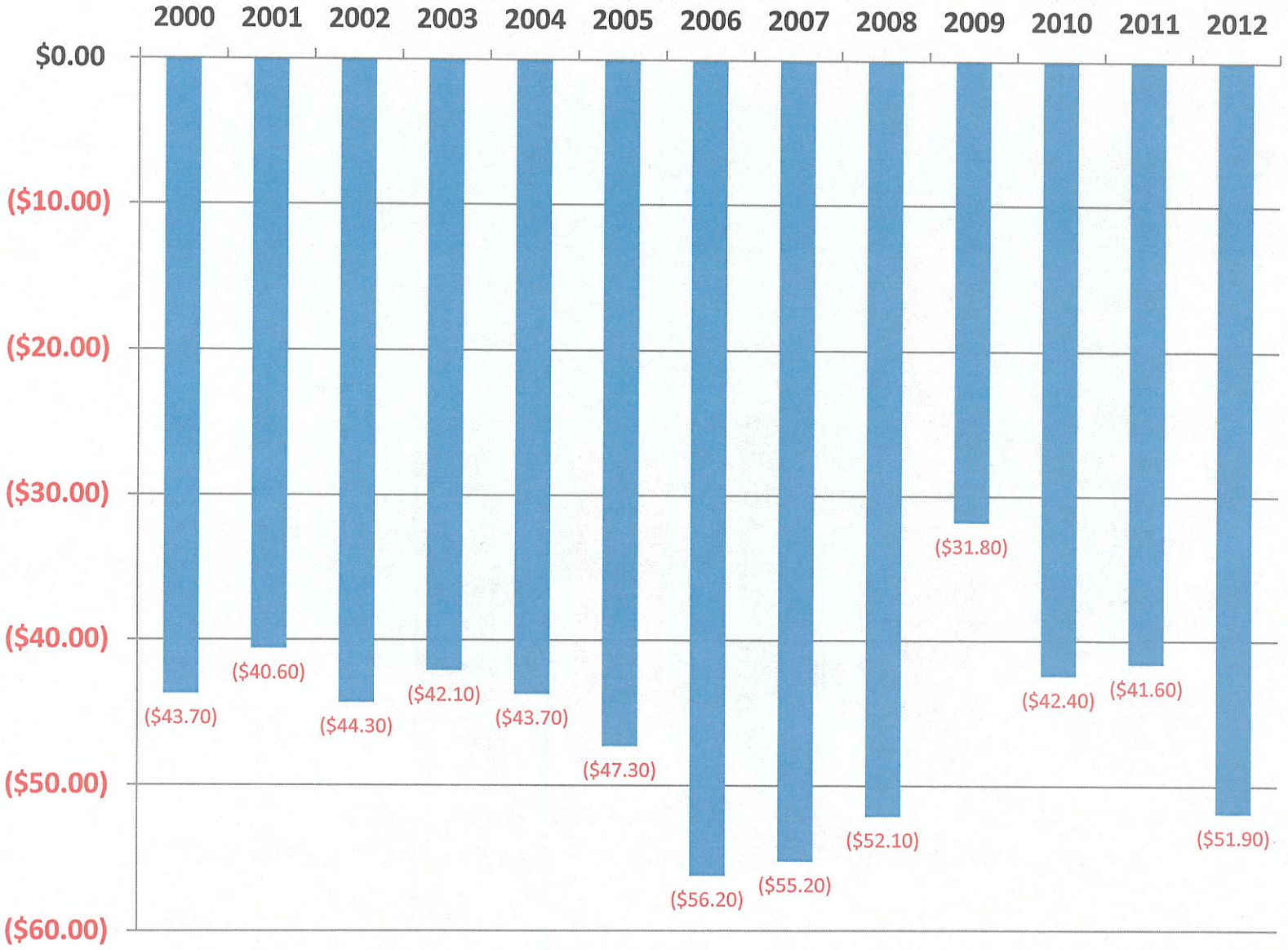
Import Penetration in Developed Markets (2011)

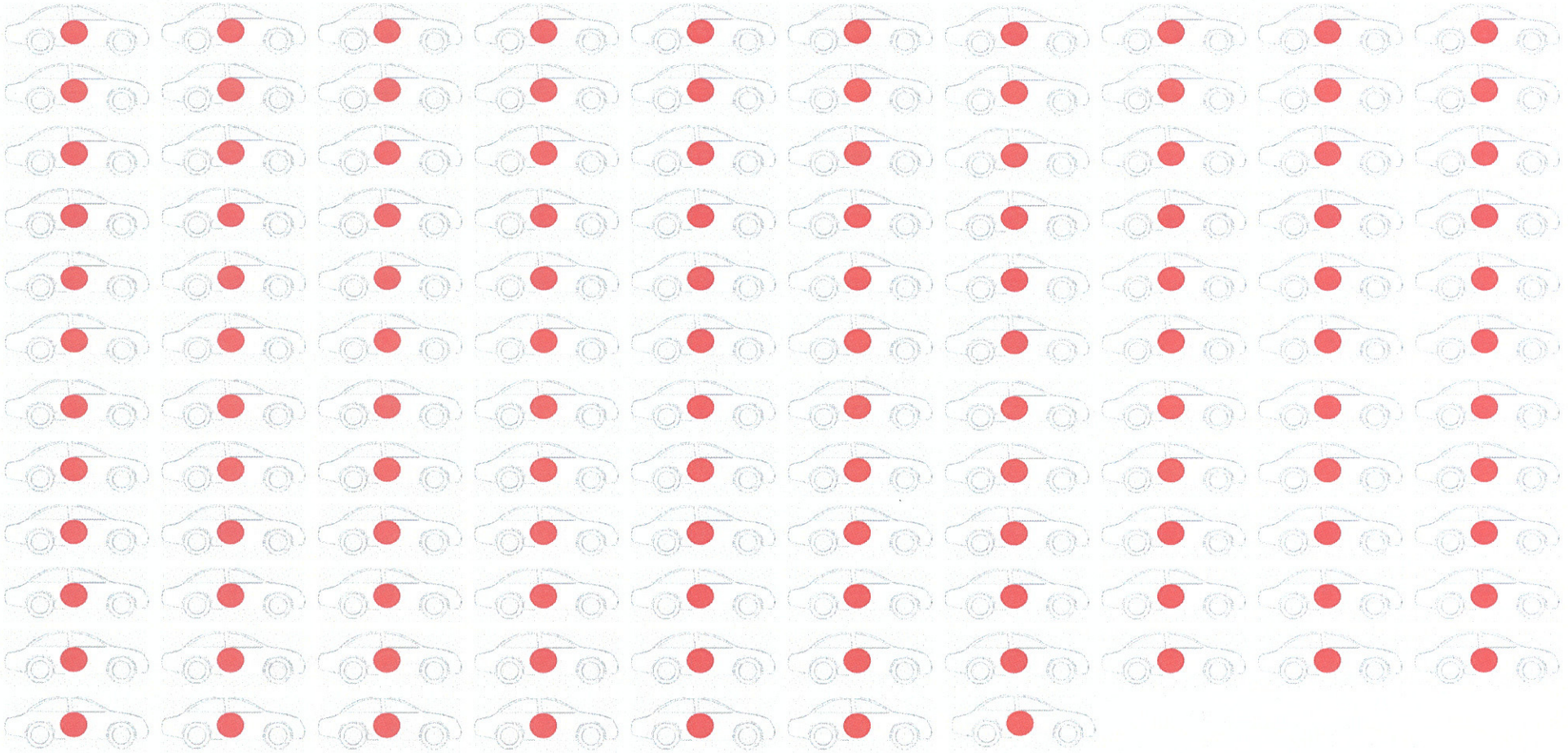


Sources: Various Sources including national auto associations (e.g., VDA, ANFAC, KAMA, KAIDA, JAMA, JAIA, and Ward's Automotive Reports.

U.S Auto Trade Deficit with Japan

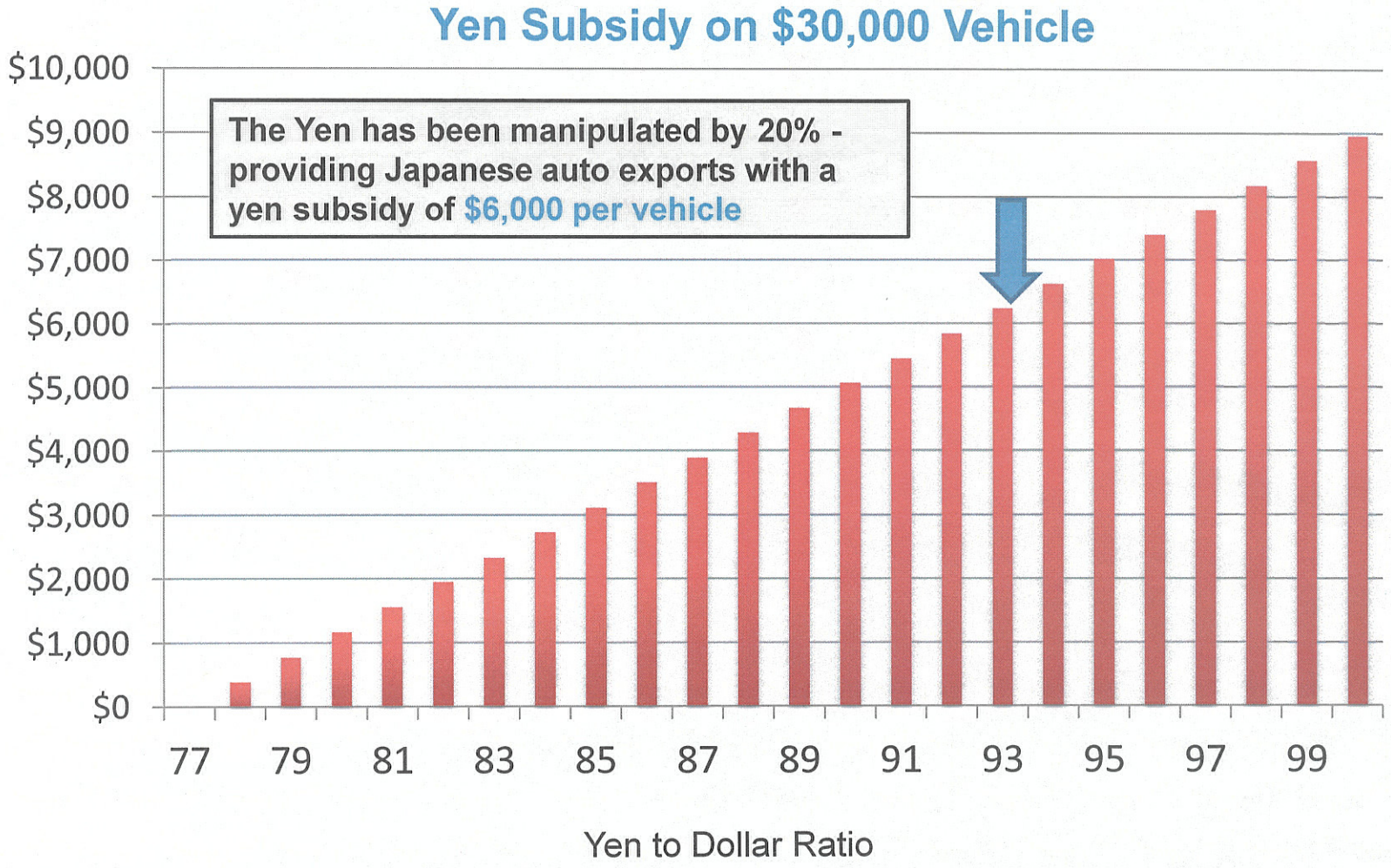
Nearly $600 Billion Since 2000 (Passenger vehicles plus parts, in $billions)





For every 117Japanese cars brought into the U.S., only **ONE AMERICAN CAR** is able to get into the closed Japanese market

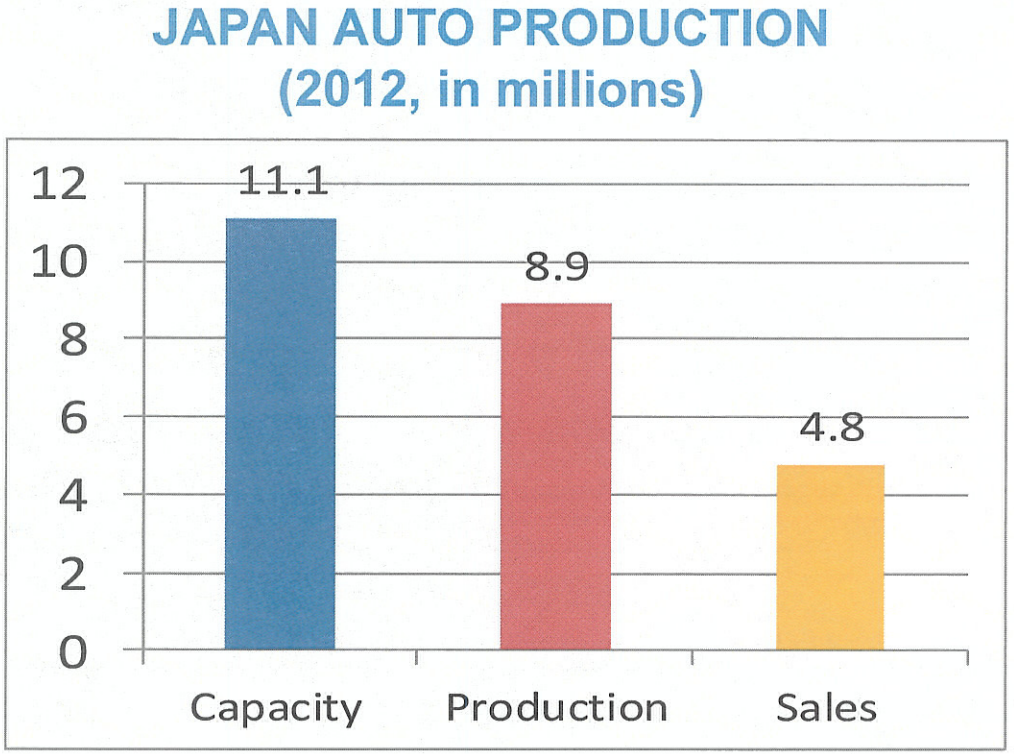
Currency Manipulation Subsidizes Japanese Exports



* Assumes a 77 yen/$ equilibrium rate. Source: Updated Estimates of Fundamental Equilibrium Exchange Rates, Peterson Institute, November 2012.

Why Does Japan Manipulate its Currency?

Because its economy depends substantially on the exports of one or two of its biggest industries including automotive



Source: Global Insight

Currency Manipulation Benefits Japan's OEMs

- **TOYOTA**: *"A one-yen decline against the dollar adds about 35 billion yen **($377 million) to Toyota's operating profit**..."*, the carmaker estimates. Toyota makes about 45 percent of its cars in Japan and has vowed to maintain domestic production of at least 3 million vehicles a year...." – Bloomberg, Feb. 5, 2013

- **HONDA**: *"According to Honda, its operating income gains by 16 billion yen **($172 million) annually for every one-yen drop in the dollar rate..."*** – Bloomberg, Feb. 1, 2013

- **NISSAN**: *"Nissan CEO Carlos Ghosn has said that every one yen gain against the dollar **cuts 20 billion yen ($228 million) from operating profit** and that 100 yen to the dollar is optimal."* – Nissan Report, Jan. 11, 2013

93 yen per dollar represents an annual unearned windfall benefit of more than $6 billion for Toyota; $2.75 billion to Honda; and $3.6 billion to Nissan

•Assumes a 77 yen/$ rate. Source: Updated Estimates of Fundamental Equilibrium Exchange Rates, Peterson Institute, November 2012.

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