



# U.S.-Japan Trade Agreements and Negotiations

The United States and Japan, among the world’s largest economies, are close economic partners. As a top U.S. trade partner, Japan has been a priority for U.S. trade negotiations and regional economic cooperation. The U.S. and Japan do not have a comprehensive bilateral free trade agreement (FTA); the partners have two limited trade deals. The U.S.-Japan Trade Agreement (USJTA) involves tariff reductions and quota expansions to improve market access. The U.S.-Japan Digital Trade Agreement covers rules on the digital aspects of global commerce. The trade deals, which took effect in 2020 without formal action by Congress, constituted what the U.S. and Japanese governments then described as “stage one” of a broader U.S.-Japan trade deal, but further talks did not materialize.

The Biden Administration has prioritized the U.S.-Japan trade relationship through several other initiatives such as the regional Indo-Pacific Economic Framework for Prosperity (IPEF), an initiative that covers selected trade issues but not tariffs or other market access provisions. In 2023, the United States and Japan signed a critical minerals agreement (CMA), which qualified Japan for certain benefits under the U.S. Inflation Reduction Act of 2022 (IRA, P.L. 117-169). The partners also continue to engage on trade issues through initiatives like the U.S.-Japan Partnership on Trade. Key issues for Congress include oversight of implementation and impacts of U.S.-Japan trade agreements, the role of Congress in authorizing such agreements, and prospects for further cooperation.

## U.S.-Japan Economic Ties

Japan is the sixth-largest U.S. trade partner (ranked based on total goods and services trade), largest source of foreign direct investment (FDI) in the United States, and largest holder of U.S. Treasury securities. In 2023, U.S. exports to Japan totaled \$121 billion (\$77 billion in goods, \$44 billion in services). U.S. imports totaled \$184 billion, with goods accounting for the majority (\$149 billion). The stock of U.S. FDI in Japan was valued at \$77 billion in 2022, concentrated in finance and insurance. Japanese FDI stock in the United States in 2022 totaled \$712 billion, with the largest share in manufacturing. Majority-owned U.S.-based affiliates of Japanese multinational firms employed nearly one million U.S. workers in 2021 (latest data).

The size of the U.S. goods trade deficit with Japan has at times been a source of tension, with some observers arguing that historically the imbalance stems in part from various nontariff barriers in the Japanese market and the weak yen. Such concerns arguably peaked in the 1980s and 1990s, dissipating in recent decades in the face of Japan’s domestic economic challenges, Japanese investment in the United States, and a shift in U.S. focus to concerns over trade with the People’s Republic of China (PRC or China).

Figure 1. Top U.S. Trade Partners, 2023

	U.S. IMPORTS	U.S. EXPORTS	
Canada	481	433	
Mexico	528	366	
China	448	195	
Germany	205	118	Goods and Services;
UK	146	161	
Japan	184	121	U.S. \$ billions

Source: CRS with data from Bureau of Economic Analysis (BEA).

## Japan’s FTAs with Other Major Markets

In recent years, Japan has concluded several major FTAs that exclude the United States, with implications for U.S. stakeholders. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) took shape among Japan and the 10 remaining members of the proposed TPP after President Trump withdrew the U.S. signature from TPP in 2017. At the time, many stakeholders viewed TPP as essentially a U.S.-Japan FTA. Japan has urged the Biden Administration to consider joining CPTPP. The European Union (EU) and Japan also entered into a bilateral FTA in 2019. The 2022 Regional Comprehensive Economic Partnership (RCEP) lowers some trade barriers and streamlines rules among Japan and 14 Asian countries, including China. U.S. exporters have raised concerns that Japan’s reduced tariffs and nontariff barriers on imports from CPTPP, EU, and RCEP countries may undermine U.S. export competitiveness—Japan’s tariff reductions for agriculture in the USJTA help alleviate some concerns (see below). New rules in the FTAs have also led to concerns that they may not reflect U.S. priorities. CPTPP suspended 22 provisions, largely U.S. priorities, from the original TPP text (see CRS In Focus IF12078.)

## 2020 Trade Agreements

The U.S.-Japan agreements cover some bilateral trade in industrial goods and agriculture, and rules on digital trade. The Trump Administration’s decision to pursue limited-scope agreements with Japan differed from past U.S. FTA practice, which typically involved one comprehensive negotiation. Members of Congress and U.S. stakeholders generally supported the agreements, while advocating for a more comprehensive trade deal. (See CRS Report R46140.)

**U.S.-Japan Trade Agreement.** USJTA tariff commitments cover about 5% of bilateral trade. The United States agreed to reduce or eliminate 241 tariff lines on mostly industrial goods (e.g., machine tools, fasteners, steam turbines, bicycles and parts, musical instruments). The United States also expanded its global tariff-rate quota for beef imports. Japan agreed to reduce or eliminate tariffs on about 600 agricultural tariff lines (e.g., beef, pork, cheese), and expand tariff-rate quotas for some U.S. products (e.g., wheat). Opening Japan’s highly-protected agriculture market and reaching parity with exporters from Japan’s

FTA partners has been a priority for the U.S. agriculture sector. While U.S. industry generally supported the USJTA, some sectors (e.g., dairy, rice) had concerns over the lack of new market access or rules on issues like sanitary and phytosanitary measures. The Trump Administration used delegated tariff authorities in the 2015 Trade Promotion Authority (now expired) to proclaim the USJTA provisions.

**U.S.-Japan Digital Trade Agreement.** Digital trade is an area in which the two countries have had broadly similar goals and approaches, although the U.S. position has shifted in the past year (see “Regional IPEF”). U.S. trade officials who negotiated the deal called it “comprehensive and high standard,” in line with similar provisions in the 2020 U.S.-Mexico-Canada Agreement. Provisions include requiring non-discriminatory treatment, prohibiting certain data localization measures, ensuring cross-border data flows, and protecting against forced disclosure of source code and algorithms as conditions of market access. The Trump Administration treated the U.S.-Japan deal, which did not require changes to U.S. law, as an executive agreement.

## Regional IPEF

The Biden Administration characterizes IPEF as central to its economic strategy in the Indo-Pacific, and pursued the initiative amid concerns that the United States has lacked a robust trade agenda after withdrawing from TPP. Japan and other IPEF partners have welcomed U.S. engagement, but also voiced concerns about IPEF’s potential to deepen economic linkages. IPEF involves four “pillars,” covering trade, supply chains, clean energy and infrastructure, and fair economy practices. To date, IPEF partners have reached agreements in all pillars except for the trade pillar. Trade talks stalled over differences among IPEF partners and among U.S. policymakers and stakeholders over provisions on the digital economy, labor, and environment. U.S. trade officials paused IPEF digital trade talks, citing the need for internal consultations on the U.S. approach. U.S. industry generally viewed the digital economy as a promising and critical issue for IPEF, in part given the groundwork laid in agreements like the U.S.-Japan Digital Trade Agreement. (See CRS In Focus IF12373.)

## U.S.-Japan CMA

Cooperation on supply chain resiliency and diversification has been a key U.S.-Japan economic priority. Against this backdrop, in March 2023, the partners signed a CMA covering five minerals related to the production of batteries for electric vehicles (EVs). The CMA does not change U.S. law or tariffs, and does not include other market access provisions. The CMA was motivated by concerns of the Japanese government and firms over requirements for EV tax credits under the IRA. The Biden Administration said that Japan qualifies as an “FTA partner” for the purposes of meeting IRA critical minerals sourcing requirements, based on the CMA and the broader U.S.-Japan trade relationship. While Japan is not a large source of mined critical minerals, it possesses related capabilities, including mineral processing and EV battery production. IRA provisions were motivated in part by U.S. policymaker concerns over U.S. dependence on China for EV batteries and critical minerals. (See CRS In Focus IF12517.)

## Select Bilateral Trade Issues

Major aspects of the U.S.-Japan trade relationship have not been addressed in trade negotiations to date and would likely be a priority of either side in any future talks.

**Motor Vehicles.** Trade in motor vehicles is a long-standing area of bilateral tension. Vehicles and auto parts account for around 30% by value of U.S. imports from Japan (\$54.5 billion in 2023), and a key goal for Japan is to reduce U.S. passenger vehicle and light truck tariffs (2.5% and 25%, respectively). Japan has no auto tariffs but imports relatively few U.S.-made vehicles or parts (\$2.6 billion in 2023). Japan argues that this reflects U.S. producers’ failure to cater to Japanese tastes; U.S. industry argues low exports stem from nontariff barriers, including discriminatory regulatory treatment, which was a U.S. focus in TPP talks. While Japan buys few U.S. cars, Japanese FDI in U.S. auto production facilities is sizable. Prior to USJTA talks, the Trump Administration considered imposing tariffs on Japanese auto imports based on national security-related authorities. The threat was a motivation for Japan to enter into bilateral talks resulting in the 2020 trade agreements.

**Services.** The United States has a services trade surplus with Japan, a major market for U.S. service providers (e.g., insurance). Historically, U.S. firms have found it difficult to enter segments of the Japanese market, arguing for example that Japan gives preferential treatment to insurance and express delivery subsidiaries of Japan Post, the state-owned postal service and one of Japan’s largest banks and insurers. Some TPP provisions were designed to address such concerns.

## Issues for Congress

Some Members of Congress and industry groups continue to push for a comprehensive FTA with Japan. The 2020 trade deals, 2023 CMA, and IPEF talks involving the two partners raise several questions for Congress, including:

- What role should Congress play in limited trade deals?
- How have the 2020 U.S.-Japan trade agreements affected U.S. firms’ competitiveness in the Japanese market and what Japanese barriers remain a challenge? Has the deferment of talks toward a comprehensive FTA affected U.S. economic interests?
- How will IPEF address U.S. trade issues with Japan? If IPEF partners move forward with digital trade discussions, will talks build on or depart from provisions of the U.S.-Japan Digital Trade Agreement?
- How does Japan view IPEF in relation to other regional trade initiatives, including CPTPP and RCEP?
- Should the United States consider participation in CPTPP or other regional deals to address bilateral trade concerns and, more broadly, promote U.S.-Japan trade and economic leadership in the region?
- What are the opportunities and challenges for the U.S. and Japan to advance efforts to diversify supply chains?

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