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# Tariff threats show the limits of personal diplomacy

## Key takeaways

- With the Trump administration's announcement of new tariffs on steel and aluminum and automobiles, as well as wide-reaching reciprocal tariffs, the Ishiba government is scrambling to assess and mitigate the impact on Japanese companies.
- These moves, coming immediately after Prime Minister Ishiba Shigeru's visit to Washington, show that the Ishiba government's leverage may be limited, forcing it to forego retaliatory measures and seek negotiations with Washington to avoid any spillovers into security cooperation.

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Prime Minister Ishiba Shigeru's honeymoon with US President Donald Trump proved to be short-lived as the Trump administration, less than a week after Ishiba visited the White House, began rolling out new trade policies including new steel and aluminum tariffs, a wide-reaching "reciprocal tariff" program, and new automobile tariffs as it seeks to reduce bilateral trade deficits with major US trading partners. The Trump administration's moves in the immediate aftermath of Ishiba's visit are a potent illustration of the reality that, however positive the optics of the meeting were, the influence of the Japanese government on the Trump administration's policies may be limited, a lesson that the late Abe Shinzō learned too, when the threat of automobile tariffs forced his government to enter bilateral trade talks it had hoped to avoid.

As Trump hinted during the summit last week, Japan would not be excluded from the reciprocal tariffs, given its USD 57bn trade surplus with the United States in 2024. While at first glance it appeared that reciprocal tariffs might have a limited impact on Japan – according to Japanese government data, Japan has an average applied tariff rate of 3.9% compared with 3.3% for the United States, with much of the difference due to high tariffs for sensitive agricultural products – the White House has stressed that the policy review will also take into consideration tax policies (including value-added taxes), non-tariff barriers, and exchange rate policies as they determine how to “reciprocate” its trading partners’ trade barriers.

By their very nature, non-tariff barriers are less visible and harder to measure. The US Trade Representative’s 2024 report on foreign trade barriers describes a range of policies and regulations – in sectors including agriculture, automobiles, telecommunications, and pharmaceuticals, as well as legal, educational, and insurance services – that disadvantage US goods and services exports to Japan. The Trump administration’s threat is not the first time the US government has targeted Japan’s non-tariff barriers; US trade negotiators have long sought to dismantle these barriers, particularly what it views as particularly onerous barriers to US automobile exports. Whether they will be more successful remains to be seen.

Notwithstanding the threat of new US trade barriers, Japan, in contrast to the European Union and other US trading partners, will likely avoid retaliatory measures as the Ishiba government looks to limit the potential for trade friction to spill over into the bilateral security relationship. The Ishiba government has, however, indicated that they have already reached out to regarding exemptions from the steel and aluminum tariffs as well as for more details on what to expect from reciprocal tariffs and perhaps to open negotiations to avoid them. Trump’s announcement on 14 February that new automobile tariffs could be introduced on 2 April will undoubtedly add another wrinkle to bilateral talks. In addition to opening talks with the US, the Japanese government will use other policy tools to limit the impact on its exporters, whether by tapping the Nippon Export and Investment Insurance (NEXI) corporation, which it has said it will do for exporters impacted by new US steel and aluminum tariffs, or use fiscal measures to cushion the impact, which past governments have done.

Meanwhile, the Trump administration’s reciprocal tariff process may also give an additional boost to a bilateral exchange rate talks between the US and Japan. There have been signs that the two governments may be exploring a bilateral arrangement to strengthen the yen and weaken the dollar. Neither Ishiba nor Trump discussed currencies in their public briefings during last week’s summit, but following the leaders’ summit, Ishiba paid a short visit with Treasury Secretary Scott Bessent, the short readout of which noted that Ishiba expressed his wishes that Bessent “continue to collaborate closely” with Japanese Finance Minister Katō Katsunobu regarding exchange rates. Bessent has already had initial calls with Katō and Bank of Japan (BOJ) Governor Ueda Kazuo, and he could have the opportunity to speak with both again at the G20 Finance Ministers and Central Bank Governors meeting in Cape Town on 26-27 February. There is likely an opportunity for some sort of bilateral arrangement, since the Trump administration wants to support US exporters and the Ishiba government wants to give Japanese households relief from higher inflation, though a purely bilateral arrangement could face an uphill battle in the face of the broader impact of the Trump administration’s economic program on the outlook for inflation, interest rates, and exchange rates.