

Issue Brief for Congress

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Japan-U.S. Relations: Issues for the 107th Congress

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Japan-U.S. Relations: Issues for Congress

SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. Although the Bush Administration came into office with an avowed determination to promote closer alliance relations, the failure of the government headed by Prime Minister Junichiro Koizumi's inability to overcome economic stagnation that has lasted more than a decade has started to lower U.S. regard for a country which still remains an important military ally.

U.S.-Japan relations are of concern to Members and Committees with responsibilities or interests in trade and international finance and economics, U.S. foreign policy, ballistic missile defense (BMD), and regional security issues. The latter include North Korean nuclear and missile proliferation, China's emergence as a potential U.S. military adversary, and U.S. military bases in Japan, whose importance has been underscored once again by their role in facilitating the operations of U.S. forces in Afghanistan.

In October 2001 the Koizumi government gained parliamentary passage in October 2001 of legislation permitting the despatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. This was achieved despite constitutional objections from both within and outside of the ruling Liberal Democratic Party (LDP)-led coalition. Because of a constitutional ban on military action not strictly for self-defense, Japanese ships and aircraft were restricted to non-combat support.

Due to its own concerns about North

Korean ballistic missiles and a rising China, Tokyo has started to bolster its self-defense capabilities even as it increases cooperation with the United States under revised defense cooperation guidelines agreed to in September 1997. Japan is also participating in joint research and development of a ballistic missile defense capability, but has not made a decision about acquisition or deployment.

The large and long-standing U.S. trade deficit with Japan has been a perennial source of friction. The deficit reached a record \$81.3 billion in 2000, but dropped sharply to \$69 billion in 2001 because of a shrinking Japanese economy (-0.5% GDP growth in 2001) and the U.S. economic slowdown.

Congress has reacted critically to alleged steel dumping by Japan, and the 106th Congress enacted legislation assigning countervailing duty and antidumping receipts to firms that have been injured by dumped and subsidized imports.

The Bush Administration has paid somewhat less attention to the trade deficit than did the Clinton Administration, while issuing increasingly pointed requests that Japan deal vigorously with its huge problem of bad bank loans, which are a drag on the economy, and follow-through on structural reforms. However, on March 5 the Administration imposed additional "safeguards" tariffs on certain steel imports from Japan and a number of other countries under Section 201 of U.S. Trade Law, on grounds that a surge in imports has damaged or has the potential to damage U.S. firms. Japan promptly filed a request with the World Trade Organization (WTO) for consultations with the United States over the decision, the initial step in filing a WTO complaint.

MOST RECENT DEVELOPMENTS

On September 17, 2002, Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il held a one-day summit in Pyongyang. At the meeting, the first ever between the leaders of the two countries, Koizumi and Kim appeared to break longstanding stalemates in several issues and agreed to restart bilateral normalization talks in October, despite Kim's surprise revelation that 8 of 14 Japanese citizens kidnapped by North Korean agents in the 1970s and 1980s are dead. The summit boosted Koizumi's public approval by more than 20%, to over the 60% level, giving the Prime Minister a new burst of political adrenalin.

In mid-September the Bank of Japan surprised the markets and the public by announcing a plan to use central bank funds to buy up stocks held by banks whose fallen value threatened the bank's balance sheets. Subsequent reports cast doubt on how extensive the purchases would be, and under what terms, but the move represented a significant policy reversal. At the end of the month, after returning from Pyongyang, Koizumi replaced the head of the Financial Services Agency (FSA), which has responsibility for overseeing the resolution of the bad loan problem, with the current Minister of State for Economic and Financial Affairs, Heizo Takenaka, a former academic who has argued for more radical approaches to dealing with the bad loan problem. Koizumi also pledged to "bring an end" to the banking system's non-performing loan problem by 2005. Japanese banks and their allies in the LDP and the economic bureaucracy are expected to resist Koizumi's plans. Observers appeared confused as to whether they should regard the two developments as indicators of Japanese government concern about further weakness of the financial system or a greater commitment to reform. At the G-7 meeting in Washington during September 27-28, Japan's finance minister seemed himself to be uncertain about what the developments portended, to the reported annoyance of U.S. Treasury Secretary O'Neill and other officials.

Regarding trade matters, on August 23, the Japanese Foreign Trade Ministry announced that it would not retaliate against U.S. section 201 measures on steel imports, defusing what was potentially a very contentious issue in U.S.-Japan trade relations. Japanese Foreign Trade Minister Takeo Hiranuma pointed to exclusions of some 40% of Japanese steel exports to the United States from the original section 201 measure as the primary reason for pulling back on retaliation. In an unprecedented move, the Bank of Japan announced on September 18 that it would buy shares of stocks held by Japanese commercial banks in an effort to shore up the latter's balance sheets and to halt the slide in the Japanese stock market. Critics charge that the move reduces the banks' incentive to deal with non-performing loans and to undertake fundamental restructuring.

BACKGROUND AND ANALYSIS

U.S.-Japan Cooperation and Interdependence

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two

countries have become increasingly interdependent: the United States is by far Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment). The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy.

Japanese leaders and press commentators generally welcomed the election of George W. Bush and indications that the new administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. Following the terrorist attacks of September 11, Japan generally disproved the concerns of some commentators that Japan might not be prepared to respond fully enough or quickly enough to the Bush Administration's bid for closer security cooperation and coordination.

On the other hand, Japanese hopes for a relaxation of U.S. trade and economic policy pressure have been partially disappointed. On June 13, the Japanese government announced that it would delay taking retaliatory action against U.S. steel exports that it had originally indicated it would take by June 18. The action would have been in response to the Bush Administration's March 5 decision to impose additional tariffs on imported selected steel products. The Administration's decision was the result of a Section 201 investigation and the United States International Trade Commission's determination that steel imports seriously injured or threatened to seriously injure U.S. steel producers.

Relations periodically have been strained by differences over trade and economic issues, and, less often, over divergent foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts – with mixed results – to negotiate trade agreements with numerical targets. Although the end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance among both the American and Japanese public, both countries have continued to view their interests as best served by maintaining and even strengthening the U.S.-Japan alliance.

President George W. Bush and Japanese Prime Minister Junichiro Koizumi set the tone for relations at a summit meeting at the Camp David presidential retreat on June 30, 2001. President Bush indicated strong support for the Japanese Prime Minister's economic and financial reform program, while Prime Minister Koizumi pledged to pursue cooperation across a broad front and couched his concerns about the Administration's abandonment of the Kyoto Treaty and its ballistic missile defense program in positive terms.

President Bush visited Tokyo during February 16-19, 2002, as part of an East Asian tour that also included South Korea and China. The President held extensive talks with Prime Minister Koizumi on issues such as alliance relations, cooperation against terrorism, and Japan's continuing economic slump, and addressed a joint session of the Japanese Diet (parliament). The President publicly praised Prime Minister Koizumi's economic reform program, but reportedly spoke bluntly about U.S. concerns in private.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. The New York attacks especially shocked Japan, which had a large

commercial presence in the World Trade Center and adjacent buildings and suffered the loss of more than 20 nationals. Prime Minister Koizumi strongly condemned the attacks and took a number of steps to protect U.S. personnel and assets in Japan and position his country to support the Bush Administration's anti-terrorist campaign, overcoming resistance not only from the opposition Democratic Party (DP) but also from Old Guard rivals in his own Liberal Democratic Party (LDP) and his pacifist-inclined coalition partner, the New Komeito.

On October 30, 2001, the Upper House of the Japanese Diet (parliament) cleared two bills giving unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to protect U.S. bases and sensitive Japanese facilities in peacetime, and enable Japan for the first time to "show the flag" in a non-combat role in support of U.S. and allied military operations in the Indian Ocean area. Legislation valid for a period of two years, and extendable, allows the SDF to provide "rear area" support consisting of intelligence sharing, medical care, fuel and water, and military supplies to U.S. forces in the Indian Ocean. The legislation was implemented in the form of a "Basic Plan" adopted by the Cabinet on November 16, 2001. In an effort to reconcile the terms of Japan's "no-war" constitution with U.S. expectations, Maritime SDF vessels are allowed under the legislation to transport nonlethal supplies to U.S. forces, but not arms and ammunition. Despite these limits, several of the measures are seen by critics as going beyond past interpretations of the constitutional ban on "collective defense" activities.

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, to provide logistical support to U.S. forces there. The first three ships are part of a six- or seven-ship flotilla consisting of four destroyers, two fleet oilers, and a minesweeper (to ferry supplies) that the Japanese government will send to the region under a "basic plan" that has been formulated to respond to U.S. requests for anti-terrorist assistance. The plan, which is limited to a period of one year, also includes the despatch of four Air Self-Defense Forces (ASDF) C-130 transports to carry supplies from the United States as far as Singapore. Naval transport duties will likely involve transporting fuel from Bahrain to the U.S. fleet and from Australia to Diego Garcia. Due to objections from within the ruling coalition, the Koizumi government decided not to send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States had informally requested.

As of late April 2002, all but two of the deployed ships, an oiler and a destroyer, had returned to Japan. However, the Japanese Cabinet decided on May 17, 2002, to extend the life of the Basic Plan until November 17, 2002. Reportedly, the United States has asked informally for the despatch of an Aegis destroyer so that a U.S. Navy Aegis cruiser can rotate into the Persian Gulf in the event of a conflict with Iraq, but consideration was put on hold after accusations were raised that officials in the Japan Maritime Self Defense Force (JMSF) had informally asked U.S. counterparts to make the request. Opposition and ruling party Diet Members have raised objections previously that establishing a wartime data link between U.S. and Japanese ships would violate the current interpretation of the Constitution that "collective security" are unconstitutional. Additionally, the government – as of mid-June 2002 – is seeking Diet approval for three controversial bills giving it broader crisis management and emergency response authority to deal with various situations involving armed attack on Japan or emergency situations in which an attack is anticipated. The prognosis for the legislation remains uncertain.

In regard to economic assistance measures, on November 14 the Japanese government announced an emergency grant of \$300 million to Pakistan covering refugee relief and other needs for a period of two years – a quantum increase over the \$40 million initially committed in October. Japan also has announced that it will contribute \$1 billion to the IMF to fund low interest loans for regional states supporting the U.S.-led anti-terrorist campaign in Afghanistan. Japan joined the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20, and hosted a donors meeting in Tokyo that began on January 21, 2002, at which it pledged \$500 million for reconstruction aid over the next two years. In May 2002 the Japanese government committed about \$187 million in grant aid for three projects being carried out by non-government organizations (NGO) covering well-drilling in Northern Afghanistan, the rehabilitation of a hospital in Kabul, and mechanical mine clearing around Kabul airport.

U.S.-Japan-China Relations. Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China's rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate. Japan's own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan's concerns about China's rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of Japan's past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The Yasukuni complex enshrines the names of Japan's war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy. Recently, Tokyo and Beijing also have engaged in trade confrontation.

Sino-Japanese relations took an upturn as a result of Prime Minister Koizumi's visit to Beijing on October 8, 2001. The agenda included a visit by Koizumi to the Marco Polo Bridge, near Beijing, the site of a manufactured incident that triggered Japan's 1937 invasion of China. During the visit Koizumi conveyed the fullest apology for past wrongs ever delivered by a Japanese Prime Minister. Relations remain strained, however, over military issues, including Japanese concern about fast-rising Chinese defense budgets and Chinese objections to the rising profile of the Japanese Self-Defense Forces.

Diverging Korean Peninsula Priorities? Koizumi's September 17, 2002 trip to Pyongyang was a significant departure from Tokyo's recent stance toward North Korea and potentially puts it at odds with the Bush Administration's hard-line policy. For years, Japanese policymakers sought to move slowly and deliberately on normalizing relations with North Korea, due to North Korea's launching of a long-range Taepodong Missile over Japan in August 1998, Pyongyang's development and deployment of medium-range Nodong missiles capable of reaching Japan, new revelations about kidnappings of Japanese citizens by North Korean agents in the 1970s and 1980s, and incursions by North Korean espionage and drug-running ships into Japanese waters. This cautious approach often created tension between Tokyo and the Clinton Administration, which along with South Korea's Kim Dae Jung followed a policy of engaging North Korea. Japanese officials and commentators from across the political spectrum generally welcomed the Bush Administration's policy of using

public accusations and warnings to pressure North Korea to, among other demands, allow international inspections of its nuclear facilities and agree to verifiable curbs to its missile program, including missile exports. (For more on U.S. policy toward North Korea, see IB98045, *Korea: U.S.-Korean Relations*, by Larry Niksch.)

At Koizumi's summit with Kim Jong-il, the two leaders agreed to restart normalization talks and parallel negotiations on security issues. The talks are due to begin in October. Kim issued an unprecedented admission of and apology for North Korea's kidnapping of 14 Japanese in the 1970s and 1980s. The North Korean government also revealed that 8 of these abductees had died. The kidnapping issue has been, and remains, Japan's top priority in its relations with North Korea. Kim also pledged to unilaterally extend his country's moratorium on missile testing beyond 2003 and issued a vague promise to comply with international agreements related to nuclear issues. Koizumi reportedly raised with Kim a number of other security-related matters that are of particular interest to the United States.

For his part, Koizumi apologized for its colonization of the Korean Peninsula from 1910-1945 and offered to provide North Korea with a large-scale economic aid package, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965. Reportedly, Japanese officials are discussing a package on the order of \$5-\$10 billion. Significantly, Koizumi has said the economic assistance will not begin until after relations are normalized, a process he has linked to progress on the kidnapping issue and the bilateral security talks.

Koizumi's decision to travel to Pyongyang – which was made before consulting the United States – and restart the normalization talks increased the pressure on the Bush Administration to relaunch U.S.-North Korean security negotiations, which had not been held since the Clinton Administration left office. Following his return to Japan, Prime Minister Koizumi publicly urged President Bush to resume a dialogue with North Korea. A week later, the White House announced that it would send a high-level envoy to North Korea in early October. The summit also places Japan squarely in the forefront of diplomatic approaches toward Pyongyang, and potentially reduces the United States' influence over these efforts. If the Japan-North Korea normalization and security talks proceed rapidly, the United States will be forced to coordinate its North Korea policy much more closely with Tokyo than it has in the past.

Kyoto Protocol. Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Japan has signed but not officially ratified, Japan is obligated to reduce its emissions 6% below its 1990 levels. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States would back away from the protocol. On April 18 and 19, 2001, the upper and lower houses of the Japanese Diet adopted resolutions expressing regret at the U.S. action, and calling on Japan to ratify the protocol at an early date. Environmental minister Yoriko Kawaguchi declared on April 27, 2001, that the pact would be “meaningless” without the participation of the United States, the producer of 25% of the world's greenhouse gases.

The Whaling Issue. Members of Congress and Executive branch officials have criticized Japan's decision to continue and expand whaling activities, which it claims are essential for scientific research and support of traditional lifestyles in several coastal communities. In 1986, the International Whaling Commission (IWC) implemented a moratorium on the commercial killing of large whales. Under the provisions of the International Convention for the Regulation of Whaling, Japan subsequently issued permits allowing its whalers to kill several hundred minke whales annually in the Antarctic and northwest Pacific for scientific research. Since the IWC dictates that research be done in a non-wasteful manner, the meat from these whales is sold for human consumption in Japan. Although the IWC has passed several resolutions asking Japan to curtail its research whaling, in 2000 Japan announced that it was expanding its northwest Pacific hunt to also target sperm and Bryde's whales, due to concerns that increasing whale populations might threaten fish harvests. Because the sperm whale is on the U.S. list of endangered species, the Clinton Administration announced restrictions on Japanese fishing in U.S. waters in September 2000. In lieu of additional sanctions, which could have been imposed under U.S. law, the United States and Japan convened a panel of experts to resolve the dispute over Japan's scientific research whaling program. This panel met initially in early November 2000, proposing that the Scientific Committee of the IWC hold a workshop on scientific research on whale feeding habits. On July 26, 2001, the IWC adopted a U.S.-Japan joint proposal for a full-fledged study of what types of fish and in what quantities are eaten by different species of whales. Japan generated additional international criticism in late February 2002 when it notified the IWC that it planned to double its annual take of minke whales in the North Pacific from 50 to 100, and to also take 50 sei whales, which are listed by the United States as an endangered species. (Prepared by Eugene H. Buck, CRS Resources, Science, and Industry Division.)

In May 2002 Japan and the United States clashed at a meeting of the International Whaling Commission in Japan's former whaling port of Shimonoseki. Following a peremptory rejection of a request by Japan to allow the taking of 25 minke whales by what the Japanese described as "aboriginal peoples" in four communities in northern Japan, the Japanese delegation blocked a consensus vote on a U.S.-Russian motion to allow Alaskan Inuit peoples and Indian tribes to continue to kill 61 bowhead and gray whales annually. A revised U.S. plan to allow the taking of 11 bowhead whales for five years by the Inuit failed narrowly to gain the needed three-quarters majority. Japanese officials charged the United States, which has consistently opposed Japanese requests to expand coastal whaling, with reflecting a "double standard," while the leader of the U.S. delegation decried Japan's action as "the most unjust, unkind and unfair vote that was ever taken" by the IWC. In late June 2002, however, Japan reversed its position and offered to support a quota for Alaskan whaling if the United States could schedule an IWC meeting before the end of the year, while also warning that conflict could erupt again if the United States opposed Japanese whaling at the scheduled 2003 meeting.

Claims of Former World War II POWs and Civilian Internees. Congress has also indicated intense interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission

(WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company and their subsidiaries. The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue has received intensified attention in the 107th Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

A number of bills and amendments introduced in the 107th Congress seek to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July 18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. In a move that generated controversy, the provisions were dropped by conferees. The conference report to H.R. 2500 was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77). (See Legislation section, below.) The conference report explains that the provision was dropped because the adamant opposition of the President would have jeopardized the bill, but some Senators expressed reservations, charging that the provision had been the victim of a questionable "parliamentary tactic."

On July 10, 2002, lawyers for the State Department argued in a California appeals court that a 1999 California law which allows victims of World War II forced labor to sue Japanese multinational companies that operate in California should be struck down on grounds that it interfered with U.S. foreign policy. The U.S. government has long maintained that the terms of the 1951 Peace Treaty with Japan bars such claims. (For further background, see CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary K. Reynolds.)

Security Issues

(This section written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory.

Issue of U.S. Bases on Okinawa. Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen.

The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

On July 29, 2002, the Japanese government met with representatives of the Okinawa prefectural government and concerned municipalities and reached consensus on details of a planned dual civil-military facility to replace the Futenma Marine Air Station. The Japanese government has determined that the facility would be constructed offshore by reclaiming land on coral reefs near Camp Schwab, an existing Marine base, and would be 2,500 meters in length. Left unresolved was the demand by the Okinawa prefectural government and local communities that the use of the base by U.S. forces be restricted to a period of 15 years, a limitation that, as noted above, the U.S. government deems unacceptable.

Burden Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

Revised Defense Cooperation Guidelines. President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21st Century. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in “situations in areas surrounding Japan” including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan’s current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan’s role in implementing the 1997 defense guidelines, including crises in “areas surrounding Japan.”

Cooperation on Missile Defense. The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea’s missile program, but China has strongly opposed the program.

Japanese officials, starting with Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. The Japanese government has expressed concern over Secretary of Defense Donald Rumsfeld’s reported efforts to eliminate the distinction between NMD and Theater Missile Defense (TMD). The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control systems designed for the U.S. Navy’s Aegis air defense system, which is seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system. Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability, and have increased funding for expanded participation in the R&D effort. The defense agency also has budgeted for two new destroyers equipped with the Aegis radar and fire control system (the Japanese navy has four at present), including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL31337. *Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects*, by Richard P. Cronin.)

Economic Issues

(This section written by William Cooper)

Despite Japan's long economic slump, trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are bound by merchandise trade, trade in services, and foreign investments.

Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the second largest source for U.S. merchandise imports. Japan also is the United States's largest market for exports of services and the second largest source of services imports. The United States is Japan's most important trading partner for exports and imports of merchandise and services. Japan is the second largest source of foreign direct investment in the United States and the fifth largest target for U.S. foreign direct investment abroad; the United States is Japan's largest source of foreign direct investment and its largest target of foreign direct investment abroad.

Because of the significance of the U.S. and Japanese economies to one another, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5% but *declined* 0.5% in 2001. However, during the first quarter 2002, the GDP increased 1.4% (5.7% on an annualized basis) leading Prime Minister Koizumi to tell President Bush on June 26 that the Japanese economy was showing signs of recovery. Independent analysts remain skeptical of the long-term prospects for the Japanese economy given other indicators showing weakness including declining business investment and an unemployment rate of 5.4% in May 2002. (For more information on Japan's economic problems, see CRS Report RL30176, *Japan's "Economic Miracle": What Happened?.*)

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One factor has been the bursting of the economic "bubble" in the early 1990s, which saw the value of land and other assets collapse. The bursting of the asset bubble led to the collapse of Japan's banking sector and to persistent deflation, both of which have dampened domestic demand. Analysts have also pointed to ineffective fiscal and monetary policies and to structural economic problems as impediments to a full economic recovery in Japan.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced a multipoint economic reform plan in June 2001. The plan included not only steps to deal with bad loans, but also with the reforming fiscal policies, restructuring Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments for several years that would be painful but would put Japan on course for economic growth in the long-term. However, the Koizumi government later appeared to be retrenching. For example, recent official announcements on government spending indicate that the government will likely exceed its self-imposed 30 trillion yen ceiling on new government debt. Banking

reform also remains a problem. On March 29, 2002, the Koizumi government announced a package of new deregulation reforms with an emphasis the social sphere— medical care, education, labor and public services. The reforms are to be implemented over a three-year period. In an unprecedented move, the Bank of Japan announced on September 18 that it would buy shares of stocks held by Japanese commercial banks in an effort to shore up the latter's balance sheets and to halt the slide in the Japanese stock market. Critics charge that the move reduces the banks' incentive to deal with non-performing loans and to undertake fundamental restructuring.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy, and the deficit has continued to shrink in 2002.

Table 1. U.S. Trade with Japan, 1996-2002
(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0
2001*	35.6	76.1	-40.5
2002*	29.9	68.7	-38.9

*Jan.-July data.

Source: U.S. Department of Commerce, Bureau of the Census. FT900. Exports are total exports valued on a f.a.s .basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete.

The 107th Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws. In the meantime, the Bush Administration submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitutes a substantial cause or threat of "serious injury" to the U.S. industry under the section 201 (escape clause) statute on June 22, 2001. On December 20, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan. On March 5, President Bush announced that the government would impose higher tariffs on imports of selected steel products. On March 6, the Japanese government called the decision regrettable. On March 20, Prime Minister Koizumi's government requested formal

consultations with the United States through the WTO, stating that the U.S. action was not in compliance with WTO rules and that the problems of the U.S. steel industry were due to its lack of international competitiveness and not imports. The Japanese government threatened to impose retaliatory tariffs on U.S. steel exports worth \$5 million by June 18. However, on June 13, the government announced it would delay action. On August 23 the Japanese Foreign Trade Ministry announced that it would not retaliate against U.S. section 201 measures against on steel imports, defusing what was potentially a very contentious issue in U.S.-Japan trade relations. Japanese Foreign Trade Minister Takeo Hiranuma pointed to exclusions of some 40% of Japanese steel exports to the United States from the original section 201 measure as the primary reason for pulling back on retaliation.

The United States and Japan have agreed to discuss problems in auto trade under a new framework. The United States has also been pressuring Japan to reform government regulations of key industries, such as telecommunications, in order to stimulate long-term economic growth and increase market opportunities for U.S. exporters and investors.

At their June 30, 2001 summit at Camp David, President Bush and Prime Minister Koizumi agreed to establish a sub-cabinet level forum – the “U.S.-Japan Economic Partnership for Growth” – to discuss economic issues of mutual concern, such as overall economic policies and deregulation, and persistent sector-specific concerns including autos and autoparts, insurance, and flat-glass. The forum includes business representatives and other non-government experts as well as government officials.

Japanese Political Developments

(This section written by Mark Manyin)

Current Situation. In the weeks after his unconventional rise to power in April 2001, the extraordinary popularity of Prime Minister Junichiro Koizumi helped propel the ruling coalition dominated by the Liberal Democratic Party (LDP) to significant victories in two parliamentary elections. The key to Koizumi’s popularity was his appeal to independent voters, who constitute a majority of the Japanese electorate and tend to back reformist politicians. As Prime Minister, Koizumi has attempted to seize the machinery of government away from the factions that have long dominated the LDP. Lacking a strong base within the LDP, Koizumi’s popularity is one of the few weapons he wields against the “old guard” that are strongholds of the “old economy” interests most threatened by Koizumi’s agenda. To date, these groups generally have been successful in watering down most of his economic reforms. Another factor that has helped keep Koizumi in power is the absence of any politicians in the LDP or in Japan’s opposition parties who have the political strength to replace Koizumi in the near future.

For most of 2001, Koizumi’s public approval rating remained well over the 70% level despite Japan’s worsening economic situation. Koizumi’s popularity plummeted below the 40% level in the spring and summer of 2002, however, when a series of events appeared to indicate that he had bowed to the wishes of the LDP’s powerful old guard factions. Most significantly, Koizumi dismissed the gaffe-prone but highly popular Foreign Minister, Makiko Tanaka, who was popular for attempting to reform the scandal-plagued Foreign Ministry and her frequent criticisms of the LDP’s decision-making system. Koizumi’s standing was further damaged by a series of corruption scandals among LDP leaders. The

2002 session of the country's parliament (the Diet) ended without passing most of Koizumi's major economic and security reform measures.

Koizumi's September 17, 2002 summit with North Korean leader Kim Jong-il has boosted his approval ratings back over the 60% level, a development that appears to have given the Prime Minister a new burst of political adrenalin. Two weeks after the summit, he unveiled a new initiative to "bring an end" to the banking system's non-performing loan problem by 2005 and carried out a widely anticipated cabinet reshuffle that included the appointment of reformer Heizo Takenaka, a university professor, as Financial Services Minister. Takenaka already held the Economy Minister portfolio, a position he will retain. Japanese banks and their allies in the LDP and the economic bureaucracy are expected to resist Koizumi's plans.

Background - The Political System's Inertia. Despite over a decade of economic stagnation, or negative growth, Japan's political system – indeed, many of Japan's economic policies – have remained fundamentally unchanged. What accounts for this striking inertia? Three features of Japan's political system give vested interests an inordinate amount of power in Japan: the extreme compartmentalization of policy-making; the factional divisions of the Liberal Democratic Party; and the weakness of the opposition parties. Many of Koizumi's farthest-reaching reforms actually are attempts to alter the first and second of these characteristics.

The Compartmentalization of Policy-Making. To a striking degree, Japan's policymaking process tends to be heavily compartmentalized. Policy debates typically are confined to sector-specific, self-contained policy arenas that are defined by the jurisdictional boundaries of a specific ministry. Each policy community stretches vertically between bureaucrats, LDP policy experts, interest groups, and academic experts. Unlike in most industrialized societies, each policy arena in Japan is so self-contained that cross-sectoral, horizontal coalitions among interest groups rarely form. One reason for this is that bureaucrats are paramount in most of Japan's policy compartments. Only in matters involving highly politicized industries such as agriculture and security policy have politicians and interest groups become significant players in the policymaking process. Even in these areas, responsibility for carving out the details of policy still rests with the bureaucrats, in part because Japanese politicians often only have a handful of staffers to assist them.

Furthermore, the LDP's policymaking organ, the Policy Affairs Research Council (PARC), itself is segmented into specialist caucuses (often called "tribes" or *zoku*), so that competing interests – such as protectionist farmers and export industries – rarely face off inside the LDP. For this reason, the LDP often finds it difficult to make trade-offs among its various constituencies. The result is often paralysis or incremental changes at the margins of policy. Koizumi has attempted – thus far with limited success – to change this by centralizing more power in the Prime Minister's office, at the expense of the PARC and the bureaucracies.

The Factional Nature of the Liberal Democratic Party. The LDP has been the dominant political force in Japan since its formation in 1955. It is not a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically have been filled not on the basis of merit or policy principles but rather

with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. Because the LDP president (who *de facto* becomes Japan's prime minister) is not the true leader of the party, he often lacks the power to resolve divisive intra-party disputes or even to set the party's agenda.

For over two decades, the LDP's dominant faction has been the one founded by former Prime Minister Kakuei Tanaka in the 1970s. It is currently headed by former Prime Minister Ryutaro Hashimoto, who in April 2001 was surprisingly defeated by Koizumi in the selection for LDP President due to an unprecedented revolt by reformist party members. Coinciding with his selection as LDP President, Koizumi bucked party tradition first by resigning from his own faction and then by giving the anti-reformist Hashimoto group only one Cabinet post. Koizumi similarly disregarded the Hashimoto and other anti-reformist factions in his September 30, 2002 cabinet reshuffle.

One result of the LDP's opaque, top-down decision-making structure is that it has been slow to adapt to changes in Japanese society. The LDP has coddled many of Japan's declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party's political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP's top leaders have been implicated in various kickback scandals. Compounding the problem is that Japan's electoral districting system overweights rural voters compared with more reformist-minded urbanites; each rural vote is worth an estimated 2 urban votes.

Over the past decade, a bloc of independent voters – who now constitute a majority of the voting population – has arisen opposing the LDP's "business as usual" political system. Urban, younger, and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform (although when pressed, many of these same voters oppose specific structural – and potentially painful – economic reforms). Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

The rise of unaffiliated voters helps explain the LDP's steadily declining strength in the Diet (the Japanese parliament) over the past decade. Since it was briefly ousted from power in 1993 and 1994, the LDP's lack of a majority in both houses of the Diet has forced it to retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party. In October 2001, victories in bi-elections gave the LDP its first majority in the 480-seat Lower House in years. However, the party still lacks a majority in the less powerful Upper House. It therefore continues to depend on its two coalition partners to be assured that legislation will pass, making radical policies that much more difficult to adopt.

The Weakness of the Opposition Democratic Party of Japan (DPJ). Koizumi's declining popularity has given new life to the DPJ, which for months had been on the defensive. Until Koizumi's rise to power in April, the DPJ had been expected to do well in the July 2001 Upper House elections, in which it ultimately gained three seats. In contrast, the DPJ had scored significant gains during Lower House elections in 2000, when the party increased its strength from 95 to 127 seats, largely due to the support of

independent urban voters. The DPJ, which describes itself as “centrist,” is led by Yukio Hatoyama, a former LDP politician whom most analysts consider to be a standard bearer lacking the charisma and outspokenness sought by many Japanese independent voters. The DPJ was formed in April 1998 as a merger among four smaller parties. This amalgamation has led to considerable internal contradictions, primarily between the party’s hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent alternative policies to the LDP, which perhaps explains why the DPJ’s approval ratings have rarely surpassed 20%. Some commentators have speculated that Koizumi may attempt to realign the Japanese political scene by bolting from the LDP and allying with the DPJ’s more conservative wing, led by Hatoyama. In September 2002, Hatoyama was narrowly reelected party president, barely beating left-of-center DPJ Secretary General Naoto Kan, who resigned his position following the vote. The campaign highlighted the inter-generational rift between the party’s older and younger members.

U.S. Policy Approaches

(This section written by Richard Cronin)

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

Members of Congress, the Executive branch, and the wider public broadly agree across party, ideological, and interest group lines on the need for Japan to fix its current economic problems and further open its markets, while maintaining Japanese support for U.S. international political and regional security policies, but they differ over what priorities to assign to U.S. objectives and over how best to influence Japanese policies. Currently, two schools of thought regarding U.S. approaches to Japan appear to have the most adherents. Neither of them fully approximates present U.S. policy, but elements of both can be discerned in an ongoing, low profile internal policy debate.

1) Emphasize Alliance Cooperation. The Bush Administration has favored emphasizing the overall U.S.-Japan relationship more than in the first Clinton Administration, when highly confrontational approaches to reducing Japanese trade barriers were given highest priority. This approach seemed validated by Japan’s cooperative response to the September 11, 2001 terrorist attacks, but its continuing economic problems have limited its wider international role. Proponents of this approach tend to see threats to regional stability such as a rising China and threats to peace and stability on the Korean peninsula as warranting special efforts to consolidate and expand the U.S.-Japan security relationship. Some also argue that little more can be expected from new market-opening initiatives, since the most serious issues have already been tackled and real future progress can only come from basic structural reforms that Japan needs to carry out anyway to resuscitate its economy.

2) Emphasize U.S. Trade and Economic Objectives. A second approach would place renewed emphasis on the promotion of U.S. trade and economic objectives, but most especially the goal of putting more pressure on Japan to adopt policies that have the best chance of revitalizing the stagnant Japanese economy. This perspective would rely on pragmatism and mutual national self interest to sustain political and security ties. Many, especially Members of Congress from steel producing regions, would also apply the full panoply of U.S. trade law and legislate other measures to address specific problem areas. Advocates of this approach tend to assume that Japan's security policies will be governed by practical national self-interest calculations that are independent of the state of U.S.-Japan trade and economic relations. This approach is predicated on the assumption that the United States and Japan would still have many common security interests, including the goals of counterbalancing rising Chinese power and otherwise maintaining regional peace and stability, regardless of any trade friction that the approach would generate.

LEGISLATION

H.Amdt. 188 (A022) (Rohrabacker)

Amends H.R. 2500. An amendment to prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. Agreed to by recorded vote: 395-33 (Roll no. 243), July 18, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law on November 28 (P.L. 107-77).

H.R. 2835 (Cox)

To authorize the payment of compensation to members of the Armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the House Committees on Veterans; Ways and Means; and Judiciary, October 31, 2001.

S.Amdt. 1538

Amends H.R. 2500. To provide protection to American Servicemen who were used in World War II as slave labor. Motion to table, September 10, 2001, rejected in Senate by yea-nay vote of 34-58; recorded vote number: 276. Adopted by voice vote, September 10, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15. Signed into law on November 28, 2001 (P.L. 107-77).

S. 1272 (Hatch)

A bill to assist United States veterans who were treated as slave laborers while held as prisoners of war by Japan during World War II, and for other purposes. Introduced, read twice, and referred to the Committee on Veterans' Affairs on July 31, 2001. Referred to the Committee on the Judiciary by unanimous consent, June 18, 2002.