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Japan-U.S. Relations: Issues for Congress

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CONTENTS

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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 to overcome economic stagnation that has lasted more than a decade has started to lower U.S. regard for a country which otherwise remains an important military ally.

U.S.-Japan relations concern 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. The latter include North Korea's nuclear and missile proliferation and China's potential emergence as the dominant regional military power. Congress has been particularly interested in issues concerning U.S. military bases in Japan, which have played a key role in supporting the military campaign in Afghanistan and the military buildup near Iraq.

In October 2001 the Koizumi government gained parliamentary passage 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 despite strong opposition from both within and outside of the ruling coalition. Because of a constitutional ban on military action that is not strictly for self-defense, Japanese ships and aircraft have been restricted to non-combat support. A small Japanese flotilla which has remained on station since late 2001 has supplied the majority of the fuel needs of U.S. and British warships. Japan also has been outspoken in favor of the U.S. position on Iraq and has provided or pledged non-combat military and reconstruction support (but not cash payments to the United States).

Japan's position toward North Korea generally has been hardening in recent months, primarily due to Pyongyang's nuclear and ballistic missile programs and to North Korea's admission that it kidnapped Japanese citizens in the 1970s and 1980s. Recent signs indicate that Tokyo may be backing away from its previous opposition to taking coercive diplomatic measures against North Korea, including economic sanctions.

Due to its own concerns about North Korea's nuclear and ballistic missile programs 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 participating in joint research and development of a U.S. missile defense capability, but has not made an acquisition decision.

The traditionally large U.S. trade deficit with Japan has been a perennial source of friction. The deficit reached a record $81.3 billion in 2000, but fell to $69 billion in 2001 and $70 billion in 2002 because of the moribund Japanese economy and the current U.S. economic slowdown.

In general, the Bush Administration has paid somewhat less attention to the trade deficit than did the Clinton Administration, while calling on Tokyo to deal more vigorously with its huge problem of bad bank loans, which are a drag on Japan's economy, and to follow through on structural reforms.

MOST RECENT DEVELOPMENTS

In response to strong U.S. diplomatic pressure, a Japanese consortium gave up preferential negotiating rights to develop Iran's Azadegan oil field, the country's largest, by not meeting a June 30, 2003 negotiating deadline. The *Financial Times* reported on July 10, 2003, that Russian and Chinese companies have offered to develop the field in lieu of the Japanese consortium. The Bush Administration opposed the Japanese consortium's bid as a means of putting pressure on Iran to abandon a suspected nuclear weapons program. Because Russia previously had proposed joint development of the Azadegan field with the Japanese consortium, the article speculated that Japan's withdrawal also threatened a proposed Russia-Japan pipeline project that would divert Siberian oil to Japan instead of an alternate proposal to deliver the oil to China.

During a July 10, 2003 Upper House hearing on a pending bill that would allow the despatch of Japanese military personnel to Iraq to participate in peacekeeping and reconstruction activities, Prime Minister Koizumi defended his decision to support the United States despite the fact that no weapons of mass destruction had been found thus far. In response to opposition critics, Koizumi acknowledged that it was impossible to say that military forces and civilians sent to Iraq would not face risk even if their activities were carefully restricted to areas deemed safe. A member of the ruling Liberal Democratic Party (LDP) urged the government to give Japanese forces heavy weapons and rules of engagement for self-defense appropriate to the situation prevailing in Iraq. The bill cleared the Lower House on July 4.

On July 4, 2003, Japanese foreign minister Yoriko Kawaguchi reportedly told Burma's Deputy Foreign Minister Khin Maung Win in Tokyo that Japan would suspend new economic aid until democracy leader Aung San Suu Kyi was released from what the Burmese military rulers term "protective custody," and that it might suspend all aid if this did not happen soon. Prime Minister Koizumi refused to see the senior Burmese minister, and an unnamed Japanese official reportedly said that there was "no way" the Prime Minister would see a senior Burmese minister as long as Aung San Suu Kyi remained "in prison."

BACKGROUND AND ANALYSIS

Role of Congress in U.S.-Japan Relations

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.

As of early 2003 several high profile policy issues were of particular interest to Congress, including dealing with the confrontation over North Korea's nuclear and missile programs, anti-terrorism cooperation, Japan's support for U.S. policy concerning Afghanistan and Iraq, and cooperation on missile defense. Congress also has been active recently in pushing the Administration to employ anti-dumping trade penalties against steel imports from Japan, and in supporting efforts by survivors of Japan's World War II slave labor camps during to gain relief through the U.S. courts by opposing a long-standing U.S. policy that gives primacy to the terms of the 1951 U.S.-Japan Peace Treaty.

U.S.-Japan Cooperation and Interdependence

(This section was written by Richard Cronin and Mark Manyin)

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. 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.

U.S.-Japan Relations Under the George W. Bush Administration. 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's positive and timely response under Prime Minister Koizumi's leadership has fostered closer security cooperation and coordination.

Historically, U.S.-Japan relations have been strained periodically by differences over trade and economic issues, and, less often, over 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. 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 that focused on alliance relations, cooperation against terrorism, and Japan's continuing economic slump. He also addressed a joint session of the Japanese Diet (parliament). The President publicly praised Prime Minister Koizumi's economic reform program, but reportedly spoke bluntly in private about his disappointment with progress.

Cooperation Against Terrorism: Response to the Attacks in New York and Washington. The Koizumi government strongly condemned the terrorist attacks of

September 11, 2001, and initiated a series of unprecedented measures to protect American facilities in Japan and provide non-lethal logistical support to U.S. military operations against Al Qaeda and the Taliban in Afghanistan. The latter mainly took the form at-sea replenishment of fuel oil and water to U.S., British, French, and other allied warships operating in the Indian, and logistical airlift. A small flotilla of transport ships, oilers, and destroyers has provided most of the fuel used by U.S. and allied naval forces in the Indian Ocean since the first deployment in November 2001. Japanese non-combat logistical support to U.S. and allied warships was extended through the Iraq war and continued as of early July 2003.

Japan's ability to "show the flag" in its first such deployments since the end of World War II was made possible by the adoption by the Japanese Diet (parliament) at the end of October 2001 of three related bills anti-terrorism bills. One law, the Anti-Terrorism Special Measures Law, gave unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to provide "rear area" support to U.S. forces operating in the Indian Ocean. Permitted support includes intelligence sharing, medical care, and the provision of fuel and water and nonlethal military supplies. The restriction of the authority to nonlethal supplies was a domestic political compromise aimed at reconciling Japan's "no-war" constitution with the government's desire to meet the Bush Administration's expectations of material support. Despite these limits, several of the measures have been seen by critics as going beyond past interpretations of the constitutional ban on "collective defense" activities. In late 2003 a district court dismissed the first legal challenge to the constitutionality of the Indian Ocean deployments.

Support for U.S. Policy Towards Iraq. While strongly preferring a clear United Nations role in resolving the U.S./British confrontation with Iraq, Japan nonetheless gave almost unqualified support to the Bush Administration's position. During an open debate in the U.N. Security Council on February 18, Japan was one of only two out of 27 participating countries, the other being Australia, to support the U.S. contention that even if the U.N. inspections were strengthened and expanded, they were unlikely to lead to the elimination of Iraq's weapons of mass destruction unless Iraq fundamentally changed its current passive cooperation. Koizumi and Foreign Minister Yoriko Kawaguchi called the leaders of several undecided Security Council Members to try to persuade them to support the U.S. position. The despatch of an Aegis destroyer to the Indian Ocean and the extension of the deployment of Japanese ships there was widely interpreted as another indiction of Japanese support. Japan anticipates playing a role in the reconstruction of Iraq, committing over $200 million and sending a small team of civilian experts to assist the U.S. Department of Defense Office of Reconstruction and Humanitarian Assistance (ORHA). Currently, the government is debating whether to ask the Japanese Diet to authorize the despatch of troops to Iraq or its neighbors, primarily to provide logistical support. Japan has been reluctant to support a U.S. proposal to write off the foreign debts Iraq accumulated under the Saddam Hussein regime, preferring instead a temporary freeze and/or the partial suspension of debts owed. This is expected to be a major topic of discussion at the G-8 summit meeting in Evian France, to be held from June 1-3, 2003.

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.

Converging Korean Peninsula Priorities? Japan's role is critical in the current crisis over North Korea's nuclear weapons programs for a number of reasons. Most importantly, Japan has told North Korea it will provide a large-scale economic aid package to compensate for the Japanese occupation of the Korean Peninsula from 1910-1945. Reportedly, Japanese officials are discussing a package on the order of $5-$10 billion, an enormous sum for the cash-starved North Korean economy. Normalization of Japan-North Korean relations was one of Pyongyang's demands during the trilateral U.S.-North Korea-China talks held in April 2003. Currently, Japan is a significant source of North Korea's foreign exchange, by virtue of the Japanese market being a major destination for the North Korean government's suspected drug-running operations, and of remittances from Korean permanent residents in Japan. Additionally, the United States has long cited Pyongyang's harboring of Japanese Red Army terrorists — who face charges in Japan of hijacking a plane in 1970 — as a reason for North Korea's inclusion on the U.S. terrorism list, which by law prohibits North Korea from receiving many forms of U.S. economic assistance and trading rights.

On September 17, 2002, Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il held a one-day summit in Pyongyang that momentarily restarted normalization talks between the two countries, which have not established official relations since North Korea was founded in 1948. Kim pledged conditionally 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. 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.

The normalization talks and parallel security talks quickly stalled, however, due to two developments since the summit: North Korea's October 2002 admission to U.S. officials that it has a secret nuclear weapons program based on the process of uranium enrichment; and outrage in Japan at Kim Jong-il's admission to Koizumi that North Korea had kidnapped 13 Japanese in the 1970s and 1980s, eight of whom had died. In October, the five surviving abductees traveled to Japan for a visit, but their family members were not allowed to leave North Korea. The Japanese government has not allowed the five visitors to return to the DPRK and has demanded that the family members be allowed to travel to Japan. Prime Minister Koizumi has said normalization talks will not continue unless Pyongyang begins dismantling its uranium program and is more cooperative on the abduction issue. In mid-November, Japan voted with the United States to suspend shipments of heavy fuel oil to

North Korea. The oil was being provided under a 1994 U.S.-North Korean agreement in which Pyongyang agreed to halt its nuclear weapons program.

Koizumi's trip to Pyongyang was a significant departure from Tokyo's recent stance toward North Korea and initially had the potential to put Japan 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 the abductions 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, had been attempting to engage with 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 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 CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations*, by Larry Niksch.)

Japan has supported most of the concrete steps the U.S. has taken since the revelations about North Korea's uranium nuclear program were made public in October 2002. However, most Japanese leaders have equivocated on the subject of taking more coercive measures against North Korea such as economic sanctions, preferring a negotiated solution to the crisis. In April and May 2003, however, in the aftermath of the trilateral U.S.-North Korea-China meeting in Beijing, Japanese policy seems to have hardened. In Beijing, the Bush Administration asserted that Japan should be included in future talks and that North Korea should resolve the abduction issue with Japan. The Japanese government has toughened enforcement of its controls on the export of potential dual-use items to North Korea and has announced a new interpretation of domestic foreign exchange laws that would enable Tokyo to more easily cut off bilateral trade and shut off the flow of remittances from ethnic Koreans to their relatives in North Korea. Specifically, Japan has moved away from its traditional position that sanctions against North Korea would require United Nations Security Council approval and is now taking the position that Japan could impose in cooperation with the United States, even in the absence of specific U.N. approval. Remittances to North Korea are thought to have declined significantly since the early 1990s, they still are estimated to total several millions of dollars a year. Japan is North Korea's second largest trading partner, after China. Two-way trade in 2001 was $470 million.

On May 22 and 23, President Bush and Prime Minister Junichiro Koizumi held a summit meeting at the President's ranch near Crawford, Texas. The invitation to meet the President at Crawford was widely viewed as a gesture of appreciation for Japan's strong support of U.S. policy on Iraq. At a joint press conference on May 23, President Bush and Prime Minister Koizumi both declared that they shared a unity of view regarding the need for North Korea to promptly, completely, and verifiably dismantle its nuclear program. Koizumi declared that Japan would take "tougher measures" if North Korea escalated the situation, and also that Tokyo, in any event, would "crack down more vigorously on illegal activities" involving North Korea or ethnic Korean supporters in Japan. Both leaders cited the need for a peaceful solution to the nuclear issue based via multilateral "dialogue and

pressure." President Bush said that Japan and South Korea should be included if the talks recently hosted by China were resumed. The President also expressed strong backing for Japan's insistence on a full accounting of the fate of Japanese citizens kidnapped by North Korea.

Economic Policy Differences. The main focus of the Bush Administration's concern regarding the Japanese economy has been Tokyo's failure thus far to deal with huge amounts of bad loans which have gravely weakened the banking system, and Japan's current dependence on exports to keep the foundering economy afloat.

At the end of the September 2002, shortly 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 have strongly resisted Koizumi's plans. Harsh public criticism by the four largest banks is said to be unprecedented, and some senior LDP heavyweights with ties to the banking, insurance, and construction industries have begun a move to replace Koizumi with a more "traditional" figure. During late 2002 observers appeared confused as to whether they should regard moves by Economic and Financial Minister Tanaka to attack the problem more forcefully as indicators of Japanese government concern about further weakness of the financial system or a greater commitment to reform.

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 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.

Two conflicting court decisions in California in early 2003 have further clouded the prospects for the victims' claims. A January 2003 decision by a California appeals court

ruled that the claim against a Japanese company by a Korean-American who was a former POW could go forward. A week afterwards, a federal appeals court in San Francisco made the opposite determination in a case involving the consolidated claims of several thousand former POWs forced to work in camps run by major Japanese conglomerates. The latter decision upheld the long-standing contention of the State Department that only the Federal Government had the right to "to make and resolve war," including the resolution of war claims. The core issue is whether the Peace Treaty with Japan relieved only the Japanese government from future claims or whether it covered private companies as well. On April 30, 2003, the California Supreme Court agreed to review the two cases and the pertinent state law, which allows victims of World War II forced labor to sue Japanese multinational companies that operate in California.

A number of bills and amendments introduced in the 107th Congress sought 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). 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." (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.)

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 Tokyo ratified on June 4, 2002, Japan is obligated to reduce its emissions 6% below its 1990 levels by 2010. 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.

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. In November 2002, the U.N. Convention on International Trade in Endangered Species (CITES) rejected Japanese proposals to legalize trade in the meat of minke and Bryde's whales.

Security Issues

(This section was 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 in return for U.S. support to its security. In recent years Japan has edged closer to a more independent self-defense posture. A year-long study by a foreign policy advisory body reported its findings to Prime Minister Koizumi on November 28, 2002. The report is said to stress the need for a more comprehensive effort to deal with an emerging military and regional influence threat from China, for crafting a policy towards the United States which is compatible with and complements U.S. policy but also emphasizes Japan's own foreign and security perspectives and requirements — including Japan's policy towards North Korea.

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."

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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. Japan also expressed concern at the decision of Secretary of Defense Donald Rumsfeld to eliminate the distinction between NMD and Theater Missile Defense (TMD), but the Japanese Defense Agency nonetheless has continued to participate in the joint research program. 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. The Defense Agency reportedly will request funds in the fiscal 2004 budget for to purchase a U.S. missile defense system, possibly the Patriot Advanced Capability-3 (PAC-3) system. 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 was 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%, *declined* 0.5% in 2001, and increased only 0.3% in 2002. 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 5.2% as of February 2003 (the latest data available). (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, including the collapse of the investment "bubble" in the early 1990s and ineffective fiscal and monetary policies and structural economic problems, including the continuing problem of non-performing loans held by Japanese banks.

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, but increased moderately to $70.1 billion in 2002.

Table 1. U.S. Trade with Japan, 1996-2003

($ 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
2002	51.4	121.5	-70.1

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.

On March 5, 2002, President Bush announced that the government would impose higher tariffs on imports of selected steel products after the U.S. International Trade Commission determined under section 201 (safeguards or escape clause trade remedy) that surges in steel imports caused or threatened to cause serious injury to the U.S. domestic steel industry. 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 World Trade Organization (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.

Nevertheless, Japan and several other steel exporting countries pursued a case in the WTO's Dispute Settlement Body against the U.S. action. Along with Japan, the EU, Brazil, China, New Zealand, Norway, South Korea, and Switzerland argued that the United States did not follow WTO rules in imposing the safeguard actions, a conclusion the United States

strongly denies. On March 26, 2003, the WTO Dispute Panel issued its preliminary decision, ruling against the United States and maintained that determination in its May 2 final decision. The Bush Administration is expected to appeal the decision.

The steel case and other disputes mark a trend in U.S.-Japan trade relations in which the two countries have chosen to address their differences in the WTO rather than bilaterally. Japan, together with other major trading partners, has challenged U.S. trade laws and actions in the WTO. For example, Japan and others challenged the U.S. 1916 Antidumping law and the so-called "Byrd Law" (that allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). In both cases, the WTO ruled in their favor.

Japan and the United States are strong supporters of the Doha Development Agenda, the latest round of negotiations in the WTO. Yet, the two have taken divergent positions in some critical areas of the agenda. For example, the United States, Australia, and other major agricultural exporting countries have pressed for the reduction or removal of barriers to agricultural imports and subsidies of agricultural production, a position strongly opposed by Japan and the EU. At the same time, Japan and others have argued that national antidumping laws and actions that member countries have taken should be examined during the DDA, with the possibility of changing them, a position that the United States has opposed.

Japanese Political Developments

(This section was written by Mark Manyin)

Current Situation. Since his unconventional rise to power in April 2001, Prime Minister Junichiro Koizumi has been one of the most popular Japanese rulers in years, notwithstanding the public's gradual disillusionment with Koizumi that has reduced his approval ratings 40-50% range, down from over 80% in mid-2001. The key to Koizumi's relative popularity is 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 Liberal Democratic Party (LDP), Japan's dominant political party. 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.

Koiuzmi's term as LDP President expires in September 2003. Several LDP old guard members have indicated they would prefer to jettison Koizumi. There is speculation that many favor the conservative Tokyo mayor Shintaro Ishihara, Japan's second-most popular politician. Japanese law, however, stipulates that the prime minister must be a sitting member of Parliament, which would appear to rule out Ishihara. If Koizumi succeeds in retaining his position as LDP leader, some believe he may try to consolidate his base in the fall of 2003 by dissolving parliament and calling nationwide parliamentary elections.

In general, Japan's political peculiarities constrain U.S. influence over Japanese policy. Most importantly, the relative weakness of the Japanese prime minister and cabinet often make it difficult to for Japanese leaders to reach and then deliver on controversial agreements with foreign countries. Presently, U.S. options are further limited by the widely-held perception that Koizumi represents the best hope for pushing through economic and security reforms the U.S. has sought. This belief has led the Bush Administration generally to avoid criticizing Koizumi publicly, for fear of diminishing his political effectiveness.

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 most far-reaching reform proposals 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.

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 two 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 recent resurgence has further weakened the DPJ, Japan's largest opposition party. The DPJ, which describes itself as "centrist," is led by Naoto Kan. 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%, and have fallen into the single-digit levels in recent months. 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 Yukio Hatoyama, who was ousted from the party presidency by Kan in 2002.

LEGISLATION

H.R. 595 (Mica)

To provide compensation for certain World War II veterans who survived the Bataan Death March and were held as prisoners of war by the Japanese. Introduced February 5, 2003; referred to House Committee on Arms Services. Executive branch comment requested from the Department of Defense, February 28, 2003.

H.R. 1864 (Rohrabacher)

To preserve certain actions in Federal court brought by former prisoners of war seeking compensation from Japanese entities for mistreatment or failure to pay wages in connection with slave or forced labor. Introduced April 9, 2003; referred to House Committees on the Judiciary, International Relations, and Government Reform. Referred to Subcommittee on Immigration, Border Security, and Claims, May 5, 2003.