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Japan-U.S. Relations: Issues for Congress

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SUMMARY

The post-World War II U.S.-Japan alliance, long the anchor of the U.S. security role in East Asia and the Pacific, rests on shared democratic values and mutual interest in Asian and global stability and development. Alliance cooperation has deepened significantly since September 11, 2001. Japan's decade-long economic slump has exacerbated the large and long-standing U.S. trade deficit, but China's emergence as the largest contributor to the U.S. global trade deficit has tended to reduce the deficit as an issue in U.S.-Japan relations.

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, U.S. bases in Japan, ballistic missile defense (BMD), and regional security. Congressional support for security cooperation with Japan stems in particular from concerns about North Korea's nuclear and missile proliferation and China's potential emergence as the dominant regional military power, and terrorism.

In October 2001 the Koizumi government gained parliamentary passage of unprecedented legislation permitting the despatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area, non-combat 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. A small Japanese flotilla which has remained on station since late 2001 has supplied the majority of the fuel needs of U.S., British and other allied warships.

Japan was uncharacteristically outspoken in favor of the U.S. position on Iraq and has sent some 600 non-combat military and reconstruction support, despite considerable public and political opposition. U.S. military bases in Japan have played a key role in supporting the military campaign in Afghanistan and the military buildup and resupply of U.S. forces in Iraq and adjacent countries.

Japan's position toward North Korea generally has been hardening during the past several years due to Pyongyang's nuclear and ballistic missile programs and to its admission that it kidnapped Japanese citizens in the 1970s and 1980s. Starting in late 2003 Japan began to show more willingness than previously to pressure North Korea with the threat of economic sanctions. However, since Minister Koizumi's trip to Pyongyang in May 2004, during which he secured the release of five family members of former abductees, Tokyo has urged the Bush Administration to be more flexible regarding the issue of direct talks with North Korea.

Due to its own concerns about North Korea and a rising China, Tokyo has started to bolster its self-defense capabilities even as it increases defense cooperation with the United States. Japan is participating in joint research and development of a sea-based missile defense capability and plans to acquire and deploy two separate U.S. systems — both sea- and ground-based beginning in 2006.

The large U.S. trade deficit with Japan, a perennial source of friction, peaked at $81.3 billion in 2000, but fell to $66 billion in 2003. In general, the Bush Administration has paid somewhat less attention to the trade deficit than did the Clinton Administration. The resumption of growth in the first half of 2004 may further reduce the bilateral trade deficit.

MOST RECENT DEVELOPMENTS

On July 11, 2004, Japan held elections for one-third of the seats in the Upper House of the Diet (Japan's parliament), which the ruling Liberal Democratic Party (LDP) controls through a coalition with another party. Although the LDP largely held its own in the vote — it lost one seat, to bring its total in the 245-seat chamber to 115 — the election was seen as a significant setback for Prime Minister Koizumi because the main opposition party, the Democratic Party of Japan (DPJ) won 12 new seats to bring it to 82 seats. Despite the DPJ's gains, the LDP-led coalition still comfortably controls majorities in both parliamentary chambers, and new elections are not mandated until the fall of 2006. (See section on Japanese Political Developments for more details.)

The Japanese government arranged for a meeting in Jakarta, Indonesia, on Friday, July 9, between Hitomi Soga, who had been abducted by abducted by North Korean agents in 1978 and allowed to return to Japan in late 2002, and her husband, former U.S. Army Sergeant Charles Jenkins and the couple's two children. Jenkins, who reportedly deserted his post and crossed into North Korea in 1965, had refused to leave Pyongyang with five other family members of former abductees out of fear of being arrested and extradited. The Japanese government has been pressing the Bush Administration to allow Jenkins to settle in Japan without fear of prosecution.

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. As of 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 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.

U.S.-Japan Relations Under the George W. Bush Administration. 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. Some friction again emerged over efforts by the Bank of Japan to maintain a "weak" yen against the dollar to boost Japanese exports, and the Bush Administration's actions to restrict certain types of steel imports from Japan and other countries. The most significant trend in the past five years has been the steady growth of Japanese security cooperation with the United States, including the first ever deployments of Japanese Self-Defense Forces in non-combat support of U.S. military operations following the September 11, 2001 terrorist attacks.

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. nine other 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 2004.

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.

Japan also has been the leading country donor to Afghan relief and reconstruction after the United States. Japan played a major role along with the United States, Saudi Arabia, and the Asian Development Bank in accelerating reconstruction of the critical highway linking Kabul with Kandahar, in the heartland of the Pushtun ethnic group. The Pushtuns, which had provided the vast majority of the forces of the Taliban, remain the ethnic group most dissatisfied with the slow pace of economic reconstruction. At the Berlin Conference for Reconstruction Assistance to Afghanistan, the first such multilateral meeting of donors since a conference held in Tokyo in early 2002, Japan pledged some $400 million in aid to

Afghanistan for the current year. After the United States, Japan has been the largest country donor to Afghan relief and reconstruction.[1]

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.

Japan has committed to providing some $5 billion in assistance to Iraq over the next four years, with $1.5 billion in grant aid to be provided in 2004. In addition, the Koizumi government plans to send up to 1,000 military and civilian personnel to Iraq as peacekeepers and to support reconstruction. Legislation permitting the despatch of troops to Iraq gained final passage in the Upper House of the Diet on July 26, 2003, and was signed into law. The legislation passed by a vote of 136-102, but not before a dramatic shoving match erupted in a committee chamber the night before, when opponents of the legislation clashed with ruling party members following a decision by the committee chairman to cut off debate. As of early April 2004 Japan had deployed some 550 military personnel — mainly ground troops — to carry out humanitarian aid and reconstruction activities in Iraq, about half of a total commitment of up to 1,000 troops.

The Iraq war has had a mixed impact on the attitude of the Japanese public towards the United States and the U.S.-Japan Alliance. An opinion poll on Japan's foreign and security relations released by *Mainichi Shimbun*, a major national daily, on January 5, 2004, revealed only a moderate increase in negative feeling about the United States since the U.S.-led attack on Iraq despite the wide unpopularity of the war and subsequent occupation among the Japanese public. Some 20% of the respondents said that they "like" the United States, while another 53% claimed to "somewhat like" America. Only 5% said that they "disliked" the United States. Overall, those liking or somewhat liking the United States *rose* by a total of 9%, including a 7% increase in "like" response, since a poll taken in December 2002. However, when asked specifically whether their like or dislike had changed since the March 2003 attack on Iraq, 3% said they liked the U.S. more, 28% said they liked it less, and 67% said they didn't know. Indicative of the low opinion of how the Japanese government has managed U.S.-Japan security relations, some 27% of the respondents saw Japan's role as one of "cooperation," 9% "independence," 11% as "ingratiating,"and 32% as "blindly follows."[2]

U.S.-Japan-China Relations. Tokyo often 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

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[1] Glenn Kessler, "Afghans Ask for Economic Aid to Prevent Domination by Drug Trade." *Washington Post*, April 1, 2004.

[2] *Mainichi*, Jan. 5, 2004: 10-11.

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 objected to several visits by Prime Minister Koizumi to the Yasukuni War Shrine, in Tokyo, which enshrines the names of Japan's war dead, including a handful of convicted war criminals. Japan values China's role in promoting multilateral talks aimed at eliminating North Korea's nuclear program, but Tokyo also worries about the expansion of China's regional influence.

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.

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, but the talks ended on a sour note after Kim acknowledged that North Korean agents had kidnapped at least 13 Japanese citizens during the 1970s and 1980s, and that only five remained alive. News of the unexplained deaths of the eight abductees, who were relatively young when they disappeared, and Kim's refusal to provide information on other suspected abductees outraged public opinion in Japan, and brought about a hardening of Tokyo's policy towards Pyongyang.

In October, 2003, the five surviving abductees were allowed by the regime to travel 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.

Until mid-2004, Japanese officials and commentators from across the political spectrum generally had 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. Following Prime Minister Koizumi's May 2004 visit to North Korea, however, the Japanese government and the Prime Minister himself, in meetings with President Bush at the June 2004 G-8 Summit at Sea Island, GA, began to press for a more flexible U.S. stance. (For more on U.S. policy toward North Korea, see CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations*, by Larry Niksch.)

Since the revelations about North Korea's secret uranium enrichment program that were first voiced by U.S. Assistant Secretary of State James Kelly during a meeting in Pyongyang, in late September 2002, the Japanese government has toughened enforcement of its controls on the export of potential dual-use items to North Korea. On June 3, 2004, the lower house of the Japanese Diet (parliament) passed legislation that would give the government the right to bloc visits to Japanese ports by ships deemed to be a security risk. The Koizumi government supports enactment of the legislation despite having given a conditional pledge to North Korea not to impose sanctions, on grounds that leverage remains necessary to insure that Pyongyang shows satisfactory progress on the abductees issue and regarding its nuclear and missile programs. In 2003 the Japanese Diet adopted legislation giving the government the authority to impose economic sanctions, including the banning of cash remittances to North Korea, without the previous requirement of specific United Nations or other multilateral 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. (For more information see CRS Report RL32161, *Japan-North Korea Relations: Selected issues*,November 26, 2003, by Mark Manyin, and RL32428, *Japanese Prime Minister Koizumi's May 2004 Trip to North Korea: Implications for U.S. Objectives*, June 10, 2004, by Richard P. Cronin.)

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. The President also expressed strong backing for Japan's insistence on a full accounting of the fate of Japanese citizens kidnapped by North Korea.

On May 22, 2004, Prime Minister Koizumi visited Pyongyang, North Korea, and secured the release of five children of four Japanese citizens who had been abducted by North Korean agents in the 1970s and 1980s and who had been allowed to return to Japan in late 2002. In return, Koizumi pledged some 250,000 tons of rice and $10 million in medical supplies and other humanitarian aid, and promised not to impose economic and financial sanctions so long as North Korea adhered to past commitments regarding its nuclear and ballistic missile programs. The Kim Jong-il regime had allowed five of the former abductees to "visit" Japan in October 2002, where they remain. The trip generated significant controversy, with some advocates of the abductees' cause arguing that Koizumi had given too much in return for too little. Bush Administration officials generally applauded the mission, but some commentators judged that the Administration had little alternative to giving the mission its blessing.

Prime Minister Koizumi's trip to Pyongyang created a new issue in U.S.-Japan relations regarding the husband of one former abductee, Charles Jenkins, who deserted from the U.S. Army during duty in South Korea in 1965. Jenkins refused to return to Japan with their two daughters out of fear that he would be arrested and extradited. The Japanese government has asked U.S. officials to set aside the charges against the former soldier so that he and the children can leave North Korea, but thus far U.S. officials have maintained that he is subject to prosecution for desertion.[3]

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 on grounds 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.

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

[3] "Japanese, U.S. Officials Discuss Deserter Issue." *Jiji Press*, June 4, 2004.

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."

A number of bills and amendments have been introduced in the 108th Congress to achieve the same purposes. Several of these have passed in at least one house during the 1st session, but none has been enacted. (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 Bush Administration's decision to back away from the protocol.

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. Since September 1995, the U.S. military presence on Okinawa has been plagued by controversy over crimes committed by U.S. military personnel, especially U.S. Marines, and by plans to re-shape the structure of military bases on the island. There have been widespread calls on Okinawa for a re-negotiation of the Japan-U.S. Status of Forces Agreement (SOFA) and a reduction in U.S. troop strength. The U.S. and Japanese governments have opposed revising the SOFA; but in 2001, the United States agreed to turn over American military personnel suspected of specific grievous crimes to Japanese authorities prior to formal indictments being issued by Japanese courts. In negotiations in 2003, the U.S. military has sought a greater U.S. presence when these U.S. military personnel are questioned by Japanese officials prior to indictment. Japan reportedly has offered to allow U.S. military police officers to be present during interrogations but wants an expansion of the types of crimes under which U.S. servicemen would be turned over to Japanese authorities prior to indictment.

A U.S.-Japanese Special Action Committee on Okinawa (SACO) reached an agreement in 1996 under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases' land) over seven years, but U.S. troop numbers will remain the same — about 29,000. Implementation of the agreement has been stalled by the issue of relocation of the U.S. Marine air station at Futenma. A new site, Nago, in northern Okinawa, was announced by the Japanese government in November 1999. However, the Okinawa governor proposes a 15-year time limit on U.S. use of the new facility. The Bush Administration and the Pentagon oppose such a time limit. In November 2003, the Okinawa governor presented Secretary of Defense Rumsfeld with a petition calling for realignment of U.S. facilities on Okinawa, relocation of training by U.S. Marines to sites other than Okinawa, and an overall reduction of U.S. forces stationed on Okinawa. Japan's opposition Democratic Party, which made major gains in December 2003 parliamentary elections, came out in favor of a total U.S. military withdrawal from Okinawa.

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.

Revised Defense Cooperation Guidelines. 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. Article 9 outlaws war as a "sovereign right" of Japan and prohibits "the right of belligerency." It provides that "land, sea, and air forces, as well as other war potential will never be maintained." 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 and broader peacekeeping roles, 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." Escalation of the nuclear crisis with North Korea influenced the passage by the Japanese Diet in May 2003 of three wartime preparedness bills, which specify the powers of the government to mobilize military forces and adopt other emergency measures. The North Korean situation also sparked a debate in Japan over acquiring offensive weaponry that could be used to attack North Korea. Japan dispatched naval vessels to the Indian Ocean in 2002 to support U.S. operations in Afghanistan. In December 2003, Japan announced that it would sent about 1,000 SDF personnel to Iraq in early 2004 for non-combat, civic action-type missions

Cooperation on Missile Defense. A six year Japan-U.S. program of cooperative research and development of anti-ballistic missiles began in 1999. Proponents of missile defense justify it based on North Korea's missile program, but China opposes the program. U.S. military officials reportedly have recommended that Japan adopt a missile defense system that combines the ground-based U.S. Patriot Advanced Capability-3 (PAC-3) system and the ship-based U.S. Standard Missile-3 system. Prime Minister Koizumi announced in December 2003 that Japan would acquire these two U.S. systems. The Defense Agency reportedly hopes to begin deploying the missile defense system around major Japanese cities by 2007. The total cost to Japan is estimated at close to $10 billion. (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. By the most conventional method of measurement, 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. (China's economy is now larger than Japan's by another method of measurement, purchasing power parity.) Furthermore, their economies are intertwined by merchandise trade, trade in services, and foreign investments.

Although Japan remains important economically to the United States, its importance has slid as measured by various indicators. Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the fourth largest source for U.S. merchandise imports (behind Canada, Mexico, and China) as of the end of 2003. At one time Japan was the largest source of foreign direct investment in the United States but, as of the end of 2002, it is the fourth largest source (behind the United Kingdom, France, and the Netherlands). It is the fifth largest target for U.S. foreign direct investment abroad as of the end of 2002. The United States remains Japan's largest export market and second largest source of imports as of the end of 2003.

Because of the significance of the U.S. and Japanese economies, domestic economic conditions strongly affect their bilateral relationship. Except for some brief periods, Japan had incurred stagnant or negative economic growth in the 1990s and the first few years of this decade. In 2000, real GDP increased 1.5%, *declined* 0.5% in 2001, and increased only 0.3% in 2002. However, in 2003, Japan's GDP increased 2.5% and increased 1.4% (or at an annualized rate of 5.6%) during the first quarter 2004, suggesting that Japan may be experiencing sustained recovery. In June 2004, the Bank of Japan (BOJ), in its assessment of Japan's economic prospects, predicted that Japan was in the midst of a "strong recovery."[4] The growth of consumer spending was a factor in the BOJ's assessment. That positive assessment was underscored by the BOJ's assessment of business confidence, the Tankan survey, which indicated that the Japanese business community is optimistic about economic prospects.[5] Some observers have argued, however, that much of Japan's growth is still the result of sharp increases in Japanese exports to Asia, in particular to China, and that Japan's recovery could prove ephemeral if China's economy slows down or goes into recession.

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. The trade deficit decreased slightly to $66.0 billion in 2003.

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
2003	52.1	118.0	-66.0

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.

Another lingering bilateral trade dispute pertains to the Japanese ban on imports of U.S. beef. Japan imposed the ban on December 24, 2003, in response to the discovery of a case of "mad cow" disease on a Washington State ranch. In April 2004, the two countries agreed to form an experts working group to develop arrangements that would lead to resumption of the imports. Japan claims that U.S. beef inspection procedures are inadequate and that all beef must be inspected before it is shipped. U.S. officials countered that 100% inspections

[4] *Financial Times.* July 1, 2004.

[5] *Financial Times.* July 2, 2004.

are inefficient, unnecessary, and not scientific. The binational working group is aiming to produce an agreement that will allow U.S. beef exports to Japan to resume by summer 2004.[6] Until it imposed the ban, Japan was by far the largest market for U.S. beef and veal exports, far ahead of second place South Korea.[7] U.S. Ambassador to Japan Howard Baker stated that this issue will probably be resolved this summer (2004).[8]

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 Japan's favor. Legislation to repeal the 1916 law is pending but has not been acted on by the Congress. There is strong resistence in the Congress against repealing the "Byrd Law." Japan is waiting a WTO decision on how much compensation it can obtain from the United States for not implementing the dispute the WTO judgement.

Japan and the United States are major 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.

Despite some outstanding issues, tensions in the U.S.-Japan bilateral economic relationship have been much lower than was the case in the 1970s, 1980s, and early 1990s. A number of factors may be contributing to this trend:

- Japan's economic problems in the 1990s and in the first few years of this decade have changed the general U.S. perception of Japan as an economic "threat" to one of a country with problems.

- The rise of China as an economic power has caused attention of U.S. policymakers to shift from Japan to China as source of concern.

- The increased use by both Japan and the United States of the WTO as a forum for resolving trade disputes has de-politicized disputes and helped to reduce friction.

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[6] *International Trade Reporter*. May 27, 2004. p. 891-892.

[7] U.S. Department of Agriculture. Economic Research Service. *FATUS Export Aggregations*.

[8] *International Trade Reporter*. July 1, 2004. p. 1108.

Japanese Political Developments

(This section was written by Mark Manyin)

Current Situation. On July 11, 2004, Japan held elections for one-third of the seats in the Upper House of the Diet (Japan's parliament), which the ruling Liberal Democratic Party (LDP) controls through a coalition with another party. Although the LDP largely held its own in the vote — it lost one seat, to bring its total in the 245-seat chamber to 115 — the election was seen as a significant setback for Prime Minister Koizumi because the main opposition party, the Democratic Party of Japan (DPJ) won 12 new seats to bring it to 82 seats. Exit polls indicated voters disapproved of Koizumi's plans to have Japanese Self-Defense forces join the multinational force in Iraq and to increase mandatory contributions to the national pension system while cutting benefits. In the weeks before the election, Koizumi and seven members of his cabinet (as well as leading members of the DPJ) admitted they had failed to make payments into the national pension system. The DPJ scored particularly well among all-important independent voters and among the younger generations.

The July Upper House election results matched those in November 2003 elections for the more powerful Lower House of Parliament, in which the LDP lost seats and the DPJ scored a big gain in its parliamentary strength. Both of the DPJ's victories came largely at the expense of Japan's smaller parties, thus appearing to confirm a trend in Japan toward a two-party system. The LDP has ruled Japan since 1955, except for a 10 month hiatus in the 1990s. Despite the DPJ's gains, the LDP-led coalition still comfortably controls majorities in both parliamentary chambers, and new elections are not mandated until the fall of 2006.

Koizumi's Popularity. The July 2004 elections also marked a nadir for Koizumi's popularity, with some exit polls indicating more voters disapproved than approved of the Prime Minister's performance — a first since Koizumi took office in 2001. Still, Koizumi's public approval ratings, which generally hover in the 40%-50% range, are the highest of any prime minister in decades, and he has tried to use his popularity to reshape the LDP. Until the July 2004 Upper House vote, the key to Koizumi's relative popularity had been his appeal to independent voters, who have emerged as a major force in the Japanese electorate and tend to back reformist politicians. That the DPJ beat out the LDP among independents may indicate that Koizumi is now seen by many as a defender of the status quo, rather than a reformer.

As Prime Minister, Koizumi has begun seizing 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. 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. This was a primary reason the LDP overwhelmingly re-elected Koizumi to a new, three-year term as party president in September 2003. The president of the LDP traditionally serves as Prime Minister.

Despite his reformist image, Koizumi's record on economic reforms generally is judged to be mixed at best. Many analysts attribute this to a combination of a lack of focus and

detailed planning by the Prime Minister's Office, and to opposition from vested interests. In April 2004, Koizumi attempted to redouble the impetus behind his reforms by appointing a deregulation task force with himself at the head. Koizumi has been far more assertive on security issues, spearheading legislation designed to pressure North Korea to cooperate with the international community, calling for a revision of Japan's constitution (including its war-renouncing Article 9), and carrying out controversial military deployments into the Indian Ocean to support Operation Enduring Freedom in Afghanistan and into Iraq to support the U.S.-led occupation.

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. At present, these structural debilities are compounded by the LDP's need to consult frequently with its coalition partners. U.S. options are further limited by Koizumi's enthusiastic participation in the war against terrorism and the war in Iraq, and by the widely-held perception that Koizumi represents the best hope for pushing through economic reforms the U.S. seeks. These beliefs have 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 Japan's political system and 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 been changing this somewhat 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. Koizumi has altered this situation somewhat. One of his most significant political reforms has been the partial neutralization of party factions. He has accomplished this in part by refusing to give the most numerically powerful factions key Cabinet posts.

Over time, one result of the LDP's opaque, top-down decision-making structure has been its inability to adapt quickly 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 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. This tension appears to have been at work in the July 2004 Upper House elections, in which the LDP's traditional supporters failed to back the party in their usual numbers, yet many pro-reform voters turned not to Koizumi but to the newly energized alternative, the DPJ.

The Opposition Democratic Party of Japan (DPJ). Until the November 2003 Lower House election, Koizumi's popularity had weakened the DPJ, which describes itself as "centrist" and currently is led by Katsuyo Okada. The LDP lost seats in the November election, while the DPJ raised its seat count from 137 to 177. The DPJ benefitted from publishing a detailed policy manifesto for the election — a rarity in Japan — and from its September 2003 absorption of another political grouping, a move that helped unify opposition to the LDP for the first time in years. In the 2004 Upper House campaign, DPJ candidates ran on a platform of opposition to Japan's deployment to Iraq and to the LDP's pension reform plan. The DPJ was formed in April 1998 as a merger among four smaller parties. A fifth grouping, Ichiro Ozawa's conservative Liberal Party, joined the DPJ in September 2003. However, the amalgamated nature of the DPJ 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%.

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.