

# CRS Issue Brief for Congress

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## **Japan-U.S. Relations: Issues for Congress**

**Updated March 21, 2005**

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## LEGISLATION

## Japan-U.S. Relations: Issues for Congress

### 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 the September 11, 2001, terrorist attacks. The U.S. maintains about 53,000 troops in Japan, about half of whom are stationed on the island of Okinawa. Trade friction has decreased in recent years, partly because concern about the trade deficit with Japan has been replaced by a much larger deficit with China and the latter's association with concerns about the loss of manufacturing jobs. For 2004 the merchandise trade deficit with Japan was about \$75 billion, compared with about \$164 billion for China.

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, terrorism, and China's potential emergence as the dominant regional military power.

In October 2001 the Koizumi government gained unprecedented parliamentary passage of unprecedented legislation permitting the dispatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area, noncombat 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 that has remained on station since late 2001 has supplied about one-third of the fuel needs

of U.S., British and other allied warships up to the present. In early 2004 Tokyo sent some 600 noncombat 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. The Koizumi government, along with its South Korean counterpart, has urged the Bush Administration to be more flexible regarding the issue of direct talks with North Korea, but at the same time Japan has warned that it may impose economic and financial sanctions if Pyongyang is not more responsive on the abductions and nuclear issues.

Due to its concerns about North Korea and a rising China, 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 beginning in 2006. The Koizumi government also has taken steps that could transform Japan into a more "normal" nation in terms of its security posture, including calling for a revision of the anti-war clause (Article 9) of the Constitution that prohibits participation in collective security arrangements. The U.S. and Japan have accelerated discussion of reducing the burden of hosting U.S. bases in Okinawa, in the context of ongoing bilateral discussions about U.S. plans for the realignment and transformation of U.S. military deployments and capabilities.



## MOST RECENT DEVELOPMENTS

The Japanese government has yet to lift its ban on imports of U.S. beef, despite an apparent agreement between U.S. and Japanese government negotiators that beef from cattle no older than 20-months could be imported. Japanese government officials now contend that it is up to the Food Safety Commission, an independent Japanese government body, to make the final decision on lifting a ban. The issue has reached the highest political levels. President Bush urged Prime Minister Koizumi to remove the ban in a March 9, 2005 telephone call. In addition, Members of the Senate and the House have recommended that pressure be applied to get Japan to remove the ban quickly. Japan had been the largest market for U.S. beef exports.

Reportedly, the beef issue, the problem of North Korea nuclear weapons program, and concerns about China dominated the March 18-19 visit to Japan by Secretary of State Condoleezza Rice. The trip was part of an Asian tour that also included China, South Korea, India, Pakistan, and Afghanistan. During the visit to Tokyo Secretary Rice praised Japan for having “stepped up to wider global responsibilities,” but also reportedly told Prime Minister Koizumi that “The beef dispute is a very, very important concern of the United States and it must be resolved urgently,” and that failure to do so could lead to the kind of trade confrontation that roiled the bilateral alliance in the 1980s. For their part, Prime Minister Koizumi and Foreign Minister Machimura reportedly stood their ground, insisting that a time frame for reopening U.S. beef imports could not be given until the food safety issue had been resolved.

The visit revealed a steadily increasing degree of U.S.-Japan alignment on regional security issues, causing a negative reaction in both North Korea and China. Pyongyang reacted angrily to Japan’s reported agreement to the Bush Administration’s warning that a resort to “other measures” might become necessary if North Korea remains recalcitrant about its nuclear program. The Chinese government criticized a speech to students at Tokyo’s Sophia University, during which Secretary Rice indicated that an economically rising China could be a force for good or ill, depending on its policies, and challenged Beijing to permit greater political freedom. Beijing also condemned a joint statement by Secretary Rice and Minister Machimura to the effect that the China-Taiwan issue was a matter of common security concern, although the Japanese foreign minister made clear that constitutional constraints would prevent Japan from becoming militarily involved in a China-Taiwan conflict. More broadly, Japan appeared to respond positively to Secretary Rice’s proposal for a “strategic development alliance program,” described by commentators as intended to promote democratization in Asia.

## 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 2005 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, cooperation on missile defense, and the transformation of U.S. military deployments in Asia. Congress also has been active in recent years 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 traditionally has been 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 facilitate 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. Trade friction has decreased markedly in recently years, though some tension 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 bilateral 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 noncombat 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 of at-sea replenishment of fuel oil and water to U.S., British, French, and other allied warships operating in the Indian Ocean, and logistical airlift. A small flotilla of transport ships, oilers, and destroyers has provided about a third of the fuel used by 10 allied naval forces in the Indian Ocean since the first deployment in November 2001. On October 26, 2004, the Ministry of Foreign Affairs announced the sixth six-month extension of the deployment — until May 1, 2005 — and reported that, in addition, the Japanese flotilla would begin

supplying fresh water and helicopter fuel for the multinational forces engaged in anti-terrorist operations in the Indian Ocean. In a press release on October 28, 2004, the U.S. Defense Department said that as of mid-October 2004 the Japanese Maritime Self-Defense Force (MSDF) had carried out 430 refueling operations, involving 100 million gallons of fuel — some 30 percent of all fuel used by U.S. and allied ships — and that, in addition, the Air Self-Defense Force (ASDF) had conducted more than 250 airlift support missions for U.S. forces with C-130 and U-4 transport aircraft.<sup>1</sup>

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 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.

**Aid to Afghanistan.** After the United States, Japan also has been the leading country States to Afghan relief and reconstruction. 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.<sup>2</sup>

**Support for U.S. Policy toward 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. Prime Minister Junichiro Koizumi and then-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. In addition, the Koizumi government has deployed about 600 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 deployment has been highly controversial in Japan. In mid-October 2004, Japan hosted a conference in Tokyo for a group of countries and institutions that have pledged funds to support the reconstruction of Iraq. Reportedly, although \$33 billion had been pledged at a donor's meeting in

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<sup>1</sup> Donna Miles, "U.S. Envoy Praises Japan's Support for Terror War," *Armed Forces Information Services*, Oct. 28, 2004, [[http://www.defenselink.mil/news/Oct2004/n10282004\\_2004102804.html](http://www.defenselink.mil/news/Oct2004/n10282004_2004102804.html)].

<sup>2</sup> Glenn Kessler, "Afghans Ask for Economic Aid to Prevent Domination by Drug Trade," *Washington Post*, Apr. 1, 2004.

September 2003 by the United States, Japan, and other countries and donors, only about \$1 billion has been delivered, half of which was contributed by Japan.

**Uncertain Response to U.S. Proposals for Realignment of U.S. Forces and Bases in Japan and South Korea.** The Pentagon's proposed transformation and realignment of U.S. forces in East Asia has been met with a mixed response in Japan. Reportedly, the relevant ministries and agencies in the Japanese government are divided over the matter. The Ministry of Foreign Affairs (MOFA) reportedly remains committed to a more narrow scope for bilateral military cooperation, restricted to "the Far East" under the 1960 U.S.-Japan Security Treaty. On the other hand, according to some accounts, the Japan Defense Agency (JDA) has been calling for an expanded role for Japanese forces under the Pentagon's proposed transformation and realignment of U.S. forces in Europe and Asia in return for a reduction in the burden on local communities that host U.S. forces. The JDA and military services have pushed for changes in the Self-Defense Forces law to elevate international operations from a "secondary" to a "primary" function, and successfully put more emphasis on special operations forces in revisions to the five-year National Defense Program Outline (NDPO) that was adopted in December 2004. The plan also calls for a shift away from the defense of Japanese territory, the traditional basis for Japan's force structure, toward a force structure that is lighter, more mobile, and more deployable. The revised force structure would parallel the U.S. military's current efforts to "transform" its forces to meet 21<sup>st</sup>-century threats, and some observers see the proposal as designed to enable Japan's Self-Defense Forces to provide support to U.S. military forces engaged in world-wide antiterrorism operations. Proposals to transfer the U.S. on Okinawa to areas of mainland Japan, particularly to Camp Zama on Honshu and/or areas on the northern island of Hokkaido, have run into considerable opposition from local politicians. In January 2005, the United States and Japan reportedly agreed to establish a set of working groups to discuss specifics about the realignment of U.S. forces in Japan.

**U.S.-Japan-China Relations.** At present, Japan seems to view China's rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations deteriorate, but also when they are too close. Japan's own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands in the East China Sea, Chinese intrusions into what Japan considers its 200-mile economic zone, and Japan's concerns about China's rising power and influence. Japan's 2005-2009 defense plan for the first time mentions China as a security problem, and Japan has cut its assistance to China in half since 2000. 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 concomitant expansion of China's regional influence.

**Converging Korean Peninsula Priorities?** In September 2002, Japanese Prime Minister Junichiro Koizumi traveled to Pyongyang for a historic summit with Kim Jong-il that momentarily restarted normalization talks between the two countries, which have not established official relations since North Korea was founded in 1948. During the visit, Kim Jong-il admitted to Koizumi that North Korea had abducted 13 Japanese nationals in 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 toward Pyongyang. In October 2002, 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 Koizumi government subsequently prevented the five from returning to North Korea (perhaps at the abductees' request) and demanded that Pyongyang release their family members. Stalemate over the abductee issue, combined with the eruption of the North Korean nuclear crisis in October 2002, caused Japan-North Korea normalization talks to stall for a year and a half.

In May 2004, Koizumi won the family members' release by traveling to Pyongyang for another one-day summit. Koizumi also pressed Kim Jong-il to abandon his nuclear weapons program and pledged during the same visit to provide 250,000 tons of rice and \$10 million in other aid to the North. 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. Shortly thereafter, the Bush Administration submitted its first and only detailed negotiating position at the six-party talks (involving North Korea, the United States, China, South Korea, Japan, and Russia) to discuss the North Korean nuclear issue. Japan's position hardened in December 2004, after Japanese DNA tests invalidated North Korea's claims that boxes of remains delivered to Japan were those of deceased kidnap victims. Following this development, the Japanese government suspended its aid shipments to North Korea, and calls within Japan for an imposition of sanctions increased. The Bush Administration and Congress have supported Japan's insistence on a full accounting of the fate of Japanese citizens kidnapped by North Korea. The North Korean Human Rights Act, which the 108<sup>th</sup> Congress passed and President Bush signed into law in October 2004, (P.L. 108-333) U.S. nonhumanitarian assistance to North Korea is made contingent on North Korea's "substantial progress" toward fully disclosing information about the abductees.

While resisting the calls to impose sanctions, Prime Minister Koizumi has said that normalization talks will not continue unless Pyongyang begins dismantling its nuclear program and is more cooperative on the abductions issue. His government also has toughened enforcement of Japan's controls on the export of potential dual-use items to North Korea, and has secured passage of legislation that would give the government the right to block visits to Japanese ports by ships deemed to be a security risk and that lack property and indemnity insurance (less than 5% of North Korean commercial vessels are thought to be adequately insured). Between 2002 and 2004, port calls by North Korean ships fell by about 25%, and two-way trade flows decreased by 33%, from about \$390 million to around \$260 million. Also, 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, though they still are estimated to total tens of millions of dollars a year. (For more information, see CRS Report RL32161, *Japan-North Korea Relations: Selected Issues*, by Mark Manyin; CRS Report RL32428, *Japanese Prime Minister Koizumi's May 2004 Trip to North Korea: Implications for U.S. Objectives*, by Richard P. Cronin, and CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations*, by Larry Niksch.)

**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 of internment from a fund of seized Japanese assets administered by a War Claims Commission (WCC) established by Congress 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 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 (*Taiheiyō Cement Co. v. Superior Court*, no. S113759).

A number of bills and amendments introduced in the 107<sup>th</sup> 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 FY2001 appropriations bill, which 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 World War II, 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 were introduced in the 108<sup>th</sup> Congress to achieve the same purposes. Several of these passed in at least one house during the first session, but none were 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 five-year defense plan for 2005-2009 calls on Japan to become more engaged militarily in the Indian Ocean region from the Middle East to Southeast Asia, permits military exports to the United States for development of joint missile defense, mentions China as a security problem (the first such mention in a five-year plan), and increases the size of rapid reaction forces, whose main mission is to prevent infiltration from North Korea.

Japan's new five-year defense plan for 2005-2009 calls on Japan to become more engaged militarily in the Indian Ocean and Southeast Asia, permits military exports to the United States for development of joint missile defense, mentions China as a security problem (the first such mention in a five-year plan), and increases the size of rapid reaction forces. An emerging point of Sino-Japanese tensions is the East China Sea, where China and Japan have overlapping territorial claims over the Senkaku (Diaoyu) islands and the undersea mineral resources.

**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 reshape the structure of military bases on the island. There have been widespread calls on Okinawa for a renegotiation 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.

Recent U.S. announcements of troop withdrawals from South Korea and plans to withdraw 70,000 military personnel from Europe and Asia have raised speculation that U.S. troop strength on Okinawa might be reduced. In 2004, about 3,000 U.S. Marines from Okinawa were dispatched to Iraq. Marine General Wallace Gregson has stated that Marines could be relocated from Okinawa to bases on the Japanese mainland. 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 would 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, which is in the heart of a densely populated area, to another

site on the island. The crash of a Marine helicopter from Futenma at a nearby university campus in August 2004 reportedly prompted the Pentagon to consider a withdrawal from Futenma. 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.

**Proposed U.S. Command Structure Changes.** In line with U.S. plans for global and regional force structure changes, the Pentagon reportedly has proposed to Japan two major command changes. One would shift the 1<sup>st</sup> Army Corps headquarters from Washington State to Camp Zama in Japan. The second would integrate the 13<sup>th</sup> Air Force on Guam into the 5<sup>th</sup> Air Force command and base the new command at the U.S. Yokota Air Base, where the 5<sup>th</sup> Air Force command currently is located. These changes would make Japan a greater focal point of the U.S. command structure in the Pacific.

**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. It was reported that at a U.S.-Japan meeting in August 2004, Japanese officials suggested that Japan reduce its HNS on grounds that Japan is now making a greater direct contribution to the alliance.

**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, but another emerging point of tensions is the East China Sea, where China and Japan have overlapping territorial claims over the Sankaku islands and the underseas mineral resources. In January 2005, it was reported that Japan had developed military plans to dispatch 55,000 troops into the East China Sea area if the disputes deteriorate into an armed clash.

Until its unprecedented dispatch of a small naval flotilla and transport aircraft to provide noncombat logistical support of U.S. forces operating in the Indian Ocean following the September 11, 2001 terrorist attacks, Japan had 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 and in the U.S.-led coalition in Iraq, but in noncombat roles. As of mid-August 2004 some 600 ground troops were providing humanitarian relief and reconstruction assistance in the area around Samawa, in southern Iraq, backed up by air and sea transport units.

Japan's 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. In mid-2004, the Bush Administration stepped into the issue directly, in contrast to the traditional U.S. stance that revising Article 9 should be decided by Japanese. Top U.S. officials called for changes to Article 9. Then-Secretary of State

Colin Powell said that Japan must revise Article 9 in order to realize its goal of permanent membership on the United Nations Security Council. One reported motive for the Bush Administration's intervention is that Article 9 is closely linked to the three "non-nuclear principles," barring nuclear weapons and nuclear-powered naval ships from Japanese territory, that Japan adopted after World War II. U.S. plans to mothball the remaining non-nuclear aircraft carrier, currently homeported in Japan, raise questions about the future of the homeporting arrangement if the non-nuclear principles would bar nuclear-powered aircraft carriers.

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.

**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 on the basis of 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 2004. At one time Japan was the largest source of foreign direct investment in the United States but, as of the end of 2003, it was the second largest source (behind the United Kingdom). It was the fourth-largest target for U.S. foreign direct investment abroad as of the end of 2003. The United States remains Japan's largest export market and second-largest source of imports as of the end of 2004.

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, but slowed down to just 0.4% growth during the third quarter of 2004.

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 but increased to \$75.2 billion in 2004.

**Table 1. U.S. Trade with Japan, 1996-2004**  
(\$ 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
2004	54.4	129.6	-75.2

**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 in December 2003, in response to the discovery of a case of "mad cow" disease in Washington State. On February 8, 2005, U.S. Agriculture Secretary Mike Johanns had announced that Japan had accepted the U.S. method for determining the age of cattle that were the source of processed beef. This issue had been a point of contention between the two countries. However, Japanese government officials now contend that it is up to the Food Safety Commission, an independent Japanese government body, to make the final decision on lifting a ban. The issue has reached the highest political levels. In a March 9, 2005 telephone call to Prime Minister Koizumi, President Bush urged the Japanese leader to end the ban.<sup>3</sup> Members of Congress have weighed in on the issue as well. H.Res. 137 (Moran-KS) and S.Res. 87 (Thune-SD) were introduced on March 3 and March 17, respectively. The resolutions express the sense of the respective Houses of Congress, that the U.S. government should impose economic sanctions against Japan, if Japan does not

<sup>3</sup> *Washington Trade Daily*, March 10, 2005.

lift the ban. 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.<sup>4</sup>

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 (which 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 was passed by the 108<sup>th</sup> Congress. However, there is strong resistance in the Congress to repealing the "Byrd Law." In November 26, 2004, the WTO authorized Japan and seven other countries to impose sanctions against the United States, but they have all decided to wait to do so.<sup>5</sup>

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.

## Japanese Political Developments

(This section was written by Mark Manyin)

**Current Situation.** Prime Minister Junichiro Koizumi's term will end at the latest in September 2006, when his position as president of the ruling Liberal Democratic Party expires. Koizumi already is Japan's fourth-longest-serving prime minister since the end of World War II. He has entered his last year and a half in office committed to an ambitious

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<sup>4</sup> U.S. Department of Agriculture. Economic Research Service. *FATUS Export Aggregations*.

<sup>5</sup> *International Trade Reporter*. January 20, 2005. p. 90.

and agenda that includes such items as revising Japan's constitution, higher sales taxes, and privatizing aspects of its postal service. The controversy raised by some of these items, combined with his "lame duck" status and the unpopularity of his dispatch of Japanese troops to Iraq, has cut into his previously high public approval ratings in recent months. The erosion in his popularity was particularly noticeable in the July 2004 national elections for one-third of the seats in the Upper House of the Diet, 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. 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. Indeed, for the first time since Koizumi assumed office, another name — LDP deputy secretary general Shinzo Abe — has outpolled the prime minister in some polls.

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 reelected 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 on Japanese policy. Most important, the relative weakness of the Japanese prime minister and cabinet often make it difficult 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 United States 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 more than 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 policymaking; 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 Policymaking.** 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 cliquelike 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 toward 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 intraparty 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 decisionmaking 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 benefited 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's approval ratings have risen to the 25%-30% range in many polls, compared with the 35%-40% range for the LDP. 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. In particular, the issue of revising the war-renouncing Article 9 of the Japanese constitution is generating considerable internal debate in the DPJ. As a result, on many issues the DPJ has not formulated coherent alternative policies to the LDP.

## LEGISLATION

**S. 384 (DeWine).** Amends the Japanese Imperial Government Disclosure Act of 2000 to extend from four to six years the existence of the Nazi War Crimes and Japanese Imperial Government Records Interagency Working Group. Introduced February 15, 2005.

**H.R. 30 (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 January 4, 2005; referred to House Committee on Armed Services. Similar legislation in the 108<sup>th</sup> Congress (H.R. 595) did not see action outside of committee.