

Japan-U.S. Relations: Issues for Congress

(name redacted), Coordinator
Specialist in Asian Affairs

(name redacted)
Specialist in Asian Affairs

(name redacted)
Analyst in Asian Affairs

(name redacted)
Specialist in International Trade and Finance

(name redacted)
Analyst in International Trade and Finance

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Summary

Japan is a significant partner of the United States in a number of foreign policy areas, particularly in U.S. security priorities, which range from hedging against Chinese military modernization to countering threats from North Korea. The alliance facilitates the forward deployment of about 50,000 U.S. troops and other U.S. military assets based in Japan. In addition, Japan's participation in the Trans-Pacific Partnership (TPP) talks increases the significance of the proposed trade pact, which is a core component of Obama Administration efforts to "rebalance" U.S. foreign policy priorities toward the Asia-Pacific region.

After years of turmoil, Japanese politics has been relatively stable since the December 2012 election victory of current Prime Minister Shinzo Abe and his Liberal Democratic Party (LDP). Abe was re-elected as leader of his party in September 2015. The Japanese constitution does not require new Lower House elections until 2018. The LDP's victory in December 2014 elections provided Abe with some political capital to pursue the more controversial initiatives of his agenda, such as joining the proposed TPP trade pact and increasing the Japanese military's capabilities and flexibility. Political continuity in Tokyo has allowed Abe to reinforce his agenda of revitalizing the Japanese economy and boosting the U.S.-Japan alliance, both goals that the Obama Administration has actively supported.

On the other hand, comments and actions on controversial historical issues by Abe and members of his Cabinet have contributed to tense relations in the region. Compared to his predecessors, Abe has taken positions that many see as more strongly nationalist on a range of issues that have prompted strong negative reactions from China and South Korea. Issues include the so-called "comfort women" who provided sex to Japanese soldiers in the World War II era, Japanese history textbooks that critics claim whitewash Japanese atrocities, visits by Japanese leaders to the Yasukuni Shrine that honors Japan's war dead and includes Class A war criminals, and statements on territorial disputes in the Sea of Japan and the East China Sea. In August 2015, on the 70th anniversary of the end of World War II, Abe's much-anticipated statement drew criticism from Seoul and Beijing. Others, including the United States, welcomed the expression of remorse and the commitment to uphold past Japanese governments' apologies and statements on history.

U.S.-Japan defense cooperation has improved and evolved in recent decades as the allies adjust to new security challenges, such as the ballistic missile threat from North Korea and the confrontation between Japan and China over disputed islets. Despite large-scale protests, the Diet's passage of controversial security legislation in September 2015 will allow Japan to implement a 2014 Cabinet decision to relax Japan's past prohibition on participating in collective self-defense. Analysts see this move as allowing the Japanese military to play a greater role in global security. In April 2015, the two sides updated their bilateral defense guidelines to modernize security cooperation and improve alliance coordination during contingencies. Despite these advances, concerns remain about the implementation of an agreement to relocate the controversial Futenma base on Okinawa due to opposition from the local population.

Japan is one of the United States' most important economic partners. Outside of North America, it is the United States' second-largest export market and second-largest source of imports. Japanese firms are the United States' second-largest source of foreign direct investment, and Japanese investors are the largest foreign holders of U.S. treasuries. Japan, the United States, and 10 other countries are participating in the TPP free trade agreement negotiations. If successful, the negotiations could reinvigorate a bilateral economic relationship by addressing long-standing, difficult issues in the trade relationship. On the other hand, failure to do so could set back the relationship. If a TPP agreement is reached, Congress must approve implementing legislation before it would take effect in the United States.

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Recent Developments

Despite Declining Public Approval Ratings, Abe Easily Re-elected as LDP President

Prime Minister Shinzo Abe in September 2015 won overwhelming support from his ruling Liberal Democratic Party (LDP) colleagues for a second three-year term as party president. Abe ran for the party presidency unopposed. Abe's victory means that he will continue as prime minister; the Japanese Diet's (Parliament's) Lower House of Parliament chooses the prime minister, and Abe's LDP-led coalition controls more than two-thirds of the seats in the Lower House. Unless the LDP changes its rules limiting party presidents to two three-year terms—something it has done in the past—Abe's term in office will end in 2018. If he continues in office until the fall of 2017, Abe would become Japan's longest-serving prime minister since the 1960s.¹

Abe's unopposed re-election as LDP president came despite polls showing that his public support has weakened. For more than two years after leading the LDP to power in December 2012 elections, Abe's public approval ratings in most polls remained at or above 50%, extraordinarily high by recent Japanese standards. Abe rode this public support to two more election victories: the LDP-led coalition retook control of the Upper House in 2013 elections and retained control of the Lower House in 2014 elections. However, throughout 2015 support for his Cabinet has fallen steadily—in some polls to the high 30% level—coinciding with Abe's push to pass landmark security legislation (see section below). The legislation has led to large-scale protests of tens of thousands of people outside the Diet building, and in the summer of 2015 Abe's disapproval ratings surpassed his approval ratings for the first time.²

Despite Abe's apparent decreased popularity, few observers of Japan's political scene believe that Abe's premiership is in jeopardy, at least in the short run. In addition to facing no challengers in the LDP at the moment, Abe is benefitting from the apparent disarray in Japan's major opposition parties, whose rate of support is at or below 10% of voters. Two political developments to watch in the coming months are how the LDP coalition fares in July 2016 elections for the Upper House and whether Abe's poll numbers dip into the 20%-30% range, which historically has signaled trouble for the sitting prime minister.

World War II 70th Anniversary Statement and Regional Relations

On the eve of the 70th anniversary of the end of World War II, Abe released a much-anticipated statement marking the occasion. In the months leading up to the anniversary, China and South Korea pressured Tokyo to issue a forthright and "sincere" apology, and voiced suspicion that Abe would water down earlier Japanese statements from the 1990s that acknowledged Imperial Japan's aggression during the first half of the 20th century. The statement that emerged, issued as a Cabinet decision, committed to uphold the earlier statements, offered new language that contextualized Japan's involvement in the war, and expressed appreciation to erstwhile enemies who had welcomed Japan back into the international community following the war. The statement included specific terms demanded by South Korean officials but insisted that future generations of Japanese should not be "predestined" to apologize for their forefathers' actions. The U.S. National Security Council quickly issued a press release welcoming Abe's "expression of deep

¹ This calculation does not include the one year of Abe's first stint as Prime Minister in 2006 and 2007.

² "Abe Cabinet's Approval Rating Falls to 38.5% in Latest Opinion Poll," *The Japan Times*. September 11, 2015.

remorse,” and Australia offered a similar endorsement. Chinese reactions criticized Abe’s lack of “sincerity,” and South Korean President Park Geun-hye noted that the statement “did not quite live up to our expectations” but hinted at some guarded optimism for the improvement of bilateral relations. Domestically, polls indicated that the Japanese public mostly approved of the statement, though it drew criticism from both the left and right.

Abe and Park have not yet held a bilateral summit, though they have met on several occasions, and Chinese President Xi Jinping’s brief meeting with Abe in November 2014 was the leaders’ first since both took office in 2012 (they held another short meeting on April 23, 2015). Despite lingering issues surrounding Abe’s earlier visit to the Yasukuni Shrine and Japan’s handling of the “comfort women” issue (see “Abe and Historical Issues” section), Tokyo’s ties with Seoul and Beijing appear to be on a very modest upswing, with working-level efforts continuing to defuse the most acute tensions that have marked Japan’s relations with its Northeast Asian neighbors since Abe took office. Abe, Xi, and Park are scheduled to meet together in Seoul in late October 2015, which would be the first trilateral summit since 2012. Some Japanese and Korean media sources report that an Abe-Park summit may be held in conjunction with the trilateral meeting.³

Security Legislation

The LDP’s efforts to pass controversial security legislation, and the efforts of political opponents to thwart its passage, dominated the Diet’s summer session. The security legislation is a package of new laws and amendments to existing laws that, collectively, will expand the scope of Japan’s security activities. The new legislation will implement the July 2014 Abe Cabinet decision enabling Japan to engage in collective self-defense under certain conditions (see “Collective Self-Defense” section). Japan’s military, called the Japan Self Defense Forces (SDF), will be legally permitted to help defend the United States (or another country) if it comes under attack and that attack threatens Japan. The SDF will have more latitude to provide logistical support to the U.S. military and other forces that are engaged in overseas missions protecting Japan’s security. The security legislation also expands the SDF’s rules of engagement to facilitate the rescue of Japanese nationals overseas, more robust peacekeeping activities, inspection of ships suspected of illegally transporting weapons, and other cooperative security activities. Overseas dispatches of the SDF will still require Diet approval but will no longer require special legislation to authorize each mission, as in past dispatches.

The LDP’s push to pass the legislation generated intense opposition, both in the Diet and among the general public, particularly after an LDP-chosen constitutional scholar testified that the Abe cabinet’s decision was in fact unconstitutional. This galvanized widespread protest: local assemblies passed resolutions and nearly 10,000 scholars and public intellectuals signed petitions opposing the legislation.⁴ In July, public protests materialized: media outlets in Japan claimed that over 100,000 people demonstrated outside the Diet buildings after the bills were introduced, although police put the numbers closer to 30,000.⁵ Demonstrators criticized the laws as unconstitutional and claimed that they risked pulling Japan into U.S.-led wars overseas.

³ “Abe-Park First Summit Eyed for Late October,” *The Japan Times*. September 3, 2015.

⁴ Sheila Smith, “Japan’s Diet Uproar,” *Asia Unbound*. July 15, 2015.

⁵ “Thousands Protest Abe, Security Bills at Diet Rally,” *The Japan Times*. August 30, 2015.

TPP Negotiations and Trade Promotion Authority⁶

Japan has been negotiating a potential free trade agreement (FTA) with the United States since it became the 12th and latest country to join the Trans-Pacific Partnership (TPP) talks in July 2013. From a U.S. perspective, Japan's participation greatly increased the economic significance of the potential FTA, but also introduced a number of challenges into the TPP negotiations, particularly in the areas of auto and agricultural trade liberalization. Bilateral U.S.-Japan market access issues appear to be largely resolved; however, Mexico and Canada have raised concerns about the reported U.S.-Japan agreement on auto rules of origin. This and other contentious issues, including the level of protections for biologic drugs (drugs made from living organisms) and market access for dairy products, reportedly prevented the 12 countries from reaching an agreement at the latest ministerial meeting in Maui, HI, in late July 2015 (see "Bilateral Trade Issues").⁷ Trade ministers noted significant progress made at the meeting, suggesting a final deal was nearly achieved,⁸ but according to press reports key differences remain and political timelines in TPP countries could make concluding the agreement difficult in the near future.⁹

President Obama and Prime Minister Abe have made the agreement a centerpiece of U.S.-Japan bilateral relations, but both leaders may face increasing headwinds in their TPP efforts. U.S. elections in 2016 could make a politically sensitive trade vote more difficult in the U.S. Congress, while Prime Minister Abe's ability to push his trade agenda may be constrained by his falling approval ratings, the considerable political capital he has expended on controversial defense legislation, and by Japan's Upper House elections in July 2016.

The Maui ministerial was the Obama Administration's first TPP negotiation under the congressional grant of Trade Promotion Authority (TPA).¹⁰ Congress has constitutional authority over U.S. foreign commerce and would be required to approve implementing legislation if a completed TPP agreement is to apply to the United States. TPA is the authority that allows for trade agreements negotiated by the President to receive expedited legislative consideration if they advance U.S. trade negotiating objectives established by Congress and meet certain notification and consultation requirements. In particular, implementation legislation would not be subject to amendment and would be guaranteed an up or down vote within a certain timeframe, providing some assurance to U.S. negotiating partners that an agreement they sign with the U.S. Administration will not later be changed by Congress. The Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (P.L. 114-26), which renewed TPA, was signed into law by the President on June 29, 2015.

⁶ For more on the TPP negotiations, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by (name redacted) .

⁷ For more on the Maui Ministerial, see CRS Insight IN10337, *The TPP After Maui*, by (name redacted) and (name redacted) .

⁸ USTR, "Update on the Trans-Pacific Partnership Negotiations," press release, August 2015, <https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications/2015/update-trans-pacific-partnership>.

⁹ "Pacific Rim Free Trade Talks Falls Short of Deal," *Reuters*, August 1, 2015.

¹⁰ For more on TPA, see CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by (name redacted) ; CRS Report R43491, *Trade Promotion Authority (TPA): Frequently Asked Questions*, by (name redacted) and (name redacted); and CRS In Focus IF10038, *Trade Promotion Authority (TPA)*, by (name redacted) .

U.S. Base Relocation in Okinawa

The political contestation between Tokyo and Okinawa over the relocation of Marine Corps Air Station Futenma appears to be entering a new phase in late 2015. The U.S. and Japanese governments have been working for over a decade to relocate the Futenma base from a crowded urban area to the Henoko shoreline of Camp Schwab, but many Okinawans oppose construction of a new U.S. military facility at this site (see the section “Realignment of the U.S. Military Presence on Okinawa”). Talks between the Japanese central government and the Governor of Okinawa Prefecture Takeshi Onaga, who was elected in November 2014 on a platform opposed to the controversial Futenma base relocation, did not result in a compromise or a change of position by either side. The Japanese government intends to begin constructing the landfill as soon as October 2015 for the planned Futenma replacement facility at the Henoko site. Governor Onaga declared that he would fight the base construction in the courts by revoking the landfill permit that his predecessor approved. Japanese government officials appear confident that the landfill permit is not legally flawed, and they have the authority to continue construction while the courts hear Onaga’s case.¹¹ These developments may lead to a phase of intensified political struggle, as Okinawans opposed to the base relocation may escalate protests outside Camp Schwab and take extreme measures to prevent the start of land reclamation at the Henoko site.

¹¹ Eric Johnston, “Okinawa governor moves to revoke approval for Futenma replacement work,” *Japan Times*, September 14, 2015.

Figure I. Map of Japan



Source: Map Resources. Adapted by CRS.

Japan Country Data

Population: 126,919,659 (July 2015 est.)
Percentage of Population over 64: 26.59% (U.S. = 12.4%)
Life Expectancy: 84.7 years
Area: 377,835 sq km (slightly smaller than California)
Per Capita GDP: \$37,400 (2014 est.) purchasing power parity
Primary Export Partners: US 18.9%, China 18.3%, South Korea 7.5%, Hong Kong 5.5%, Thailand 4.5% (2014)
Primary Import Partners: China 22.3%, US 9%, Australia 5.9%, Saudi Arabia 5.9%, UAE 5.1%, Qatar 4.1%, South Korea 4.1% (2014)
Yen: Dollar Exchange Rate: 105.8 (2014 est.), 97.44 (2013 est.), 79.42 (2012 est.), 79.81 (2011 est.), 87.78 (2010 est.)
Source: CIA, *The World Factbook*, September 2015.

Japan's Foreign Policy and U.S.-Japan Relations

The U.S.-Japan relationship is broad, deep-seated, and stable. Regionally, Tokyo and Washington share the priorities of managing relations with a rising China and addressing the North Korean threat. Globally, the two countries cooperate on scores of multilateral issues, from nuclear nonproliferation to disaster relief. In 2014, Japan contributed significantly to the international humanitarian responses to the conflict in Syria and the outbreak of Ebola. In April 2015, Abe made a historic address to a joint meeting of Congress, the first such speech by a Japanese Prime Minister.

The return of the conservative LDP to power in late 2012, led by Prime Minister Abe, has stabilized Japanese politics. The LDP coalition controls both chambers of the Japanese parliament, known as the Diet, with no Lower House elections required until 2018. This period of expected stability follows a prolonged stretch of divided government from 2007 until 2012, when six different men served as Prime Minister, each for about one year.

The consolidation of power around Abe and his conservative base in the LDP has both positive and negative implications for the United States. On the one hand, the combination of political continuity in Tokyo and Abe's implementation of many policies that the United States favors have provided a much firmer foundation for U.S.-Japan cooperation and planning on a wide range of regional matters. Specifically, Abe has taken steps to break the logjam on the relocation of a U.S. Marine Corps base in Okinawa, increased Japan's diplomatic and security presence in East Asia, and brought Japan into the 12-nation Trans-Pacific Partnership (TPP) trade negotiations that include the United States. He has also moved aggressively to accelerate the slow economic growth that has characterized the economy for much of the past two decades. Simultaneously, however, Abe and his government may have jeopardized U.S. interests in the region by taking steps that aggravate historical animosities between Japan and its neighbors, particularly China and South Korea. Under the Obama Administration, the United States has tried to strike a balance between deepening the alliance as part of its Asia rebalance policy and quietly pressuring Japan to avoid upsetting regional relations.

Abe and Historical Issues

Historical issues have long colored Japan's relationships with its neighbors, particularly China and South Korea, which argue that the Japanese government has neither sufficiently "atoned" for nor adequately compensated them for Japan's occupation and belligerence in the early 20th century. Abe's selections for his cabinets include a number of politicians known for advocating nationalist, and in some cases ultra-nationalist, views that many argue appear to glorify Imperial Japan's actions.

During a previous year-long stint as prime minister in 2006-2007, Abe was known for his nationalist rhetoric and advocacy for more muscular positions on defense and security matters, but at the same time succeeded in improving relations with China and South Korea through pragmatic diplomacy. Some of Abe's positions—such as changing the interpretation of Japan's constitution to allow for Japanese participation in collective self-defense—largely have been welcomed by U.S. officials eager to advance military cooperation. Other statements, however, suggest that Abe embraces a revisionist view of Japanese history that rejects the narrative of Imperial Japanese aggression and victimization of other Asians. He has been associated with groups arguing that Japan has been unjustly criticized for its behavior as a colonial and wartime power. Among the positions advocated by these groups, such as *Nippon Kaigi Kyokai*, are that Japan should be applauded for liberating much of East Asia from Western colonial powers, that

the 1946-1948 Tokyo War Crimes tribunals were illegitimate, and that the killings by Imperial Japanese troops during the 1937 “Nanjing massacre” were exaggerated or fabricated.¹²

During his second term, Abe initially made several statements that drew protest from Seoul and Beijing, but since 2013 he has generally avoided language and actions that would upset regional relations. Abe suggested early in his term that he may not re-affirm the apology for Japan’s wartime actions issued by then-Prime Minister Tomiichi Murayama in 1995; the Murayama Statement is regarded as Japan’s most significant official apology for wartime acts. Similar treatment was given to the 1993 Kono Statement (see “Comfort Women Issue” section below); an official inquiry into its drafting seemed to undermine the legitimacy of the apology, even as the Chief Cabinet Secretary pledged to uphold the statement. U.S. government officials and Members of Congress encouraged Abe and his government to back the Murayama and Kono statements. In both his April 2015 address to a joint meeting of the U.S. Congress and his 70th anniversary statement, Abe himself stated that his government would uphold the Kono and Murayama statements.

Yasukuni Shrine

The controversial Yasukuni Shrine has been a flashpoint for regional friction over history. The Tokyo shrine was established to house the spirits of Japanese soldiers who died during war, but also includes 14 individuals who were convicted as Class A war criminals after World War II. The origins of the shrine reveal its politically charged status. Created in 1879 as Japan’s leaders codified the state-directed Shinto religion, Yasukuni was unique in its intimate relationship with the military and the emperor.¹³ The Class A war criminals were enshrined in 1978; since then, the emperor has not visited the shrine, and scholars suggest that it is precisely because of the criminals’ inclusion. Adjacent to the shrine is the Yushukan, a war history museum, which to many portrays a revisionist account of Japanese history that at times glorifies its militarist past.

In December 2013, Prime Minister Abe paid a highly publicized visit to Yasukuni Shrine, his first since becoming prime minister. Response to the visit, which had been discouraged in private by U.S. officials, was uniformly negative outside of Japan. Unusually, the U.S. Embassy in Tokyo directly criticized the move, releasing a statement that said, “The United States is disappointed that Japan’s leadership has taken an action that will exacerbate tensions with Japan’s neighbors.”¹⁴ Since then, sizeable numbers of LDP lawmakers, including a number of Cabinet ministers, have periodically visited the Shrine on ceremonial days, including the sensitive date of August 15, the anniversary of Japan’s surrender in World War II. The Japanese politicians say that they go to Yasukuni to pay respects to the nation’s war dead, as any national leaders would do. Some politicians and observers have suggested that the Chidorigafuchi National Cemetery, which houses the remains of unidentified Japanese killed in World War II, could serve as an alternative place to honor Japan’s war dead. In October 2013, U.S. Secretary of State John Kerry and Secretary of Defense Chuck Hagel paid their respects at Chidorigafuchi. Abe has periodically visited ceremonial events and paid respects at Chidorigafuchi throughout his term.

¹² See, for instance, Asia Policy Point, *The Abe Administration Cabinet 2012-2014*, August 2, 2014.

¹³ John Breen, ed., *Yasukuni, the War Dead and the Struggle for Japan’s Past* (New York: Columbia University Press, 2008).

¹⁴ “Statement on Prime Minister Abe’s December 26 Visit to Yasukuni Shrine,” U.S. Embassy in Tokyo, Japan, December 26, 2013, <http://japan.usembassy.gov/e/p/tp-20131226-01.html>.

Comfort Women Issue

Other regional powers have criticized Abe's statements on the so-called "comfort women," who were forced to provide sexual services for Japanese soldiers during the imperial military's conquest and colonization of several Asian countries in the 1930s and 1940s. In the past, Abe has supported the claims made by many conservatives in Japan that the women were not directly coerced into service by the Japanese military. When he was prime minister in 2006-2007, Abe voiced doubts about the validity of the 1993 Kono Statement, an official statement issued by then-Chief Cabinet Secretary Yohei Kono that apologized to the victims and admitted responsibility by the Japanese military. At that time, the U.S. House of Representatives was considering H.Res. 121 (110th Congress), calling on the Japanese government to "formally acknowledge, apologize, and accept historical responsibility" for forcing young women into military prostitution, Abe appeared to soften his commentary and asserted that he would stand by the statement. (The House later overwhelmingly endorsed the resolution.)¹⁵

In the past, Abe has suggested that his government might consider revising the Kono Statement, but has recently pledged to uphold the statement. In June 2014, in response to a request by an opposition party Diet member, the Abe government released a study that examined the Kono Statement and concluded that it had been crafted in consultation with Seoul, implying that the document was not based solely on historical evidence. The Abe Cabinet did not take any steps to disavow the Kono Statement, but critics claimed that the study discredits the apology and gives further proof of Tokyo's (and specifically Abe's) revisionist aims.

The issue of the so-called comfort women has gained visibility in the United States, due in part to Korean American activist groups. These groups have pressed successfully for the erection of monuments commemorating the victims, passage of a resolution on the issue by the New York State Senate, and the naming of a city street in the New York City borough of Queens in honor of the victims. In September 2015, the San Francisco Board of Supervisors voted to erect a memorial to the comfort women, spurring the Japanese government to call the decision "extremely regrettable" and "incompatible with the Japanese government's view of and approach to the issue."

Territorial Dispute with China

Japan and China have engaged in a struggle over islets in the East China Sea known as the Senkakus in Japan, Diaoyu in China, and Diaoyutai in Taiwan. The uninhabited territory, administered by Japan but also claimed by China and Taiwan, has been a subject of contention for years, despite modest attempts by Tokyo and Beijing to jointly develop the potentially rich energy deposits nearby, most recently in 2008-2010. In August 2012, the Japanese government purchased three of the five islands from a private landowner in order to preempt their sale to Tokyo's nationalist governor, Shintaro Ishihara.¹⁶ Claiming that this act amounted to "nationalization" and

¹⁵ In the 113th Congress, the 2014 Consolidated Appropriations Act (P.L. 113-76, H.R. 3547) indirectly referred to this resolution. P.L. 113-76's conference committee issued a Joint Explanatory Statement that called on Federal Agencies to implement directives contained in the July 2013 H.Rept. 113-185, which in turn "urge[d] the Secretary of State to encourage the Government of Japan to address the issues raised" in H.Res. 121.

¹⁶ In April 2012, Tokyo governor Shintaro Ishihara announced in Washington, DC, that he intended to purchase three of the five islets from their private Japanese owner. Ishihara, who is known for expressing nationalist views, called for demonstrating Japan's control over the islets by building installations on the island and raised nearly \$20 million in private donations for the purchase. In September, the central government purchased the three islets for ¥2.05 billion (about \$26 million at an exchange rate of ¥78:\$1) to block Ishihara's move and reduce tension with China.

thus violated the tenuous status quo, Beijing issued sharp objections. Chinese citizens held massive anti-Japan protests, and the resulting tensions led to a drop in Sino-Japanese trade. In April 2013, the Chinese foreign ministry said for the first time that it considered the islands a “core interest,” indicating to many analysts that Beijing was unlikely to make concessions on this sensitive sovereignty issue.

Starting in the fall of 2012, China began regularly deploying maritime law enforcement ships near the islands and stepped up what it called “routine” patrols to assert jurisdiction in “China’s territorial waters.”¹⁷ Chinese military surveillance planes reportedly have entered airspace that Japan considers its own, in what Japan’s Defense Ministry has called the first such incursion in 50 years.¹⁸ In 2013, near-daily encounters occasionally escalated: both countries scrambled fighter jets, and, according to the Japanese government, a Chinese navy ship locked its fire-control radar on a Japanese destroyer and helicopter on two separate occasions. Since early 2014, however, the number of Chinese vessels that have entered Japan’s contiguous zone or intruded into territorial sea surrounding the Islands has decreased.¹⁹ In November 2014, Japan and China agreed to re-start talks on establishing a maritime communication mechanism to prevent unexpected military encounters.

U.S. administrations going back at least to the Nixon Administration have stated that the United States takes no position on the territorial disputes. However, it also has been U.S. policy since 1972 that the 1960 U.S.-Japan Security Treaty covers the islets, because Article 5 of the treaty stipulates that the United States is bound to protect “the territories under the Administration of Japan” and Japan administers the islets.²⁰ China’s increase in patrols appears to be an attempt to demonstrate that Beijing has a degree of administrative control over the islets, thereby casting into doubt the U.S. treaty commitment. In its own attempt to address this perceived gap, Congress inserted in the FY2013 National Defense Authorization Act (H.R. 4310, P.L. 112-239) a resolution stating, among other items, that “the unilateral action of a third party will not affect the United States’ acknowledgment of the administration of Japan over the Senkaku Islands.” For more information, see CRS Report R42761, *Senkaku (Diaoyu/Diaoyutai) Islands Dispute: U.S. Treaty Obligations*, by (name redacted), and CRS Report R42930, *Maritime Territorial Disputes in East Asia: Issues for Congress*, by (name redacted), (name redacted), and (name redacted)

The Senkaku/Diaoyu conflict embodies Japan’s security challenges. The maritime confrontation with Beijing is a concrete manifestation of the threat Japan has faced for years from China’s rising regional power. It also brings into relief Japan’s dependence on the U.S. security guarantee and its anxiety that Washington will not defend Japanese territory if Japan risks going to war with China. Operationally, Japan has built up the capacity of its military, known as the Japan Self Defense Forces (SDF), in the southwest part of the archipelago.

China’s Air Defense Identification Zone (ADIZ)

In November 2013, China abruptly announced that it would establish an air defense identification zone in the East China Sea, covering the disputed Senkaku/Diaoyu islets as well as airspace that

¹⁷ “Chinese Ships Continue Patrol Around Diaoyu Island,” *China Daily*, October 28, 2012.

¹⁸ “Japan Scrambles Jets in Islands Dispute with China,” *New York Times*, December 13, 2012.

¹⁹ Statistics provided by the Japanese Ministry of Foreign Affairs, http://www.mofa.go.jp/region/page23e_000021.html.

²⁰ Speaking in Japan in April 2014, President Obama stated that “Article 5 covers all territories under Japan’s administration, including the Senkaku Islands,” in what is believed to be the first time a U.S. President publicly has stated the United States’ position. The White House, “Joint Press Conference with President Obama and Prime Minister Abe of Japan,” Akasaka Palace, Tokyo, Japan, April 24, 2014.

overlaps with the existing ADIZs of Japan, South Korea, and Taiwan. China's announcement produced indignation and anxiety in the region and in Washington for several reasons: the ADIZ represented a new step to pressure—to coerce, some experts argue—Japan's conciliation in the territorial dispute over the islets; China had not consulted with affected countries; the announcement used vague and ominous language that seemed to promise military enforcement within the zone; the requirements for flight notification in the ADIZ go beyond international norms and impinge on the freedom of navigation; and the overlap of ADIZs could lead to accidents or unintended clashes, thus raising the risk of conflict in the East China Sea. Some analysts argue that China's ADIZ also represents a challenge to Japanese *administration* of the Senkaku/Diaoyu islets, which is the basis of the U.S. treaty commitment to defend that territory.

The U.S. and Japanese governments coordinated at a high level their individual and joint responses to China's ADIZ announcement, and both governments stated that they do not recognize the Chinese ADIZ. Two days after the announcement, the U.S. Air Force flew B-52 bombers on a planned training flight through China's new ADIZ without notifying China, and Japanese military aircraft did the same soon after. For more information and analysis, see CRS Report R43894, *China's Air Defense Identification Zone (ADIZ)*, by (name redacted) and (name redacted)

Japan and the Korean Peninsula

Japan's Ties with South Korea

As of September 2015, Abe and his South Korean counterpart, President Park Geun-hye, have yet to hold a summit. Japan's relations with South Korea have been strained since 2012, a situation that spurred President Obama to convene a trilateral meeting of heads of state on the sidelines of the Nuclear Security Summit in The Hague in March 2014. The meeting focused on cooperation to deal with North Korea's nuclear weapons program, but the underlying goal appeared to be to encourage Seoul and Tokyo to mend their frayed relations. The meeting appears to have opened the door for the two sides to improve their relationship somewhat, leading to more frequent and higher level bilateral meetings in the following months. In late 2014, U.S. defense officials pushed Tokyo and Seoul to sign on to a trilateral intelligence-sharing agreement that enables Japan and South Korea to exchange information regarding North Korea's missile and nuclear threats. As South Korea and Japan marked the 50th anniversary of their normalization of relations, meetings at the economic and foreign ministers' levels resumed. A poor relationship between Seoul and Tokyo jeopardizes U.S. interests by complicating trilateral cooperation on North Korea policy and on managing China's rise. Tense relations also complicate Japan's desire to expand its military and diplomatic influence, goals the Obama Administration generally supports, as well as the creation of an integrated U.S.-Japan-South Korea ballistic missile defense system.

The persistent Japan-Korea discord centers on history issues. South Korean leaders have objected to a series of statements and actions by Abe and his Cabinet officials that many have interpreted as denying or even glorifying Imperial Japan's aggression in the early 20th century. Officials in Japan refer to rising "Korea fatigue" among their public and express frustration that for years South Korean leaders have not recognized and in some cases rejected the efforts Japan has made to acknowledge and apologize for Imperial Japan's actions. Past overtures, including a proposal that the previous Japanese government floated in 2012 to provide a new apology and humanitarian payments to the surviving "comfort women," have faltered. In addition to the comfort women issue, the perennial issues of Japanese history textbooks and a territorial dispute between Japan and South Korea continue to periodically rile relations. A group of small islands in the Sea of Japan, known as Dokdo in Korean and Takeshima in Japanese (the U.S. government

refers to them as the Liancourt Rocks), are administered by South Korea but claimed by Japan. Japanese statements of the claim in defense documents or by local prefectures routinely spark official criticism and public outcry in South Korea. Similarly, Seoul expresses disapproval of some of the history textbooks approved by Japan's Ministry of Education that South Koreans claim diminish or whitewash Japan's colonial-era atrocities.

Japan's North Korea Policy

Since 2009, Washington and Tokyo have been largely united in their approach to North Korea, driven by Pyongyang's string of missile launches and nuclear tests. Japan has employed a hardline policy toward North Korea, including a virtual embargo on all bilateral trade and vocal leadership at the United Nations to punish the Pyongyang regime for its human rights abuses and military provocations.

In 2014, Abe appeared to adjust his approach to Pyongyang by re-opening talks regarding the long-standing issue of Japanese citizens kidnapped by North Korean agents decades ago. In 2002, then-North Korean leader Kim Jong-il admitted to the abductions and returned five survivors, claiming the others had perished from natural causes. Since that time, Abe has been a passionate champion for the abductees' families and pledged as a leader to bring home all surviving Japanese. In May 2014, back-channel negotiations between Tokyo and Pyongyang yielded an agreement by North Korea to investigate the remaining abductees' fates in exchange for Japan's relaxing some of its unilateral sanctions. By fall 2015, however, many analysts doubt that North Korea will deliver on its promises, and forward progress in bilateral relations appeared limited.

Renewed Relations with India, Australia, and ASEAN

The Abe Administration's foreign policy has displayed elements of both power politics and an emphasis on democratic values, international laws, and norms. Shortly after returning to office, Abe released an article outlining his foreign and security policy strategy titled "Asia's Democratic Security Diamond," which described how the democracies of Japan, Australia, India, and the United States could cooperate to deter Chinese aggression on its maritime periphery.²¹ In Abe's first year in office, Japan held numerous high-level meetings with Asian countries to bolster relations and, in many cases, to enhance security ties. Abe had summit meetings in India, Russia, Great Britain, all 10 countries in the Association of Southeast Asian Nations (ASEAN), and several countries in the Middle East and Africa. Japan has particularly focused on issues of freedom of navigation in the South China Sea, in part because of the implications for Japan's trade flows and for the Senkakus/Diaoyu dispute. Since 2012, even before Abe came into office, Japan has been working to strengthen the maritime capabilities of Southeast Asian countries such as Vietnam and the Philippines, and Abe has accelerated these efforts, which the Obama Administration has supported.²² This energetic diplomacy indicates a desire to balance China's growing influence with a loose coalition of Asia-Pacific powers, but this strategy of realpolitik is couched in the rhetoric of international laws and democratic values.

Abe's international outreach has yielded positive results. Bilateral ties with Australia are robust; Abe's highly publicized July 2014 visit to Canberra yielded new economic and security

²¹ Shinzo Abe, "Asia's Democratic Security Diamond," *Project Syndicate*, December 27, 2012.

²² Testifying before the Senate Armed Services Committee on September 17, 2015, Assistant Secretary of Defense for Asian and Pacific Security Affairs David Shear said, "We strongly support Japanese efforts to coordinate with us in building partner capacity, particularly with countries like Vietnam, the Philippines, and probably in the future, Malaysia."

arrangements, including an agreement to transfer defense equipment and technology. Japan-Indian ties have blossomed under Abe and Prime Minister Narendra Modi, including expanded military exercises and negotiations on defense export agreements. Overall relations with ASEAN are also strong and provide quiet support for Japan's increasing role in Southeast Asia.

Japan-Russia Relations

Part of Abe's international diplomacy push has been to reach out to Russia. Japan and the Soviet Union never signed a peace treaty following World War II due to a territorial dispute over four islands north of Hokkaido in the Kuril Chain, known in Japan as the Northern Territories. Both Japan and Russia face security challenges from China and may be seeking a partnership to counter Beijing's growing economic and military power. Ambitious plans to revitalize relations with Moscow, including resolution of the disputed islands, however, have faltered. Russia's aggression in the Ukraine disrupted the improving relationship in 2014. Tokyo signed on to the G7 statement condemning Russia's action and implemented sanctions and asset freezes. Since then, relations have chilled, yet Japan has attempted to salvage the potential breakthrough by imposing only relatively mild sanctions despite pressure from the United States and other Western powers. In fall 2015, it appeared that the two countries were paving the way for Putin to visit Japan before the end of the year. Tokyo may face pressure from the United States to curb any further rapprochement with Moscow due to Russian actions that are perceived to harm U.S. interests in Europe and the Middle East.

International Child Custody Disputes

After several years of persistent but low-decibel pressure from the United States (including from Members of Congress), in April 2014 Japan acceded to the 1980 Hague Convention on the Civil Aspects of International Child Abduction. The Hague Convention sets out rules for resolving child custody in failed international marriages. In July 2014, Congress took further action to ensure worldwide compliance with the Hague Convention by passing the Sean and David Goldman International Child Abduction Prevention and Return Act of 2014 (P.L. 113-150). The law directs the U.S. government, especially the State Department, to devote additional resources to assist "left-behind" parents and to prevent child abduction with existing authorities. P.L. 113-150 also instructs the Secretary of State to take actions, which range from a demarche to the suspension of U.S. development and security assistance funding, against consistently noncompliant countries.

The United States reportedly has as many as 200 custody disputes with Japan.²³ In the months following Japan's accession to the Hague Convention, the rate of reported parental child abductions from the United States to Japan dropped significantly.²⁴ Some experts suggest that the provisions of the convention act as a strong deterrent. In its domestic laws, Japan only recognizes sole parental authority, under which only one parent has custodial rights, and there is a deep-rooted notion in Japan that the mother should assume custody. Japanese officials say that in many cases the issue is complicated by accusations of abuse or neglect on the part of the foreign spouse, though State Department officials dispute that claim.²⁵ Some observers fear that, given the

²³ "U.S. Fathers Urge Japan to Comply with Child Custody Treaty," Kyodo News Agency, March 31, 2014.

²⁴ "Hague Reduces Child Abductions," *Yomiuri Shimbun*, July 6, 2014. CRS interviews with State Department officials in November 2014 confirmed that the rate of new U.S.-Japan custody cases declined significantly after April 2014.

²⁵ U.S. State Department, "Press Availability on International Parent Child Abduction," Kurt Campbell, Assistant Secretary, Bureau of East Asian and Pacific Affairs, February 2, 2010.

existing family law system, Japanese courts may cite clauses in the Hague Convention that prevent return of the child in the case of “grave risk.”²⁶ Furthermore, the Hague Convention process for repatriation of a kidnapped child will only apply to cases initiated after April 2014, although parents in preexisting custody disputes now have a legal channel for demanding a meeting with the child.

U.S. World-War II-Era Prisoners of War (POWs)

For decades, U.S. soldiers who were held captive by Imperial Japan during World War II have sought official apologies from the Japanese government for their treatment. A number of Members of Congress have supported these campaigns. The brutal conditions of Japanese POW camps have been widely documented.²⁷ In May 2009, the Japanese Ambassador to the United States attended the last convention of the American Defenders of Bataan and Corregidor to deliver a cabinet-approved apology for their suffering and abuse. In 2010, with the support and encouragement of the Obama Administration, the Japanese government financed a Japanese/American POW Friendship Program for former American POWs and their immediate family members to visit Japan, receive an apology from the sitting Foreign Minister and other Japanese Cabinet members, and travel to the sites of their POW camps. Annual trips were held in 2010, 2011, 2012, 2013, and 2014.²⁸

In the 112th Congress, three resolutions—S.Res. 333, H.Res. 324, and H.Res. 333—were introduced thanking the government of Japan for its apology and for arranging the visitation program.²⁹ The resolutions also encouraged the Japanese to do more for the U.S. POWs, including by continuing and expanding the visitation programs as well as its World War II education efforts. They also called for Japanese companies to apologize for their or their predecessor firms’ use of un- or inadequately compensated forced laborers during the war. In July 2015, Mitsubishi became the first major Japanese company to apologize to U.S. POWs on behalf of its predecessor firm, which ran several POW camps that included over 1,000 Americans.³⁰

Japanese Participation in Sanctions on Iran

Japanese policies conformed to international sanctions on Iran in recent years, restricting international financial transactions, reducing crude oil imports from Iran, and taking other measures. The July 2015 nuclear accord between Iran and the so-called P5+1 (the United States, China, France, Russia, the United Kingdom, and Germany) known as the Joint Comprehensive Plan of Action provides for the relief of numerous international sanctions, after the International

²⁶ Koji Kawamura, “Japan Implements Domestic Law Concerning the Convention on the Civil Aspects of International Child Abduction,” *Monday Business Briefing*, April 4, 2014.

²⁷ By various estimates, approximately 40% held in the Japanese camps died in captivity, compared to 1%-3% of the U.S. prisoners in Nazi Germany’s POW camps. Thousands more died in transit to the camps, most notoriously in the 1942 “Bataan Death March,” in which the Imperial Japanese military force-marched almost 80,000 starving, sick, and injured Filipino and U.S. troops over 60 miles to prison camps in the Philippines. For more, see out-of-print 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 Reynolds (available from the co-authors of this report).

²⁸ For more on the program, see <http://www.us-japandialogueonpows.org/>. Since the mid-1990s, Japan has run similar programs for the POWs of other Allied countries.

²⁹ S.Res. 333 (Feinstein) was introduced and passed by unanimous consent on November 17, 2011. H.Res. 324 (Honda) and H.Res. 333 (Honda) were introduced on June 22, 2011, and June 24, 2011, respectively, and referred to the House Foreign Affairs Subcommittee on Asia and the Pacific.

³⁰ “Mitsubishi Materials Apologizes for Using US Prisoners of War as Slave Labor,” *The Guardian*. July 19, 2015.

Atomic Energy Agency certifies that Iran has completed the stipulated nuclear tasks. Many in Japan are hoping to rebuild what had been a robust bilateral trade and investment relationship with Iran, following the expected removal of sanctions in 2016. For more information and analysis on the Iran sanctions, see CRS Report RS20871, *Iran Sanctions*, by (name redacted).

As part of their efforts to enhance economic penalties on Iran during the 2000s and early 2010s, the Bush and Obama Administrations pushed Japan to curtail its economic ties with Tehran. In general, although Japan was a follower rather than a leader in the international campaign to pressure Tehran, Japanese leaders in recent years cooperated with the U.S.-led effort, reducing significantly what had been a source of tension between Washington and Tokyo. Japan had been a top consumer of Iranian oil exports until 2011, when it significantly curtailed imports in step with international sanctions. Japan's crude oil imports from Iran fell by roughly 40% in 2012 and declined a further 6% in 2013 and 5% in 2014, earning Japan exemptions from U.S. secondary sanctions. Japan restricted the activities of 21 Iranian banks, and many Japanese firms (including energy firms and investors) ceased doing business in Iran, which they viewed as a controversial and risky market.

According to reports, "expectations are high" among some Japanese exporters and energy firms for returning to business in Iran after sanctions are lifted.³¹ The Iranian and Japanese governments began talks on a bilateral investment pact in September 2015. Banks in Japan are said by experts to be the repositories of one-fifth of the approximately \$115 billion in foreign exchange (payments for past oil shipments) that Iran holds abroad but could not repatriate because of financial sector sanctions. The Japanese consortium Inpex (Japan's largest oil and gas exploration and production firm) may seek to once again acquire a major stake in Iran's Azadegan oil field, a position that it sold off in 2010 in response to U.S. pressure.³² Some Japanese automakers and machinery manufacturers reportedly are optimistic about the potential for increased exports to Iran.

Energy and Environmental Issues

Japan and the United States cooperate on a wide range of environmental initiatives both bilaterally and through multilateral organizations. In April 2013, Secretary of State John Kerry and the Japanese Foreign Minister launched a new bilateral dialogue to push for a post-2020 international agreement to combat climate change and to cooperate in advancing low-emissions development worldwide. Japan is considered to be closely aligned with the Obama Administration in international climate negotiations in its position that any international climate agreement must be legally binding in a symmetrical way, with all major economies agreeing to the same elements. The U.S. Department of Energy and Japan's Ministry of Energy, Trade, and Industry signed agreements in 2013 to step up civil nuclear cooperation on light-water nuclear reactor research and development (R&D) and nuclear nonproliferation. The U.S.-Japan Bilateral Commission on Civil Nuclear Cooperation focuses on safety and regulatory matters, emergency management, decommissioning and environmental management, civil nuclear energy R&D, and nuclear security. The U.S.-Japan Clean Energy Policy Dialogue (EPD) focuses on clean energy technology and development. Tokyo and Washington also cooperate on climate issues in multilateral and regional frameworks such as the International Energy Agency (IEA), the Asia-Pacific Economic Cooperation (APEC), the Clean Energy Ministerial (CEM), the International

³¹ "Japanese Companies Looking to Iran after Nuclear Accord," *Jiji Press Service*, July 15, 2015.

³² "Iran Official Says Possible for Japan to Return to Oil Field Project," *Kyodo News Agency*, July 20, 2015.

Energy Forum (IEF), and the East Asian Summit (EAS). However, because of the shutdown of Japan's nuclear reactors (see below), international observers have raised concerns about losing Japan as a global partner in promoting nuclear safety and nonproliferation measures and in reducing greenhouse gas emissions.³³

March 2011 "Triple Disaster"

On March 11, 2011, a magnitude 9.0 earthquake jolted a wide swath of Honshu, Japan's largest island. The quake, with an epicenter located about 230 miles northeast of Tokyo, generated a tsunami that pounded Honshu's northeastern coast, causing widespread destruction in Miyagi, Iwate, Ibaraki, and Fukushima prefectures. Some 20,000 lives were lost, and entire towns were washed away; over 500,000 homes and other buildings and around 3,600 roads were damaged or destroyed. Up to half a million Japanese were displaced. Damage to several reactors at the Fukushima Dai-ichi nuclear power plant complex led the government to declare a state of emergency and evacuate nearly 80,000 residents within a 20-kilometer radius due to dangerous radiation levels.

In many respects, Japan's response to the multifaceted disaster was remarkable. Over 100,000 troops from the Self Defense Forces (SDF), Japan's military, were deployed quickly to the region. After rescuing nearly 20,000 individuals in the first week, the troops turned to a humanitarian relief mission in the displaced communities. Construction of temporary housing began a week after the quake. Foreign commentators marveled at Japanese citizens' calm resilience, the lack of looting, and the orderly response to the strongest earthquake in the nation's modern history. Japan's preparedness—strict building codes, a tsunami warning system that alerted many to seek higher ground, and years of public drills—likely saved tens of thousands of lives.

Appreciation for the U.S.-Japan alliance surged after the two militaries worked effectively together to respond to the 2011 earthquake and tsunami. Years of joint training and many interoperable assets facilitated the integrated alliance effort. "Operation Tomodachi," using the Japanese word for "friend," was the first time that SDF helicopters used U.S. aircraft carriers to respond to a crisis. The USS *Ronald Reagan* aircraft carrier provided a platform for air operations as well as a refueling base for Japanese SDF and Coast Guard helicopters. Other U.S. vessels transported SDF troops and equipment to the disaster-stricken areas. Communication between the allied forces functioned effectively, according to military observers. For the first time, U.S. military units operated under Japanese command in actual operations. Specifically dedicated liaison officers helped to smooth communication. Although the U.S. military played a critical role, the Americans were careful to emphasize that the Japanese authorities were in the lead.

Despite this response to the initial event, the uncertainty surrounding the nuclear reactor meltdowns and the failure to present longer-term reconstruction plans led many to question the government's handling of the disasters. As reports mounted about heightened levels of radiation in the air, tap water, and produce, criticism emerged regarding the lack of clear guidance from political leadership. Concerns about the government's excessive dependence on information from Tokyo Electric Power Company (TEPCO), the firm that owns and operates the power plant, amplified public skepticism and elevated criticism about conflicts of interest between regulators and utilities.

Nuclear Energy Policy

Japan is undergoing a national debate on the future of nuclear power, with major implications for businesses operating in Japan, U.S.-Japan nuclear energy cooperation, and nuclear safety and nonproliferation measures worldwide. Prior to 2011, nuclear power was providing roughly 30% of Japan's power generation capacity, and the 2006 "New National Energy Strategy" had set out a goal of significantly increasing Japan's nuclear power generating capacity. However, the policy of expanding nuclear power encountered an abrupt reversal in the aftermath of the March 11, 2011, natural disasters and meltdowns at the Fukushima Daiichi nuclear power plant. Public trust in the safety of nuclear power collapsed, and a vocal anti-nuclear political movement emerged. This movement tapped into an undercurrent of anti-nuclear sentiment in modern Japanese society based on its legacy as the victim of atomic bombing in 1945. As the nation's 52 nuclear reactors

³³ Hideshi Futori, "Japan's Role in Asia's Nuclear Security," Woodrow Wilson Center, February 10, 2014.

were shut down one by one for their annual safety inspections in the months after March 2011, the Japanese government did not restart them (except a temporary reactivation for two reactors at one site in central Japan). No reactors were operating from September 2013 until August 2015.

The drawdown of nuclear power generation resulted in many short- and long-term consequences for Japan: rising electricity costs for residences and businesses; heightened risk of blackouts in the summer, especially in the Kansai region; widespread energy conservation efforts by businesses, government agencies, and ordinary citizens; the possible bankruptcy of major utility companies; and increased fossil fuel imports (see next section). The Institute of Energy Economics, Japan, calculated that the nuclear shutdowns led to the loss of 420,000 jobs and \$25 billion in corporate revenue in 2012 alone.³⁴

The LDP has promoted a relatively pro-nuclear policy, despite persistent anti-nuclear sentiment among the public. The Abe Administration released a Strategic Energy Plan in April 2014 that identifies nuclear power as an “important base-load power source,” although the plan does not provide target percentages for Japan’s ideal mix of different energy sources.³⁵ In September 2014, following a safety review, Japan’s Nuclear Regulation Authority (NRA) issued its approval to restart two nuclear reactors operated by Kyushu Electric. The first of these reactors resumed operations in August 2015. In the coming years, the government likely will approve the restart of many of Japan’s existing 48 nuclear reactors, but as many as half, or even more, may never operate again. Approximately 60% of the Japanese public opposes the restart of nuclear reactors, compared to approximately 30% in favor.³⁶ The Abe Cabinet faces a complex challenge: how can Japan balance concerns about energy security, promotion of renewable energy sources, the viability of electric utility companies, the health of the overall economy, and public concerns about safety? If Japan closes down its nuclear power industry, will it still play a lead role in promoting nuclear safety and nonproliferation around the world?

U.S. Exports of Liquefied National Gas (LNG) to Japan

Japan imports more LNG than any other country and is a large potential market for U.S. LNG exports. Due to the suspension of nuclear power at present, Japan has become increasingly dependent on fossil fuels for electric power generation (see previous section). Japan imported a record 88.5 million metric tons of LNG in 2014, with Australia, Qatar, and Malaysia the leading suppliers. Japanese utilities have been attracted to the large difference between their oil-linked prices for natural gas and the much lower price prevailing in North America. The lower price is largely a result of the expansion of natural gas production from shale. For more information, see CRS Report R42074, *U.S. Natural Gas Exports: New Opportunities, Uncertain Outcomes*, by (name redacted) et al.

As of August 2015, the Department of Energy (DOE) has approved, either fully or conditionally, 10 projects in the continental United States to export LNG to countries with which the United States does not have a free trade agreement (FTA).³⁷ The first LNG export terminal is due to come online in early 2016, and other terminals will begin operations in subsequent years, after

³⁴ Masakazu Toyoda, “Energy Policy in Japan: Challenges after Fukushima,” Institute of Energy Economics, Japan, presentation prepared for delivery on January 24, 2013.

³⁵ “Strategic Energy Plan,” Japan Ministry of Economy, Trade, and Industry, April 2014, http://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf.

³⁶ “Over Half Oppose Japan Engaging in Collective Self-Defense: Survey,” Kyodo News Agency, January 26, 2014. “30% Approve of Raising Sales Tax to 10% as Scheduled; Cabinet Support Flat,” Nikkei, August 25, 2014.

³⁷ Japan currently imports less than 1% of its natural gas supply from Alaska.

constructing the infrastructure necessary to liquefy natural gas. Japanese energy and trading companies have already signed contracts for delivery of LNG in 2017 with multiple U.S. export projects. The Natural Gas Act requires that DOE issue a permit to export natural gas to non-FTA countries, including Japan, if DOE determines that such export would be in the public interest. A DOE-commissioned study concluded in December 2012 that LNG exports would produce net economic benefits for the United States, but the study was controversial. Critics of increased exports have raised concerns about the environment and higher gas prices for domestic industries and consumers. As of August 2015, there are approximately 32 applications awaiting DOE approval to export LNG to non-FTA countries.

Alliance Issues

The U.S.-Japan alliance has long been an anchor of the U.S. security role in Asia. Forged in the U.S. occupation of Japan after its defeat in World War II, the alliance provides a platform for U.S. military readiness in the Pacific. About 50,000 U.S. troops are stationed in Japan and have the exclusive use of approximately 90 facilities (see **Figure 2**). In exchange, the United States guarantees Japan's security, including through extended deterrence, known colloquially as the U.S. "nuclear umbrella." The U.S.-Japan alliance, which many believe has been missing a strategic rationale since the end of the Cold War, may have found a new guiding rationale in shaping the environment for China's rise. In addition to serving as a hub for forward-deployed U.S. forces, Japan provides its own advanced military assets, many of which complement U.S. forces. For more information and analysis, see CRS Report RL33740, *The U.S.-Japan Alliance*, by (name redacted) and (name redacted).

Since the early 2000s, the United States and Japan have taken strides to improve the operational capability of the alliance as a combined force, despite political and legal constraints. Japan's own defense policy has continued to evolve, and its major strategic documents reflect a new attention to operational readiness and flexibility. The original, asymmetric arrangement of the alliance has moved toward a more balanced security partnership in the 21st century, and Japan's decision to engage in collective self-defense may accelerate that trend. Unlike 25 years ago, the Japan Self-Defense Forces (SDF) are now active in overseas missions, including efforts in the 2000s to support U.S.-led coalition operations in Afghanistan and the reconstruction of Iraq. Japanese military contributions to global operations like counter-piracy patrols relieve some of the burden on the U.S. military to manage security challenges. Due to the co-location of U.S. and Japanese command facilities in recent years, coordination and communication have become more integrated. The joint response to a 2011 tsunami and earthquake in Japan demonstrated the interoperability of the two militaries. The United States and Japan have been steadily enhancing bilateral cooperation in many other aspects of the alliance, such as ballistic missile defense, cybersecurity, and military use of space. Alongside these improvements, Japan continues to pay nearly \$2 billion per year to defray the cost of stationing U.S. forces in Japan.

In late 2013, Japan released two new documents that reflect its concerns with security threats from North Korea and the territorial dispute with China over a set of islets in the East China Sea. The National Defense Program Guidelines (NDPG) emphasized Japan's need to upgrade its capabilities to respond to threats to its territory from ongoing Chinese incursions by purchasing a variety of new military hardware and improving its intelligence, surveillance, and reconnaissance (ISR) capabilities. The NDPG also called for a new approach termed "Proactive Pacifism" that involves Japan taking a greater role in international operations in concert with other countries. The NDPG was reinforced by the release of Japan's first-ever National Security Strategy that also calls for Japan's "proactive contribution to peace" and outlines a further increase in defense spending to respond to "complex and grave national security challenges."

Figure 2. Map of U.S. Military Facilities in Japan



Source: Map Resources. Adapted by CRS.

Notes: MCAS is the abbreviation for Marine Corps Air Station. NAF is Naval Air Facility.

Revised Mutual Defense Guidelines

In late April 2015, the United States and Japan announced the completion of the revision of their Mutual Defense Guidelines (MDG), a process that began in late 2013. First codified in 1978 and later updated in 1997, the MDG outlines how the U.S. and Japanese militaries will interact in peacetime and in war as the basic framework for defense cooperation based on a division of labor. The new MDG accounts for developments in military technology, improvements in interoperability of the U.S. and Japanese militaries, and the complex nature of security threats in the 21st century. For example, the MDG addresses bilateral cooperation on cybersecurity, the use of space for defense purposes, and ballistic missile defense, none of which were mentioned in the 1997 guidelines. The new guidelines lay out a framework for bilateral, whole-of-government cooperation in defending Japan's outlying islands. The MDG also significantly expands the scope of U.S.-Japan security cooperation to include defense of sea lanes and, potentially, Japanese contributions to U.S. military operations outside East Asia. The Abe Administration is developing legislation to implement these far-reaching defense reforms (see next section), with the intent to secure passage of these bills in the Diet by summer 2015.

The new MDG also seeks to improve alliance coordination. The guidelines establish a standing Alliance Coordination Mechanism (ACM), which will involve participants from all the relevant agencies in the U.S. and Japanese governments, as the main body for coordinating a bilateral response to any contingency. This new mechanism removes obstacles that had inhibited alliance coordination in the past. The previous ACM only would have assembled if there was a state of war, meaning that there was no formal organization to coordinate military activities in peacetime, such as during the disaster relief response to the March 2011 disasters in northeast Japan.

Collective Self-Defense

Perhaps the most symbolically significant—and controversial—security reform of the Abe Administration has been Japan's potential participation in collective self-defense. Dating back to his first term in 2006-2007, Abe has shown a determination to adjust this highly asymmetric aspect of the alliance: the inability of Japan to defend U.S. forces or territory under attack. According to the traditional Japanese government interpretation, Japan possesses the right of collective self-defense, which is the right to defend another country that has been attacked by an aggressor,³⁸ but exercising that right would violate Article 9 of the Japanese constitution.³⁹ However, Japan has interpreted Article 9 to mean that it can maintain a military for national defense purposes and, since 1991, has allowed the SDF to participate in noncombat roles overseas in a number of United Nations (U.N.) peacekeeping missions and in the U.S.-led coalition in Iraq.

In July 2014, the Abe Cabinet announced a new interpretation, under which collective self-defense would be constitutional as long as it met certain conditions. These conditions, developed in consultation with the LDP's dovish coalition partner Komeito and in response to cautious public sentiment, are rather restrictive and could limit significantly the latitude for Japan to craft a military response to crises outside its borders. The security legislation package that the Diet passed in September 2015 provides a legal framework for new SDF missions, but institutional

³⁸ Article 51 of the U.N. Charter provides that member nations may exercise the rights of both individual and collective self-defense if an armed attack occurs.

³⁹ Article 9 of the Japanese constitution, drafted by American officials during the post-war occupation, outlaws war as a "sovereign right" of Japan and prohibits "the right of belligerency," stipulating that "land, sea, and air forces, as well as other war potential, will never be maintained."

obstacles in Japan may inhibit full implementation in the near term. However, the removal of the blanket prohibition on collective self-defense will enable Japan to engage in more cooperative security activities, like noncombat logistical operations and defense of distant sea lanes, and to be more effective in other areas, like U.N. peacekeeping operations. For the U.S.-Japan alliance, this shift could mark a step toward a more equal and more capable defense partnership. Chinese and South Korean media, as well as some Japanese civic groups and media outlets, have been critical, implying that collective self-defense represents an aggressive, belligerent security policy for Japan.

Realignment of the U.S. Military Presence on Okinawa

Due to the legacy of the U.S. occupation and the island's key strategic location, Okinawa hosts a disproportionate share of the U.S. military presence in Japan. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ military personnel are located in the prefecture, which comprises less than 1% of Japan's total land area. The attitudes of native Okinawans toward U.S. military bases are generally characterized as negative, reflecting a tumultuous history and complex relationships with "mainland" Japan and with the United States. Because of these widespread concerns among Okinawans, the sustainability of the U.S. military presence in Okinawa remains a critical challenge for the alliance. For more information and analysis, see CRS Report R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*.

In the last days of 2013, the United States and Japan cleared an important political hurdle in their long-delayed plan to relocate a major U.S. military base on the island of Okinawa.⁴⁰ Hirokazu Nakaima, then-governor of Okinawa, approved construction of an offshore landfill necessary to build the replacement facility. This new base, located in the sparsely populated Henoko area of Nago City, would replace the functions of Marine Corps Air Station (MCAS) Futenma, located in the center of a crowded town in southern Okinawa. The encroachment of residential areas around the Futenma base over decades has raised the risks of a fatal aircraft accident, which could create a major backlash on Okinawa and threaten to disrupt the alliance. Nakaima's approval of the landfill permit gave hope to Washington and Tokyo that, after decades of delay, they could consummate their agreement to return the land occupied by MCAS Futenma to local authorities, while retaining a similar level of military capability on Okinawa. A U.S.-Japan joint planning document in April 2013 indicated that the new base at Henoko would be completed no earlier than 2022.

Despite the decision by Nakaima, most Okinawans oppose the construction of a new U.S. base for a mix of political, environmental, and quality-of-life reasons. Politicians opposed to the Futenma relocation won elections in 2014 for governor of Okinawa, mayor of Nago City, and all four Okinawan districts in the Lower House of the Diet. In March 2015, current Okinawa Governor Takeshi Onaga ordered the Japanese central government to cease construction at the

⁴⁰ The relocation of the Futenma base is part of a larger bilateral agreement developed by the U.S.-Japan Special Action Committee on Okinawa (SACO) in 1996. In the SACO Final Report, the United States agreed to return approximately 20% of land used for U.S. facilities on Okinawa, including all or parts of a dozen sites. Handover of MCAS Futenma was contingent on "maintaining the airfield's critical military functions and capabilities." The plan for implementing the SACO agreement evolved over the late 1990s and early 2000s until Washington and Tokyo settled on a "roadmap" in 2006: once Japan constructed the Futenma replacement facility at the Henoko site, the United States would relocate roughly 8,000 marines from Okinawa to Guam, about half of the U.S. Marine Corps (USMC) presence then on Okinawa. In 2012, the allies revised the implementation plan to "de-link" the Futenma relocation and the realignment of marines to Guam. The 2012 agreement also revised the USMC realignment: 9,000 marines would be relocated from Okinawa; 4,700 to Guam; 2,500 to Australia (on a rotational basis); and the remainder to Hawaii and the continental United States.

Henoko site, and in September 2015 he declared that he would revoke the landfill permit issued by his predecessor. Although experts agree that the power to cancel construction of the new facility is probably beyond the authorities of the governor and Nago City mayor—the Abe Administration intends to begin constructing the landfill by the end of 2015—their combined resistance could delay progress and send a strong political signal.⁴¹ Okinawan anti-base civic groups have ramped up their protest activities recently, and some groups may take extreme measures to prevent construction of the facility at Henoko. Onaga's plan to revoke the landfill permit likely will start a lengthy battle in Japanese courts, where the Okinawa governor will attempt to demonstrate that the permit approval was legally flawed.

The Abe Administration, having invested significant time and money in gaining Nakaima's consent, will likely need to invest additional political capital to ensure that the base construction proceeds without significant delays and without further alienating the Okinawan public. Failure to implement the Futenma relocation could solidify an impression among some American observers that the Japanese political system struggles to follow through with difficult tasks. On the other hand, the risk remains that heavy-handed actions by Tokyo or Washington could lead to more intense anti-base protests.

Marine Corps Realignment to Guam

The realignment of marines from Okinawa to Guam and elsewhere is now proceeding on its own timeline, separate from the issue of the Futenma replacement facility. The FY2015 National Defense Authorization Act (NDAA, P.L. 113-291) removed prior restrictions on military construction for the Guam realignment, though the freeze on Department of Defense (DOD) spending on Guam's civilian infrastructure remains. DOD is now able to spend Japanese government funds allocated for the realignment. Japan has agreed to pay \$3.1 billion of the estimated \$8.7 billion total cost and will have preferential access to some of the new training facilities. In the FY2013 and FY2014 NDAs, Congress had imposed several requirements on DOD before it could begin military construction for the Marine Corps realignment. DOD was able to fulfill most of those requirements, culminating in its submission of the Guam Master Plan to Congress in August 2014. The U.S. Navy announced a Record of Decision (a key planning milestone) for the Guam realignment in August 2015. DOD still faces a number of challenges on Guam, particularly regarding civilian infrastructure and public services, but the FY2015 NDAA has given momentum to this massive project.

Burden-Sharing Issues

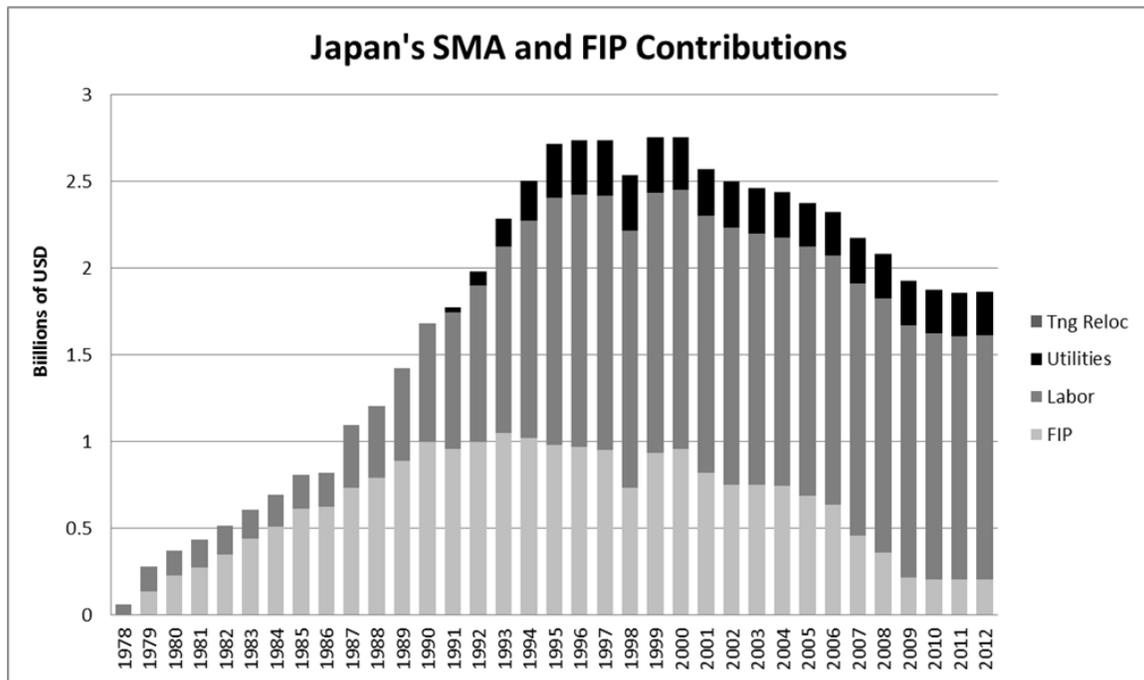
The Japanese government provides nearly \$2 billion per year to offset the cost of stationing U.S. forces in Japan (see **Figure 3**). The United States spends an additional \$2 billion per year (on top of the Japanese contribution) on nonpersonnel costs for troops stationed in Japan.⁴² Japanese host nation support is composed of two funding sources: Special Measures Agreements (SMAs) and the Facilities Improvement Program (FIP). Each SMA is a bilateral agreement, generally covering five years, that obligates Japan to pay a certain amount for utility and labor costs of U.S. bases and for relocating training exercises away from populated areas. The current SMA, which runs from 2011 to 2015, allows a gradual decline in Japan's contributions to labor and utility costs,

⁴¹ "Okinawa Gov. Says Approval to be Revoked for Base Relocation Work," *Kyodo News Agency*, September 14, 2015.

⁴² U.S. Congress, Senate Committee on Armed Services, *Inquiry into U.S. Costs and Allied Contributions to Support the U.S. Military Presence Overseas*, 113th Cong., April 15, 2013, S.Rept. 113-12 (Washington: GPO, 2013).

although U.S. costs are slowly rising, according to an April 2013 report issued by the Senate Armed Services Committee.⁴³ The amount of FIP funding is not strictly defined, other than an agreed minimum of \$200 million per year, and thus the Japanese government adjusts the total at its discretion. Tokyo also decides which projects receive FIP funding, taking into account, but not necessarily deferring to, U.S. priorities. The United States and Japan will negotiate the next SMA in 2015.

Figure 3. Host Nation Support for USFJ



Source: U.S. Congress, Senate Committee on Armed Services, Inquiry into U.S. Costs and Allied Contributions to Support the U.S. Military Presence Overseas, 113th Congress, April 15, 2013, S.Rept. 113-12 (Washington: GPO, 2013).

Notes: Chart from U.S. Forces Japan, Presentation: Special Measures Agreement Overview (June 27, 2012). Tng Reloc = Training Relocation

Extended Deterrence

The growing concerns in Tokyo about North Korean nuclear weapons development and China's modernization of its nuclear arsenal in the 2000s provoked renewed attention to the U.S. policy of extended deterrence, commonly known as the "nuclear umbrella." The United States and Japan initiated the bilateral Extended Deterrence Dialogue in 2010, recognizing that Japanese perceptions of the credibility of U.S. extended deterrence were critical to its effectiveness.⁴⁴ The dialogue is a forum for the United States to assure its ally and for both sides to exchange assessments of the strategic environment. The views of Japanese policymakers (among others) influenced the development of the 2010 U.S. Nuclear Posture Review.⁴⁵ Reportedly, Tokyo

⁴³ Ibid.

⁴⁴ Brad Roberts, "Extended Deterrence and Strategic Stability in Northeast Asia," National Institute of Defense Studies (Japan), Visiting Scholar Paper Series, No. 1, August 9, 2013.

⁴⁵ Roberts (2013).

discouraged a proposal to declare that the “sole purpose” of U.S. nuclear weapons is to deter nuclear attack.

Japan also plays an active role in extended deterrence through its ballistic missile defense (BMD) capabilities. The United States and Japan have cooperated closely on BMD technology development since the earliest programs, conducting joint research projects as far back as the 1980s. Japan’s purchases of U.S.-developed technologies and interceptors after 2003 give it the second-most potent BMD capability in the world. The U.S. and Japanese militaries both have ground-based BMD units deployed on Japanese territory and BMD-capable vessels operating in the waters near Japan. The number of U.S. and Japanese BMD interceptors is judged to be sufficient for deterring North Korea without affecting strategic stability with China. North Korea’s long-range missile launches in 2009 and 2012 provided opportunities for the United States and Japan to test their BMD systems in real-life circumstances. For more information, see CRS Report R43116, *Ballistic Missile Defense in the Asia-Pacific Region: Cooperation and Opposition*.

Economic Issues

U.S. trade and broader economic ties with Japan remain highly important to U.S. national interest and, therefore, to the U.S. Congress. By the most conventional method of measurement, the United States and Japan are the world’s largest and third-largest economies (China is number two), accounting for nearly 30% of the world’s gross domestic product (GDP) in 2014. Furthermore, their economies are intertwined by trade in goods and services and by foreign investment. For more information, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by (name redacted) .

Overview of the Bilateral Economic Relationship

Japan remains an important economic partner of the United States, but its importance arguably has been eclipsed by other partners, notably China. Japan was the United States’ fourth-largest merchandise export market (behind Canada, Mexico, and China) and the fourth-largest source of U.S. merchandise imports (behind China, Canada, and Mexico) in 2014. These numbers probably underestimate the importance of Japan in U.S. trade since Japan exports intermediate goods to China that are then used to manufacture finished goods that China exports to the United States. The United States was Japan’s largest export market and second-largest source of imports in 2014. The global economic downturn had a significant impact on U.S.-Japan trade: both exports and imports declined in 2009 from 2008. U.S.-Japan bilateral trade increased from 2009 until 2012, but declined in 2013 and 2014. (See **Table 1**.)

Table 1. U.S. Merchandise Trade with Japan, Selected Years
(\$ billions)

Year	Exports	Imports	Balances
1995	64.3	123.5	-59.1
2000	65.3	146.6	-81.3
2003	52.1	118.0	-66.0
2004	54.4	129.6	-75.2
2005	55.4	138.1	-82.7

Year	Exports	Imports	Balances
2006	59.6	148.1	-88.4
2007	62.7	145.5	-82.8
2008	66.6	139.2	-72.3
2009	51.2	95.9	-44.8
2010	60.5	120.3	-59.8
2011	66.2	128.8	-62.2
2012	70.0	146.4	-76.3
2013	65.2	138.6	-73.4
2014	67.0	133.9	-67.0

Source: U.S. Commerce Department, Census Bureau. FT900. Exports are total exports valued on a free alongside ship (f.a.s.) basis. Imports are general imports valued on a customs basis. Figures may not add due to rounding.

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 have contributed to this trend:

- Japan’s slow, if not stagnant, economic growth, which began with the burst of the asset bubble in the 1990s and continued as a result of the 2008-2009 financial crisis and the 2011 disasters, has changed the general U.S. perception of Japan from one as an economic competitor to one as a “humbled” economic power;
- the rise of China as an economic power and trade partner has caused U.S. policymakers to shift attention from Japan to China as a 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; and
- shifts in U.S. and Japanese trade policies that have expanded the formation of bilateral and regional trade agreements with other countries have lessened the focus on their bilateral ties.

Abenomics

Between the end of World War II and 1980s, Japan experienced high levels of economic growth. It was dubbed an “economic miracle” until the collapse of an economic bubble in Japan in the early 1990s brought an end to rapid economic growth. Many economists have argued that, despite the government’s efforts, Japan has never fully recovered from the 1990s crisis. Japan’s economy has suffered from chronic deflation (falling prices) and low growth over the past two decades. Additionally, in the past several years, Japan’s economy was hit by two economic crises: the global financial crisis in 2008 and 2009, and the March 2011 earthquake, tsunami, and nuclear reactor meltdowns in northeast Japan (see box on the March 2011 “Triple Disaster”).

Prime Minister Abe has made it a priority of his administration to boost economic growth and to eliminate deflation. Abe has promoted a three-pronged, or “three arrow,” economic program, nicknamed “Abenomics.” The three arrows include monetary stimulus, fiscal stimulus, and structural reforms that improve the competitiveness of Japan’s economy. Most economists agree that progress across the three arrows has been uneven.

- The first arrow, monetary stimulus to reverse deflation, has been implemented most aggressively. In the spring of 2013, Japan's central bank (Bank of Japan, or BOJ) announced a continued loose monetary policy with interest rates of 0%, quantitative easing measures, and a target inflation rate of 2%. After Japan's economy slipped back into recession in 2014, the BOJ began a second round of quantitative easing in October 2014. Despite monetary stimulus measures, however, inflation in Japan remains well below the BOJ's target of 2%.
- The Japanese government has also taken some steps to use fiscal policy to stimulate the economy (the second arrow). The government initially implemented fiscal stimulus packages worth about \$145 billion, aimed at spending on infrastructure, particularly in the areas affected by the March 2011 disaster. However, the government's willingness to use expansionary fiscal policies has been constrained by concerns about its public debt, the largest in the world at over 240% of GDP. To address the fiscal pressures, the government raised the sales tax from 5% to 8% in April 2014. However, many economists argued that the sales tax increase was responsible for pushing Japan into recession in 2014, and the government postponed a planned second sales tax increase. Additionally, it approved an emergency stimulus package worth about \$30 billion in December 2014 to combat the recession.
- Progress on the third arrow, structural reforms, has been more uneven.⁴⁶ The government has made progress on reforming agricultural co-operatives (which have traditionally been a strong vested interest), reforming corporate governance (which has helped increase returns on equity), and has planned to fully liberalize the electricity market by 2016, among other reforms. In other areas, however, progress has been slower. There has been little labor market reform to address Japan's two-tier labor system (permanent vs. temporary employees), resistance to more liberal immigration policies (which could help bring in workers needed to offset Japan's rapidly aging population), and corporate taxes (which, despite some cuts, remain among the highest in the world). In July 2015, the IMF urged the Japanese government to swiftly implement reforms that had already been announced as well as pursue additional "high-impact" reforms, that would lift the labor supply, reduce labor market duality, and continue agricultural and services sector deregulation.⁴⁷ Some analysts have noted that the structural reform agenda appears to have lost some steam over the past year as Abe has spent significant political capital pushing defense legislation.⁴⁸

In terms of the economic impact of "Abenomics" to date, results have been mixed. As noted above, Japan's economy slipped back into recession in 2014. This was Japan's fourth recession since 2008, and was largely attributed to the April 2014 sales tax increase. However, Japan's economy started recovering in the fourth quarter of 2014, and in July 2015, the IMF projected that Japan's economy will grow by 0.8% in 2015 and 1.2% in 2016.⁴⁹ The IMF argues that structural reforms have improved long-term prospects modestly but that Abenomics needs to be

⁴⁶ Robin Harding and Leo Lewis, "The Third Arrow of Abenomics: A Scorecard," *Financial Times*, September 9, 2015.

⁴⁷ IMF, "IMF Executive Board Concludes 2015 Article IV Consultation with Japan," July 23, 2015.

⁴⁸ Linda Sieg and Kaori Kaneko, "Japan's Abe Unlikely to Tackle Hard Reforms in Next Term: Economists," *Reuters*, September 7, 2015.

⁴⁹ IMF, World Economic Outlook Update, July 9, 2015.

“reloaded,” particularly with the identification and pursuit of additional structural reforms.⁵⁰ The IMF has also stressed that a medium-term fiscal consolidation plan is needed to put the debt on a downward path and that the BOJ should be ready to engage in additional monetary stimulus as needed. Some experts are skeptical about the government’s willingness to push through economic reforms. In September, a major credit rating agency, Standard & Poor’s, downgraded Japan’s long-term credit rating, saying it sees little chance of the Abe government turning around the poor outlook for economic growth and inflation over the next few years.⁵¹

Emphasis on “Womenomics”

A key component of the third arrow focuses on “womenomics,” or boosting economic growth through reforms and policies to encourage the participation and advancement of women in the workforce. Japan lags behind many other high-income countries in terms of gender equality, with one of the lowest rates of female participation in the workforce among Organization for Economic Cooperation and Development countries. A strategist with Goldman Sachs in Japan estimates that closing the gender employment gap could boost Japan’s GDP by nearly 13%.⁵² To advance its “womenomics” initiative, the government has proposed, and is in various stages of implementing, a number of policies, such as expanding the availability of day care, increasing parental leave benefits, and allowing foreign housekeepers in special economic zones, among other measures. Although some are optimistic that the measures will help close the gender gap in Japan, and Japanese female employment has reached a record high under the new policies.⁵³ However, others express concern about potential challenges, such as a work culture that demands long hours and makes it hard to balance work and family. Additionally, some argue that Japan’s workplace remains “rife” with illegal and overt harassment of pregnant workers.⁵⁴ For further information, see CRS Report R43668, “Womenomics” in Japan: In Brief.

Bilateral Trade Issues

Japan and the Proposed Trans-Pacific Partnership Agreement (TPP)

The proposed TPP is an evolving regional free trade agreement (FTA). Originally formed as an FTA among Singapore, New Zealand, Chile, and Brunei, the TPP is now an agreement under negotiation among the original four countries plus the United States, Australia, Canada, Mexico, Peru, Malaysia, Vietnam, and Japan. The negotiators envision a comprehensive and high standard agreement to liberalize trade and to establish enhanced trade rules and disciplines. They also envision the TPP to be a “21st century” framework for governing trade within the Asia-Pacific region by addressing new trade barriers and cross-cutting issues, such as regulatory coherence, global supply chains, digital trade, and state-owned enterprises.

As the second-largest East Asian economy and a crucial link in Asian production networks, Japan’s participation in the TPP is economically significant, although it continues to be the

⁵⁰ IMF, “IMF Executive Board Concludes 2015 Article IV Consultation with Japan,” July 23, 2015.

⁵¹ Keiko Ujikane, “Japan Rating Cut by S&P as Abe Falls Short of Early Promise,” *Bloomberg*, September 16, 2015.

⁵² Kathy Matsui et al., “Womenomics 4.0: Time to Walk the Talk,” Goldman Sachs, May 30, 2014, <http://www.goldmansachs.com/our-thinking/investing-in-women/womenomics4-folder/womenomics4-time-to-talk-the-talk.pdf>.

⁵³ Robin Harding and Leo Lewis, “The Third Arrow of Abenomics: A Scorecard,” *Financial Times*, September 9, 2015.

⁵⁴ “Women and Work in Japan,” *Economist*, September 5, 2015.

subject of debate within the Japanese political leadership and among Japanese and U.S. stakeholders. In deciding to participate in the TPP, Abe confronted influential domestic interests that argued against the move. Among the most vocal have been Japanese farmers, especially rice farmers, and their representatives. They argue that Japanese agriculture will be severely harmed by foreign competition if Japan removes its high tariffs and other protective measures on imports of agricultural products. Some Japanese health providers have argued that Japan's national health insurance system will be adversely affected because, they claim, the TPP could force Japanese citizens to buy foreign-produced pharmaceuticals and medical devices. Abe has acknowledged those domestic sensitivities, but has also insisted that Japan needs to be part of TPP to support economic growth. Other Japanese business interests, including manufacturers, strongly support the TPP.

Underlying Abe's decision to enter the TPP talks is a growing feeling among many Japanese that, after two decades of relatively sluggish growth, Japan's economic and political influence is waning in comparison with China and with middle powers such as South Korea. The rapid aging and gradual shrinking of Japan's population have added to a sense among many in Japan that the country needs to develop new sources of growth to maintain, if not increase, the country's living standards.

If an agreement is reached, Japan's membership in the proposed TPP would constitute a de facto U.S.-Japan FTA. Japan's participation enhances the clout and viability of the proposed TPP, which is called the economic centerpiece of the Obama Administration's rebalance to the Asia-Pacific region. When Japan entered the talks, the share of the world economy accounted for by TPP countries rose from around about 30% to about 38%. The negotiations could force the two countries to address long-standing, difficult trade issues, and if successful, arguably could reinvigorate the bilateral relationship. On the other hand, failure to resolve these bilateral issues could indicate that the underlying problems are too fundamental to overcome, which could set back the relationship.

Parallel U.S.-Japan Negotiations

Because Japan joined the TPP talks after they had begun, it was required to reach agreements with the 11 other members over the terms of its entry. As a result of its discussions with the United States, Japan in April 2013 made a number of concessions, or confidence-building measures, and agreed to address a number of other outstanding issues in separate talks with the United States that would occur in parallel with the main TPP negotiations. Among other steps, Japan agreed that under the proposed TPP, U.S. tariffs on imports of Japanese motor vehicles will be phased out over a period equal to the longest phase-out period agreed to under the agreement. Japan also agreed to increase the number of U.S.-made vehicles that can be imported into Japan under its Preferential Handling Procedure (PHP), from 2,000 per vehicle type to 5,000 per vehicle type. In addition, the two countries agreed to convene separate negotiations that are to address issues regarding non-tariff measures (NTMs) pertaining to auto trade. Furthermore, the two sides agreed to hold another separate set of bilateral negotiations, parallel to the TPP talks, to address issues regarding NTMs in insurance, government procurement, competition policy, express delivery, and sanitary and phytosanitary measures. The parallel negotiations are to achieve "tangible and meaningful" results by the completion of the main TPP negotiations and will be legally binding at the time a TPP agreement would enter into force.

U.S. bilateral negotiations with Japan have proven challenging. (As discussed in the accompanying text box, the separate U.S.-Japan negotiations are occurring in parallel with the plurilateral TPP talks.) On many of the non-tariff issues in the agreement, such as intellectual property rights protections, U.S. and Japanese goals are reportedly closely aligned. In the areas of auto and agricultural trade, however, negotiations have reportedly been more difficult. U.S. automakers are closely watching the negotiations and have expressed concerns over reducing U.S. auto import tariffs without greater reciprocal access to the Japanese market and provisions preventing currency manipulation for export gain. Although U.S. auto exports to Japan face no tariff, U.S. import penetration is low, which U.S. automakers partially blame on allegedly

discriminatory regulations and other non-tariff measures. On agriculture, Japan has been reluctant to remove certain import protections on several products including rice and pork, while some U.S. industry groups strongly oppose any agricultural carve-outs and have suggested that the TPP be concluded without Japan if Japan refuses to provide sufficient market access.

Emphasis appears to have shifted, however, to resolving differences in the broader 12-country talks, suggesting that U.S.-Japan bilateral issues may have been largely resolved. For example, on automotive rules of origin, which determine how much of the value of a product must come from within the TPP region to receive duty-free treatment, the United States and Japan reportedly reached an agreement that was subsequently opposed by Canada and Mexico. As U.S. partners in the North American Free Trade Agreement (NAFTA), they reportedly felt the U.S.-Japan agreed-upon rule of origin threshold was too low and would undermine tightly integrated North American auto production networks.⁵⁵ A lower rule of origin threshold would allow Japan, or any other TPP country, to utilize a greater share of non-TPP components and still receive duty-free treatment for its exports within the TPP region. Given the importance of the automotive sector in U.S.-Japan trade, resolving this issue will be critical to a final TPP agreement.

Japan is also participating in other bilateral and regional trade negotiations in the Asia-Pacific. The most significant of these in terms of membership is the Regional Comprehensive Economic Partnership (RCEP), which would join Japan with the 10 members of the Association of Southeast Asian Nations (ASEAN), China, South Korea, Australia, New Zealand, and India in a regional trade agreement. While not ostensibly in conflict with the TPP, some have suggested the RCEP could be a less ambitious alternative to the more comprehensive TPP, and thus, perhaps easier to conclude. While RCEP would include some TPP partners, the absence of the United States and the inclusion of China is noteworthy.⁵⁶ In 2013, Japan began negotiating a trilateral FTA with China and South Korea. The Japan-Australia Economic Partnership Agreement entered into force on January 15, 2015.

Debates about Exchange Rates and “Currency Manipulation”

The first “arrow” of Abenomics, expansionary monetary policies, has contributed to a depreciation of the yen against the U.S. dollar. In mid-2012, the yen was valued at an average of 79 yen (¥) per dollar. Since that time, the yen has depreciated by about 50% against the dollar, to 120 yen (¥) per dollar in early September 2015, similar to the value of the yen against the dollar in 2007.⁵⁷ Some policymakers and analysts allege that Japan is manipulating its exchange rate to drive down the value of the yen and boost its exports at the expense of other countries, including the United States. Japanese officials deny any manipulation of the yen. Some analysts argue that Japan’s monetary policies, similar to the Fed’s quantitative easing programs, are aimed at boosting economic growth and that any impact on the value of the yen is a side effect, rather than the goal, of the policies.⁵⁸

⁵⁵ Currently, Canada and Mexico enjoy preferential access to the U.S. auto market under NAFTA. A lower rule of origin threshold in the TPP would make it easier for products made in any TPP country (such as Japan) to receive the preferential treatment granted under the terms of the TPP, and could erode the advantage of locating manufacturing plants in Canada and Mexico to serve the U.S. market. See, for example, “Conservatives Rush to Resolve TPP Auto-Parts Impasse before Election,” *The Globe and Mail*, September 16, 2015.

⁵⁶ See, for example, Beginda Pakpahan, “Will RCEP Compete with the TPP?” *EastAsiaForum*, <http://www.eastasiaforum.org>.

⁵⁷ Federal Reserve.

⁵⁸ For more information about exchange rates and “currency manipulation,” see CRS In Focus IF10049, *Debates over “Currency Manipulation”*, by (name redacted), and CRS Report R43242, *Current Debates over Exchange Rates*: (continued...)

Some Members of Congress and analysts have expressed concerns about Japan's currency policies and have pushed for "currency manipulation" to be addressed in the proposed TPP.⁵⁹ The TPA legislation signed into law in June 2015 (P.L. 114-26) includes principal negotiating objectives to address currency manipulation. They seek to prevent and address currency manipulation, particularly protracted, large-scale interventions in foreign exchange markets, through multiple possible remedies. Reportedly, the Treasury Department is working to negotiate provisions aimed at preventing currency manipulation in the context of TPP, but the provisions are not expected to be part of a TPP deal itself.⁶⁰ The application of countervailing duties on imports from countries with undervalued exchange rates is also being debated in the context of the Trade Facilitation and Trade Enforcement Act (H.R. 644).

Proposals to address "currency manipulation" in TPP or through other means are controversial. Some argue that seeking to include currency issues in a trade agreement is not a straightforward process and could make the agreement more difficult to conclude. There is also disagreement among economists about how to define currency manipulation and what benchmarks should be used. Still others question whether currency manipulation is a significant problem. They raise questions about whether government policies have long-term effects on exchange rates; whether it is possible to differentiate between "manipulation" and legitimate central bank activities; and the net effect of currency manipulation on the U.S. economy.

Japanese Politics

The Stabilization of Japanese Politics Around the LDP

From 2007 to 2012, Japanese politics was plagued by instability. The premiership changed hands six times in those six years, and no party controlled both the Lower and Upper Houses of the parliament for more than a few months. The LDP coalition's dominant victories in three parliamentary elections, in December 2012, July 2013, and December 2014, appear to have ended this period of turmoil. The first event, the 2012 elections for Japan's Lower House, returned the LDP and its coalition partner, the Komeito party, into power after three years in the minority. The 2013 election consolidated the LDP coalition's hold by giving it a majority in the Upper House. The aforementioned December 2014 Lower House elections appear to have cemented the LDP's dominance. Although the vote, which was held two years earlier than required by law, changed little in Japan's political balance, it preserved the "supermajority" of more than two-thirds of Lower House seats held by the LDP and its coalition partner, Komeito. (See **Figure 4** and **Figure 5** for a display of major parties' strength in Japan's parliament, which is called the Diet.) The fact that Lower House elections do not have to be held until 2018 presumably gives Abe and the LDP a relatively prolonged period in which to promote their agenda. Since 1955, the LDP has ruled Japan for all but about four years.

Some Japanese and Western analysts argue that one factor contributing to Abe's strength in his current stint in office is his government's and the LDP's success in managing the Japanese media.

(...continued)

Overview and Issues for Congress, by (name redacted) .

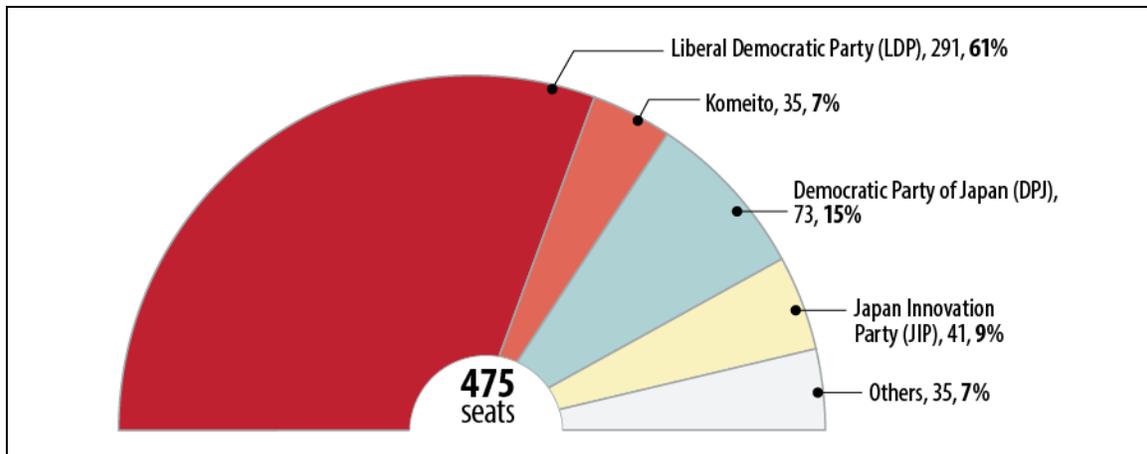
⁵⁹ In 2013, 230 Representatives and 60 Senators sent letters to the Obama Administration calling for "currency manipulation" to be addressed in TPP.

⁶⁰ "Treasury Says It Is Negotiating on Currency in Context of TPP," Inside U.S. Trade, July 29, 2015.

According to these sources, the government and the LDP have attempted to cow Japanese news outlets through measures such as hinting at revoking licenses of broadcasters, pressuring business groups not to purchase advertisements in certain media outlets, and shunning reporters from critical broadcasters and print publications.⁶¹ In 2013, Abe appointed a new head of Japan's public broadcaster, NHK, who said that the network should not deviate too far from the government's views. Criticism from a number of media sources, particularly the left-of-center newspaper *Asahi Shimbun*, played a role in curtailing Abe's short-lived first term in office (2006-2007). Many accuse the Abe government of launching a campaign to discredit the *Asahi*.⁶² Since Abe came to power in December 2012, the non-governmental organization Reporters without Borders has moved Japan down eight places, to 61st place, in its rankings of global freedom of the press.⁶³ Abe government officials deny that they have attempted to unduly influence the press or restrict press freedoms.

Figure 4. Party Affiliation in Japan's Lower House of Parliament

(The LDP and its partner, Komeito, control the Lower House, which elects the prime minister)



Source: Open Source Center, "Breakdown of Lower House Election Results," December 15, 2014.

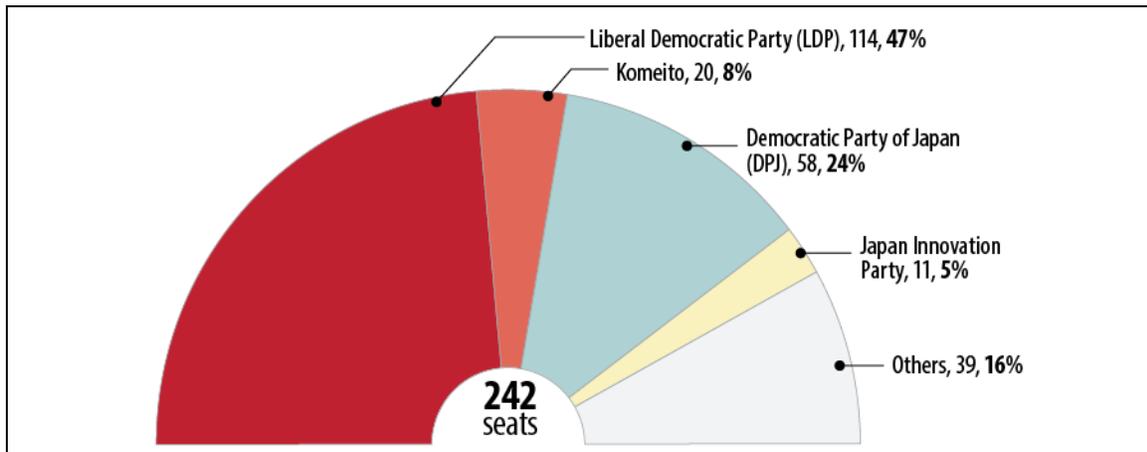
Notes: The Lower House's official name is the "House of Representatives." The Lower House must be dissolved, and elections held for all Members' seats, at least once every four years. The last such elections were held in December 2014.

⁶¹ Aurelia George Mulgan, "Shinzo Abe's 'Glass Jaw' and Media Muzzling in Japan," *The Diplomat*, May 08, 2015; Martin Fackler, "Effort by Japan to Stifle News Media Is Working," *New York Times*, April 26, 2015; Robin Harding, "Shinzo Abe Accused of 'Emasculating Japanese Media,'" *Financial Times*, June 29, 2015; "German Journalist's Parting Shot to Abe over Press Freedom Causes Stir," *Asahi Shimbun*, April 28, 2015.

⁶² Ibid.

⁶³ Reporters without Borders, <http://index.rsf.org/#!/index-details/JPN>, accessed September 17, 2015.

Figure 5. Party Affiliation in Japan's Upper House of Parliament
(The LDP-Komeito coalition controls the Upper House)



Source: Website of the Upper House of the Japanese Diet, December 14, 2014.

Notes: The Upper House's official name is the "House of Councillors." Upper House members serve for six-year terms, with elections for half the Members occurring every three years. The last Upper House elections were held in July 2013.

The DPJ and Alternative Political Forces

The December 2012 parliamentary elections drastically reduced the size of Japan's largest opposition party, the Democratic Party of Japan (DPJ), which was the ruling party from 2009 to 2012. The DPJ's party support numbers have remained in the single digits since it lost its hold on power. Although the party gained nearly 20 seats in the 2014 Lower House election, it holds less than a third of the 230 seats it held when it was the ruling party. Formed in the late 1990s by an amalgamation of former conservative and progressive politicians, the party continues to be riven by divisions among its more hawkish and dovish factions, as well as among its market-oriented and socialist factions, that manifested themselves in 2015 in debates over collective self-defense legislation and the TPP. On January 18, 2015, the DPJ chose its former head Katsuya Okada as party president.

Over the past 20 years, growing frustration with Japan's political status quo has periodically given rise to small-to-moderate protest movements. One party that has emerged in recent years is the Japan Innovation Party (JIP), formerly led by Osaka mayor Toru Hashimoto, who among other programs champions economic deregulation and decentralization of political power to Japan's regional governments. In 2015, Hashimoto left the JIP and announced his intention to form a new party, a move that is expected to split the JIP. Hashimoto is known to support nationalist positions on matters of security and history, and thus could perhaps be a natural ad hoc ally for Abe on these matters, as well as on some economic issues. During the 2015 debate over Abe's security legislation, the DPJ cooperated with some of the anti-Hashimoto forces in the JIP, and some in the DPJ have talked openly about joining forces with these JIP members to form a bigger opposition bloc.

Structural Rigidities in Japan's Political System

Compared to most industrialized democracies, the Japanese parliament is structurally weak, as is the office of the prime minister and his cabinet. Though former Prime Minister Koizumi and his immediate predecessors increased politicians' influence relative to bureaucrats', with important

exceptions Japan's policymaking process tends to be compartmentalized and bureaucratized, making it difficult to make trade-offs among competing constituencies on divisive issues. The result is often paralysis or incremental changes at the margins of policy, particularly during periods of weak premierships such as the one Japan experienced from 2006 to 2013. These difficulties were a major reason Abe took the unprecedented decision in early 2013 to house Japan's TPP negotiating team in the prime minister's office, in the hopes that this would help overcome the bureaucratic obstacles to making the trade-offs that are likely to be necessary to enable Japan's joining a final agreement, if one is reached.

Japan's Demographic Challenge

Japan's combination of a low birth rate, strict immigration practices, and a shrinking and rapidly aging population presents policymakers with a significant challenge. Polls suggest that Japanese women are avoiding marriage and child-bearing because of the difficulty of combining career and family in Japan; the fertility rate has fallen to 1.25, far below the 2.1 rate necessary to sustain population size. Japan's population growth rate is -0.1%, and its current population of 127 million is projected to fall to about 95 million by mid-century. Concerns about a huge shortfall in the labor force have grown, particularly as the elderly demand more care. The ratio of working age persons to retirees is projected to fall from 5:2 around 2010 to 3:2 in 2040, reducing the resources available to pay for the government social safety net.⁶⁴ Japan's immigration policies have traditionally been strictly limited, closing one potential source of new workers.

Selected Legislation

113th Congress

P.L. 113-291. Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for FY2015. Section 2821 removes prior restrictions on DOD spending to implement the realignment of the Marine Corps from Okinawa to Guam, including DOD expenditure of Japanese government funds transferred for that purpose. Section 1251 requires DOD to develop a strategy to prioritize U.S. defense interests in the Asia-Pacific region. Section 1255 encourages greater cooperation among the United States and its partners in Northeast Asia on ballistic missile defense. Section 1258 reaffirms Congress's support for the U.S.-Japan alliance, including Japan's initiative to engage in collective self-defense. Became law on December 19, 2014.

P.L. 113-66. National Defense Authorization Act for FY2014. Section 2822 prohibits DOD spending (including expenditure of funds provided by the Japanese government) to implement the realignment of the Marine Corps from Okinawa to Guam, with certain exceptions, until DOD provides reports to Congress. The bill requests a report on U.S. force posture strategy in the Asia-Pacific region, a master plan for military construction on Guam and Hawaii, and a plan for upgrades to the civilian infrastructure on Guam. Became law on December 26, 2013.

P.L. 113-150. Sean and David Goldman International Child Abduction Prevention and Return Act of 2014; expresses the sense of Congress that the United States should set a strong example for other countries under the Hague Convention on the Civil Aspects of International Child Abduction in the resolution of cases involving children abducted abroad and brought to the

⁶⁴ Lynann Butkiewicz, "Implications of Japan's Changing Demographics," National Bureau of Asian Research, Washington, DC, October 2012.

United States. The law directs the U.S. government, especially the State Department, to devote additional resources to assisting “left-behind” parents and to preventing child abduction with existing authorities. P.L. 113-150 also instructs the Secretary of State to identify and take actions against consistently noncompliant countries, including the suspension of U.S. development and security assistance funding. Became law on August 8, 2014.

H.R. 44 (Bordallo). Recognizes the suffering and the loyalty of the residents of Guam during the Japanese occupation of Guam in World War II. Directs the Secretary of the Treasury to establish a fund for the payment of claims submitted by compensable Guam victims and survivors of compensable Guam decedents. Directs the Secretary to make specified payments to (1) living Guam residents who were raped, injured, interned, or subjected to forced labor or marches, or internment resulting from, or incident to, such occupation and subsequent liberation; and (2) survivors of compensable residents who died in the war (such payments to be made after payments have been made to surviving Guam residents). Referred to House Subcommittee on Fisheries, Wildlife, Oceans, and Insular Affairs on January 31, 2013.

S. 192 (Barrasso). Expedited LNG for American Allies Act of 2013; “the exportation of natural gas to Japan shall be deemed to be consistent with the public interest ... during only such period as the Treaty of Mutual Cooperation and Security, signed at Washington January 19, 1960, and entered into force June 23, 1960, between the United States and Japan, remains in effect.” Referred to Senate committee on January 31, 2013.

S.Res. 412 (Menendez). States that the Senate (1) condemns coercive actions or the use of force to impede freedom of operations in international airspace to alter the status quo or to destabilize the Asia-Pacific region; (2) urges China to refrain from implementing the declared East China Sea Air Defense Identification Zone; (3) commends Japan and the Republic of Korea for their restraint; and (4) calls on China to refrain from risky maritime maneuvers. Sets forth U.S. policy regarding (1) supporting allies and partners in the Asia-Pacific region; (2) opposing claims that impinge on the rights, freedoms, and lawful use of the sea; (3) managing disputes without intimidation or force; (4) supporting development of regional institutions to build cooperation and reinforce the role of international law; and (5) assuring continuity of operations by the United States in the Asia-Pacific region. Passed/agreed to in the Senate on July 10, 2014.

Author Contact Information

(name redacted), Coordinator
Specialist in Asian Affairs
[redacted]@crs.loc.gov , 7-... ..

(name redacted)
Specialist in Asian Affairs
[redacted]@crs.loc.gov , 7-....

(nameredacted)
Analyst in Asian Affairs
[redacted]@crs.loc.gov, 7-....

(name redacted)
Specialist in International Trade and Finance
[redacted]@crs.loc.gov 7-....

(name redacted)
Analyst in International Trade and Finance
[redacted]@crs.loc.gov , 7-....

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