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Japan-U.S. Relations: Issues for Congress

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Japan-U.S. Relations: Issues for Congress

SUMMARY

The post-World War II U.S.-Japan alliance, long the anchor of the U.S. security role in East Asia and the Pacific, rests on shared democratic values and mutual interest in Asian and global stability and development. Alliance cooperation has deepened significantly since the September 11, 2001, terrorist attacks. The U.S. maintains about 53,000 troops in Japan, about half of whom are stationed on the island of Okinawa. Trade friction has decreased in recent years, partly because concern about the trade deficit with Japan has been replaced by a much larger deficit with China and the latter's association with concerns about the loss of manufacturing jobs. For 2004 the merchandise trade deficit with Japan was about \$75 billion, compared with about \$164 billion for China.

U.S.-Japan relations are of concern to Members and Committees with responsibilities or interests in trade and international finance and economics, U.S. foreign policy, U.S. bases in Japan, ballistic missile defense (BMD), and regional security. Congressional support for security cooperation with Japan stems in particular from concerns about North Korea's nuclear and missile proliferation, terrorism, and China's potential emergence as the dominant regional power.

In October 2001 the Koizumi government gained parliamentary approval of unprecedented legislation permitting the dispatch of Japanese ships and transport aircraft to the Indian Ocean to provide rear-area, noncombat logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. A small Japanese flotilla supplied about 30% of the fuel needs of U.S. and allied warships from late 2001 through March 2005. The Japanese flotilla since has been reduced to one escort ship. In early 2004

Tokyo sent some 600 noncombat military and reconstruction support to Iraq, despite considerable public opposition.

Once a supporter of South Korea's "sunshine policy" of unconditional engagement, Japan's stance towards North Korea has hardened significantly, especially since Pyongyang's admission that it kidnapped Japanese citizens in the 1970s and 1980s. North Korea's provocative nuclear sabre-rattling and unresponsive stance on the abductions issue has led Japan generally to support the "hard-line" U.S. position in the Six Party Talks in Beijing, and to adopt legislation to permit economic sanctions on North Korea, if the Koizumi government decides that punitive measures are necessary. Japan participates in the Proliferation Security Initiative (PSI). The Bush Administration supports Japan's bid for a permanent seat on the U.N. Security Council. **Japan is the second-largest contributor — paying almost 20% of the total — to the U.N.'s regular budget.**

Due to its concerns about North Korea and a rising China, Japan is participating in joint research and development of a sea-based missile defense capability and plans to acquire and deploy two separate U.S. systems beginning in 2006. The Koizumi government also has taken steps that could transform Japan into a more "normal" nation in terms of its security posture, calling for a revision of the anti-war clause (Article 9) of the Constitution that prohibits participation in collective security arrangements. The U.S. and Japan have accelerated discussion of reducing the burden of hosting U.S. bases in Okinawa, in the context of ongoing bilateral discussions about U.S. plans for the realignment and transformation of U.S. military forces in Asia.

MOST RECENT DEVELOPMENTS

Japanese Prime Minister Junichiro Koizumi's political clout, already on the wane due to his "lame duck" status and his support for U.S. policies in Iraq, suffered another blow in early July 2005 when his legislation to privatize Japan's postal service — particularly its banking and insurance operations — passed the Lower House of the Japanese Diet (parliament) in early July 2005 by a margin of only 5 votes. Over fifty LDP members either voted against the measure or abstained from voting. It is not clear that Koizumi will have enough votes from within his own LDP to ensure the measure's passage in the Diet's Upper House. If the measure fails during an expected Upper House vote in August, Koizumi has said he may call for early parliamentary elections. Even if the postal measure passes, Koizumi's political standing is likely to be diminished significantly, casting uncertainty on his willingness or ability to make politically unpopular decisions such as extending Japan's deployment in Iraq and agreeing to U.S. troop redeployments from Okinawa to the Japanese mainland.

Following the discovery of new cases of "mad cow" disease in the United States, Japan is now asking the United States for more safety data, which will delay the lifting of Japan's ban on U.S. beef imports. On August 1, 2005, Japan announced that it would impose extra tariffs on imports of selected steel products from the United States as retaliation for the continued implementation by the United States of the "Byrd Amendment." This law requires that revenues from antidumping and countervailing duty measures be redistributed to eligible firms. The World Trade Organization (WTO) declared it illegal and authorized affected countries to retaliate.

BACKGROUND AND ANALYSIS

Role of Congress in U.S.-Japan Relations

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their programs. As of 2005 several high-profile policy issues were of particular interest to Congress, including dealing with the confrontation over North Korea's nuclear and missile programs, Japan's support for U.S. policy concerning Afghanistan and Iraq, cooperation on missile defense, the transformation of U.S. military

Japan Country Data

Population: 127.4 million (July 2005 est.)
% of Population over 64: 19.5% (U.S. = 12.4%) (2005)
Area: 377,835 sq km (slightly smaller than California)
Life Expectancy: 81.15 years (2005)
Per Capita GDP: \$29,400 (2004 est.) purchasing power parity
Primary Export Partners: US 22.7%, China 13.1%, South Korea 7.8%, Taiwan 7.4% (2004)
Primary Import Partners: China 20.7%, US 14%, South Korea 4.9%, Australia 4.3% (2004)
Yen:Dollar Exchange Rate: 108.3 (2004), 115.93 (2003), 125.39 (2002), 121.53 (2001)
Foreign Exchange Reserves: \$664.6 billion (2003)

Source: CIA *World Fact book*, July 2005

deployments in Asia, and Japan's more assertive foreign policies and security posture. Congress also has been active in recent years in pushing the Administration to employ anti-dumping trade penalties against steel imports from Japan, in criticizing Japan's ban on imports of U.S. beef, and in supporting efforts by survivors of Japan's World War II slave labor camps to gain relief through the U.S. courts by opposing a long-standing U.S. policy that gives primacy to the terms of the 1951 U.S.-Japan Peace Treaty.

Major Foreign Policy Issues

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

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States traditionally has been Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment (including portfolio, direct, and other investment). The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitate the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy. The most significant bilateral trend in the past five years has been the steady growth of Japanese security cooperation with the United States, including the first-ever deployments of Japanese Self-Defense Forces in noncombat support of U.S. military operations following the September 11, 2001, terrorist attacks.

Indian Ocean Deployment. The Koizumi government strongly condemned the terrorist attacks of September 11, 2001, and initiated a series of unprecedented measures to protect American facilities in Japan and provide non-lethal logistical support to U.S. military operations against Al Qaeda and the Taliban in Afghanistan. The latter mainly took the form of at-sea replenishment of fuel oil and water to U.S., British, French, and other allied warships operating in the Indian Ocean, and logistical airlift. A small flotilla of transport ships, oilers, and destroyers has provided about a third of the fuel used by 10 allied naval forces in the Indian Ocean since the first deployment in November 2001. In addition, as of October 2004, the Air Self-Defense Force (ASDF) had conducted more than 250 airlift support missions for U.S. forces with C-130 and U-4 transport aircraft.¹ On June 10, 2005, the Japanese government decided to extend the anti-terrorism law for two years, but to reduce its Indian Ocean deployment to only one escort ship. This would effectively bring an end to the post-911 role of the Maritime Self-Defense Forces (MSDF) in providing fuel oil and water to U.S., British, and other allied ships conducting anti-terrorism operations in the Indian Ocean and Persian Gulf.

Japan's ability to "show the flag" in its first such deployments since the end of World War II was made possible by the adoption by the Japanese Diet (parliament) at the end of October 2001 of three related anti-terrorism bills. One law, the Anti-Terrorism Special Measures Law, gave unprecedented post-World War II authority to the Japanese Self-

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

Defense Forces (SDF) to provide “rear area” support to U.S. forces operating in the Indian Ocean. Permitted support includes intelligence sharing, medical care, and the provision of fuel and water and nonlethal military supplies. The restriction of the authority to nonlethal supplies was a domestic political compromise aimed at reconciling Japan’s “no-war” constitution with the government’s desire to meet the Bush Administration’s expectations of material support. In general, Japan’s U.S.-dictated constitution remains a major obstacle to closer U.S.-Japan defense cooperation because of a prevailing constitutional interpretation of Article 9 that forbids engaging in “collective defense,” that is, combat cooperation with the United States against a third country. (See “Constitutional Revision,” below.)

Aid to Afghanistan. After the United States, Japan also has been the leading donor country for Afghan relief and reconstruction. Japan played a major role, along with the United States, Saudi Arabia, and the Asian Development Bank in accelerating reconstruction of the critical highway linking Kabul with Kandahar, in the heartland of the Pushtun ethnic group.²

Support for U.S. Policy toward Iraq. While strongly preferring a clear United Nations role in resolving the U.S./British confrontation with Iraq, Japan nonetheless gave almost unqualified support to the Bush Administration’s position. During an open debate in the U.N. Security Council on February 18, 2003, Japan was one of only two out of 27 participating countries, the other being Australia, to support the U.S. contention that even if the U.N. inspections were strengthened and expanded, they were unlikely to lead to the elimination of Iraq’s weapons of mass destruction. Prime Minister Junichiro Koizumi and then-Foreign Minister Yoriko Kawaguchi called the leaders of several undecided Security Council Members to try to persuade them to support the U.S. position. Japan has committed to providing some \$5 billion in assistance to Iraq. In mid-October 2004, Japan hosted a conference in Tokyo for a group of countries and institutions that have pledged funds to support the reconstruction of Iraq. In addition, the Koizumi government has deployed about 600 military personnel — mainly ground troops — to carry out humanitarian aid and reconstruction activities in Iraq. The deployment has been highly controversial in Japan.

Converging Korean Peninsula Priorities? Having tried and largely failed in the past to moderate North Korea’s behavior by offering the prospect of major economic benefits, Japan has drawn closer to the U.S. position in the China-sponsored Six Party Talks on Pyongyang’s nuclear weapons program. Japan also has hardened its stance in its efforts to get a full accounting from North Korea over the fate of Japanese citizens kidnapped from Japanese shores and Europe in the 1970s and 1980s. In September 2002, Japanese Prime Minister Junichiro Koizumi traveled to Pyongyang for a historic summit with Kim Jong-il that momentarily restarted normalization talks between the two countries, which have not established official relations since North Korea was founded in 1948. During the visit, Kim Jong-il admitted to Koizumi that North Korea had abducted 13 Japanese nationals in the 1970s and 1980s and that only five remained alive. News of the unexplained deaths of the eight abductees, who were relatively young when they disappeared, and Kim’s refusal to provide information on other suspected abductees outraged public opinion in Japan and brought about a hardening of Tokyo’s policy toward Pyongyang. In October 2002, the five

² Glenn Kessler, “Afghans Ask for Economic Aid to Prevent Domination by Drug Trade,” *Washington Post*, Apr. 1, 2004.

surviving abductees were allowed by the regime to travel to Japan for a visit, but their family members were not allowed to leave North Korea. The Koizumi government subsequently prevented the five from returning to North Korea (perhaps at the abductees' request) and demanded that Pyongyang release their family members. Stalemate over the abductee issue, combined with the eruption of the North Korean nuclear crisis in October 2002, caused Japan-North Korea normalization talks to stall for a year and a half.

In May 2004, Koizumi won the family members' release by traveling to Pyongyang for another one-day summit. Koizumi also pressed Kim Jong-il to abandon his nuclear weapons program and pledged during the same visit to provide 250,000 tons of rice and \$10 million in other aid to the North. Following Prime Minister Koizumi's May 2004 visit to North Korea, the Japanese government and the prime minister himself, in meetings with President Bush at the June 2004 G-8 Summit at Sea Island, GA, began to press for a more flexible U.S. stance. Shortly thereafter, the Bush Administration submitted its first and only detailed negotiating position at the six-party talks (involving North Korea, the United States, China, South Korea, Japan, and Russia) to discuss the North Korean nuclear issue. Japan's position hardened in December 2004, after Japanese DNA tests invalidated North Korea's claims that boxes of remains delivered to Japan were those of deceased kidnap victims. Following this development, the Japanese government suspended its aid shipments to North Korea, and calls within Japan for an imposition of sanctions increased. The Bush Administration and Congress have supported Japan's insistence on a full accounting of the fate of Japanese citizens kidnapped by North Korea. In the North Korean Human Rights Act, which the 108th Congress passed and President Bush signed into law in October 2004, (P.L. 108-333) U.S. nonhumanitarian assistance to North Korea is made contingent on North Korea's "substantial progress" toward fully disclosing information about the abductees.

While resisting the calls to impose sanctions, Prime Minister Koizumi has said that normalization talks will not continue unless Pyongyang begins dismantling its nuclear program and is more cooperative on the abductions issue. His government also has toughened enforcement of Japan's controls on the export of potential dual-use items to North Korea, and has secured passage of legislation that would give the government the right to block visits to Japanese ports by ships deemed to be a security risk and that lack property and indemnity insurance (less than 5% of North Korean commercial vessels are thought to be adequately insured). Between 2002 and 2004, port calls by North Korean ships fell by about 25%, and two-way trade flows decreased by 33%, from about \$390 million to around \$260 million. Also, in 2003, the Japanese Diet adopted legislation giving the government the authority to impose economic sanctions, including the banning of cash remittances to North Korea, without the previous requirement of specific United Nations or other multilateral approval. Remittances to North Korea are thought to have declined significantly since the early 1990s, though they still are estimated to total tens of millions of dollars a year. (For more information, see CRS Report RL32161, *Japan-North Korea Relations: Selected Issues*, by Mark Manyin; CRS Report RL32428, *Japanese Prime Minister Koizumi's May 2004 Trip to North Korea: Implications for U.S. Objectives*, by Richard P. Cronin, and CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations — Issues for Congress*, by Larry Niksch.)

U.S.-Japan-China Relations. At present, Japan seems to view China's rising power with deepening concern, while China, for its part, has become increasingly critical of the strengthening of U.S.-Japan security relations. In the past, Japanese officials tended to grow

uncomfortable when U.S.-China relations deteriorate, but also when they are too close. Japan's own relations with China have been increasingly strained in recent years as a result of China's criticism of the official approval of new textbooks that minimize Japan's past aggression, conflicting claims to disputed islands in the East China Sea, Chinese intrusions into what Japan considers its 200-mile economic zone, and broader Japanese concerns about China's rising power and influence. Japan's 2005-2009 defense plan for the first time mentions China as a security problem, and in January 2005, it was reported that Japan had developed military plans to dispatch 55,000 troops into the East China Sea area if maritime disputes deteriorate into an armed clash. Japan has cut its assistance to China in half since 2000. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of Japan's past aggression in Japanese textbooks, and bitterly objected to several visits by Prime Minister Koizumi to the Yasukuni War Shrine, in Tokyo, which enshrines the names of Japan's war dead, including a handful of convicted war criminals. Japan values China's role in promoting multilateral talks aimed at eliminating North Korea's nuclear program, but Tokyo also worries about the concomitant expansion of China's regional influence. The March 2005 visit of Secretary of State Condoleezza Rice to Tokyo revealed a steadily increasing degree of U.S.-Japan alignment on regional security issues. Beijing condemned a joint statement by Secretary Rice and Minister Machimura to the effect that the China-Taiwan issue was a matter of common security concern, although the Japanese foreign minister made clear that constitutional constraints would prevent Japan from becoming militarily involved in a China-Taiwan conflict.

Historical Issues. Japan's record of interpreting its period of colonial rule of East Asia in the first half of the 20th Century also has contributed to the worsening of tensions with South Korea in 2005 and periodically have led to strains in U.S.-Japan relations. South Koreans have been particularly angered by Japan's claim to two small rocky islets in the Sea of Japan — named Tokdo in Korean and Takeshima in Japanese — currently administered by South Korea. In March 2005, South Korean President Roh Moo-hyun warned that a “diplomatic war” could erupt if Japan does not correct the “wrongs” it has committed. South Korea also has complained about Japanese history textbooks, the Yasukuni visits, and a perceived failure by Japan to compensate Korean “comfort women” who were recruited to provide sexual services for Japanese troops during World War II. Although the Japan-South Korean disputes generally are regarded as more manageable than Sino-Japan tensions, the disagreements over history are a major obstacle to improved Japan-South Korean ties, which is often called the “weak link” in the U.S. triangle of alliances in Northeast Asia.

Criticism of Japan's interpretation of its history also has affected Korean and Chinese views of the United States. Both countries have criticized the Bush Administration for its silence regarding the controversy over the Yasakuni shrine and Japan's record in accounting for its past history of aggression before and during World War II. In July 2005, the U.S. House of Representatives passed H.Con.Res. 191, which commemorated the 60th anniversary of the end of the Pacific War; the resolution stated that Congress reaffirmed the judgments rendered by the international war crimes tribunal in Tokyo after World War II, including the conviction of Japanese leaders for “crimes against humanity.”

Claims of Former World War II POWs and Civilian Internees. Congress has also indicated interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian

internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day of internment from a fund of seized Japanese assets administered by a War Claims Commission (WCC) established by Congress in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company on grounds that these companies subjected POWs and internees to forced labor, torture, and other mistreatment. Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The core issue is whether the Peace Treaty with Japan relieved only the Japanese government from future claims or whether it covered private companies as well. A number of bills and amendments introduced in recent Congresses sought to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. None have been enacted, in part due to opposition from the Bush Administration.

United Nations Reform. In 2004, Japan accelerated its longstanding efforts to become a permanent member of the United Nations Security Council by forming a coalition with Germany, India, and Brazil (the so-called "G-4") to achieve non-veto membership for all four countries. Though the Bush Administration has backed Japan's bid, it has not supported the G-4 proposal, which is expected to be voted on in the summer of 2005, and has opposed taking a vote on expanding the Security Council until a "broader consensus" within the organization can be reached. To become a new member, Japan needs to obtain support from two-thirds (128 countries) of all the U.N. member countries. **Japan is the second-largest contributor to the U.N. regular budget, paying more than 20% of the total, more than twice the percentage paid by the third-largest contributor.** China and South Korea have criticized the Bush Administration for its support for Japan's bid for permanent U.N. Security Council membership.

Kyoto Protocol and Climate Change. Japan is the fourth-leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Tokyo ratified on June 4, 2002, Japan is obligated to reduce its emissions 6% below its 1990 levels by 2010. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the Bush Administration's decision to back away from the protocol. In July 2005, Japan joined with the United States, China, India, South Korea, and Australia to announce a new, non-binding, agreement, the Asia-Pacific Partnership on Clean Development and Climate, that calls on the six-nation agreement to cooperate on the development and diffusion of technologies to combat climate change, reduce pollution, and promote energy security. A vision statement announcing the initiative, which is expected to take more concrete form during a ministerial meeting in Australia in November 2005, says the agreement will "complement, but not replace, the Kyoto Protocol." Environmentalists have criticized the arrangement for its absence of mandates — particularly on emissions of greenhouse gases — and for being a part of a suspected U.S. strategy to prevent the Kyoto Protocol from being renewed after it expires in 2012.

Security Issues

(This section was written by Larry Niksch)

Japan and the United States are military allies under a security treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory in return for U.S. support to its security. In recent years Japan has edged closer to a more independent self-defense posture. A five-year defense plan for 2005-2009 calls on Japan to become more engaged militarily in the Indian Ocean region from the Middle East to Southeast Asia, permits military exports to the United States for development of joint missile defense, mentions China as a security problem (the first such mention in a five-year plan), and increases the size of rapid reaction forces, whose main mission is to prevent infiltration from North Korea.

Issue of U.S. Bases on Okinawa. Since September 1995, the U.S. military presence on Okinawa has been plagued by controversy over crimes committed by U.S. military personnel, especially U.S. Marines, and by plans to reshape the structure of military bases on the island. There have been widespread calls on Okinawa for a renegotiation of the Japan-U.S. Status of Forces Agreement (SOFA) and a reduction in U.S. troop strength. The U.S. and Japanese governments have opposed revising the SOFA, but, in 2001, the United States agreed to turn over American military personnel suspected of specific grievous crimes to Japanese authorities prior to formal indictments being issued by Japanese courts.

Recent U.S. announcements of troop withdrawals from South Korea and plans to withdraw 70,000 military personnel from Europe and Asia have raised speculation that U.S. troop strength on Okinawa might be reduced. In 2004, about 3,000 U.S. Marines from Okinawa were dispatched to Iraq. Marine General Wallace Gregson has stated that Marines could be relocated from Okinawa to bases on the Japanese mainland. A U.S.-Japanese Special Action Committee on Okinawa (SACO) reached an agreement in 1996 under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases' land) over seven years, but U.S. troop numbers would remain the same — about 29,000. Implementation of the agreement has been stalled by the issue of relocation of the U.S. Marine air station at Futenma, which is in the heart of a densely populated area, to another site on the island. The crash of a Marine helicopter from Futenma at a nearby university campus in August 2004 reportedly prompted the Pentagon to consider a withdrawal from Futenma. Japan's opposition Democratic Party, which made major gains in December 2003 parliamentary elections, came out in favor of a total U.S. military withdrawal from Okinawa. The Pentagon reportedly has proposed relocating the Futenma air station to the U.S. Air Force Kadena base on Okinawa. Japan and the United States reportedly have discussed relocating the 3rd Marine Expeditionary Force headquarters to Guam and other Okinawa-based Marines to the northernmost Japanese island of Hokkaido. Reportedly, the Japanese government favors a reduction in the Marine presence on Okinawa, but the Pentagon opposes major changes.

Proposed U.S. Command Structure Changes. In line with U.S. plans for global and regional force structure changes, the Pentagon reportedly has proposed to Japan two major command changes. One would shift the 1st Army Corps headquarters from Washington State to Camp Zama in Japan. The second would integrate the 13th Air Force on Guam into the 5th Air Force command and base the new command at the U.S. Yokota Air Base (about 23 miles northwest of Tokyo), where the 5th Air Force command currently is

located. These changes would make Japan a greater focal point of the U.S. command structure in the Pacific. Proposals to transfer some of the U.S. forces on Okinawa to areas of mainland Japan, particularly to Camp Zama, have run into considerable opposition from local politicians. In January 2005, the United States and Japan reportedly agreed to establish a set of working groups to discuss specifics about the realignment of U.S. forces in Japan.

Burden-Sharing Issues. The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. It was reported that at a U.S.-Japan meeting in August 2004, Japanese officials suggested that Japan reduce its HNS on grounds that Japan is now making a greater direct contribution to the alliance.

Revised Defense Cooperation Guidelines. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in “situations in areas surrounding Japan” including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998. The crises often mentioned are Korea and the Taiwan Strait, but another emerging point of tensions is the East China Sea, where China and Japan have overlapping territorial claims over the Sankaku islands and the underseas mineral resources. In January 2005, it was reported that Japan had developed military plans to dispatch 55,000 troops into the East China Sea area if the disputes deteriorate into an armed clash.

Until its unprecedented dispatch of a small naval flotilla and transport aircraft to provide noncombat logistical support of U.S. forces operating in the Indian Ocean following the September 11, 2001 terrorist attacks, Japan had barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution. Article 9 outlaws war as a “sovereign right” of Japan and prohibits “the right of belligerency.” It provides that “land, sea, and air forces, as well as other war potential will never be maintained.” Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions and in the U.S.-led coalition in Iraq, but in noncombat roles.

Japan’s prime minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense and broader peacekeeping roles, but he said he would not seek a revision of Article 9. In mid-2004, the Bush Administration stepped into the issue directly, in contrast to the traditional U.S. stance that revising Article 9 should be decided by Japanese. Top U.S. officials called for changes to Article 9. Then-Secretary of State Colin Powell said that Japan must revise Article 9 in order to realize its goal of permanent membership on the United Nations Security Council. One reported motive for the Bush Administration’s intervention is that Article 9 is closely linked to the three “non-nuclear principles,” barring nuclear weapons and nuclear-powered naval ships from Japanese territory, that Japan adopted after World War II. U.S. plans to mothball the remaining non-nuclear aircraft carrier, currently homeported in Japan, raise questions about the future of the homeporting arrangement if the non-nuclear principles would bar nuclear-powered aircraft carriers.

Escalation of the nuclear crisis with North Korea influenced the passage by the Japanese Diet in May 2003 of three wartime preparedness bills, which specify the powers of the government to mobilize military forces and adopt other emergency measures. The North Korean situation also sparked a debate in Japan over acquiring offensive weaponry that could be used to attack North Korea.

Cooperation on Missile Defense. A six-year Japan-U.S. program of cooperative research and development of anti-ballistic missiles began in 1999. Proponents of missile defense justify it on the basis of North Korea's missile program, but China opposes the program. U.S. military officials reportedly have recommended that Japan adopt a missile defense system that combines the ground-based U.S. Patriot Advanced Capability-3 (PAC-3) system and the ship-based U.S. Standard Missile-3 system. Prime Minister Koizumi announced in December 2003 that Japan would acquire these two U.S. systems. The Defense Agency reportedly hopes to begin deploying the missile defense system around major Japanese cities by 2007. The total cost to Japan is estimated at close to \$10 billion. (See CRS Report RL31337, *Japan-U.S. Cooperation on Ballistic Missile Defense: Issues and Prospects*, by Richard P. Cronin.)

Economic Issues

(This section was written by William Cooper)

Despite Japan's long economic slump, trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress. By the most conventional method of measurement, the United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. (China's economy is now larger than Japan's by another method of measurement: purchasing power parity.) Furthermore, their economies are intertwined by merchandise trade, trade in services, and foreign investments.

Although Japan remains important economically to the United States, its importance has slid as measured by various indicators. Japan is the United States's third-largest merchandise export market (behind Canada and Mexico) and the fourth-largest source for U.S. merchandise imports (behind Canada, Mexico, and China) as of the end of 2004. At one time Japan was the largest source of foreign direct investment in the United States but, as of the end of 2003, it was the second largest source (behind the United Kingdom). It was the fourth-largest target for U.S. foreign direct investment abroad as of the end of 2003. In 2004, United States was Japan's largest export market and second-largest source of imports.

Because of the significance of the U.S. and Japanese economies, domestic economic conditions strongly affect their bilateral relationship. Except for some brief periods, Japan had incurred stagnant or negative economic growth in the 1990s and the first few years of this decade. In Japan Fiscal Year (JFY) 2000, real GDP increased 2.5%, declined 1.1 in JFY2001, and increased only 0.8% in 2002. However, in JFY2003, Japan's GDP increased 2.0% and increased 1.9% in JFY2004. (Japan's fiscal year runs from April 1 through the following March 31. Thus, JFY2004 is equivalent to calendar year April 1, 2004 - March 31, 2005.)

Some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy, but increased moderately to \$70.1 billion in 2002. The trade deficit decreased slightly to \$66.0 billion in 2003 but increased to \$75.2 billion in 2004. In recent years, there have been complaints from U.S. industry and certain Members of Congress about the Japanese government's massive intervention in currency markets in 2003 and early 2004 to slow the Japanese yen's appreciation against the U.S. dollar.

Table 1. U.S. Trade with Japan, 1996-2004

(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0
2002	51.4	121.5	-70.1
2003	52.1	118.0	-66.0
2004	54.4	129.6	-75.2

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

Japan's Ban on U.S. Beef.³ Another lingering bilateral trade dispute pertains to the Japanese ban on imports of U.S. beef. Japan imposed the ban in December 2003, in response to the discovery of a case of "mad cow" disease in Washington State. On February 8, 2005, U.S. Agriculture Secretary Mike Johanns had announced that Japan had accepted the U.S. method for determining the age of cattle that were the source of processed beef and had agreed in principle to allow the importation of beef less than 20 months old. Japanese government officials now contend that it is up to the Food Safety Commission, an independent Japanese government body, to make the final decision on lifting a ban. The issue has become more complicated with the discovery of a second U.S. cow with the "mad cow disease" with the subsequent request by the Japanese government for more data from the United States. Unless the data are provided, the lifting of the beef ban could be delayed even further, according to a Japanese Agriculture Ministry official.⁴

³ For more, see CRS Report RS21709, *Mad Cow Disease and U.S. Beef Trade*, by Charles Hanrahan and Geoffrey Becker.

⁴ *International Trade Reporter*. July 28, 2005. p.1248.

The issue has reached the highest political levels. In a March 9, 2005 telephone call to Prime Minister Koizumi, President Bush urged the Japanese leader to end the ban.⁵ Members of Congress have weighed in on the issue as well. H.Res. 137 and S.Res. 87, introduced in March 2005, express the sense of the respective Houses of Congress that the U.S. government should impose economic sanctions against Japan if Japan does not lift the ban. Until it imposed the ban, Japan was by far the largest market for U.S. beef and veal exports, far ahead of second place South Korea.⁶

The Byrd Law. Japan, together with other major trading partners, has challenged U.S. trade laws and actions in the WTO. For example, Japan and others challenged the U.S. 1916 Antidumping law and the so-called Byrd Law (Title X of P.L. 106-387, which allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). In both cases, the WTO ruled in Japan's favor. Legislation to repeal the 1916 law was passed by the 108th Congress. However, there is strong resistance in the Congress to repealing the "Byrd Law." In November 26, 2004, the WTO authorized Japan and seven other countries to impose sanctions against the United States.⁷ On August 1, Japan announced that it would impose 15% tariffs on selected imports of U.S. steel products effective September 1 as retaliation. Japan joins the EU and Canada which had begun to impose retaliatory tariffs earlier.⁸ It is the first time that Japan has imposed punitive tariffs on U.S. products.

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

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

- Japan's economic problems in the 1990s and in the first few years of this decade have changed the general U.S. perception of Japan as an economic "threat" to one of a country with problems.
- The rise of China as an economic power has caused attention of U.S. policymakers to shift from Japan to China as source of concern.

⁵ *Washington Trade Daily*. March 10, 2005.

⁶ U.S. Department of Agriculture. Economic Research Service. *FATUS Export Aggregations*.

⁷ *International Trade Reporter*. January 20, 2005. p. 90.

⁸ *Congress Daily*. August 1, 2005 (PM edition).

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

Japanese Political Developments

(This section was written by Mark Manyin)

Current Situation. Many analysts are predicting that Prime Minister Koizumi's political capital in Japan will erode considerably in the coming weeks. Prime Minister Junichiro Koizumi's term will end at the latest in September 2006, when his position as president of the ruling Liberal Democratic Party (LDP) expires. Traditionally, the LDP President serves as prime minister. Koizumi is Japan's fourth-longest serving prime minister since the end of World War II. Koizumi's public approval ratings, which generally hover in the 40%-50% range, are the highest of any prime minister in decades, and he has used his popularity to centralize power in the prime minister's office (at the expense of the previously powerful LDP factions). However, his popularity has eroded somewhat in response to his "lame duck" status, his support for U.S. policies in Iraq, and his attempts to privatize the postal service.⁹

On the latter issue, Koizumi suffered a setback when his reform legislation passed the Lower House of the Japanese Diet (parliament) in early July 2005 by a margin of only 5 votes. Over fifty LDP members — including four vice-ministers — either voted against the measure or abstained from voting, and it is not clear that Koizumi will have enough votes from within his own LDP to ensure the measure's passage in the Diet's Upper House, where the LDP's lack of an absolute majority has led it to rely upon a coalition with another party, to maintain control over the chamber. If the measure does not pass the Upper House during the expected early August vote, Koizumi has said he likely will call for early parliamentary elections, which ordinarily would not have to be held until 2007, thus confronting the LDP rebels with the prospect of facing off against a relatively strong opposition party, the Democratic Party of Japan (DPJ). Even if the postal measure passes, Koizumi's political clout is likely to have been diminished significantly, casting uncertainty on his willingness or ability to make politically unpopular decisions such as extending Japan's deployment in Iraq and agreeing to U.S. troop redeployments from Okinawa to the Japanese mainland.

Despite his reformist image, Koizumi's record on economic reforms generally is judged to be mixed at best. Many analysts attribute this to a combination of a lack of focus and detailed planning by the prime minister's office, and to opposition from vested interests. In April 2004, Koizumi attempted to redouble the impetus behind his reforms by appointing a deregulation task force with himself at the head. Koizumi has been far more assertive on security issues, spearheading legislation designed to pressure North Korea to cooperate with

⁹ The publicly run postal system, which includes Japan's largest bank, has been one of the pillars of the LDP's political dominance since it was formed in 1955. Until 2001, Japan Post was required to give the government its savings and insurance deposits — worth over \$3 trillion — to the Ministry of Finance, providing the government with a massive, off-budget, source of revenue, as well as tens of thousands of jobs in rural areas, the LDP's traditional base. Japan Post is the largest purchaser of Japanese government bonds.

the international community, calling for a revision of Japan's constitution (including its war-renouncing Article 9), and carrying out controversial military deployments into the Indian Ocean to support Operation Enduring Freedom in Afghanistan and into Iraq to support the U.S.-led occupation. Koizumi's relatively hard-line stance toward China has been divisive; although many conservative Japanese are supportive, domestic criticism has risen that Koizumi is unnecessarily antagonizing China on certain issues, particularly his insistence on visiting the Yasukuni Shrine.

The Ruling Liberal Democratic Party (LDP). The LDP has dominated Japanese politics since it was formed 1955; ruling the country except for a 10-month hiatus in the 1990s. However, since that hiatus, the LDP has not secured enough parliamentary seats to rule on its own, forcing it to rely upon coalitions with other parties. For the past several years, the LDP's partnership with the Komeito ("clean government") party has enabled it to remain in power. Also over the past decade, a bloc of independent voters has arisen opposing the LDP's "business as usual" political system. Urban, younger, and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform (although when pressed, many of these same voters oppose specific structural — and potentially painful — economic reforms). Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base. This tension appears to have been at work in the November 2003 Lower House and July 2004 Upper House elections, in which the LDP's traditional supporters failed to back the party in their usual numbers, and many pro-reform voters turned not to Koizumi but to the newly energized alternative, the DPJ. National parliamentary elections in November 2003 and July 2004 demonstrated that the LDP has lost much of its strength in Japan's urban areas, which have tended to favor the DPJ.¹⁰ That said, despite the DPJ's gains, the LDP-led coalition still comfortably controls majorities in both parliamentary chambers.

The Democratic Party of Japan (DPJ). Koizumi's use of the threat of elections to enforce party discipline is a powerful deterrent because, over the past three years, a viable opposition party — the Democratic Party of Japan (DPJ) — has emerged, the first time in a generation that Japan has had a party capable of threatening the LDP's electoral dominance. The DPJ has scored particularly well among urban voters, independent voters, and the younger generations. While few Japan watchers predict that the DPJ, led by Katsura Okada, would defeat the LDP in a snap election, such a scenario is no longer unthinkable; the DPJ has scored major gains in the last two parliamentary elections. The DPJ's recent approval ratings have been in the 20% range in many nationwide polls, compared with the 35%- 40% range for the LDP. The DPJ's members tend to be younger and more reform-minded than the LDP elites. The DPJ has taken many positions likely to cause friction with the United States if it assumed power, including voting against Japan's Iraq deployment, calling for a total U.S. military withdrawal from Okinawa, and criticizing Koizumi for aligning Japan too closely to the United States. The DPJ was formed in April 1998 as a merger among four smaller parties and was later joined by a fifth grouping. The amalgamated nature of the DPJ has led to considerable internal contradictions, primarily between the party's

¹⁰ The LDP has benefitted from Japan's electoral system, in which each rural vote is worth an estimated two urban votes.

hawkish/conservative and passivist/liberal wings. In particular, the issue of revising the war-renouncing Article 9 of the Japanese constitution is generating considerable internal debate in the DPJ. As a result, on many issues the DPJ has not formulated coherent alternative policies to the LDP.

Constitutional Revision. Japan's constitution was drafted in 1946 by the U.S. Occupation authorities, who then imposed it on a reluctant Japanese legislature. Since the early 1990s, however, previous strong public opposition to revising the constitution has gradually weakened and public opinion polls now show strong support for some sort of revision. Over the past year, various proposals have been debated and submitted, with an eye toward Prime Minister Koizumi's goal of having the LDP submit a constitutional draft by December 2005. The most controversial issue, and the one with the most important implications for the future of the U.S.-Japan alliance, has been the war renouncing clause, Article 9.

Both the LDP and the DPJ are split between relatively hawkish and pacifist wings that appear to be sparring over the question of whether or not conditions (such as United Nations backing) should be attached to the right to join collective security arrangements. In other words, here, too, the issue is not whether, but how, Article 9 should be revised, a development that is due in part to increased concerns about North Korea and China. In late March 2005, Japan's House of Representatives Research Commission on the Constitution, composed of representatives from various parties, released a report indicating that over two-thirds of members generally favor constitutional provisions allowing Japan to join U.N. collective security arrangements, stipulating the Self-Defense Forces existence, and maintaining some portion of the war-renouncing clause of Article 9. A wide majority of the commission also favored allowing women to serve as emperor, establishing stronger privacy and environmental rights, creating a constitutional court, and revising Japan's federalist system. Constitutional amendments must be approved by two-thirds of each chamber, after which they will be "submitted to the people" for majority approval.

LEGISLATION

H.Con.Res. 191 (Hyde). Commemorates the 60th anniversary of the conclusion of the War in the Pacific and reaffirms the judgments rendered by the International Military Tribunal for the Far East of 1946-1948, including the conviction of certain individuals as war criminals. Passed by the House (399-0) on July 14, 2005; referred to the Senate Committee on Foreign Relations.

H.Res. 137 (Moran) and S.Res. 87 (Thune). Express the sense of the respective Houses of Congress that the U.S. government should impose economic sanctions against Japan, if Japan does not lift its ban on U.S. beef. Neither resolution have seen committee action.

H.Con.Res. 68 (Evans). Expresses the sense of Congress that the Government of Japan should formally issue a clear and unambiguous apology for the sexual enslavement of

“comfort women” during the colonial occupation of Asia. Introduced March 17, 2005; referred to House Asia Pacific Subcommittee.

H.Con.Res. 168 (Hyde). Condemns the Democratic People’s Republic of Korea for the abductions and continued captivity of citizens of the Republic of Korea and Japan. Passed by the House (362-1) on July 11, 2005; referred to Senate Foreign Relations Committee.

H.Res. 321(Leach). Expresses support for a “regionally balanced expansion” of the membership of the United Nations Security Council, which would include adding Japan, India, Germany, Brazil, and an African country. Introduced June 15, 2005; referred to the House Committee on International Relations.

S. 384 (DeWine). Extends the existence of the Nazi War Crimes and Japanese Imperial Government Records Interagency Working Group for two years. Passed by both Houses and signed into law by President Bush in March 2005.

H.R. 30 (Mica). To provide compensation for certain World War II veterans who survived the Bataan Death March and were held as prisoners of war by the Japanese. Introduced January 4, 2005; referred to House Committee on Armed Services. Similar legislation in the 108th Congress (H.R. 595) did not see action outside of committee.

S. 377 (Lieberman). Requires negotiation and appropriate action with Japan, China, and other countries that have engaged in currency manipulation. Introduced February 15, 2005; referred to Senate Finance Committee.