

# CRS Issue Brief for Congress

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

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# CONTENTS

## SUMMARY

## MOST RECENT DEVELOPMENTS

## BACKGROUND AND ANALYSIS

### The Role of Congress in U.S.-Japan Relations

### Major Diplomatic and Security Issues

#### Global Issues

- Counterterrorism Cooperation
- Support for U.S. Policy Toward Iraq
- United Nations Security Council Reform
- Kyoto Protocol and Climate Change

#### Regional and Historical Issues

- Converging Korean Peninsula Priorities
- Japan-China Rivalry
- Historical Issues Divide Asian Powers
- Claims of Former World War II POWs and Civilian Internees

#### Military Issues

- Deepening Cooperation
- Article 9 Restrictions
- Proposed Command Structure Changes
- U.S. Bases on Okinawa
- Burden-Sharing Issues
- Cooperation on Missile Defense

### Economic Issues

- Japan's Ban on U.S. Beef
- The Byrd Law
- The Doha Development Agenda

### Japanese Political Developments

- Koizumi's Sweeping Victory in September 2005 Elections
- Koizumi's Successor
- The Democratic Party of Japan (DPJ)
- Constitutional Revision

### Conclusion — Japan's Increased Assertiveness

## LEGISLATION

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

### SUMMARY

The post-World War II U.S.-Japan alliance has long been an anchor of the U.S. security role in East Asia. The alliance, with its access to bases in Japan, where about 53,000 U.S. troops are stationed, facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy. For Japan, the alliance and the U.S. nuclear umbrella provide maneuvering room in dealing with its neighbors, particularly China and North Korea.

In 2005, Congress showed a renewed interest in U.S.-Japan relations. In recent months, Members have expressed particular interest in Japan's ban on imports of U.S. beef, Japan's deteriorating relations with China and South Korea, and Japanese politics, including the battle to succeed Prime Minister Junichiro Koizumi, who says he will step down in September 2006.

The Bush Administration has made significant strides in its goals of broadening U.S.-Japan strategic cooperation and encouraging Japan to assume a more active international role. Following the September 11, 2001 terrorist attacks, Japan made its first-ever military deployments in noncombat support of U.S. and allied forces in Afghanistan. Koizumi also was a prominent backer of the U.S. invasion of Iraq and in 2004 Tokyo sent noncombat troops to Iraq, despite considerable domestic opposition. Japan generally has supported the "hardline" U.S. position in the six-party talks on North Korea's nuclear program. Japan is participating in bilateral missile defense research and development. Also, in 2005 the U.S. and Japan announced a sweeping new agreement to strengthen military cooperation. U.S. forces will be realigned and Japan will take on a more active (non-combat) role in maintaining regional and

global security. The envisioned changes will complement the broader Pentagon goal of deploying a more streamlined and mobile force in Asia.

Most of these developments have been viewed warily by South Korea and opposed outright by China. Beijing and Seoul also have expressed concern at the assertive foreign policy stance adopted by Koizumi, who has been buoyed by a heightened sense of nationalism and vulnerability (to North Korea and China) among many Japanese. In addition to pursuing closer relations with Washington, Tokyo has accelerated its bid for a permanent seat on the U.N. Security Council. Koizumi's party also has drafted a new constitution that would eliminate most of the clauses prohibiting participation in collective security arrangements. The United States has supported both moves. Sino-Japanese and Korean-Japanese tensions also have risen due to competing territorial claims and accusations that Japan is attempting to whitewash its history of aggression during the first half of the 20<sup>th</sup> Century.

Japan is one of the United States' most important economic partners. Outside of North America, it is the United States' largest export market and second-largest source of imports. Japanese firms are the U.S.' second-largest source of foreign direct investment, and Japanese investors are by far the largest foreign holders of U.S. treasuries, helping to finance the U.S. deficit and reduce upward pressure on U.S. interest rates. Bilateral trade friction has decreased in recent years, partly because U.S. concern about the trade deficit with Japan has been replaced by concern about a much larger deficit with China. The exception was U.S. criticism over Japan's decision in 2003 to ban imports of U.S. beef.

## MOST RECENT DEVELOPMENTS

On February 17, 2006, the U.S. Department of Agriculture released a report of its investigation of how prohibited bone material entered a January shipment of beef, one of the first shipments after Japan lifted its two-year-old ban on imports of U.S. beef. Japanese officials stated that while the report explained the incident in question it also revealed that there had been other violations of the conditions for resumption of U.S. beef shipments, raising the possibility of a further delay in the lifting of the ban.

Amidst rising bilateral tensions, Japanese and Chinese leaders held a number of meetings in February 2006. Discussions over disputed oil and gas deposits in the East China Sea reportedly yielded little tangible progress, aside from an agreement to meet again in March.

Japanese military officials reportedly are making preparatory plans for withdrawing most, if not all, of the approximately 600 troops that have been stationed in southern Iraq. Some media reports indicate that the withdrawal could begin as early as March 2006. U.S., Japanese, and UK officials reportedly are discussing the timing of a withdrawal, whether Japan will retain a ground troop presence, and whether Japan will expand its airlifting of U.S. soldiers and supplies to and from U.S. bases in Iraq. In early January 2006, U.S. authorities quickly turned over a U.S. sailor accused of the murder of a Japanese woman to Japanese police custody after Japanese prosecutors issued an arrest warrant for the crime. The sailor was the fourth U.S. serviceman transferred to Japanese custody under an agreement in which the U.S. military agreed to give “sympathetic consideration” to the swift transfer of military members accused of major crimes.

## BACKGROUND AND ANALYSIS

### The Role of Congress in U.S.-Japan Relations

Congressional powers, actions, and oversight form a backdrop against which both the Administration and the Japanese government must formulate their policies. In 2005, Congress showed a renewed interest in U.S.-Japan relations. After holding two Japan-specific public hearings from 2001 through 2004, Congress held three in 2005. In 2004 and 2005, Members of Congress were particularly critical of Japan’s two-year ban on imports of U.S. beef — which was partially lifted in December 2005 — and of the Bush Administration’s handling of the beef dispute. On security issues, Members have expressed concern that steps taken by the Japanese government are harming U.S.

#### 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:** 117.3 (2005), 108.3 (2004), 115.93 (2003), 125.39 (2002)  
**Foreign Exchange Reserves:** \$828.8 billion (2005)

**Source:** CIA *World Factbook*, July 2005, IMF, US Treasury Department

interests in East Asia by worsening Sino-Japanese and South Korean-Japanese relations. Prime Minister Junichiro Koizumi's continued visits to Yasukuni Shrine, which enshrines the names of several Class A war criminals from World War II, has come under particular criticism. Relatedly, some Members have called attention to signs that revisionist views of World War II and the U.S. Occupation of Japan (1945-52) increasingly are seeping into the mainstream in Japan. The Bush Administration's reaction to and role in fostering these developments also have begun to come under greater congressional scrutiny. Congressional attention also has focused on Japan's increased diplomatic and military assertiveness, as well as dramatic political developments in Japan in 2005 and 2006. (See also the "Legislation" section.)

## Major Diplomatic and Security Issues<sup>1</sup>

The dominant theme in U.S.-Japan relations for the past five years has been deepened alliance cooperation across a range of issues since the September 11, 2001, terrorist attacks. Prior to traveling to Asia in November 2005, President Bush described Prime Minister Junichiro Koizumi as "one of the best friends that I have in the international arena." During the one-day summit between the two leaders in Kyoto in November 2005, Prime Minister Koizumi said that the closer U.S.-Japan relations are, the "easier for us [Japan] to behave and establish better relations with China, with South Korea and other nations in Asia."

### Global Issues

**Counterterrorism Cooperation.** Following the terrorist attacks of September 11, 2001, the Koizumi government initiated a series of unprecedented measures to protect American facilities in Japan and provide non-lethal, "rear area" 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. The dispatch of Japan's Maritime Self-Defense Forces (MSDF) was the first such deployment since World War II. From late 2001 through March 2005, a small flotilla of Japanese transport ships, oilers, and destroyers provided about 30% of the fuel used by U.S. and allied warships, and Japan's Air Self-Defense Force (ASDF) conducted hundreds of airlift support missions for U.S. forces. On June 10, 2005, the Japanese government decided to extend its anti-terrorism law for two years but to reduce its Indian Ocean deployment to only one escort ship. This effectively brought to an end the post-9/11 role of the MSDF operations in the Indian Ocean and Persian Gulf. After the United States, Japan also has been the leading donor country for Afghan relief and reconstruction.

**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, 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

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<sup>1</sup> This section was written by Mark Manyin and Emma Chanlett-Avery.

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. Since 2003, Japan has provided \$1.5 billion in grant assistance to Iraq, has pledged to provide \$3.5 billion in yen loans, and has agreed to a phased cancellation of 80% of the approximately \$7.5 billion in debt Iraq owed Japan. In mid-October 2004, Japan hosted a conference in Tokyo for a group of countries and institutions that have pledged funds to support the reconstruction of Iraq. In addition, the Koizumi government has deployed about 600 military personnel — mainly ground troops — to carry out humanitarian aid and reconstruction activities in Iraq. In December 2005, the Japanese Cabinet extended Japan's deployment of troops to the southern Iraqi city of Samawah for one year. When discussing the announcement, Prime Minister Koizumi hinted that Japan would likely withdraw its troops if Australian and British troops withdraw in 2006. Australian troops are providing military protection for the Japanese deployment.

**United Nations Security Council 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 did not support the G-4 proposal and opposed taking a vote on expanding the Security Council until a "broader consensus" on reforming the entire organization can be reached. After the G-4 bid failed in the runup to the U.N.'s Millennium Summit in September 2005, Prime Minister Koizumi reportedly told Secretary General Kofi Annan that in the future Japan would have to coordinate more closely with the United States to achieve its goal. 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 in 2002, Japan is obligated to reduce its emissions to 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, but the Japanese government, which places a high value on its support of the protocol, has expressed dismay over the Bush Administration's decision to back away from the protocol. In 2005, Japan has joined with the United States, China, India, South Korea, and Australia in a new, non-binding, agreement, the Asia-Pacific Partnership on Clean Development and Climate, that calls on the six nations to cooperate on the development and diffusion of technology to combat climate change, reduce pollution, and promote energy security. The group is designed to "complement, but not replace, the Kyoto Protocol." Some environmentalists have criticized the arrangement for its absence of mandates — particularly on greenhouse gas emissions — and for being a part of a suspected U.S. strategy to prevent the Kyoto Protocol from being renewed after it expires in 2012. The Bush Administration has announced it will propose \$52 million in funding for the Partnership in its FY2007 budget.

## Regional and Historical Issues

**Converging Korean Peninsula Priorities.** Japan's policy toward North Korea has hardened in recent years, drawing it closer to the U.S. position in the ongoing six-party talks on Pyongyang's nuclear weapons program. Japan has insisted on North Korea abandoning its nuclear weapons, promising substantial aid in return; has taken steps to squeeze North Korea economically; and participates in the U.S.-led Proliferation Security Initiative (PSI). Several prominent Japanese have called for Tokyo to impose sanctions against North Korea, a step opposed by Koizumi and the Bush Administration. The issue of Japanese citizens kidnapped in the 1970s and 1980s by North Korean agents has largely driven Tokyo's harder position. The Bush Administration and Congress have supported Japan's insistence on a full accounting of the fate of those abducted. The North Korean Human Rights Act, passed by the 108<sup>th</sup> Congress and signed by President Bush in October 2004 (P.L. 108-333) requires that U.S. nonhumanitarian assistance to North Korea depend on "substantial progress" toward fully disclosing information on the abductees. At the same time, Japan has reportedly encouraged the United States to adopt a more flexible position; after a Koizumi-Bush meeting at the June 2004 G-8 Summit, the Bush Administration submitted its first and only detailed negotiating position at the six-party talks. Additionally, outside the framework of the talks, Koizumi has pursued an independent channel of diplomacy with North Korea, holding summits with North Korean leader Kim Jong-il in September 2002 and May 2004. Koizumi has not ruled out normalizing relations between the two countries, which have never had official relations, though he has made this contingent upon the settlement of the nuclear and abduction issues. Normalization talks restarted in late 2005.<sup>2</sup>

**Japan-China Rivalry.** Despite extensive economic ties, relations between China and Japan, always uneasy, have become increasingly strained in recent years. Political tensions are high on a variety of sovereignty-related issues, and many observers see a potentially destabilizing spike in nationalist animosity toward Japan among Chinese. In April 2005, large-scale anti-Japanese demonstrations broke out in at least nine Chinese cities, including a violent protest in Shanghai that damaged the Japanese consulate as well as shops that catered to the large Japanese expatriate community. Many observers noted that the Chinese authorities were unusually passive in allowing the protesters to organize, fueling speculation that Beijing quietly encouraged the demonstrations.

Beijing and Tokyo have faced a series of confrontations over the territorial rights of areas in the East China Sea, which is potentially rich in oil and gas reserves. Japan considers the area surrounding the Senkaku/Diaoyu islands to be part of its Exclusive Economic Zone (EEZ). The Japanese Self Defense Force has detected periodic Chinese military activities in the area, including a submarine incursion close to Okinawa and a fleet of warships near a disputed gas field. In September 2005, there were reports that China completed construction and had begun operating at least one new drilling platform in the contested area. Beijing has criticized the strengthening U.S.-Japan security relationship and Japan's more public concern for Taiwan's security. In another indication of shifting relations, Japan has cut its assistance to China in half since 2000.

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<sup>2</sup> For more, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry Niksch.

**Historical Issues Divide Asian Powers.** Historical grievances, particularly those centered around Japan's behavior during and preceding World War II, continue to aggravate Japan's relationships with its neighbors. The most consistently divisive issue involves the visits of Japanese politicians to the Yasukuni Shrine, a Shinto shrine that honors Japanese who died in war. Those enshrined include several Class A war criminals. Chinese leaders have emphasized repeatedly that Prime Minister Koizumi's Yasukuni visits constitute a huge stumbling block in moving political relations forward. Koizumi's fifth annual visit to Yasukuni, in October 2005, again drew angry protests from Asian leaders: both Beijing and Seoul cancelled upcoming bilateral meetings with the Japanese, but no widespread demonstrations occurred in China. In a sign that the debate over Yasukuni is intensifying among the Japanese elite, two of Japan's most influential newspapers, the *Yomiuri Shimbun* and the *Asahi Shimbun*, called for the establishment of a non-political alternative shrine that excludes the Class A war criminals.

In a related vein, Japan has come under fire for some of its history textbooks for school children; China insists that the texts misrepresent Japan's past by downplaying the atrocities committed by Japanese soldiers against civilian populations. 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. Furthermore, the question of Japan's historical legacy 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 Yasukuni shrine and Japan's record in accounting for its past history of aggression before and during World War II. In November 2005, President Bush discussed rising regional tensions during his bilateral summits with Koizumi and the leaders of China and South Korea. During a trip to Japan and China in January 2006, Deputy Secretary of State Robert Zoellick suggested that Chinese, Japan, and U.S. historians engage in "track two" efforts to examine the history of World War II.

Relatedly, in a move that could open the door to disagreements between Japanese nationalists and members of the U.S. Congress, 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 American World War II Prisoners of War (POWs) and civilian internees who were forced to work for Japanese companies — including Mitsui, Nippon Steel, and Mitsubishi — during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee for forced labor and torture. Former POWs and civilian internees were 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. 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 Departments of State and Justice support the position of the Japanese government, but some 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.<sup>3</sup>

## Military Issues<sup>4</sup>

**Deepening Cooperation.** Japan and the United States are military allies under a security treaty concluded in 1951 and revised in 1960. Under the treaty, Japan grants the United States military base rights on its territory in return for a U.S. pledge to protect Japan's security. In October 2005, at a Security Consultative Committee meeting (SCC, also known as the 2+2 meeting) of the Japanese and U.S. foreign and defense ministers, the two sides released an interim report, *Transformation and Realignment for the Future*, announcing several significant steps that will expand the alliance beyond its existing framework. As U.S. personnel and facilities in Japan are realigned as part of the broader Pentagon strategy of deploying a more streamlined and mobile force, Japan is to take a more active role in contributing to global stability, primarily through increased coordination with the U.S. military. Key features of the new arrangement include a reduction in the number of U.S. Marines in Japan, the relocation of a problematic air base in Okinawa, the deployment of an X-Band radar system in Japan as part of a missile defense system, expanded bilateral cooperation in training and intelligence sharing, and Japan's acceptance of a nuclear-powered aircraft carrier in the Yokosuka Naval Base. Many of the agreement's most controversial elements are likely to face continued obstacles, particularly from local Japanese politicians in the areas identified to host new facilities and troops.

The most recent overhaul builds upon the 1997 revised defense cooperation guidelines that grant the U.S. military greater use of Japanese installations in time of crisis and refer to a possible, limited Japanese military role in "situations in areas surrounding Japan." At the "2 + 2" meeting in February 2005, Secretaries Rice and Rumsfeld, along with their Japanese counterparts, outlined a more global and integrated vision of the alliance, specifically mentioning issues related to the Korean Peninsula and the Taiwan Straits as "common strategic objectives" for "peaceful resolution." Defense officials continue to stress, however, that the Japanese military will not be involved in combat missions but instead limit its contributions to logistical support for counterterrorism operations or to humanitarian and reconstruction efforts.

In recent years Japan has edged closer to a more independent self-defense posture in both practice and in published security strategies. Japan's National Defense Program Guidelines (NDPG) approved in December 2004 call on Japan to become more engaged militarily in the Indian Ocean region from the Middle East to Southeast Asia, permit military

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<sup>3</sup> See CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II*, archived but available by request from the coordinator.

<sup>4</sup> This section written by Emma Chanlett-Avery.

exports to the United States for development of joint missile defense, mention China as a security problem (the first such mention in a five-year plan), and increase the size of rapid reaction forces, whose main mission is to prevent infiltration from North Korea.

**Article 9 Restrictions.** In general, Japan's U.S.-drafted 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. 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." Whereas in the past, Japanese public opinion strongly supported the limitations placed on the Self-Defense Force (SDF), this opposition has softened considerably in recent years. (See "Constitutional Revision"). Since 1991, Japan has allowed the SDF to participate in non-combat roles in a number of United Nations peacekeeping missions and in the U.S.-led coalition in Iraq. In mid-2004, 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 Japan's three "non-nuclear principles," which includes not possessing, producing, or permitting the introduction of nuclear weapons into Japan. Japan's agreement in 2005 to house a new, nuclear-powered carrier in Yokosuka beginning in 2008 after the existing carrier is decommissioned has already sparked local protests and could develop into a major domestic controversy.

**Proposed Command Structure Changes.** The October 2005 interim report outlines major command changes agreed to by Japanese and U.S. officials. One would shift 300 soldiers from the 1<sup>st</sup> Army Corps headquarters from Washington State to Camp Zama to establish a deployable headquarters. The Ground Self Defense Forces would also base a rapid-response headquarters at Camp Zama. A bilateral and joint operations center is to be built at Yokota Air Base (about 23 miles northwest of Tokyo) to enhance coordination between the Japanese and U.S. air and missile defense command elements. The headquarters of the 3<sup>rd</sup> Marine Expeditionary Force, meanwhile, would be moved from Okinawa to Guam, reducing the number of marines in Okinawa by about 7,000.

**U.S. Bases on Okinawa.** The reduction of marines from about 18,000 to 11,000 on Okinawa seeks to quell the political controversy that has surrounded the presence of U.S. forces on the island for years. Public outcry against the bases has continued since the 1995 rape of a Japanese schoolgirl by American servicemen, which galvanized underlying resentments. Though constituting less than 1% of Japan's land mass, Okinawa currently hosts 65% of the total U.S. forces in Japan. Okinawan politicians have called 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 have acknowledged the political demand to alleviate the burden of the U.S. military presence in Okinawa.

As part of the realignment of U.S. bases, U.S. officials agreed to move most aircraft and crews constituting the marine air station at Futenma to expanded facilities at Camp Schwab, located in Nago, a less-congested area of Okinawa. Campaigns for Nago's January mayoral election indicated resistance to the relocation, as all candidates criticized the plan. Disagreements over the relocation of the Futenma air station had stalled the implementation

of a 1996 U.S.-Japanese Special Action Committee on Okinawa (SACO) agreement under which the U.S. military would relinquish some bases and land on Okinawa (21% of the total land in the bases) over seven years.

**Burden-Sharing Issues.** The United States has pressed Japan to increase its share of the costs of American troops and bases. According to a Pentagon report, in 2004, Japan provided \$4.4 billion in direct and indirect Host Nation Support (HNS), which is 75% of the total cost of maintaining troops in Japan. In 2004, Japanese officials reportedly suggested that HNS be reduced on grounds that Japan is now making a greater direct contribution to the alliance. In January, Japan renewed its pledge to provide \$1.2 billion in direct support for each of the next two years to U.S. forces amid controversy over how much of the cost of relocating forces will be shouldered by Japan. The key sticking point is the estimated \$7.6 billion price tag of relocating 7,000 U.S. Marines from Okinawa to Guam.

**Cooperation on Missile Defense.** A U.S.-Japan 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. Prime Minister Koizumi announced in December 2003 that Japan would acquire the ground-based U.S. Patriot Advanced Capability-3 (PAC-3) system and the ship-based U.S. Standard Missile-3 system. The Defense Agency reportedly plans to begin deploying the missile defense system around major Japanese cities by March 2007. In December 2005, the Agency announced that Japan will pay over \$1 billion for the project over nine years.

## Economic Issues<sup>5</sup>

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.<sup>6</sup> By the most conventional method of measurement, the United States and Japan are the world's two largest economies,<sup>7</sup> accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are intertwined by merchandise trade, trade in services, and foreign investments.

Although Japan remains important economically to the United States, its importance has slid as it has been edged out by other trade partners. 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 first six months of 2005. At one time Japan was the largest source of foreign direct investment in the United States, but, as of the end of 2004, it was the second largest source (behind the United Kingdom). It was the fifth-largest target for U.S. foreign direct investment abroad as of the

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<sup>5</sup> This section was written by William Cooper.

<sup>6</sup> For a more complete treatment of U.S.-Japan economic ties, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

<sup>7</sup> China's economy is now larger than Japan's by another method of measurement: purchasing power parity.

end of 2004. The United States remains Japan's largest export market and second-largest source of imports as of the end of July 2005.

Japan's domestic economic conditions have influenced the U.S.-Japan economic agenda. Except for some brief periods, Japan had incurred stagnant or negative economic growth in the 1990s and the first few years of this decade. However, Japan recently has shown signs of achieving sustained economic recovery.

Some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000. 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. The U.S. trade deficit in 2005 with Japan may break the record set in 2000. (See **Table 1**.)

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. Some legislation has been introduced regarding the alleged currency manipulation. While many of the bills target China's exchange rate practice, some do refer to Japan. For example, S. 377 (Lieberman), The Fair Currency Enforcement Act of 2005, lists Japan as a country, among others, that has implemented exchange rate policies that give its exports an unfair competitive advantage in the U.S. market, and the bill states that experts have estimated that the yen is undervalued by about at least 20%. The bill would authorize the President to take actions under U.S. trade laws to retaliate, if a country is found to be manipulating its currency values.<sup>8</sup>

In addition, the recent announcement by the Ford Corporation of factory closings and the layoff of some 30,000 auto employees exemplified growing problems of the U.S.-based auto industry. In a November 22, 2005 speech he delivered at the National Press Club, Ford Chairman Bill Ford stated among other things that U.S. auto manufacturers face the financial burdens of pension costs and health care benefits that Japanese auto companies, such as Toyota, do not face because the Japanese government finances these costs, thereby placing the burden on the whole society and not just on Japanese business. While Ford's argument for his company's problems is subject to debate, his remarks may signify the re-emergence of Japanese industrial policy as a point of contention in the bilateral relationship.

**Table 1. U.S. 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
<b>2005</b>	<b>55.4</b>	<b>138.1</b>	<b>-82.7</b>

**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.

<sup>8</sup> For more, see CRS Report RL33178, *Japan's Currency Intervention*, by Dick K. Nanto.

**Japan's Ban on U.S. Beef.**<sup>9</sup> On January 20, 2006, Japan reimposed a ban on beef imports from the United States after having lifted it on December 12, 2005. Japan re-imposed the ban after government inspectors found bone material in beef shipments from the United States, among the first shipments to have arrived after the ban was lifted. The presence of the bone material violated the procedures U.S. and Japanese officials reached that allowed the resumption of the U.S. beef shipments. U.S. Secretary of Agriculture Johanns expressed regret that the prohibited material had entered the shipments. It is not clear when U.S. beef shipments to Japan can resume.

On February 17, 2006, the U.S. Department of Agriculture released a report of its investigation of how the prohibited material got shipped. Japanese officials stated that while the report explained the incident in question it also revealed that there had been other violations of the conditions for resumption of U.S. beef shipments, raising the possibility of a further delay in the lifting of the ban.<sup>10</sup>

Japan imposed the original ban in December 2003, in response to the discovery of the first U.S. case of bovine spongiform encephalopathy (BSE or "mad cow disease") in Washington state. In the months before the diagnosis in the United States, nearly a dozen Japanese cows infected with BSE had been discovered, creating a scandal over the Agricultural Ministry's handling of the issue (several more Japanese BSE cases have since emerged). Japan had retained the ban despite ongoing negotiations and public pressure from Bush Administration officials, a reported framework agreement (issued jointly by both governments) in October 2004 to end it, and periodic assurances afterward by Japanese officials to their U.S. counterparts that it would be lifted soon.

House Agriculture Committee Chairman Bob Goodlatte stated on January 31, 2006, urged Japan to re-open their market to U.S. beef quickly or face "a dramatic response from the U.S. Congress." Senator Saxby Chambliss, chair of the Agriculture, Nutrition, and Forestry Committee stated on February 17 that both governments understand what caused the "one lapse" in the U.S. resumption of beef shipments to Japan.

**The Byrd Law.** Japan, together with other major trading partners, has challenged U.S. trade laws and actions in the World Trade Organization (WTO). For example, Japan and others challenged the U.S. 1916 Antidumping Law and the so-called Byrd Amendment (which allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). In both cases, the WTO ruled in Japan's favor. Legislation to repeal the 1916 law was passed by the 108<sup>th</sup> Congress. In November 2004, the WTO authorized Japan and the other countries to impose sanctions against the United States. In September 2005, Japan imposed 15% tariffs on selected imports of U.S. steel products as retaliation, joining the EU and Canada. It is the first time that Japan has imposed punitive tariffs on U.S. products. In the meantime, a repeal of the Byrd Amendment was included in the conference report for S. 1932, the Deficit Reduction Act of 2005. The House passed the conference report on December 19, 2005, and the Senate is expected to take up the measure

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<sup>9</sup> For more information, see CRS Report RS21709, *Mad Cow Disease and U.S. Beef Trade*, by Charles Hanrahan and Geoffrey Becker.

<sup>10</sup> *Inside U.S. Trade*. February 24, 2006.

early in the second session of the 109th Congress. The measure would phase out the program over a period ending October 1, 2007.<sup>11</sup>

**The Doha Development Agenda.** Japan and the United States are major supporters of the Doha Development Agenda (DDA), 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 resisted by Japan and the European Union. 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 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 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 the emphasis in the bilateral relationship has shifted from economic to security matters.

## Japanese Political Developments<sup>12</sup>

In general, Japan's political peculiarities both constrain and enhance U.S. influence over Japanese policy. Compared to most industrialized democracies, the Japanese Diet (parliament) is structurally weak, as is the office of the prime minister and his cabinet. Though Koizumi and his immediate predecessors have increased politicians' influence relative to Japan's bureaucrats, with important exceptions Japan's policymaking process still 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. On some issues this can provide the United States with an opening to use foreign pressure (*gaiatsu*) to break policy logjams. On the other hand, the nature of Japan's policymaking process makes it difficult for Japanese leaders to reach controversial agreements with foreign countries. Japan's structural debilities also have tended to retard its ability to act decisively and proactively in the international sphere — often to the frustration of the United States — though this characteristic is less pronounced today than a decade ago. Because Prime Minister Koizumi has centralized power to a greater extent than his predecessors, and because he has aligned Japanese foreign policy so closely to the United States, his expected resignation in September 2006 could have a larger-than-usual impact on U.S.-Japan relations.

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<sup>11</sup> For more information on the Byrd Amendment, see CRS Report RL33045, *the Continued Dumping and Subsidy Offset Act ("The Byrd Amendment")*, by Jeanne J. Grimmer and Vivian C. Jones.

<sup>12</sup> This section was written by Mark Manyin.

**Koizumi's Sweeping Victory in September 2005 Elections.** Junichiro Koizumi is Japan's fourth-longest serving prime minister since 1945, and he has used his popularity to bolster power in the prime minister's office at the expense of the previously powerful factions in his ruling Liberal Democratic Party (LDP). Koizumi's influence appears to have been greatly enhanced on September 11, 2005, when he led the LDP to a landslide victory in nationwide elections for the Lower House of the Japanese parliament (the Diet). The LDP won 296 of 480 seats, its largest total in nearly 20 years, and 84 seats higher than its position before the election. The next Lower House elections are not required to be held until September 2009.

Koizumi's victory appears to have further weakened the LDP's conservative "old guard," whose power Koizumi has gradually reduced since he came to power in 2001. Koizumi exercised his right to call a snap Lower House election after many LDP members helped engineer the defeat in the Upper House of his controversial proposal to privatize the Japanese postal system.<sup>13</sup> The LDP narrowly controls the Upper House only through a coalition with a smaller party. During the campaign, Koizumi successfully made his postal privatization plan the dominant issue. He expelled 37 "postal rebels" from the LDP, recruiting many younger, reform-minded "assassin" candidates — including many women — to run against them. Claiming a mandate for postal reform, Koizumi reintroduced and secured passage of his postal privatization bill.

The medium-term implications of Koizumi's victory are uncertain because he repeatedly has stated that he will step down from his position as LDP President when his term expires in September 2006. (Traditionally, the LDP President assumes the premiership.) A number of prominent LDP members have called for rewriting the party's rules to allow Koizumi to extend his term, but to date Koizumi has resisted these entreaties, saying only that he expects his successor to advance his reform agenda. This includes shrinking the size of government, making the LDP more responsive to its president, and devolving budget authority to Japan's prefectures (states).

**Koizumi's Successor.** After his election victory, Koizumi said that he wants his successor to carry on his reforms and that he would reshuffle his Cabinet in order to give a chance for potential successors to gain more experience. On October 31, 2005, he appointed a new Cabinet, giving prominent positions to three individuals who are widely thought will seek the LDP presidency in 2006. Shinzo Abe (51 years old) — known for his hawkish views on North Korea, China, and history issues — was given the important position of Chief Cabinet Secretary, a post gives him nearly daily exposure on the Japanese media, as well as the power to allocate the LDP's political funds to individual politicians. Another hardliner, Taro Aso (65) — who is known as an advocate of closer relations with Taiwan — was given the Foreign Ministry portfolio. Sadakazu Tanigaki (60) was reappointed as Finance Minister. Notably, another would-be prime minister, Koizumi's former Chief Cabinet Secretary Yasuo Fukuda (69), was left out of the Cabinet altogether. Fukuda reportedly has advocated a somewhat more conciliatory position toward China and was a chief architect of Koizumi's policy of normalizing relations with North Korea.

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<sup>13</sup> In addition to providing mail delivery, Japan Post also functions as the country's (and perhaps the world's) largest bank and life insurer, with about ¥350 trillion (approximately \$3 trillion) in deposits.

**The Democratic Party of Japan (DPJ).** The election also appeared — at least for the moment — to stall the emergence of a two-party system in Japan. The LDP has ruled almost continuously since its formation in 1955. Over the past three years, Japan's largest opposition party, the Democratic Party of Japan (DPJ), seemed to be emerging as a viable candidate to defeat the LDP. In several elections in the early part of the decade, the DPJ steadily increased its strength in the Diet by winning over reform-minded urban and independent voters, who were attracted to the DPJ's economic reform platform that in many ways is more radical than Koizumi's. In the September 2005 election, however, many of these voters opted for Koizumi's rebranded LDP. As a result, the DPJ lost more than one-third of its strength; the party now has 113 seats in the Lower House, down from 175 before the election, and the party's leader resigned to take responsibility for the defeat.

A week after the vote, the DPJ elected 43-year-old Seiji Maehara to be the new party president. The choice of Maehara, who is known as a realist on security and defense issues, highlights the DPJ's considerable internal tensions, particularly between the party's hawkish/conservative and passivist/liberal wings. Formed in 1998, the DPJ has yet to transcend its legacy as an amalgamation of several smaller parties. In the September 2005 election, the DPJ took 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. Maehara has indicated he will reverse some of these positions, saying that on broad questions of foreign policy, there is little fundamental difference between his vision and Koizumi's. If he is able to bring the DPJ along to this view, it is likely to reduce the politicization of many security issues in U.S.-Japan relations. Maehara has indicated, however, that he favors the withdrawal of Japanese troops from Iraq.

**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, previously strong public opposition to revising the constitution has gradually weakened and public opinion polls now show widespread support for some sort of revision. In October 2005, Japan's ruling Liberal Democratic Party (LDP) released its long-awaited draft revision of the Japanese constitution. The most notable changes reduce many — though not all — of the provisions in the war renouncing clause (Article 9) that set limits on Japan's military activities. After renouncing war and the "threat or use of force as a means of settling international disputes," the proposed revision explicitly states that Japan "shall maintain armed forces for self-defense" that operate under the prime minister and are subject to the Diet's approval and direction. The explicit mention of a military force is designed to rectify the disconnect between the current constitution — which says that "land, sea, and air forces, as well as other war potential, will never be maintained" — and the reality that Japan possesses a Self Defense Force. More importantly, the LDP's draft appears to allow Japan to participate in collective security arrangements by stating that the armed forces "may act in international cooperation to ensure the international community's peace and security."

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, 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 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 are to be "submitted to the people" for majority approval. LDP and the DPJ officials have expressed their support, in principle, for Koizumi's proposal to pass by the middle of 2006 legislation detailing how a national constitutional referendum would be conducted.

## **Conclusion — Japan's Increased Assertiveness<sup>14</sup>**

Since the late 1990s, Japan has displayed a more assertive foreign policy, a process that Prime Minister Junichiro Koizumi has accelerated since coming to power in 2001. The new assertiveness has manifested itself in at least four notable ways. First, under Prime Minister Koizumi, Japan has intensified its cooperation with the United States, and Koizumi has developed a strong personal relationship with President Bush. Second, Tokyo has hardened its policies toward Beijing, slashing its bilateral aid program, not backing down from territorial and historical disputes, and reorienting the U.S.-Japan alliance to give both countries more flexibility to respond to perceived and actual threats from China. Third, Japan has attempted to exert more influence in Southeast Asia and on the global stage, as evidenced by its pursuit of a permanent seat on the U.N. Security Council and its negotiation of free trade agreements (FTAs) with a number of Southeast Asian countries. Fourth, Japanese leaders have sought to make Japan a more "normal" country by legitimizing the military's ability to participate in collective security arrangements and take actions — such as firing at hostile foreign ships in Japanese waters — that most other nations take for granted. Currently, Japan's military role is highly conscribed by the constitution's war-renouncing clause of Article 9.

The motivations for Japan's increasing foreign policy assertiveness are both external and internal. Domestically, Koizumi has found that breaking from Japan's traditionally passive foreign policy posture has played well with politically influential right-of-center — not to mention right-wing — groups. Many elements of his policies also have resonated among the population as a whole, as ordinary Japanese have become much more security conscious since North Korea's missile launch in 1998. In general, the negative implications of China's economic and military rise are viewed with deepening concern in Japan, particularly when seen against the backdrop of Japan's decade-long economic slump. Many Japanese worry that they gradually are ceding leadership in East Asia to China, and that the aftereffects of this shift will harm Japanese interests. In the shorter term, anxieties have been raised by the intensifying disputes with China and by North Korea's nuclear weapons and missile programs.

In general, the Bush Administration has encouraged Tokyo's rising assertiveness, which thus far has tended to dovetail with U.S. interests in the strategic realm. In the future,

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<sup>14</sup> This section was written by Mark Manyin.

however, it is likely that a more active Japan will be more willing to question U.S. policies on a range of strategic issues where U.S. and Japanese interests do not coincide or where domestic factors push Japanese leaders to avoid being perceived as being too close to the United States.

## LEGISLATION

**P.L. 109-5 (S. 384).** 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.

**P.L. 109-97 (H.R. 2744).** The Agriculture Appropriations Act of 2006. Signed into law (P.L. 109-97) November 10, 2005. The Senate-passed version included two amendments, adopted on September 20, 2005, that would have denied funds to implement a rule to lift the U.S. ban on Japanese beef until Japan has lifted its ban on imports of U.S. beef (S.Amdt. 1732 agreed to by a vote of 72-26); and that expressed the sense of the Senate that the U.S. ban on imported Japanese beef should remain in place until Japan has lifted its ban on imports of U.S. beef (S.Amdt. 1738, agreed to by voice vote). House and Senate conferees did not include either amendment in the final bill, though the conference report (H.Rept. 109-255) says Congress “clearly reserve[s] the right to impose restrictions similar to those suggested by the Senate if there is not a swift resolution to this issue.”

**P.L. 109-114 (H.R. 2528).** Veterans Affairs Appropriations Act of 2006. Section 118 requires the Defense Department to report by February 15 on U.S. efforts to encourage Japan and other allied countries to increase their share of the allied defense burden. Became public law on November 30, 2005.

**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.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.Con.Res. 311 (Ramstad)/S.Con.Res. 67 (Coleman).** Urges Japan to honor its commitments under a 1986 bilateral agreement on medical equipment and pharmaceuticals. House bill introduced December 7, 2005; referred to House Ways and Means Committee. Senate bill introduced November 18, 2005; referred to Foreign Relations Committee.

**H.Res. 137 (Moran)/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 has seen committee action.

**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.

**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.

**H.R. 4179 (Salazar) and S. 1922 (Conrad).** Require the President to impose extra tariffs on various Japanese products beginning on January 1, 2006, if Japan has not lifted its ban on imports of U.S. beef. H.R. 4179 introduced October 28, 2005; referred to House Ways and Means Committee. S. 1922 introduced October 26, 2005; referred to Senate Finance 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.