



Japan-U.S. Relations: Issues for Congress

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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 facilitates the forward deployment of about 53,000 U.S. troops and other U.S. military assets in the Asia-Pacific, thereby undergirding U.S. national security strategy in the region. For Japan, the alliance and the U.S. nuclear umbrella provide maneuvering room in dealing with its neighbors, particularly China and North Korea.

During the Bush Administration, Tokyo and Washington initially made significant strides in 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 non-combat support of U.S. and allied forces in Afghanistan. In 2004 Tokyo sent non-combat troops to Iraq, despite considerable domestic opposition. In 2005 the United States and Japan announced a sweeping new agreement to strengthen military cooperation. The plan calls for U.S. forces to be realigned and Japan to take on a more active (non-combat) role in maintaining regional and global security. Since mid-2007, political turmoil and divided government in Tokyo slowed or stalled some of this progress in security relations.

It remains to be seen to what extent U.S.-Japan relations will be affected by the Democratic Party of Japan's (DPJ) landslide victory in August 30, 2009 elections for the Lower House of Japan's legislature. The victory gave the DPJ, under party president Yukio Hatoyama, control of the government. While most members of the left-of-center DPJ are broadly supportive of the U.S.-Japan alliance and the general thrust of Japanese foreign policy, in the past the party has questioned and/or voted against several features of the alliance, including base realignment, Japan's financial payments for U.S. forces stationed in Japan, and Japan's naval deployments to support the war in Afghanistan. The DPJ's victory appears to mark the end of an era in Japan; it was the first time Japan's Liberal Democratic Party (LDP) was voted out of office. The LDP has ruled Japan virtually uninterrupted since 1955.

Japan is one of the United States' most important economic partners. Outside of North America, it is the United States' second-largest export market and second-largest source of imports. Japanese firms are the United States' second-largest source of foreign direct investment, and Japanese investors are the second-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, which have since resumed.

However, the economic problems in Japan and United States associated with the credit crisis and the related economic recession and how the two countries deal with those problems will likely dominate their bilateral economic agenda for the foreseeable future. Japan has been hit particularly hard by the financial crisis and subsequent recession. Japan's gross domestic product (GDP) declined 0.7% in 2008 and is projected to decline by 6.2% by the end of 2009 with a modest rebound expected in 2010. At the same time, the United States is showing some signs of recovery, at least according to some indicators.

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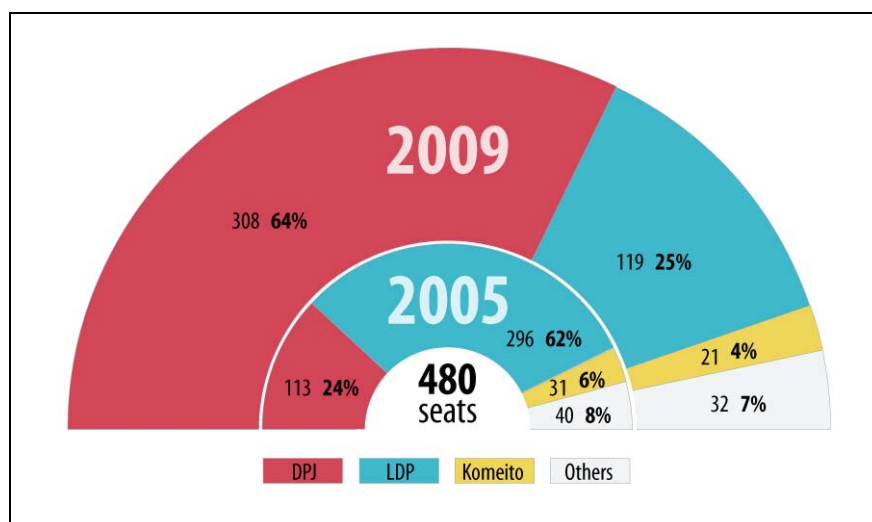
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Recent Developments

The DPJ's Landslide Victory—the Start of a New Era?

Figure 1. Party Affiliation in Japan's Lower House

2009 and 2005 Election Results



Source: CRS.

Notes: DPJ = Democratic Party of Japan; LDP = Liberal Democratic Party.

In a historic landslide victory, Japan's largest opposition party, the Democratic Party of Japan (DPJ), ousted the main ruling party, the Liberal Democratic Party (LDP), in parliamentary elections on August 30, 2009. The right-leaning LDP and its predecessor parties had enjoyed virtually continuous control of the Japanese government since the end of World War II. The decisive victory over the LDP in the elections for Japan's Lower House now makes the DPJ Japan's main ruling party for the first time in history. On September 16, 2009, the Lower House elected DPJ President Yukio Hatoyama as Prime Minister. Since 2007, the DPJ has controlled the less powerful Upper House of the Diet, by virtue of a majority coalition with two smaller parties. After the Lower House election, the DPJ and these two parties formed a ruling coalition. For more on the election, see "Japanese Politics" below and CRS Report R40758, *Japan's Historic 2009 Elections: Implications for U.S. Interests*, by Weston S. Konishi.

The DPJ policy platform advocates sweeping economic and administrative reforms and has called for a "proactive" foreign policy with greater "independence" from the United States through deeper engagement with Asia and a more United Nations-oriented diplomacy. In particular, the party has in the past criticized many issues related to the U.S.-Japan alliance, such as plans to realign U.S. forward deployed forces based in Okinawa, Japan's Host Nation Support (HNS) payments, and the bilateral Status of Forces Agreement (SOFA). In 2007, the DPJ briefly blocked legislation allowing the Japan Maritime Self-Defense Force (JMSDF) to continue the refueling of U.S. and allied vessels engaged in Operation Enduring Freedom (OEF) in Afghanistan. For the United States, the most significant of these issues would be the HNS and base realignment plans.

It is not clear how much DPJ stances to these initiatives were tactically driven to create obstacles for the LDP, or how some DPJ positions might soften now that it is the main ruling party. Indeed, during the campaign and in the period immediately following the election, the party moderated and softened some of the more contentious positions it had previously taken on security issues. However, the DPJ continues to send conflicting signals about its intentions regarding key aspects of the U.S.-Japan relationship.

The next electoral test the Hatoyama government will confront will be in July 2010, when half the Upper House seats will be up for election.

North Korean Nuclear Test and Missile Launches

North Korea's nuclear test in May and long-range missile launch in April re-ignited Japanese security fears about the capabilities and intentions of the regime in Pyongyang. In the wake of the tests, Japan has been actively engaged in working with the United Nations Security Council (UNSC) to craft a robust response to the provocation. Tokyo also has threatened to add to its already stringent suite of sanctions, potentially imposing a full embargo. Regardless of how the UNSC ultimately responds, the launch is likely to reinforce a trend of beefing up national defense, particularly the joint U.S.-Japan missile defense system. In addition, the United States, South Korea, and Japan held their first-ever trilateral defense ministerial on the sidelines of a regional security conference in Singapore to coordinate responses to the series of provocations.

The Global Financial Crisis and Economic Downturn

The U.S. and Japanese economic agendas are likely to be dominated by the efforts of the two countries to resolve the financial crisis and the sharpest recessions each has seen since the end of World War II. Both countries have taken steps to ease credit conditions in their respective economies and to boost domestic demand through stimulus packages. The United States and Japan each pushed the other members of the G-20 to increase government spending at the April 2009 G-20 summit in London. A bilateral issue will be how each country can stimulate employment and other domestic economic activity while maintaining their obligations not to erect new barriers to trade and investment. Both the United States and Japan are expected to play leading roles when the leaders of G-20 countries meet for the September 24-25, 2009, summit in Pittsburgh.

Figure 2. Map of Japan



Source: Map Resources. Adapted by CRS.

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 the 111th Congress, it is unlikely that Members' attention to Japan will increase significantly, with the exception of the issue of whether to allow the sale next-generation F-22 fighter jets to Japan. In the 109th, Congress held four hearings on Japan in 2005-2006, after holding only two Japan-specific public hearings from 2001 through 2004. Members of Congress were particularly critical of Japan's two-

year ban on imports of U.S. beef and of the Bush Administration's handling of the beef dispute. On security issues, members expressed concern that steps taken by the Japanese government are harming U.S. interests in East Asia by worsening Sino-Japanese and South Korean-Japanese relations. Former Chairman of the House International Relations Committee Henry Hyde suggested in an April 2006 letter to Speaker Dennis Hastert that Prime Minister Koizumi should not address a joint session of Congress unless he pledged to stop visiting Yasukuni Shrine, which enshrines the names of several Class A war criminals from World War II, and convened a hearing on Japan's "history problem" in September 2006.

The "comfort women" controversy in the 110th Congress reignited congressional concern about revisionist views of history in Japan. In September 2007, the House passed H.Res. 121, calling on the government of Japan to "formally acknowledge, apologize, and accept historical responsibility in a clear and unequivocal manner" for its treatment of women forced to serve as prostitutes for the Japanese military during its colonization and occupation of Asia in the 1930s and 1940s. The resolution passed by voice vote and attracted 167 co-sponsors, reportedly driven in part by a June 2007 *Washington Post* advertisement signed by several Japanese legislators and academics rejecting the historical basis of the resolution. A few days later, the House also passed H.Res. 508, which praised the U.S.-Japan alliance and Japan's contributions to the effort against international terrorism. The bill was seen as an attempt to blunt the negative diplomatic impact of the former resolution. The question of historical truth and memory has emerged as a prominent theme in congressional relations with Japan. (See the "Selected Legislation" section.)

Major Diplomatic and Security Issues¹

Two high-level bilateral meetings between senior officials in Tokyo and Washington in February 2009, early in the Obama Administration, provided a symbolic yet reassuring boost to the relationship amid concerns about some drift in the alliance. Secretary of State Hillary Clinton chose to make Japan her first official foreign visit, followed by former Prime Minister Taro Aso's reception as President Obama's first foreign guest in the White House. Both Clinton and Obama re-affirmed the axiom that the U.S.-Japan alliance is "the cornerstone of U.S. Asia-Pacific strategy." In June 2009, Japan worked closely with the United States to pass U.N. Security Council Resolution 1874, authorizing strict new sanctions against North Korea in response to the regime's May 25 nuclear test. Following Japan's 2009 parliamentary elections, it is uncertain how bilateral relations will evolve under the new DPJ-led government in Tokyo. The DPJ has been critical of many aspects of the U.S.-Japan alliance and has called for a more U.N. and Asia-oriented diplomacy, while also acknowledging the central role of the alliance with the United States in providing for Japan's security. Several upcoming events will provide an opportunity for President Obama to discuss bilateral issues with newly elected Prime Minister Yukio Hatoyama.

Japan Country Data

Population: 127.4 million (July 2006 est.)

% of Population over 64: 21% (U.S. = 12.4%) (2007)

Area: 377,835 sq km (slightly smaller than California)

Life Expectancy: 82 years (2007 est.)

Per Capita GDP: \$33,800 (2007 est.) purchasing power parity

Primary Export Partners: US 22.8%, China 14.3%, South Korea 7.8%, Taiwan 6.8% (2006)

Primary Import Partners: China 20.5%, U.S. 12%, Saudi Arabia 6.4%, UAE 5.5%, Australia 4.8%, South Korea 4.7% (2006)

Yen:Dollar Exchange Rate: 117.99 (2007), 116.18 (2006), 110.2 (2005), 108.2 (2004), 115.9 (2003), 125.4 (2002)

Foreign Exchange Reserves: \$881 billion (2006 est.)

Source: CIA *World Factbook*, February 2008

Global Issues

Support for U.S. Policy Toward Iraq and Afghanistan

Following the terrorist attacks of September 11, 2001, the government of former Prime Minister Junichiro Koizumi 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 Force (MSDF) was the first such deployment since World War II.

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 and Australia were the only two out of 27 participating countries to support the U.S. contention that enhanced U.N. inspections were unlikely to lead to the elimination of Iraq's weapons of mass destruction. Since

¹ This section was written by Emma Chanlett-Avery.

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 addition, in January 2004, the Koizumi government deployed about 600 military personnel—mainly ground troops—to carry out humanitarian aid and reconstruction activities in Iraq. The ground troops were withdrawn from the southern area of Samawah in June-July 2006, but the air service of the Self-Defense Forces (the official name of Japan's military) remained. The Lower House of the Diet approved a two-year extension of the air force transport mission in May 2007, but Japan ended its participation in Iraq in late 2008 as U.N. authorization for multinational forces in Iraq expired.

In Afghanistan, Japan has dispatched refueling vessels that provide about 30% of the fuel used by U.S. and allied warships. After a suspension due to political opposition in 2007, legislation authorizing the refueling mission was renewed and will continue through at least January 2010. However, DPJ lawmakers have signaled their intention not to renew the refueling bill after it expires next year. Instead, the DPJ appears to be considering alternative measures to support humanitarian and economic aid to Afghanistan. Japan has in the past dispatched civilian assistance teams to contribute to reconstruction efforts. Although the dispatch of troops has been considered, Japan faces resistance from its public to send its military overseas as well as considerable restrictions in its rules of engagement due to its pacifist constitution. Japan has pledged a total \$2 billion of assistance for Afghanistan to contribute to security efforts, the promotion of the political process and reconciliation, and economic and human resource development.

North Korea and the Six-Party Talks

As the Obama Administration's North Korea policy forms, Japan has watched closely for signs of any shift. President Obama and Secretary Clinton strongly condemned the 2009 nuclear device and missile tests by North Korea and called for coordinated UNSC action, similar to Japan's reaction. However, Japan continues to hold the hardest position in the negotiations and is wary that its concerns will not be given enough weight in the overall talks.

As the Bush Administration moved aggressively to reach a deal on denuclearization with North Korea in the Six-Party Talks, distance emerged between Washington and Tokyo. Former Prime Minister Abe rose to prominence based on his hard-line position on Pyongyang's responsibility to disclose the fate and/or whereabouts of several Japanese citizens abducted by North Korean agents in the 1970s and 1980s.² Japan pledged that it would not provide economic aid to North Korea without resolution of the abductee issue. The abductee issue remains an emotional topic in Japan. Although some Japanese officials and media figures privately acknowledge that Japan may need to compromise in order to remain relevant in the ongoing talks, the political potency and widespread anger surrounding the abductees make it difficult for leaders to adopt a softer position. The new government in Tokyo is likely to continue Japan's tough stance toward North Korea for the foreseeable future, but may seek opportunities to rekindle normalization talks with Pyongyang over time.

Before the United States announced its plans to remove North Korea from the list of state sponsors of terrorism in June 2008 in exchange for North Korean concessions on its nuclear

² For more information, see CRS Report RS22845, *North Korea's Abduction of Japanese Citizens and the Six-Party Talks*, by Emma Chanlett-Avery.

program, Japanese officials had expressed alarm about the anticipated removal. In the past, U.S. officials linked North Korea's inclusion on the list to the abduction issue, although State Department officials reportedly claimed that the issue was not a legal obstacle for removal. In December 2007, the Committee on Abduction of Japanese Citizens by North Korea of the Lower House adopted a resolution urging the United States to refrain from "de-listing" North Korea. Although conservative groups in Japan have protested the move, the overall reaction has been somewhat muted. Before becoming prime minister, Hatoyama expressed his support for reinstating North Korea on the State Department's terrorism list. Tokyo officials maintain that U.S. and Japanese goals remain the same.

Until the shift toward negotiation in Washington, Japan's policy toward North Korea aligned closely with the U.S. position in the Six-Party Talks. Japan has insisted on North Korea abandoning its nuclear weapons, has taken steps to squeeze North Korea economically, and participates in the U.S.-led Proliferation Security Initiative (PSI). After North Korea test-fired several missiles in July 2006 and tested a nuclear device in October 2006, Japan strongly supported punitive United Nations Security Council resolutions that condemned the actions and called for trade restrictions. In addition, Japan imposed unilateral sanctions more stringent than the UNSC resolutions, including a ban on all North Korean ships in Japanese ports, restrictions on imports and on most North Koreans entering Japan, and a freeze on bank remittances to North Korea from the ethnic Korean community in Japan. In response to North Korea's nuclear test on May 25, 2009, Japan helped lead international efforts to draft a tough new U.N. Security Council resolution (1874) that strengthens arms embargos on the regime and calls on member states to inspect North Korean vessels for illicit weapons. Lawmakers in the ruling DPJ have reportedly stated their interest in passing a new law that would permit Japanese Coast Guard vessels to participate in the new U.N. inspections regime.

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 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. To become a member, Japan must obtain support from two-thirds (128 countries) of all U.N. member countries. Japan is the second-largest contributor to the U.N. regular budget, paying 22% of the total, more than twice the percentage paid by the third-largest contributor. Efforts to gain membership appear to have stalled in the past few years, but Japanese officials have voiced optimism that the Obama Administration will take a positive stance on advancing U.N. reform, including potentially expanding the membership of the Security Council. To date, the Obama Administration has not issued a statement regarding Japan's permanent membership on the U.N. Security Council.

Kyoto Protocol and Climate Change Negotiations

Tokyo has sought to highlight Japan's leadership on environmental issues, where Japan has long been recognized as a global leader in increasing energy efficiency and development of green energy technology, including hybrid cars. At the 2008 G-8 summit in Hokkaido hosted by Japan, the forum agreed to work towards halving the amount of greenhouse gas emissions by 2050, marking the first time that the United States has signed on to such a goal. Japan is the fourth-

leading producer of 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 2012, although it is unlikely to meet this goal. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of the plan. A U.N. climate negotiations summit slated to be held in December 2009 in Copenhagen, Denmark, aims to find a replacement for the Kyoto Protocol, which will expire in 2012. Japan is considered to be closely aligned with the Obama Administration in international climate negotiations. Prime Minister Hatoyama has pledged to cut Japan's greenhouse emissions to 25% of 1990 levels by 2020, a goal that some experts in Japan have criticized as unrealistic.³

Regional and Historical Issues

Historical issues have long dominated Japan's relationships with its neighbors, with many Asians, and particularly those in China and South Korea, still resentful of Japan's occupation policies and aggression in the World War II period. Despite underlying distrust, Tokyo's relationships with Beijing and Seoul generally appear to be on an upward swing. Part of this is due to the decision by the past three Japanese prime ministers not to visit Yasukuni Shrine, the controversial site honoring Japanese soldiers who died in war, including 14 Class A war criminals who were convicted by the International Military Tribunal for the Far East following Japan's defeat in World War II. This is in marked contrast to former Prime Minister Koizumi (2001-2006), whose annual visits to Yasukuni significantly damaged diplomatic relations with China and South Korea. Recently elected Prime Minister Yukio Hatoyama has pledged not to visit Yasukuni Shrine and has stated his commitment to reconcile historical disputes with Japan's neighbors in Asia. In general, the DPJ is believed not to share the same "revisionist" views of 20th Century Japanese imperialism are held by many in the LDP.

Despite signs of progress, however, problems associated with Japan's imperial past continue to linger and occasionally aggravate regional relations. In October 2008, it was revealed that Toshio Tamogami, the head of Japan's Air Self Defense Forces, won an essay contest with a piece that glorified Japan's conquests of Asia and denied any wrongdoing on the part of Japan's military. Former Prime Minister Aso moved quickly to terminate his position, but the episode reinforced the perception that such revisionist views remain within Japan's security establishment. Aso also faced criticism for denying that his family's mining company employed Allied prisoners during World War II, a charge that was later confirmed by the release of government documents.

China

In concert with the leadership in Beijing, Japanese leaders since Koizumi have taken care to stabilize and improve Sino-Japanese ties. Although analysts emphasize that geopolitical rivalry between China and Japan is likely to endure, the short-term outlook is positive. The past few years have seen several notable accomplishments, including successful reciprocal visits by heads of state and a breakthrough agreement to jointly develop gas fields in the East China Sea, the site of long-standing territorial disputes. Driven by self-interest, both sides appear to have decided to put aside nationalist rivalries for now and focus on common concerns such as regional stability to further economic development and boost already robust trading relations.

³ See <http://www.yomiuri.co.jp/dy/national/20090909TDY03105.htm>.

Chinese President Hu Jintao's carefully orchestrated visit to Japan in May 2008 was the first by a Chinese leader to Japan in a decade. The warmth of the visit was in stark contrast to Jiang Zemin's 1998 visit—during which he publicly criticized Japanese officials for imperial Japan's war-time aggression—and the subsequent downturn in relations under former Prime Minister Junichiro Koizumi. Notably absent from the Chinese leader's statements was a call for Japan to apologize for historical grievances, and both sides emphasized a "forward-looking" friendship. The two leaders agreed to hold annual summits, cooperate on environmental technology, and enhance cultural exchanges. Days later, after China was struck by a devastating earthquake, Japan immediately offered condolences and pledged assistance. Sixty Japanese earthquake rescue experts then were dispatched to the hard-hit Sichuan province, the first foreign team that Beijing accepted.

The official reconciliation, however, may be challenged by sentiment among the Japanese public, some political groups, and the military. In early 2008, several packages of "gyoza" meat dumplings imported into Japan from China were found to contain a toxic pesticide that sickened scores of people. Although Chinese and Japanese officials reportedly reacted quickly, the incident renewed long-standing concerns among the Japanese public about the safety and hygiene practices for Chinese products. Further, some conservative nationalist voices have criticized the government for being too "soft" on Beijing and practicing "kow-tow diplomacy." And despite official military-to-military contact in the form of reciprocal port calls, suspicion of Beijing's motives remains high among some military officials, who report periodic Chinese military activities around Japan's territory, including the incursion of two Chinese ships around a set of disputed islands in December 2008. Japanese defense officials also express concern about the lack of transparency in China's rapid military modernization program.⁴ Furthermore, to date, no progress has been made in implementing the aforementioned June 2008 East China Sea deal, despite reports that Japan has requested meetings between the two sides to work out the details.

South Korea

The election of Lee Myung-bak as president of South Korea appeared at the outset to improve prospects for Seoul-Tokyo relations. After his election in December 2007, Lee indicated his desire to engage in more cooperation with Japan, in contrast to his predecessor Roh Moo-hyun, whose rhetoric against Japan many claimed precluded any meaningful engagement. Lee has said he would not emphasize history issues with Japan. However, in summer 2008 a long-standing dispute over the ownership of several small islands (known as Dokdo in Korean and Takeshima in Japanese) flared again after reports that Japan would refer to the islands as its territory in a handbook for teachers and textbook publishers. (The islands have been administered by South Korea since 1945.) This led South Korea to recall its ambassador to Japan and rebuke the Japanese ambassador in Seoul, as well as reject an offer for talks between the two foreign ministers at a regional forum in Singapore. Both capitals made some attempt to quell the controversy, and since then have made progress in stabilizing bilateral ties. Former Prime Minister Aso and President Lee held meetings every month on average since the beginning of 2009, including bilateral summit meetings in Seoul and in Tokyo. Current Prime Minister Hatoyama appears committed to improving bilateral relations with South Korea.

⁴ See, for instance, *East Asian Strategic Review 2009*, The National Institute for Defense Studies, Japan, 2009.

Military Issues⁵

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 recent years both nations have signed agreements to transform their alliance in order to confront emerging security challenges. 2010 will mark the 50th anniversary of the signing of the 1960 security treaty, an occasion that may compel Tokyo and Washington to work on additional agreements to enhance bilateral defense cooperation. However, as a new ruling government takes power in Japan, it is unclear whether the U.S.-Japan alliance relationship will encounter difficulties. The DPJ's past criticism of the bilateral security arrangement may further complicate alliance management issues, such as the planned realignment of U.S. forward deployed forces in Japan and the Host Nation Support (HNS) that Tokyo provides to help defray costs associated with the stationing of U.S. bases across the Japanese archipelago.

Agreements to Deepen Cooperation

Under the Bush Administration, a series of Security Consultative Committee meetings (SCC, also known as the "2+2" meeting) of the Japanese and U.S. foreign and defense ministers outlined plans to 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 slated to take a more active role in contributing to global stability, primarily through increased coordination with the U.S. military. Key features of the 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.

Implementation of the plan to relocate 8,000 Marines to Guam and to relocate the controversial Futenma Marine Air Station to a less densely populated location in Okinawa remains slow. 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. U.S. officials say Japan will pay an estimated \$26 billion overall for the realignment initiative. Some military officials in Japan are concerned that the high cost of the realignment could result in decreased Japanese capabilities because of budgetary restraints. The DPJ, Japan's new main ruling party, has often criticized the realignment plans, most notably calling for the Futenma airbase to be removed to a location "outside" of Okinawa altogether.

Concerns in Alliance Relations

Political shifts in Japan since 2006 appear to have slowed some of the increased cooperation in the U.S.-Japan alliance. Although ties remain strong fundamentally, the Bush Administration shift on North Korean nuclear negotiations, the July 2007 House resolution criticizing the Japanese government for past "comfort women" policies, and the apparent decision by Washington not to consider exporting the F-22 to Japan (see below) may have undermined to some degree Japanese

⁵ For more information on the U.S.-Japan alliance, see CRS Report RL33740, *The Changing U.S.-Japan Alliance: Implications for U.S. Interests*, by Emma Chanlett-Avery and Weston S. Konishi.

confidence in the robustness of the alliance. Koizumi and Abe's platform of enhancing Japan's role in global affairs had been encouraged by U.S. officials who saw Japan's strategic interests aligning with their own. Implementation of the "2+2" agreements depends on Tokyo providing the necessary resources and political capital. The agreement signed by Hillary Clinton and her counterpart in February 2009 re-affirmed the timetable, but many obstacles remain. Because the realignment and transformation initiatives involve elements that are unpopular in the localities affected, successful implementation depends on leadership from the central government. As the new ruling coalition transitions to power in Tokyo, it remains to be seen whether it will proceed with base realignment plans or will seek to fundamentally revise relevant bilateral agreements.

F-22 Debate

Washington's apparent refusal thus far to sell next-generation F-22 Raptors to Japan has struck a raw nerve in Tokyo. Current U.S. legislation restricts exports of the F-22 to foreign countries. Many Japanese defense officials, however, view the F-22 as a potential replacement for Japan's aging fleet of F-4 fighters, and regard the potential sale of the F-22 as something of a test of the U.S. strategic commitment to the bilateral alliance. As of mid-September 2009, increased production of F-22 Raptors, including a measure to explore possible F-22 sales to Japan, appears in question. President Obama has threatened to veto any defense spending bill that includes additional funds for F-22 production. On July 21, 2009, the Senate passed an amendment to S. 1390, the FY2010 National Defense Authorization Act, that eliminates funding for additional F-22 aircraft production. The House version of the defense authorization bill (H.R. 2647), however, allocates \$369 million for additional F-22 parts. A final decision on F-22 spending will take place when the House-Senate conference completes the FY2010 defense spending bill later this year.⁶ If Congress and the Administration do not approve F-22 sales to Japan, experts believe that Tokyo will likely consider alternative fighter aircraft, including European-built Typhoon fighters.

Extended Deterrence

A similar source of strategic anxiety in Tokyo concerns the U.S. extended deterrence, or "nuclear umbrella," for Japan. The Bush Administration's shift in negotiations with Pyongyang triggered fears in Tokyo that Washington might eventually accept a nuclear armed North Korea and thus somehow diminish the U.S. security guarantee for Japan. These anxieties have persisted despite repeated statements by both the Bush and Obama Administrations to reassure Tokyo of the continued U.S. commitment to defend Japan. However, Japan's sense of vulnerability is augmented by the fact that its own ability to deter threats is limited by its largely defensive-oriented military posture. Given Japan's reliance on U.S. extended deterrence, Tokyo is wary of any change in U.S. policy—however subtle—that might alter the nuclear status quo in East Asia. Depending on the outcome of the Obama Administration's Nuclear Posture Review (NPR), scheduled to be undertaken this year, the issue of extended deterrence could once again trigger considerable anxiety in Tokyo concerning the scope and credibility of the U.S. strategic commitment to Japan.

⁶ For more information on the F-22 issue, see CRS Report RS22684, *Potential F-22 Raptor Export to Japan*, by Christopher Bolcom and Emma Chanlett-Avery. See, also, Gregg Rubinstein, "Japan's F-X Fighter Program: Symbol or Substance," *The Oriental Economist*, September 2009.

Secret Nuclear Agreement

An issue that has received intense Japanese media attention of late is the recent disclosure by a former vice foreign minister of a secret agreement signed in the 1960s between Tokyo and Washington that tacitly allowed the United States to transit nuclear weapons through Japan without prior approval. The practice was in clear violation of the terms of the 1960 bilateral security treaty and Japan's three non-nuclear principles (not to possess, produce, or transit nuclear weapons on Japanese territory). Japanese officials who had knowledge of the practice have consistently denied, even in Diet testimony, that it took place. The controversy has raised questions about the integrity of Japan's non-nuclear principles as well as the apparent lack of transparency in the government's decision-making process. The new DPJ-led government has vowed to investigate the matter and to publicly report its findings. Thus far, the controversy has largely been contained as a domestic matter and has not spilled over as a problem in the U.S.-Japan alliance per se. However, given the considerable media and political attention that the secret agreement has generated, U.S. alliance managers are likely to closely monitor its potential impact on bilateral alliance relations.

Base/Community Relations

A series of high-profile alleged crimes committed by U.S. military personnel in 2007-2008 sparked public anger about the troops' presence in Japan. Four marines were accused of gang-raping a 19-year old in Hiroshima, another marine was accused of sexually abusing a 14-year old in Okinawa, and a sailor was charged with murdering a taxi driver in Yokosuka. U.S. officials, mindful of fall-out from a similar incident in 1995, in which three U.S. servicemen were convicted of raping a 12-year-old, cooperated with local Japanese authorities by handing over the suspects and, in the first two cases, decided to court-martial the marines when Japanese prosecutors dropped charges. The officials also announced they would undertake a review of sexual harassment training procedures for U.S. military personnel. These steps appear to have defused a potentially explosive public reaction similar to what happened after a 1995 rape incident.

DPJ Opposition to Alliance Initiatives

During the political maneuvering that followed the July Upper House elections, Japanese support for the U.S.-led Operation Enduring Freedom (OEF) in Afghanistan emerged as a key issue of contention. Although re-fueling operations were eventually resumed, the opposition parties succeeded in causing the "Anti-terrorism Special Measures Law" authorization to expire, creating a gap in MSDF participation. Japanese participation is limited to activities related to provision of fuel and water to coalition forces. The opposition took a similar tactic for the renewal of host nation support funding. (See "Burden-Sharing Issues" section below.) Now that the opposition DPJ has become the main ruling party in Japan, it is not expected to renew the authorizing legislation for the Indian Ocean refueling operation after it expires in January 2010.

New International Security Partnerships

In early 2007, Japan signed a bilateral agreement with Australia that pledges cooperation on counterterrorism, maritime security, peace-keeping operations, and disaster relief. In October 2008, a similar pact was signed with India. The agreements, though short of a formal military alliance, may help to establish a framework of security cooperation among Japan, Australia,

India, and the United States. Such partnerships give Japan opportunities to strengthen strategic ties with other democracies with similar political and economic freedoms. Continuing this trend, in September 2007 Japan joined a multinational naval exercise with the United States, Australia, Singapore, and India in the area west of the Malacca Straits. The exercise reinforced two interrelated trends in Asia-Pacific defense dynamics: the U.S.-led campaign of strengthening security ties among democratic allies and the strategic countering of Chinese military power. On the sidelines of the 2007 Asia Pacific Economic Cooperation (APEC) forum, Japan, Australia, and the United States held their first trilateral meeting. Ongoing provocations by North Korea have spurred closer coordination between Japan, South Korea, and the United States. In May, defense ministers from all three nations met on the sidelines of the Shangri La conference in Singapore to discuss measures to enhance trilateral defense cooperation.

Article 9 Restrictions

In general, Japan's U.S.-drafted constitution remains an obstacle to closer U.S.-Japan defense cooperation because of a prevailing constitutional interpretation of Article 9 that forbids engaging in "collective self-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." 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. Abe had indicated his intention to amend some of these restrictions by reinterpreting the right of collective self-defense and, eventually, amending the constitution itself. (See "Constitutional Revision".) Since then, political will to advance the changes appears to have waned significantly. The new ruling coalition in Tokyo remains deeply divided on amending Article 9 of the constitution and is unlikely to take up deliberation of the issue in the near term. 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.

U.S. Bases on Okinawa

The reduction of marines on Okinawa seeks to reduce the footprint of U.S. forces on the island and quell the political controversy that has surrounded the U.S. presence for years. In early 2008, the charge that a U.S. Marine sexually abused a young Japanese girl renewed public outcry against the bases that had existed since the 1995 rape of a Japanese schoolgirl by American servicemen. Though constituting less than 1% of Japan's land mass, Okinawa currently hosts 65% of the total U.S. forces in Japan. Okinawan politicians, as well as the main ruling party, the DPJ, 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 oppose revising the SOFA, but have acknowledged the political demand to alleviate the burden of military presence in Okinawa. The new ruling coalition in Tokyo has issued a statement that it will "propose" a revision of SOFA.⁷ 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. The agreement remains stalled, however, over a host of environmental, noise, and funding concerns. In addition to the Futenma agreement, the United States agreed to relocate the Okinawa-based III Marine Expeditionary

⁷ See Yukiko Ishikawa, "Transfer of Power/Discord already showing in new coalition," *The Daily Yomiuri*, September 11, 2009.

Force (III MEF), which includes 8,000 U.S. personnel and their dependents, to new facilities in Guam. In return, Tokyo promised to pay \$6.09 billion of the \$10.27 billion estimated costs associated with the move. Under the current terms of agreement, the relocation of Futenma must proceed before the relocation of III MEF to Guam is finalized.

Burden-Sharing Issues

The United States has pressed Japan to increase its share of the costs of American troops and bases. According to Pentagon reports, Japan has over the years provided up to \$4 billion annually in direct and indirect Host Nation Support (HNS), which constitutes about 75% of the total cost of maintaining troops in Japan. Japan pays for most of the salaries of about 25,000 Japanese employees at U.S. military installations. In recent years, Japanese officials have reportedly suggested that HNS be reduced on grounds that Japan is now making a greater direct contribution to the alliance. Political divisions between the LDP-controlled Lower House and the DPJ-controlled Upper House in spring 2008 led to a delay in the implementation of a new agreement, which pledges to pay directly about 140 billion yen annually (about \$1.4 billion) through FY2010 to defray the costs of stationing troops in Japan. The Upper House rejected the bill, citing opposition to paying for “recreational” activities by the U.S. military, but the approval by the more powerful Lower House went into effect after a month’s delay.

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House went into effect after a month's delay. Japan pays for most of the salaries of about 25,000 Japanese employees at U.S. military installations.

Cooperation on Missile Defense

A U.S.-Japan program of cooperative research and development of anti-ballistic missiles began in 1999. The decision to acquire the ground-based U.S. Patriot Advanced Capability-3 (PAC-3) system and the ship-based U.S. Standard Missile-3 system was justified largely on the basis of North Korea's missile program. In December 2005, Japan's Defense Agency agreed that Japan will pay over \$1 billion for the project over nine years. Following North Korean missile tests in July 2006, officials announced that the deployment of the PAC-3 system to Okinawa would accelerate. In December 2007, a Japanese destroyer successfully intercepted a missile in a test exercise near Hawaii. Japan mobilized its land and sea-based missile defense systems for the first time in response to North Korean missile tests in April 2009.

Figure 3. Map of Military Facilities in Japan



Source: Map Resources. Adapted by CRS.

Economic Issues⁸

Trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress.⁹ By the most conventional method of measurement, the United States and Japan are the world's two largest economies,¹⁰ 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.

Overview of the Bilateral Economic Relationship

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 fourth-largest merchandise export market (behind Canada, Mexico, and China) and the fourth-largest source for U.S. merchandise imports (behind Canada, Mexico, and China) the end of 2008. These numbers probably underestimate the importance of the United States to Japan's trade since a significant portion of Japanese exports to China are used as inputs to China's exports to the United States and therefore are dependent on U.S. demand for China's exports.

At one time Japan was the largest source of foreign direct investment in the United States, but by 2006 had fallen behind the United Kingdom. It was the eighth-largest target for U.S. foreign direct investment abroad as of the end of 2007. The United States remains Japan's largest export market and second-largest source of imports as of the end of 2008. The U.S. bilateral trade deficit with Japan reached a record \$88.4 billion in 2006. In 2007, U.S. exports rose slightly, and imports declined; thus, the U.S. trade deficit with Japan decreased to \$82.8 billion and to \$72.3 billion in 2008. (See **Table 1.**)

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
2005	55.4	138.1	-82.7
2006	59.6	148.1	-88.4
2007	62.7	145.5	-82.8
2008	66.6	139.2	-72.3

⁸ This section was written by William Cooper.

⁹ 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.

¹⁰ China's economy is now larger than Japan's by another method of measurement: purchasing power parity.

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.

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 depoliticized disputes and helped to reduce friction; and the emphasis in the bilateral relationship has shifted from economic to security matters.

However, the economic problems in Japan and United States associated with the credit crisis (both countries are now in recessions) and how the two countries deal with those problems will likely dominate their bilateral economic agenda for the foreseeable future. Japan has been hit particularly hard by the financial crisis and subsequent recession. Japan's gross domestic product (GDP) declined 0.7% in 2008, with a 3.6% decline (quarter-to-quarter) in the last quarter of 2009 alone. The downturn continued in 2009 with a 3.8% decline in GDP during the first quarter of the year. Japan's GDP *increased* slightly (0.9%) during the second quarter, but several economic forecasts cite the fragility of the upturn and still project a large drop in GDP for the year. For example, the Economist Intelligence Unit forecasts a decline of 6.2% in Japan's real GDP in 2009 and a modest recovery in 2010. The recession has caused Japan's unemployment rate to increase to an estimated 5.6% in 2009, from 4.0% the year before.¹¹ This trend will likely have a dampening effect on consumer demand, which would then prolong the recession.

Under Prime Minister Aso, the previous Japanese government responded with a series of stimulus packages, driving its fiscal situation further in the red. The value of the yen has hit 13-year highs in terms of the U.S. dollar, which will adversely affect Japanese exports to the United States and other countries, contributing to the downturn in Japanese economic growth. (As of September 11, 2009, the exchange rate was \$1=¥ 90.30, compared to \$1=106.66 the year before.) The United States is in the midst of a recession that will also likely affect trade flows in both directions.

Bilateral Trade Issues

Japan's Ban on U.S. Beef¹²

In December 2003, Japan imposed a ban on imported U.S. beef 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

¹¹ Economist Intelligence Unit. *Country Report—Japan*. September 2009. p. 8-10.

¹² For more information, see CRS Report RS21709, *Mad Cow Disease and U.S. Beef Trade*, by Charles E. Hanrahan and Geoffrey S. Becker.

to end it, and periodic assurances afterward by Japanese officials to their U.S. counterparts that it would be lifted soon.

In December 2005 Japan lifted the ban after many months of bilateral negotiations but reimposed it in January 2006 after Japanese government inspectors found bone material among the first beef shipments to have arrived from the United States after the ban was lifted. The presence of the bone material violated the procedures U.S. and Japanese officials had agreed upon that allowed the resumption of the U.S. beef shipments in the first place. The then-U.S. Secretary of Agriculture Johanns expressed regret that the prohibited material had entered the shipments.

In July 2006, Japan announced it would resume imports of U.S. beef from cattle 20 months old or younger. While praising the decision, some officials have called on Japan to broaden the procedures to include beef from older cattle. The first shipments arrived in August 2006. Members of Congress have pressed Japan to lift restrictions on imports of U.S. beef further. On May 27, 2009, the Japan Ministry of Health, Labor, and Welfare and the Ministry of Agriculture, Forestry, and Fisheries reportedly were ready to ask the Food Safety Commission to determine whether it would relax restrictions and allow U.S. beef from cattle younger than 30 months to enter Japan, a decision that could take about six months to be rendered.¹³

U.S.-Japan FTA

With the conclusion of negotiations on a U.S.-South Korean free trade agreement (KORUS FTA) on April 1, 2007, and the formation of FTAs among other East Asian countries, interest seems to have increased in the possibility of a U.S.-Japan FTA. Japanese business leaders are concerned about being adversely affected by the trade preferences that South Korean exporters would gain under the proposed KORUS FTA. In May 2007, a Japanese government advisory panel recommended that Japan undertake the formation of an economic partnership agreement (EPA), Japan's version of an FTA, with the United States. During their late April 2007 summit meeting, President Bush and Prime Minister Abe touched on the issue. According to a White House fact sheet, they agreed to exchange information about one another's FTAs and EPAs with third countries. However, in a October 2, 2008 speech, Assistant USTR stated that she did not believe a U.S.-Japan FTA would occur in the near term primarily because of the stumbling block that would result over the issue of agricultural policy.¹⁴ The DPJ's 2009 election manifesto calls for the negotiation of a U.S.-Japan FTA.

Insurance

Market access in Japan for U.S. and other foreign insurance providers has been the subject of bilateral trade agreements and discussion for some time. Current U.S. concerns center around making sure that Japan adheres to its agreements with the United States, especially as Japan's domestic insurance industry and government regulations of the industry are restructured. Specifically, American firms have complained that little public information is available on insurance regulations, how those regulations are developed, and how to get approval for doing business in Japan. They also assert that government regulations favor insurance companies that

¹³ *International Trade Daily*. May 28, 2009.

¹⁴ *International Trade Reporter*. October 16, 2008.

are tied to business conglomerates—the keiretsu—making it difficult for foreign companies to enter the market.

The United States and Japan concluded agreements in 1994 and 1996 on access to the Japanese market for U.S. providers of life and non-life insurance and also on maintaining competitive conditions for foreign providers in the specialty insurance market—cancer insurance, hospitalization, nursing care, and personal accident insurance. U.S. and Japanese officials continue to meet under those two agreements, and U.S. providers have been able to expand their presence in Japan under them, according to the Office of the U.S. Trade Representative (USTR).

However, the United States has raised concerns about Kampo, the government-owned insurance company under the Japan Postal Service, which offers insurance services that directly compete with U.S. and other privately owned providers. The United States has also raised questions about the activities of regulated and unregulated insurance cooperatives, *kyosai*, claiming that these entities do not have to adhere to the same regulations that bind traditional private insurance companies, creating an unfair competitive advantage. A Japanese government privatization framework released in July 2006 generated statements from the American Chamber of Commerce in Japan and from the American Council of Insurers arguing that the privatization plan would allow Kampo to compete with foreign insurance providers by offering new products before it has been completely privatized. On October 1, 2007, the Japanese government began the privatization, a process that is expected to last ten years. U.S. industry and U.S. policymakers have indicated they will continue to monitor the privatization to make sure U.S. service providers are not placed at a competitive disadvantage in the Japanese market.

The Byrd Amendment

Japan, together with other major trading partners, challenged U.S. trade laws and actions in the World Trade Organization (WTO). For example, Japan and others challenged the so-called Byrd Amendment (which allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). The WTO ruled in Japan's favor. In November 2004, the WTO authorized Japan and the other complainant-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 had 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, that was signed by the President into law (P.L. 109-171) on February 8, 2006. The measure phases out the program over a period ending October 1, 2007.¹⁵ Although Japan has praised the repeal of the Byrd Amendment, it criticized the delayed termination of the program and has maintained the sanctions on imports from the United States. Consequently, Japan announced in August 2006 that it would maintain the tariff sanctions until October 1, 2007. In August 2007, Japan notified the WTO that it would extend the sanctions for another year as it did in August 2008 and most recently in August 2009.

¹⁵For more information on the Byrd Amendment, see CRS Report RL33045, *The Continued Dumping and Subsidy Offset Act ("Byrd Amendment")*, by Jeanne J. Grimmer and Vivian C. Jones.

WTO Dispute

On January 10, 2008, Japan requested permission from the WTO to impose sanctions on U.S. imports valued at around \$250 million in retaliation for the failure of the United States to comply with a January 2007 WTO decision against the U.S. practice of “zeroing” in antidumping duty determinations. On April 24, 2009, a WTO compliance panel agreed with Japan that the United States was not in compliance with the original WTO ruling. On August 18, 2009, the WTO Appellate Body, having heard the U.S. appeal of the compliance panel decision, announced its decision that the United States was not in compliance with the earlier determination, thus upholding the compliance panel decision, opening the way for Japanese sanctions against the United States.¹⁶ The practice of zeroing is one under which the U.S. Department of Commerce treats prices of targeted imports that are above fair market value as zero dumping margin rather than a negative margin. It results in higher overall dumping margins and U.S. trading partners have claimed and the WTO has ruled that the practice violates WTO rules.¹⁷

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.

In July 2006, WTO Director-General Pascal Lamy suspended the negotiations because, among other reasons, the major participants could not agree on the modalities that negotiators would use to determine how much they would liberalize their agricultural markets and reduce agricultural subsidies. Negotiators had been meeting from time to time to try to resuscitate the talks. However, Lamy’s attempt to hold a ministerial meeting to in December 2008 failed when the major parties to the negotiators could not resolve their differences over establishing modalities in agricultural and non-agricultural negotiations. Various groups of WTO members have been meeting to try to establish a foundation for completing the negotiations without success to date.

Japanese Politics¹⁸

The impact of the DPJ’s historic victory over the LDP in the September 2009 Lower House election is likely to be felt across nearly every aspect of Japanese policymaking. Most immediately it brings to an end the “twisted Diet” period that had existed since July 2007, when the DPJ won national elections for the Upper House, the less powerful of Japan’s two parliamentary chambers. Japan’s first experience with divided government often had paralyzed

¹⁶ *International Trade Reporter*. July 23, 2009.

¹⁷ *International Trade Reporter*. January 17, 2008.

¹⁸ This section was written by Mark Manyin, Weston Konishi, and Emma Chanlett-Avery. For more, see CRS Report R40758, *Japan’s Historic 2009 Elections: Implications for U.S. Interests*, by Weston S. Konishi.

policymaking in Tokyo, as the DPJ erected a number of procedural obstacles to block or delay parts of the LDP's agenda. The resulting turmoil both contributed to and was a symptom of the weakness of the previous three LDP prime ministers – Shinzo Abe, Yasuo Fukuda, and Taro Aso – who each lasted approximately one year. Significantly, all had been chosen by the LDP rather than as a result of popular elections. Hatoyama and the DPJ's electoral victory thus give them the electorate's blessing, which none of his immediate predecessors could claim.

The next electoral test the Hatoyama government will confront will be in July 2010, when half the Upper House seats will be up for election. The DPJ controls that chamber of the Diet by virtue of its alliance with two smaller parties, the Social Democratic Party and the People's New Party, which have entered into a ruling coalition with the DPJ.

The DPJ Agenda

Foreign Policy

On foreign policy, the DPJ's policy statements throughout the years consistently raise a number of themes, including: adopting a more "assertive" foreign policy; achieving a more "mature" and "equal" alliance partnership with the United States; reducing the burden of the approximately 50,000 U.S. forward deployed troops in Japan, particularly those based in Okinawa Prefecture; maintaining constitutional restrictions on collective self-defense while expanding contributions to international security through U.N.-sanctioned peacekeeping operations; and improving Japan's relations with Asian countries.¹⁹ As discussed below, DPJ members are divided over many matters of foreign and security policy.

Domestic Policy

However, the DPJ historically has been relatively more unified over, and placed far more emphasis on, domestic social issues. During the 2009 election campaign, the party promoted a sweeping agenda for reshaping the Japanese economy and Japanese policymaking. Perhaps most significantly for the United States, the party has pledged to centralize authority in the Prime Minister's Office and increase the authority of Japan's politicians over its bureaucrats. During the LDP era, with some important exceptions, Japan's policymaking process tended to be compartmentalized and bureaucratized, making it difficult to make trade-offs among competing constituencies on divisive issues. The result was often paralysis or incremental changes at the margins of policy, particularly during periods of weak premierships. The DPJ hopes to transform the process of Japanese policymaking by, among other steps, appointing more politicians to senior positions in the bureaucracy and by creating a National Strategy Bureau under the prime minister's office that is to provide top-down direction over the national budget and other domestic policies. The DPJ hopes that these and other changes lead to a more dynamic and decentralized nation that is better prepared to handle future challenges.

The DPJ has also pledged to reform Japan's domestic economy and social welfare system. The party wants to transform Japan's highly regulated, export-oriented economy into a deregulated economic system propelled by consumer-led growth. As part of the DPJ's two-year ¥21 trillion

¹⁹ See, for instance, Democratic Party of Japan, *Our Basic Philosophy*, at http://www.dpj.or.jp/english/about_us/philosophy.html.

(\$218 billion) stimulus proposal, household disposable income would be increased through tax cuts and payment transfers.²⁰ Income support for struggling workers, as well as sweeping health-care and pension reforms, are also proposed. The DPJ claims that it will offset the cost of these programs by trimming the national budget and eliminating wasteful spending, but it has been criticized for lacking details about how its programs will be paid for over the long-run. With Japan's public sector debt approaching 200% of GDP this year, there are outstanding concerns about the nation's long-term budgetary health.

The DPJ's Makeup

The DPJ was formed in 1998 as a merger of four smaller parties and was later joined by a fifth grouping. Over time, the party has become more organic; even before the 2009 election, the majority of DPJ Diet Members had been with the DPJ for their entire Diet careers.²¹ Although a number of internal DPJ groupings are often identified, thus far they do not appear to have become formalized, in contrast to the LDP, which in many ways has been an amalgamation of numerous factions rather than a coherent party.

That said, on security issues, there are considerable internal divisions between the DPJ's hawkish/conservative and passivist/liberal wings, particularly over the issues of deploying Japanese troops abroad and revising the war-renouncing Article 9 of the Japanese constitution. The DPJ's coalition with the leftist Social Democratic Party could exacerbate these internal splits. In the broadest sense, the pacifist/leftist wing of the DPJ – led by former members of the Socialist party – adheres to a strict interpretation of Japan's "peace constitution" and postwar role as a non-military power. The hawkish/conservative wing of the party, most prominently led by Seiji Maehara (currently Minister of Land, Infrastructure, Transport and Tourism as well as Minister of State for Okinawa), seeks stronger defense capabilities and looser restrictions on Japan Self-Defense Force (JSDF) missions to support international security. Party Secretary Ichiro Ozawa has called for Japan to increase its contributions to international security strictly in missions that are authorized by the U.N. Security Council. Prime Minister Hatoyama appears to support that basic position, although he is said to take a more flexible view of JSDF deployments that are not under direct U.N. mandate.²²

A key factor in the DPJ's success is expected to be the relationship between Prime Minister Hatoyama and party secretary Ozawa, a longtime fixture as a mover in and shaker of Japanese politics. As party president until a fundraising scandal led him to resign in May 2009, Ozawa was in many ways the architect of the DPJ's 2007 and 2009 electoral victories. He is said to have personally recruited around 100 of the nearly 150 DPJ's first-time candidates who won in the 2009 Lower House vote. Many speculate that Ozawa will be the main power center in the Hatoyama government, operating behind the scenes. If he and the members of the Hatoyama Cabinet cooperate closely, this could be a source of strength for Hatoyama. However, if Ozawa begins pursuing an agenda at odds with Hatoyama's – a move that the independent-minded Ozawa has undertaken in the past – the Hatoyama government could be crippled. It would also

²⁰ Democratic Party of Japan, "'Economic and Financial Crisis Measures': Opening up a Path Towards the Future by 'Putting People's Lives First,'" November 5, 2008, http://www.dpj.or.jp/english/financial/f_crisis.html.

²¹ "The End of an Era," *The Oriental Economist*, September 2009, Vol. 77, No. 9.

²² The party's mainstream members appear to support the provision that foreign JSDF missions should only be carried out under U.N. mandate. However, hawkish elements of the party believe that such a provision would, in effect, give U.N. Security Council members such as China and Russia veto power over JSDF overseas operations.

complicate relations with the United States; U.S. policymakers would have to decide to what extent and through what modes it would work with Ozawa.

The LDP

Now Japan's largest opposition party, the LDP appears to have been demoralized by its fall from power. Following the election, then-Prime Minister Taro Aso resigned from the premiership and his position as LDP president. The LDP will select a new leader on September 28. The outcome of this internal election likely will determine the direction the party chooses to take in opposition. One analyst observes that the party is divided into three ideological groupings: "pure conservative" hawks, populist "liberals" who focus on promoting a welfare state, and "neo-liberals" who emphasize small government, administrative reform, economic growth, and free markets.²³

The 2009 election appears to have reshaped the LDP in at least three ways. First, the party's factional system, which dominated so many aspects of Japanese policy, is likely to wither. Second, the DPJ's dominance in urban areas has made the LDP a more rural-based party than ever before in its history.²⁴ Third, the party is not only smaller but also is stacked with leaders of its "old guard." The numerical humiliation of the LDP's defeat was compounded by the fact that a number of LDP heavyweights were defeated in their home districts. Many are in the new Diet only by virtue of the proportional representation vote, where voters choose a party, not an individual. Thus, many of the LDP's newer – and generally younger – members were effectively purged in order to allow senior leaders to keep their seats.

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. However, as discussed below, the DPJ is not expected to make constitutional revision a priority.

In October 2005, the 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 appeared 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."

²³ As discussed in the *Observing Japan* blog, "The LDP's First Steps Towards a New Party," September 06, 2009, www.observingjapan.com.

²⁴ "The End of an Era," *The Oriental Economist*, September 2009, Vol. 77, No. 9.

Both the DPJ and LDP are split—with the DPJ’s internal divisions much deeper—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 of the Diet, after which they are to be “submitted to the people” for majority approval. In May 2007, after over a year of debate, the Diet passed legislation detailing how a national constitutional referendum would be conducted. However, the bill was passed without any significant DPJ support. Indeed, the LDP-led coalition and the DPJ proposed separate referendum bills, dampening hopes for the two camps to cooperate on constitutional revision. Notably, according to the timetable outlined in the bill that passed, the soonest that a national referendum could be held would be three years after a referendum law is passed, i.e. 2010. Momentum behind constitutional revision was sapped by the LDP’s loss in the July 2007 Upper House elections; many felt then LDP Prime Minister Shinzo Abe paid a political price for prioritizing constitutional and security reforms over the economic issues that were foremost in most voters’ minds. The DPJ did not focus on constitutional revision during the last two national elections. Its 2009 election manifesto states that pacifism is one of the Constitution’s core principles and is “firmly sustained by the conviction of the people.”²⁵

Japan’s Demographic Challenge

Japan’s combination of a low birth rate, strict immigration practices, and a rapidly aging population present policymakers with a significant challenge. Polls suggest that Japanese women are avoiding marriage and child-bearing because of the difficulty of combining career and family in Japan; the birthrate has fallen to 1.25, far below the 2.1 rate necessary to sustain a population size. Japan’s current population of 128 million is projected to fall to about 100 million by mid-century. Concerns about a huge shortfall in the labor force have grown, particularly as the elderly demand more care. Japan’s National Institute of Population and Social Security Research projects that the working-age population will fall from 85 million in 2005 to 70 million by 2030. Japan’s immigration policies have traditionally been strictly limited, but policy adjustments have allowed for a larger foreign labor force. More 68,000 foreign workers came to Japan in 2006 under a government-sponsored training program, in addition to 80,000 on an extended program.²⁶ With government encouragement, some private firms offer incentives to employees with children.

²⁵ “Putting People’s Lives First. The Democratic Party of Japan’s Platform for Government,” 2009.

²⁶ “Foreign Labor Works for Japan,” *Wall Street Journal Asia*. May 25, 2007.

Options for U.S. Policymakers

As a new ruling coalition takes the reins of Japan for the first time in history, U.S.-Japan relations are likely to face a delicate and potentially challenging period. The DPJ, Japan's main ruling party, has long signaled a desire for greater autonomy from Washington, while continuing to acknowledge the centrality of the bilateral alliance in Japanese security policy. Asia experts in the United States are currently debating the long-term significance of the DPJ's momentous victory over the LDP in the recent elections and the potential impact that it may have on the bilateral alliance. Some experts see the change of power as a setback for the alliance, pointing to the DPJ's past criticism of the alliance and plans to withdraw from the Indian Ocean refueling mission. Others view the new government as an opportunity to revitalize Japan and, by extension, the U.S.-Japan alliance.²⁷ Still other experts believe that the new government will face foreign and domestic political realities that will limit its ability to fundamentally alter the status quo in bilateral relations.

Whichever scenario proves correct, there seems little doubt that much will depend on how U.S. policy toward Japan proceeds in the months ahead. Policymakers in Washington will be working with a new and largely unfamiliar set of counterparts in Tokyo, who are themselves unused to governing. The initial challenge for U.S. officials will likely be to gain the trust of a new ruling party that has long expressed skepticism toward aspects of the U.S.-Japan relationship. Although mainstream members of the DPJ support the alliance, they tend to be wary of overbearing U.S. influence and seek a less deferential bilateral dynamic than is perceived to have existed under previous LDP rule. As coordination between the two governments proceeds on sensitive alliance management issues, such as the base realignment process, some experts warn that overt U.S. pressure on Tokyo may be counterproductive in the early phase of the new government.²⁸ Patience, these experts argue, should be the operational principle guiding U.S. alliance managers over the coming months. However, there are those who argue that the United States should take a more forceful approach toward the new government in Tokyo by outlining the political consequences of a less cooperative bilateral defense relationship.²⁹

Nonetheless, there are numerous outstanding issues involving the U.S.-Japan alliance that will soon need to be addressed, such as the relocation of U.S. bases on Okinawa and the implementation of other agreements to strengthen the allies' "global partnership." There are legitimate U.S. strategic priorities and interests that U.S. officials must be prepared to justify to a relatively inexperienced coalition government that will have its share of critics on these issues. Progress in this regard will likely require a balance between firm U.S. diplomacy and the kind of "listening" approach that the Obama Administration has promised to take toward allies around the world.

²⁷ For contrasting views of the political change in Japan, see Kim R. Holmes, "The End of An Era in Japan?" *The Washington Times*, September 3, 2009, and Steve Clemons, "'Negotiated nationalism' in Japan's Democracy 2.0," *The Daily Yomiuri*, September 12, 2009.

²⁸ One early sign of this potential problem was in early September, when a U.S. Department of Defense spokesman appeared to encourage Japan to extend the Indian Ocean refueling mission next year. The statement created a minor uproar in Tokyo and a reprimand from Japanese Ambassador to the United States Ichiro Fujisaki that Japan's international contributions is a matter for Japan to decide "independently."

²⁹ See Holmes.

As the DPJ settles into its new role as the main ruling party, it may over time show greater confidence in following through on its long-promised vision of a more assertive foreign policy for Japan. Among some of the measures called for by the DPJ are expanding Japan's role in U.N.-sanctioned peacekeeping operations, deepening ties with Asia, taking greater responsibility for defending the Japanese homeland, expanding regional and bilateral free trade agreements (FTA), and promoting an ambitious new set of global climate change standards. Although the move toward a U.N. and Asia-centered diplomacy may be perceived as a less U.S.-centric approach, such a trend may not necessarily signify a divergence from broader U.S. goals and interests. The DPJ's vision of a "proactive" foreign policy that would enhance Japan's international contributions is one that is likely to be broadly supported by Washington. Indeed, there are several areas where the new government in Tokyo may cooperate closely with Obama Administration initiatives, from setting new global warming standards to nuclear non-proliferation efforts. Several upcoming high-level events, including a planned bilateral summit in Tokyo in November 2009, will provide opportunities for President Obama to discuss issues of mutual interest with newly elected Prime Minister Hatoyama.

Selected Legislation

111th Congress

H.R. 44 (Bordallo). Seeks recognition of the loyalty and suffering of the residents of Guam who suffered unspeakable harm as a result of the occupation of Guam by Imperial Japanese military forces during World War II, by being subjected to death, rape, severe personal injury, personal injury, forced labor, forced march, or internment, as well as payments for death, personal injury, forced labor, forced march, and internment. Referred to Senate Committee on the Judiciary on March 5, 2009.

H.R. 423 (Mica). Seeks 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. Referred to House Subcommittee on Military Personnel on February 6, 2009.

H.R. 2055 (Thompson) and S. 817 (Cantwell). The Pacific Salmon Stronghold Conservation Act of 2009. Among other items, authorizes the sharing of status and trends data, innovative conservation strategies, conservation planning methodologies, and other information with North Pacific countries, including Japan, to promote salmon conservation and habitat. In April 2009, the House bill was referred to House Natural Resources Committee's Subcommittee on Insular Affairs, Oceans and Wildlife, which held a hearing on the bill on June 16, 2009. The Senate bill was referred to the Senate Committee on Commerce, Science, and Transportation in April 2009.

H.R. 2647 (Skelton) and S. 1390 (Levin). The National Defense Authorization Act for FY2010. On July 21, 2009, the Senate passed (58-40, Record Vote Number: 235) an amendment (S.Amdt. 1469) to S. 1390, the FY2010 National Defense Authorization Act, that eliminates funding for additional F-22 aircraft production. H.R. 2647 allocates \$369 million for additional F-22 parts. Separately, Section 1237 of H.R. 2647 requires the Secretary of Defense to report to Congress on the potential for foreign military sales of the F-22A fighter aircraft to the Government of Japan. Section 2833 of H.R. 2647 would require construction firms that get contracts for projects

associated with the expansion of U.S. military facilities on Guam to pay their workers wages consistent with the labor rates in Hawaii.

The House passed H.R. 2647 on June 25, 2009 by a vote of 389-22, 1 Present (Roll no. 460). The Senate passed S. 1390 on July 23, 2009, by a vote of 87-7 (Record Vote Number: 242).

110th Congress

H.R. 6497 (Hooley). Requires the payment of compensation to members of the Armed Forces and civilian employees of the United States who were forced to perform slave labor by the Imperial Government of Japan or by corporations of Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the Committee on Armed Services on July 15, 2008, and in addition to the Committees on the Judiciary, and Ways and Means, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

S. 3107 (Bingaman). Requires the payment of compensation to members of the Armed Forces and civilian employees of the United States who were forced to perform slave labor by the Imperial Government of Japan or by corporations of Japan during World War II, or the surviving spouses of such members, and for other purposes. Referred to the Committee on Finance on June 10, 2008.

H.R. 2886 (Knollenberg). To address the exchange-rate misalignment of the Japanese yen with respect to the United States dollar, and for other purposes. Referred to the Committee on Ways and Means on June 27, 2008, and in addition to the Committee on Financial Services, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

H.R. 1570 (Mica). Provides compensation for certain World War II veterans who survived the Bataan Death March and were held as prisoners of war by the Japanese. Referred to House Committee on Armed Services on March 19, 2007.

H.R. 3650 (Ros-Lehtinen). Provides for the continuation of restrictions against the government of North Korea unless the President certifies to Congress that the government of North Korea has met certain benchmarks, including releasing the 15 Japanese nationals recognized as abduction victims by the National Police Agency (NPA) of Japan. Referred to the House Committee on Foreign Affairs on September 25, 2007.

H.Res. 121 (Honda). Expresses the sense of the House of Representatives that the Government of Japan should formally acknowledge, apologize, and accept historical responsibility in a clear and unequivocal manner for its Imperial Armed Force's coercion of young women into sexual slavery, known to the world as "comfort women," during its colonial and wartime occupation of Asia and the Pacific Islands from the 1930s through the duration of World War II. Referred to the House Committee on Foreign Affairs on January 31, 2007.

H.Res. 508 (Saxton). Recognizes the strong security alliance between the government of Japan and the United States and expresses appreciation to Japan for its role in enhancing stability in the Asia-Pacific region and its efforts in the global war against terrorism. Passed/agreed to in House on September 5, 2007.

S. 1021 (Stabenow). Addresses the exchange-rate misalignment of the Japanese yen with respect to the United States dollar, and for other purposes. Referred to Senate Committee on Finance on March 28, 2007.

S. 1686, Sec. 6 (Landrieu). Establishes a United States-Japan Inter-parliamentary Group to meet once per Congress with representatives of the Diet of Japan for discussion of common problems in the interest of relations between the United States and Japan. Placed on Senate Legislative Calendar under General Orders on June 25, 2007.

S.Res. 399 (Brownback). Expresses the sense of the Senate that certain benchmarks must be met before certain restrictions against the government of North Korea are lifted, including that the government of North Korea has released or fully accounted to the satisfaction of the government of the United States and the government of the Republic of Korea for the whereabouts of the 15 Japanese nationals recognized as abduction victims by the National Police Agency (NPA) of Japan. Referred to the Committee on Foreign Relations on December 10, 2007.

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