



Japan-U.S. Relations: Issues for Congress

Emma Chanlett-Avery, Coordinator
Specialist in Asian Affairs

William H. Cooper
Specialist in International Trade and Finance

Mark E. Manyin
Specialist in Asian Affairs

January 13, 2011

Congressional Research Service

7-5700

www.crs.gov

RL33436

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 36,000 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.

U.S.-Japan relations have been adjusting to the Democratic Party of Japan's (DPJ) landslide victory in the August 30, 2009, elections for the Lower House of Japan's legislature. 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 had ruled Japan virtually uninterrupted since 1955. Since the resignation of the DPJ's first prime minister, Yukio Hatoyama, in June 2010, bilateral relations have been smoother under the leadership of Naoto Kan. Although in the past some members of the DPJ have questioned and/or voted against several features of the alliance, the party appears to have shifted its strategic thinking after a series of provocations from North Korea and indications of growing assertiveness from the Chinese military in disputed waters in 2010.

After the DPJ victory, bilateral tensions arose over the 2006 agreement to relocate the controversial Futenma Marine Air Station to a less densely populated location on Okinawa. The move is to be the first part of a planned realignment of U.S. forces in Asia, designed in part to reduce the footprint of U.S. forces on Okinawa by redeploying 8,000 U.S. Marines and their dependents to new facilities in Guam. After months of indecision and mixed messages from Tokyo, the Hatoyama government agreed to honor the original agreement, much to the dismay of the many Okinawans opposed to the base. Kan has voiced his intention to honor the agreement, although many concerns remain about its implementation.

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. One exception was U.S. criticism over Japan's decision in 2003 to ban imports of U.S. beef, which have since resumed, but on a limited basis.

However, the economic problems in Japan and the United States associated with the credit crisis and the related economic recession will likely dominate the 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 1.2% in 2008 and 5.3% in 2009 and is forecast to grow 2.9% in 2010. At the same time, the United States is showing signs of recovery. The value of the yen has appreciated and has hit 15-year highs in terms of the U.S. dollar, which could adversely affect Japanese exports to the United States and other countries, contributing to the downturn in Japanese economic growth.

Contents

Recent Developments.....	1
Security Developments in Region Drive Closer Cooperation	1
Kan’s Political Woes Continue	1
The Role of Congress in U.S.-Japan Relations.....	2
Major Diplomatic and Security Issues	3
North Korea and the Six-Party Talks	3
Regional and Historical Issues.....	4
China	4
South Korea.....	5
Japan’s Counter-Piracy Mission in the Gulf of Aden.....	5
Japanese Sanctions on Iran.....	6
Afghanistan/Pakistan	6
International Climate Negotiations	6
International Child Custody Disputes	7
Military Issues	7
Realignment Agreement and Futenma Relocation Controversy.....	8
Burden-Sharing Issues	9
F-22 Debate	9
Extended Deterrence.....	9
Secret Nuclear Agreement.....	10
Article 9 Restrictions	10
Economic Issues	11
Overview of the Bilateral Economic Relationship.....	12
Bilateral Trade Issues	13
Japan’s Ban on U.S. Beef	13
Japan and the Trans-Pacific Partnership Agreement (TPP).....	14
Insurance	14
The Byrd Amendment	15
WTO Dispute.....	15
The Doha Development Agenda.....	16
Japanese Politics	16
Background: Political Developments in 2010	17
June: Hatoyama Resigns, Kan Takes Over as Prime Minister.....	17
July: The DPJ Loses Its Control of the Upper House	17
September: Kan Defeats Ozawa for DPJ President	18
Brief Profile of Naoto Kan	19
The LDP	19
Japan’s Demographic Challenge.....	20
Selected Legislation	20
111 th Congress.....	20

Figures

Figure 1. Map of Japan.....	2
-----------------------------	---

Figure 2. Map of Military Facilities in Japan 11
Figure 3. Party Affiliation in Lower House 18
Figure 4. Party Affiliation in Japan’s Upper House 19

Tables

Table 1. U.S. Trade with Japan, Selected Years 12

Contacts

Author Contact Information 22

Recent Developments

Security Developments in Region Drive Closer Cooperation

A series of alarming provocations from North Korea has spurred diplomatic solidarity and new cooperative measures among Washington, Tokyo, and Seoul. After Pyongyang's artillery attack on Yeonpyeong island in December 2010, Japan attended U.S.-South Korean military exercises as observers and, later, South Korea's military reciprocated by attending U.S.-Japan exercises. In addition, foreign ministers of all three capitals met and issued strong statements condemning North Korea's behavior and indicating strong potential for more trilateral coordination in the future. Early in 2011, the defense ministers of South Korea and Japan announced they would launch negotiations to conclude an Acquisitions and Cross-Servicing Agreement (ACSA), a pact that would allow the exchange of goods by the two militaries, most likely when dispatched overseas to take part in peacekeeping operations or for relief and reconstruction operations.

In addition to North Korea's actions, a pattern of assertiveness in China's maritime activities appears to have consolidated the once-shaky ties between Tokyo and Washington. The collision at sea near the Senkaku/Diaoyu islands of a Chinese fishing vessel and Japanese Coast Guard ship in September 2010 led to a U.S. confirmation that these islands are covered under the terms of the 1960 U.S.-Japan Treaty of Mutual Security and Cooperation. Japan has since agreed to continue contributing financial support to defray the cost of stationing U.S. troops on Japanese soil for another five years. Although major issues remain, particularly in implementing agreements on troop realignment in Okinawa, bilateral ties have warmed significantly.

Kan's Political Woes Continue

Prime Minister Naoto Kan, in office since June 2010, continues to struggle to gain political momentum. His government's public disapproval ratings have soared to over 60% in some polls. In response, Kan has attempted to form coalitions with smaller parties and to force longtime political heavyweight Ichiro Ozawa to submit to parliamentary questioning over his role in a financing scandal. Kan and the widely unpopular Ozawa are rivals, and Kan seeks to reduce, if not eliminate, Ozawa's influence over the DPJ. Kan's allies have openly talked about expelling Ozawa from the party, a move that could split the DPJ but could also revive its popularity.

Kan is also struggling to pass measures through Japan's legislature, the Diet. Approval by both of the Diet's chambers generally is needed to pass legislation; while the DPJ has control of the more powerful Lower House, it lost control of the Upper House in July 2010 elections, forcing the DPJ to cobble together ad hoc, issue-specific majorities for each bill it wants to pass. Thus far, most opposition parties have collaborated to stymie virtually all of Kan's legislative initiatives in an attempt to force Kan to dissolve the Lower House and call early elections. They also passed censure motions against two members of Kan's Cabinet, which likely will force Kan to reshuffle his cabinet in January. A key test for Kan will be whether he can muster the political support necessary to pass a budget before the next fiscal year begins in April.

Sustained political uncertainty will likely make U.S.-Japan coordination on controversial issues even more difficult than usual. Already, in December 2010, Kan's efforts to form an alliance with a pacifist party reportedly led him to water down provisions, including Japan's ban on exporting weapons technology, of an important new set of guidelines for Japan's defense posture.

Figure 1. 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, Members' attention to Japan may be most concerned with the status of the military alignment plans in the region. In the 109th and 110th Congress, hearings and legislation concerning Japan focused on thorny history issues as well as the U.S. beef import ban.

Major Diplomatic and Security Issues¹

Overall U.S.-Japan relations have weathered a challenging period. When the DPJ came into power under Hatoyama's leadership, relations with Washington got off to a rocky start because of the Futenma issue (see below), but some observers chalk this up to the DPJ's inexperience in governance. Friction in the alliance and stalemate on the Okinawa agreement had been present for several years under previous LDP governments. After a period of rejuvenated defense ties in the first years of the George W. Bush Administration, expectations of a transformed alliance with a more forward-leaning defense posture from Japan diminished. In the final years of the decade, political paralysis and budgetary constraints in Tokyo, Japan's slow-to-little progress in implementing base realignment agreements, Japanese disappointment in Bush's policy on North Korea, and a series of smaller concerns over burden-sharing arrangements led to reduced cooperation and a general sense of unease about the partnership.

Despite the public flap over the relocation of the Futenma airbase between the Obama and Hatoyama Administrations, regional conflicts in 2010 appeared to reset the relationship on more positive footing. Repeated provocations from North Korea and a confrontation with China over a ship collision in disputed waters led to strong statements of mutual support and unity. The focus of the alliance appears squarely set on the changing security contours of the region, with an explicit attention to China's activities. When the alliance appeared to falter in the face of the Okinawa dispute, neighboring countries, including ASEAN states, voiced concern, indicating that the alliance is valued as a stabilizing force region-wide.

North Korea and the Six-Party Talks

Washington and Tokyo appear to be strongly united in their approach to North Korea in the stalled Six-Party negotiations process. Although the U.S. and Japanese positions diverged in the later years of the Bush Administration, Pyongyang's recent provocations have forged a new consensus among the other parties, particularly Japan, South Korea, and the United States. Tokyo voiced strong support for South Korean President Lee Myung-bak's administration after Seoul blamed a North Korean torpedo attack for the sinking of a South Korean Navy ship in March 2010, as well as after the artillery attack on Yeonpyeong Island. North Korea's provocations have helped to drive enhanced trilateral defense initiatives between Washington, Tokyo, and Seoul. 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

Japan Country Data

Population: 127 million

% of Population over 64: 22% (U.S. = 12.4%)

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

Life Expectancy: 82 years

Per Capita GDP: \$32,600 (2009 est.) purchasing power parity

Primary Export Partners: US 17.8%, China 16%, South Korea 7.6%, Hong Kong 5.1% (2008)

Primary Import Partners: China 18.9%, U.S. 10.4%, Saudi Arabia 6.7%, Australia 6.2%, UAE 6.1%, Indonesia 4.3% (2008)

Yen: Dollar Exchange Rate: 94.5 (2009), 103.58 (2008), 117.99 (2007), 116.18 (2006), 110.22 (2005)

Foreign Exchange Reserves: \$1.011 trillion (December 2008 est.)

Source: CIA *World Factbook*, February 2010

¹ This section was written by Emma Chanlett-Avery.

regime and calls on member states to inspect North Korean vessels for illicit weapons. Japan has imposed a virtual embargo on all trade with North Korea. North Korea's missile tests have demonstrated that a strike on Japan is well within range, spurring Japan to move forward on missile defense cooperation with the United States.

In addition to Japan's concern about Pyongyang's weapons and delivery systems, the issue of several Japanese citizens abducted by North Korean agents in the 1970s and 1980s remains a top priority for Tokyo in the multinational negotiations. Japan has 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. In 2008, the Bush Administration's decision to remove North Korea from the list of state sponsors of terrorism in exchange for North Korean concessions on its nuclear program dismayed Japanese officials, who had maintained that North Korea's inclusion on the list should be linked to the abduction issue.

Regional and Historical Issues

Historical issues have long dominated Japan's relationships with its neighbors, and particularly China and South Korea, who remain resentful of Japan's occupation and belligerence during the World War II period and earlier. The DPJ government has indicated a willingness to more emphatically address Japan's history of aggression. Under the DPJ, Japan has built upon improvements that began under recent LDP governments. Both Hatoyama and Kan pledged not to visit Yasukuni Shrine (a Shinto shrine that honors Japanese soldiers who died in war, including several convicted Class A war criminals), thereby removing one of the most damaging obstacles to Tokyo's relationship with Beijing and Seoul in the past several years. At the outset of the DPJ's rule, relations improved, with ceremonial visits marked by exceptional warmth. The relationship with China, however, has chilled significantly, particularly with recent developments in the East China Sea, while Seoul-Tokyo relations have remained strong.

China

Sino-Japanese relations tentatively warmed in the past few years, but have suffered setbacks as historical mistrust and contemporary rivalries surfaced. A recent incident in a disputed area of the East China Sea re-ignited long-standing sovereignty tensions. On September 8, the Japanese Coast Guard arrested the crew of a Chinese fishing vessel after the trawler apparently collided with two Coast Guard ships in the areas surrounding the Senkaku Islands (called the "Diaoyu" Islands by the Chinese). The islands, located between Taiwan and Okinawa and reportedly rich in energy deposits, are administered by Japan but claimed by Tokyo, Beijing, and Taipei. After Japan released the crew but kept the captain of the Chinese ship in custody, Chinese officials reacted vociferously: Premier Wen Jiabao himself threatened unspecified "countermeasures," the Chinese government suspended high-level exchanges; cancelled a visit to the Shanghai World Expo by 1,000 Japanese youth; arrested four Japanese nationals suspected of spying in an apparently retaliatory move; and, according to some, temporarily halted the export of rare earth minerals that are essential to Japanese automakers' operations. On September 24 local authorities released him, citing diplomatic concerns, but have not yet decided whether to indict the skipper.

While the release appears to have calmed the hostile rhetoric, the episode points to some troubling trends. The historical sensitivity over territorial issues and the potential abundance of natural resources in the disputed waters are a combustible combination. China's maritime activities have become more assertive in recent years, including Chinese naval helicopters

buzzing Japanese destroyers in the East China Sea in April. This pattern has played out in other waters bordering on China, including the Yellow Sea and the South China Sea. China's intense and immediate escalation of rhetoric in what could have been a more routine matter also disturbed many regional observers.

As the dispute played out, the United States reasserted its position that it would not weigh in on territorial disagreements but that the islands are subject to Article 5 of the U.S.-Japan security treaty, which stipulates that the United States is bound to protect "the territories under the Administration of Japan."

South Korea

Japan's relations with South Korea have been on a positive trajectory under South Korean President Lee Myung-bak, who took power in 2008. The year 2010 marked the 100th anniversary of Japan's annexation of the Korean peninsula and subsequent colonial rule. In August 2010, Kan issued a statement that expressed Japan's "deep remorse" and "heartfelt apology" for its past actions. The statement was welcomed by the government in Seoul, although much of the Korean public remains skeptical about Tokyo's sincerity.

Diplomatically the two nations appear to be drawing closer together. North Korea's provocative acts have served to drive closer trilateral cooperation among the United States, Japan, and South Korea. In the aftermath of the Yeonpyeong shelling in November 2010, the South Koreans sent military observers to participate in joint U.S.-Japan defense exercises for the first time in history and, later, both sides announced plans to sign an agreement to allow for the exchange of military goods and services during peacetime operations. In the past, U.S. officials' attempts to foster this coordination were often frustrated because of tension between Seoul and Tokyo.

Japan's Counter-Piracy Mission in the Gulf of Aden

Japan's military, known as the Self-Defense Force (SDF), has been engaged in counter-piracy activities in the Gulf of Aden since March 2009. Approximately 400 marine and ground personnel are stationed in Djibouti and currently housed in Camp Lemonnier, the large U.S. military base located close to Djibouti's airport. In April 2010, the Japanese government announced plans to build its own \$40 million facility in Djibouti, effectively establishing an overseas base for its military. Although this would be Japan's first foreign base since World War II, the move has sparked little controversy among the generally pacifist Japanese public.

The Kan administration is considering submitting a bill to allow refueling operations for foreign vessels conducting anti-piracy operations off the coast of Somalia. The opposition LDP is considered supportive of refueling operations in general, but may wish to expand the bill to include a resumption of refueling operations in the Indian Ocean in support of ongoing military operations in Afghanistan. The Hatoyama government terminated Japan's participation in the U.S.-led operations in Afghanistan. The Japanese Maritime SDF had been providing fuel and water to coalition ships in the Indian Ocean since 2001. While in opposition, the DPJ had opposed the deployment on the grounds that the mission fell under the U.S.-led operation and was not authorized by the United Nations. Some analysts see the refueling measure as a possible way for Japan to again directly participate in international military cooperation in Afghanistan.

Japanese Sanctions on Iran

Tension between the United States and Japan over Japan's trading and investment relationship with Iran has existed for years, but in recent months the Obama Administration has increased pressure on Tokyo to further curtail its trading ties with Tehran in line with Washington's rising concern about Iran's nuclear program. In September 2010, Japan announced that it would impose additional sanctions on Iran due to its nuclear program. The new restrictions, which exceed the requirements of United Nations Security Council Resolution 1929, generally follow the European Union model, including a broad ban on investments in and restrictions on sales to Iran's energy sector, as well as a freeze on certain assets of Iranian banks. The sanctions do not affect Japan's oil imports from Iran, which account for 10% of its crude imports. Japan is Iran's second-largest trading partner after China, due almost exclusively to Iran's energy exports. In 2009, about 12% of Iran's oil exports were shipped to Japan.²

Afghanistan/Pakistan

Japan's contribution to anti-terrorism and stability operations in Afghanistan has shifted form with the arrival of a new government in Tokyo. As promised during the campaign, the Hatoyama administration terminated Japan's participation in the U.S.-led Operation Enduring Freedom mission. The Japanese Maritime Self Defense Force had been providing fuel and water to other coalition ships in the Indian Ocean since 2001. When in opposition, the DPJ had opposed the deployment on the grounds that the mission fell under the U.S.-led operation and was not authorized by the United Nations. In exchange, Japan pledged up to \$5 billion in civilian aid for Afghanistan's reconstruction. In January, Japan offered \$50 million to start a fund designed to convince militants to give up violence and reintegrate into mainstream society.

Japan reportedly considered sending troops to participate in a Provincial Reconstruction Team (PRT) in Afghanistan, but has shied away from such a commitment. A deployment would likely be controversial for the pacifist-leaning Japanese public.

International Climate Negotiations

Tokyo has sought to highlight Japan's leadership on environmental issues, where Japan has long been recognized as a global leader in energy efficiency and development of clean energy technology, including hybrid cars. Japan is the fourth-largest emitter 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 without purchasing international carbon emission offset credits. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of robust emission reductions.

Former Prime Minister Hatoyama pledged to cut Japan's greenhouse emissions to 25% of 1990 levels by 2020, a goal that some experts in Japan have characterized as unrealistic. Japan is considered to be closely aligned with the Obama Administration in international climate negotiations in its position that any legally binding post-2012 climate agreement must be legally

² Economist Intelligence Unit, *Iran Country Report*, August 2010.

binding in a symmetrical way, with all major economies agreeing to the same elements. Japan is a strong supporter of the 2009 Copenhagen Accord, as well as the 2010 “Cancun Agreements.”

International Child Custody Disputes

The issue of overseas Japanese women in failed marriages taking children to Japan without the consent of the foreign husband or ex-husband has become an issue in bilateral relations. Sometimes, these women have acted in contravention of foreign custody settlements and, after arriving in Japan, have prevented the children from meeting their fathers. With cases involving over 269 children, the United States reportedly has the largest number of such disputes with Japan.³ Legally, Japan only recognizes sole parental authority, under which only one parent has parental rights, and there is a deep-rooted notion in Japan that the mother should assume custody. Japanese officials say that, in many cases, the issue is complicated by accusations of abuse or neglect on the part of the foreign spouse, though a senior U.S. State Department official has said that there are “almost no cases” of substantiated claims of violence.⁴

On September 29, the House of Representatives passed a resolution (H.Res. 1326) calling on Japan to address the problem, provide access to the children to the parents, and join the 1980 Hague Convention on the Civil Aspects of International Child Abduction. The increased publicity has raised awareness of the issue in Japan, particularly among Diet members. In December 2009, the Ministry of Foreign Affairs created a new “parental rights of children” office staffed by nine officials in charge of Europe and America and international treaties. The new office will not only deal with cases at issue with other countries, but will also be responsible for studying Japan’s accession to the treaty in the future. A report by a council of vice-ministerial-level officials on joining the convention is due in March 2011.

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. Although defense officials had hoped that the 50th anniversary of the treaty would compel Tokyo and Washington to work on additional agreements to enhance bilateral defense cooperation, a rocky start under the Democratic Party of Japan (DPJ) government generated concern about the future of the bilateral alliance.

Under the administration of Prime Minister Hatoyama, a disagreement over the planned relocation of the U.S. Marines’ Futenma Air Station to a less crowded part of Okinawa emerged between Tokyo and Washington. While in the opposition, the DPJ opposed the realignment plans, calling for the Futenma station to be relocated outside Okinawa for a number of reasons, including a desire to further reduce the U.S. footprint in Okinawa, a reluctance to commit the

³ “U.S. House Demands Japan Act on Parental Abduction,” Kyodo News. September 30, 2010.

⁴ U.S. State Department, “Press Availability on International Parental Child Abduction, Kurt M. Campbell, Assistant Secretary, Bureau of East Asian and Pacific Affairs,” February 2, 2010.

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.

financial resources associated with the realignment plan, and a belief that the relocation plan would damage the reefs and possibly endanger a rare sea mammal called the dugong in Henoko Bay. After Hatoyama came to power, splits publicly surfaced among his cabinet, and a series of high-level meetings with U.S. officials failed to resolve differences. The impasse threw into doubt a comprehensive realignment of U.S. forces in the region and, combined with Hatoyama's calls for a greater emphasis on Asia in Japan's foreign policy, simultaneously raised fundamental questions about the long-standing security relationship between Tokyo and Washington.

In May 2010, after months of mixed signals and delay, the Hatoyama government agreed to move forward with the relocation and re-affirmed the centrality of the alliance to Japanese and regional security. The May 28, 2010, statement issued by the Security Consultative Committee (SCC, also known as the "2+2" meeting) made up of the Japanese and U.S. foreign and defense ministers, reaffirmed the 2006 "United States-Japan Roadmap for Realignment Implementation" and committed to build the marine air station in the "Camp Schwab Henoko-saki area and adjacent waters."

After Hatoyama resigned in early June 2010, Prime Minister Naoto Kan affirmed his intention to honor the agreement. In a key gubernatorial election in November 2010, the incumbent Hirokazu Nakaima was re-elected. Despite supporting the plan earlier, Nakaima opposed the base relocation during the campaign, but is seen as more conciliatory to Tokyo than his opponent. Strong doubts remain about the implementation of the plan.

Realignment Agreement and Futenma Relocation Controversy

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. 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.

The 2006 agreement between the U.S. and Japanese governments to relocate the Futenma Marine Air Station from its current location in crowded Ginowan to Camp Schwab is the centerpiece of the planned realignment of U.S. forces in Japan. Per the agreement, the redeployment of the III Marine Expeditionary Force (III MEF), which includes 8,000 U.S. personnel and their dependents, to new facilities in Guam⁶ would lead to the return of thousands of acres of land to the Japanese. Japan agreed to pay around 60% of the \$10.3 billion estimated costs. The transfer is contingent upon finding replacement facilities for the Futenma base. After 13 years of negotiations, U.S. and Japanese officials settled on Camp Schwab because of its location in Nago, a far less congested area of Okinawa.

The reduction of Marines on Okinawa seeks to quell the political controversy that has surrounded the presence of U.S. forces in the southernmost part of Japan for years. Public outcry against the bases has continued since the 1995 rape of a Japanese schoolgirl by an American serviceman, and was renewed after a U.S. military helicopter crashed into a crowded university campus in 2004.

⁶ For more information, see CRS Report RS22570, *Guam: U.S. Defense Deployments*, by Shirley A. Kan.

Though constituting less than 1% of Japan's land mass, Okinawa currently hosts 65% of the total U.S. forces in Japan. The current controversy reflects a fundamental tension in the relationship between Okinawa and the central government in Tokyo: while the country reaps the benefit of the U.S. security guarantee, the Okinawans must bear the burden of hosting thousands of foreign troops. Although the host cities are economically dependent on the bases, residents' grievances include noise, petty and occasionally violent crime, and environmental degradation stemming from the U.S. presence.

Burden-Sharing Issues

In December 2010, Japan agreed to continue Host Nation Support (HNS), the funds provided to contribute to the cost of stationing U.S. troops in Japan), at current levels for the next five years, starting in FY2011. The agreement came as a compromise, as the Kan government had been pressured to cut Japan's contribution due to Japan's ailing fiscal health. According to Pentagon reports, Japan has over the years provided up to \$4 billion annually in direct and indirect 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. The current agreement calls for Japan to pay about 188 billion yen annually (about \$2.2 billion at 82 yen to one USD) through FY2016 to defray the costs of stationing troops in Japan. The new agreement also commits to reducing the number of Japanese nationals working for the U.S. military and affirms that the proportion of utility costs paid by the Japanese government will fall from 76% to 72% over a five-year period.

F-22 Debate

Japan has expressed interest in purchasing F-22A Raptor aircraft from the United States to replace its aging fleet of F-4 fighters. Some Japanese defense officials regard the potential sale of the F-22 as something of a test of the U.S. strategic commitment to the bilateral alliance. Current U.S. legislation restricts exports of the F-22 to foreign countries in a provision known as the "Obey Amendment." The 2010 Department of Defense Appropriations Act (P.L. 111-118) maintains this prohibition, but also contains a provision that allows the Pentagon to begin to design a version of the aircraft for export if foreign sales are eventually allowed. 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

Another 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.

Secret Nuclear Agreement

Early in the DPJ rule, a former vice foreign minister disclosed 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. An experts panel convened by the DPJ reported in March 2010 confirmed this tacit agreement had existed. In April 2010, Foreign Minister Okada apologized for the past governments' policy and reaffirmed Japan's three non-nuclear principles policy.

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. 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.

Figure 2. Map of Military Facilities in Japan



Source: Map Resources. Adapted by CRS.

Economic Issues⁷

Trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress.⁸ By the most conventional method of measurement, the United States and Japan are the world's two largest economies,⁹ 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.

⁷ This section was written by William Cooper.

⁸ 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.

⁹ China's economy is now larger than Japan's by another method of measurement: purchasing power parity.

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 was the United States' 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) at the end of 2009. 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 to second place, behind the United Kingdom, where it remained at the end of 2009. Japan was the 10th-largest target for U.S. foreign direct investment abroad as of the end of 2009. For many years, the United States was Japan's largest export market but became the second-largest in 2009 (next to China). The United States was second-largest source of imports as of the end of 2009. The global economic downturn has had a significant impact on U.S.-Japan trade. In 2009, U.S. exports declined by 23.1% from 2008 and imports from Japan declined by 31.1 % causing the U.S. bilateral deficit with Japan to \$44.8 billion. (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
2009	51.2	95.9	-44.8
2009*	42.0	76.8	-34.8
2010*	49.9	98.0	-48.1

* January-October.

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 de-

politicized 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 financial crisis and recession and how the two countries deal with those problems have been a major focus of their bilateral economic agenda recently. Japan has been hit particularly hard by the financial crisis and subsequent economic downturn. Japan's gross domestic product (GDP) declined 1.2% in 2008 and 5.2% in 2009. The Economist Intelligence Unit forecasts a modest recovery of 2.9% in 2010.

The value of the yen has hit 15-year highs in terms of the U.S. dollar, which could adversely affect Japanese exports to the United States and other countries, contributing to the downturn in Japanese economic growth. Less than three years ago, the yen was valued at \$1=¥124. As of January 10, 2011, it was \$1=¥ 83. To stem yen appreciation, the Bank of Japan intervened on September 15, 2010, by selling about 1.8 trillion (about \$22 billion) and buying dollars in major exchange markets. The intervention had a temporary effect when the yen depreciated about 3% but has returned to its previous level. Economists argue that currency intervention tends to have temporary and minimal effects on floating currencies, such as the yen. In addition, Japan has been enduring a period of deflation, making the real (price adjusted) exchange rate only much less than the nominal rate.

Bilateral Trade Issues

Japan's Ban on U.S. Beef¹⁰

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 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 re-imposed 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.

¹⁰ For more information, see CRS Report RS21709, *Mad Cow Disease and U.S. Beef Trade*, by Charles E. Hanrahan and Geoffrey S. Becker.

Members of Congress have pressed Japan to lift restrictions on imports of U.S. beef further. U.S. officials met with Japanese agricultural officials September 14-15, 2010, for technical discussions on getting Japan to loosen its restrictions even further, but produced with no clear indication of resolution of the issue.

Japan and the Trans-Pacific Partnership Agreement (TPP)

The Trans-Pacific Partnership (TPP) is an evolving regional free trade agreement FTA. The TPP was originally an FTA among Singapore, New Zealand, Chile, and Brunei. The United States, along with Australia, Peru, and Vietnam, joined the negotiations in the fall of 2008 to accede to the TPP and shape arrangement, and President Obama reaffirmed U.S. participation in November 2009. Three rounds of negotiations were held in 2010, and Malaysia joined as a full partner during the third round. The Obama Administration envisions the TPP to become a high-level, comprehensive FTA covering goods, services, agriculture, investment, intellectual property rights, government procurement, competition, labor, environmental, and disciplines on non-tariff barriers.

The Japanese leadership is contemplating joining the negotiations and has been the subject of Cabinet-level discussions. It was expected that the leadership would decide soon enough to be able to participate in the early rounds of negotiations and help establish the basic provisions of the TPP to which later adherents would have to accede. As of the end of 2010, Japan had not decided whether to join but Japanese officials indicated that they would render a decision by June 2011. Participation in the TPP would likely require Japan to open its agricultural markets to imports from other TPP members, including the United States and Australia, an issue that has been a roadblock to joining forming some other FTAs.¹¹ If Japan decides to join the TPP, it would be the first such arrangement involving Japan and the United States together.

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 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).

¹¹ *Inside U.S. Trade*, November 12, 2010.

However, the United States has raised concerns about the operations of companies under the Japan Postal Service, which offer insurance services that directly compete with U.S. and other privately owned providers. 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 Japan Post 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. However, the Democratic Party of Japan (DPJ)-led government has taken steps to scale-back some of the privatization, and on May 31, 2010, the Lower House of the Japanese Diet passed legislation to do so. The United States and the European Union have complained to the Japanese government that the legislation would give Japan Post legal, tax, and regulatory exemptions not given to private companies, giving Japan Post competitive advantage that would also violate Japan's commitments under the WTO's General Agreement on Trade in Services (GATS). The legislation would still require approval by the Upper House before entering into force.¹²

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, 2007.¹³ 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. Most recently, Japan notified the WTO that it would extend the sanctions for another year in August 2010.

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

¹² *Inside U.S. Trade*. June 4, 2010.

¹³ For 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.

United States.¹⁴ 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.¹⁵ On May 5, 2010, Japan asked the WTO to proceed with determining if Japan can impose the sanctions. However, the United States and Japan decided to try to resolve the issue informally and requested the WTO arbitration panel to suspend its work until September 8, 2011, at which time the suspension would terminate and the panel would proceed.¹⁶

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 Politics¹⁷

Since 2007, Japanese politics has been rocked by turmoil and instability. Five men have served as prime minister since, making coherent policy formation in Tokyo difficult and complicating many aspects of U.S.-Japan relations, particularly in security policy.

¹⁴ *International Trade Reporter*, July 23, 2009.

¹⁵ *International Trade Reporter*, January 17, 2008.

¹⁶ *International Trade Daily*, December 16, 2010.

¹⁷ 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.

Background: Political Developments in 2010

June: Hatoyama Resigns, Kan Takes Over as Prime Minister

On June 2, 2010, Japanese Prime Minister Yukio Hatoyama resigned from his positions as prime minister and president of the ruling Democratic Party of Japan (DPJ). Hatoyama became the fourth consecutive Japanese prime minister to last a year or less in his post. He had assumed the premiership in September 2009, after leading the DPJ to an historic election victory over the Liberal Democratic Party, which had enjoyed virtually continuous control of the Japanese government for over 50 years. By mid-spring Hatoyama's steadily falling approval ratings, which had been near 75% after he had led the DPJ to an historic victory in August 2009, had sunk below the 20% level, largely due to his image as an ineffectual leader. Ichiro Ozawa, the Secretary-General of the DPJ who was widely viewed as the real power center during Hatoyama rule, also resigned. A significant factor in Hatoyama's fall was the perception that he mishandled a disagreement with the United States over whether, where, and how to relocate the Futenma U.S. Marine base in Okinawa, sparking a major crisis in U.S.-Japan relations. It is unclear if or to what extent DPJ members, the Japanese elite, or the Japanese public blame the Obama Administration for Hatoyama's resignation.

Within days of Hatoyama's resignation, his former Finance Minister Naoto Kan was selected as DPJ president and prime minister. A longtime proponent of government reform, Kan announced a three-pronged platform that heavily emphasizes domestic issues: reviving Japan's economy, rebuilding its public finances, and turning around its social security system. He stated the U.S.-Japan alliance serves as "the cornerstone" for Japan's foreign policy, but also that Japan needs to "deepen our relations with other Asian countries." He pledged to uphold the Futenma relocation agreement Hatoyama had reached with the United States.

July: The DPJ Loses Its Control of the Upper House

Kan's selection as prime minister had raised hopes inside the ruling DPJ that the party would increase its seat total in the July 11, 2010, elections for the Upper House of Japan's legislature, the Diet. Prior to the election, the DPJ had controlled the Upper House by virtue of a coalition with much smaller parties. The party needed to win 60 of the 121 contested seats to gain a majority on its own. However, in a stunning defeat, the DPJ won only 44 of the contested seats, causing its membership in the lower house to decline to 106, 16 short of a majority. The LDP won 51 seats, bringing its total to 84, 13 more than it had before the election. A new reformist party, called "Your Party," emerged as a new force, winning 10 seats. Because the DPJ continues to have a majority of the Lower House, the Diet's more powerful chamber, it retains control of the premiership and the government.

Kan agreed with many political analysts in attributing the DPJ's defeat to his outspoken call for doubling Japan's consumption tax from 5% to 10%, a move he and some economists say is necessary to shore up Japan's public finances. However, the explanation for the electoral result is not so clear-cut, for a number of reasons. First, the LDP also supports raising the consumption tax to 10%. Second, post-election polls indicate that a majority of the public supports either raising the tax or opening a debate on the subject in the Diet. A possible answer to the puzzle is an analysis by *The Oriental Economist*, which argues that the DPJ lost because it was defeated in a number of mostly rural districts, the LDP's stronghold, which are over-represented in the Diet. Indeed, as TOE reports, in the rest of the country, the DPJ did better than it had in the past by

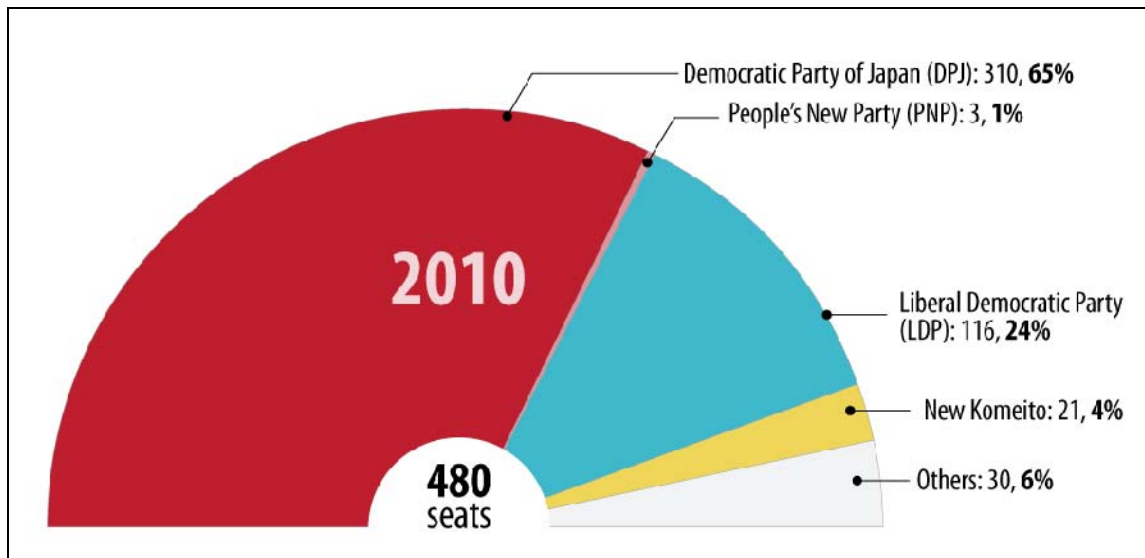
some measures. This analysis appears to reinforce the point made by many observers: the LDP's strong showing was likely more about punishing the DPJ than a vote of confidence in the LDP.

September: Kan Defeats Ozawa for DPJ President

On September 14, Prime Minister Naoto Kan defeated longtime political heavyweight Ichiro Ozawa to retain his presidency of the ruling Democratic Party of Japan (DPJ) and therefore the premiership. Under a complicated internal system that weights the votes of 350,000 party members and supporters, around 2,400 local legislators, and the 411 DPJ members of parliament, Kan won by a larger-than-anticipated margin. However, Ozawa garnered about half of the votes of the MPs, demonstrating deep intra-party divisions and reflecting Ozawa's political strength. The outcome spared Japan yet more political upheaval; if victorious, Ozawa would have been the sixth prime minister since 2007 and the third in 12 months. Kan's new cabinet appointments showcase a line-up of Ozawa's political foes and figures generally well-known to the United States.

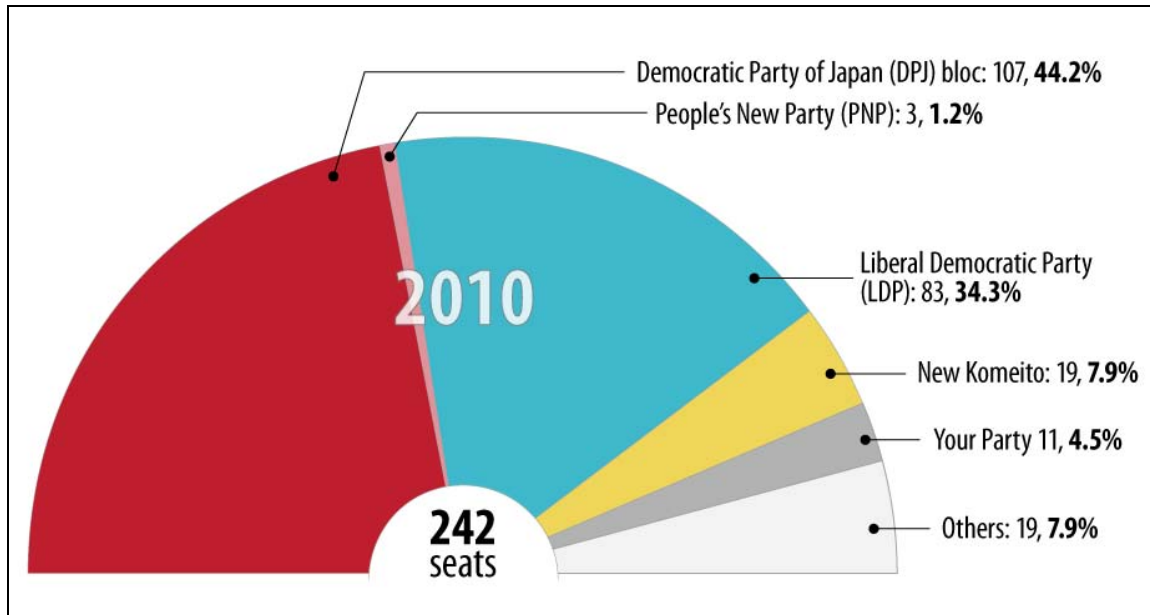
After the election, analysts were divided on the question of whether the influential but deeply unpopular Ozawa would be chastened by the public defeat or remain a political force. Then, on October 4, an independent panel ruled that Ozawa should be indicted for his role in a political financing scandal; three of his aides were indicted earlier on similar charges. This development makes a comeback considerably less likely, though many are reluctant to dismiss it as impossible.

Figure 3. Party Affiliation in Lower House



Source: Derived from April 27, 2010, Lower House data.

Figure 4. Party Affiliation in Japan's Upper House



Source: July 27, 2010, *Mainichi Shimbun*.

Brief Profile of Naoto Kan

Kan has a reputation as a center-left reformer who champions transparency and accountable governance. He first came to prominence in the mid-1990s when, as health minister while cooperating with the LDP government, he forced the release of government documents that showed his ministry's role in importing and then covering up the distribution of HIV-contaminated blood that had infected thousands of hemophilia patients. Kan has long championed the administrative reforms of streamlining government and eliminating wasteful government practices that have been a popular element of the DPJ's brief tenure in power. During the late 1990s, he was known to say that his goal was to make the DPJ the party of Thatcher and Blair, in the sense of reducing government's role in Japanese society while simultaneously expanding assistance to weaker segments of society.

Kan is expected to benefit from his humble and urban origins. Unlike the last four prime ministers, he is not the son or grandson of a former prime minister, and he is the first in nearly a decade who is not the son of a politician. Kan's reputation as a relatively "clean" politician stands in contrast to the "money and politics" image that hovered around Ozawa and to a lesser extent Hatoyama. Indeed, many of Kan's early moves appear to be attempts to purge much of Ozawa's influence over the party.

The LDP

Now Japan's largest opposition party, the LDP appears to have been demoralized by its fall from power. According to most polls, the party did not benefit from the Hatoyama cabinet's unpopularity. Indeed, in the spring of 2010, a number of prominent LDP members left the party to become independents, contributing to an image of a party in disarray. The July 2010 Upper House election appears to have stopped the LDP's hemorrhaging.

Following the LDP's defeat in the August 2009 Lower House elections, then-Prime Minister Taro Aso resigned from the premiership and his position as LDP president. In September, the LDP selected Sadakazu Tanigaki as its new leader. One analyst observes that the party is divided into three ideological groupings: "pure conservative" hawks, populist "liberals" like Tanigaki who focus on promoting a welfare state, and "neo-liberals" who emphasize small government, administrative reform, economic growth, and free markets. The 2009 election appears to have reshaped the LDP in at least two ways. First, the DPJ's dominance in urban areas has made the LDP a more rural-based party than ever before in its history. Second, the party is not only smaller but also is stacked with leaders of its "old guard" because many of the LDP's newer—and generally younger—members were effectively purged before the election in order to ensure that senior leaders could keep their seats. The LDP's electoral gains in the July 2010 Upper House elections appear to have boosted the older wing of the party.

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. With government encouragement, some private firms offer incentives to employees with children.

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); P.L. 111-84. The National Defense Authorization Act for FY2010. Signed into law October 28, 2009. 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 eliminated funding for additional F-22 aircraft production. In conference, this provision was deleted, but both chambers agreed not to authorize funding for additional procurement of the F-22 in FY2010. Section 1250 requires the Secretary of Defense to report to Congress on the potential for foreign military sales of the F-22A fighter aircraft. Section 2835 establishes an Interagency Coordination Group of Inspectors General for Guam Realignment, which among other items, is required to submit by February 1 an annual report on Japan's budgetary contribution to the relocation of military personnel on Guam. The conference committee deleted the portion (in Section 2833) of the House version of H.R. 2647 that would have required 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.

H.Res. 933 (Dingell). Commending the Government of Japan for its current policy against currency manipulation and encouraging the Government of Japan to continue in this policy. Introduced November 19, 2009; referred to House Ways and Means Committee.

H.Res. 125 (C. Smith). Calling on Brazil in accordance with its obligations under the 1980 Hague Convention on the Civil Aspects of International Child Abduction to obtain, as a matter of extreme urgency, the return of Sean Goldman to his father David Goldman in the United States; urging the governments of all countries that are partners with the United States to the Hague Convention to fulfill their obligations to return abducted children to the United States; and recommending that all other nations, including Japan, that have unresolved international child abduction cases join the Hague Convention and establish procedures to promptly and equitably address the tragedy of international child abductions. Passed/agreed to in House on March 11, 2009.

H.Res. 997 (Sutton). Expressing the sense of the House of Representatives regarding unfair and discriminatory practices of the government of Japan in its failure to apply its current and planned extension of the Government's Eco-friendly Vehicle Purchase and scrappage program to imported vehicles made by U.S. automakers. Introduced January 5, 2010; referred to the Committee on Ways and Means, and in addition to the Committee on Foreign Affairs, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

S.Res. 388 (Stabenow). Expressing the sense of the Senate regarding unfair and discriminatory measures of the Government of Japan in failing to apply the Eco-Friendly Vehicle Purchase Program to vehicles made by United States automakers. Introduced January 20, 2010; referred to the Committee on Finance.

H.Res. 1464 (Ros-Lehtinen). Recognizing the 50th anniversary of the conclusion of the United States-Japan Treaty of Mutual Cooperation and Security and expressing appreciation to the Government of Japan and the Japanese people for enhancing peace, prosperity, and security in the Asia-Pacific region. Passed/agreed to in House on June 24, 2010.

S.Res. 564 (Webb). Recognizing the 50th anniversary of the ratification of the Treaty of Mutual Security and Cooperation with Japan, and affirming support for the United States-Japan security Resolution agreed to in Senate without amendment and with a preamble by Unanimous Consent on June 29, 2010.

H.Res. 1326 (Moran). Calling on the Government of Japan to immediately address the growing problem of abduction to and retention of United States citizen minor children in Japan, to work closely with the Government of the United States to return these children to their custodial parent or to the original jurisdiction for a custody determination in the United States, to provide left-behind parents immediate access to their children, and to adopt without delay the 1980 Hague Convention on the Civil Aspects of International Child Abduction. Passed in the House on September 29, 2010.

Author Contact Information

Emma Chanlett-Avery, Coordinator
Specialist in Asian Affairs
echanlettavery@crs.loc.gov, 7-7748

Mark E. Manyin
Specialist in Asian Affairs
mmanyin@crs.loc.gov, 7-7653

William H. Cooper
Specialist in International Trade and Finance
wcooper@crs.loc.gov, 7-7749