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

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## Summary

Japan is a significant partner for the United States in a number of foreign policy areas, particularly in U.S. security priorities, which range from hedging against Chinese military modernization to countering threats from North Korea. The post-World War II alliance has long been an anchor of the U.S. security role in Asia. The alliance facilitates the forward deployment of about 50,000 U.S. troops and other U.S. military assets based in Japan. In addition, Japan's participation in the Trans-Pacific Partnership (TPP) talks could enhance the credibility and viability of the proposed trade pact, which could be a core component of Administration efforts to "rebalance" U.S. foreign policy priorities toward the Asia-Pacific region.

After years of turmoil, Japanese politics has entered a period of stability with the December 2012 election victory of current Prime Minister Shinzo Abe and his Liberal Democratic Party (LDP). New elections are not required to be held until 2016. The LDP's recent election wins have given it control over both chambers, thereby giving Abe more political room to pursue controversial initiatives that the United States has encouraged such as joining the proposed TPP trade pact and increasing the Japanese military's capabilities and flexibility. The political continuity in Tokyo has allowed Abe to reinforce his agenda of revitalizing the Japanese economy and boosting the U.S.-Japan alliance, both goals that the Obama Administration has actively supported.

On the other hand, comments and actions on controversial historical issues by Abe and his Cabinet have raised concern that Tokyo could upset regional relations in ways that hurt U.S. interests. Abe is known for his strong nationalist views. Abe's approach to issues like the so-called "comfort women" sex slaves from the World War II era, history textbooks, visits to the Yasukuni Shrine that honors Japan's war dead, and statements on a territorial dispute with South Korea are all ongoing points of tension in the region. To many U.S. observers, Abe brings both positive and negative qualities to the alliance, at once bolstering it but also renewing historical animosities that could disturb the regional security environment.

U.S.-Japan defense cooperation has improved and evolved in recent decades as the allies adjust to new security challenges, such as the ballistic missile threat from North Korea and the confrontation between Japan and China over disputed islets. The Abe government's 2014 decision to relax Japan's prohibition on participating in collective self-defense activities could allow the Japanese military to play a greater role in contributing to global security, but domestic legislation is needed for implementation. Despite overcoming a major hurdle in late 2013 to relocate the controversial Futenma Marine Corps Air Station on Okinawa, many politicians and activists remain opposed to the plans to realign U.S. forces. In addition, the U.S. Congress has restricted some funding for the realignment because of concerns and uncertainty about the cost of the plans.

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. Japan, the United States, and 10 other countries are participating in the TPP free trade agreement (FTA) negotiations. If successful, the negotiations could reinvigorate a bilateral economic relationship that has remained steady but stagnant, by addressing long-standing, difficult issues in the trade relationship. On the other hand, failure to do so could indicate that the underlying problems are too fundamental to overcome and could set back the relationship. If a TPP agreement is reached, Congress must approve implementing legislation before it would take effect in the United States.

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## Recent Developments in 2014

### The Abe Government's Continued Stability

Since Prime Minister Shinzo Abe won the premiership in December 2012, Japan's political scene has been relatively stable, a marked change from the previous six years of near-constant political turmoil. Abe's Liberal Democratic Party (LDP), in coalition with a smaller party, has increased its hold on the Diet (Japan's parliament), while Japan's opposition parties have become significantly weaker. Abe, who has maintained high public approval ratings, does not face a scheduled challenge to his position until September 2015, when the LDP is to decide whether to retain him as party president. Parliamentary elections are not required to be held until 2016. (See "Japanese Politics" section below for more detail.)

In September 2014, Abe reshuffled his Cabinet in a way that seemed to reflect his strong political position. Three of the most powerful posts—the Ministers of Finance and Foreign Affairs and the Chief Cabinet Secretary—were unchanged, indicating broad continuity in Abe's priorities of economic revitalization and defense policy reform. Some of Abe's new appointments suggest that he remains committed to pushing for agricultural reforms and deregulation, initiatives that could favor a breakthrough in the Trans-Pacific Partnership (TPP) talks. Abe also named five women to Cabinet posts, tying a historical record for female representation, to reinforce his initiative to raise the position of women in the workforce. Many political analysts noted that the new Cabinet features several individuals known as strong nationalists who have at times downplayed or denied many of Imperial Japan's harmful actions during the first half of the 20<sup>th</sup> century. These sentiments have damaged relations with South Korea and China during Abe's rule.

This combination of individuals amenable to reforms in the trade and defense realm, yet revisionist-leaning on history issues, provides both promise and challenge for the U.S.-Japan relationship. On the one hand, Abe is a popular leader with an ambitious agenda that in many ways supports U.S. policy goals. On the other hand, a pattern of activities by Tokyo that re-open historical wounds has hampered Japan's ability to develop constructive relations with South Korea and to manage potentially explosive issues with China, thereby jeopardizing U.S. interests in East Asia.

### TPP Negotiations<sup>1</sup>

Since Japan became the 12<sup>th</sup> country to join the TPP talks in July 2013, the U.S. and Japan have been negotiating their own market access and an array of sensitive trade issues bilaterally, in addition to the broader 12-country TPP talks. Despite a declaration of significant progress on a "path forward" during President Obama's April 2014 visit to Japan, the ongoing talks remain challenging. The stalemate in the U.S.-Japan negotiations appears to be a major factor contributing to the logjam in the multilateral TPP talks.<sup>2</sup> Frustration with the lack of progress has led some U.S. industry groups and Members of Congress to argue that the proposed TPP should

<sup>1</sup> For more information, please see CRS Report R42676, *Japan Joins the Trans-Pacific Partnership: What Are the Implications?*, by William H. Cooper and Mark E. Manyin.

<sup>2</sup> For more on the TPP negotiations, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by Ian F. Fergusson.

be concluded without Japan if Japanese negotiators are unwilling to make sufficient concessions, particularly on autos and agriculture, the two most challenging aspects of the bilateral talks. U.S. negotiators reportedly are struggling with Japan's market access commitments on five groups of agricultural products it has said are "sacred": rice; sugarcane/sugar products; wheat and barley; dairy products; as well as beef and pork. The auto negotiations include the potential reduction of the 2.5% U.S. tariff on Japanese auto imports and 25% tariff on light trucks, as well as addressing U.S. automakers' longstanding concerns over alleged non-tariff barriers in the Japanese market.

Ultimately, Congress would be required to approve implementing legislation if a completed TPP agreement is to apply to the United States. During the TPP negotiating process, Congress has a formal and informal role in influencing U.S. negotiating positions. The Obama Administration contends that it has been negotiating the TPP as if trade promotion authority (TPA), which expired in 2007, were in force. TPA is the authority that Congress gives to the President to negotiate trade agreements that would receive expedited legislative consideration if congressional negotiating objectives are followed. The Administration has been adhering to consultation and notification requirements under TPA. In January 2014, legislation to renew TPA was introduced in the House (H.R. 3830) and in the Senate (S. 1900).<sup>3</sup> (See "Bilateral Trade Issues" section for more details.)

## Abe's Defense Reforms Advance

Another of Abe's major priorities is implementation of a controversial June 2014 decision to relax Japan's longstanding prohibition on participating in collective self-defense activities (militarily assisting another country or countries). In early July 2014, the Abe Cabinet announced a change to its previous interpretation of its 1947 pacifist constitution, specifically Article 9, which states that Japan forever renounces war as its sovereign right and vows not to maintain military forces. The change allows Japan's Self Defense Forces to participate in collective self-defense activities under certain conditions. These conditions, developed in consultation with the LDP's dovish coalition partner the New Komei Party and in response to negative public sentiment, are rather restrictive and could limit significantly the latitude for Japan to craft a military response to crises outside its borders. Other legal and institutional obstacles in Japan likely will inhibit full implementation of this new policy in the near term.

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

The Obama Administration publically has supported the move, which is divisive inside Japan. The removal of the blanket prohibition should enable Japan to engage in expanded operations that could boost the U.S.-Japan alliance. Many political and legal obstacles remain, including the

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<sup>3</sup> For more on TPA, see CRS Report RL33743, *Trade Promotion Authority (TPA) and the Role of Congress in Trade Policy*, by Ian F. Fergusson; CRS Report R43491, *Trade Promotion Authority (TPA): Frequently Asked Questions*, by Ian F. Fergusson, Richard S. Beth, and William H. Cooper; and CRS Report IF00002, *Trade Promotion Authority (TPA) (In Focus)*, by Ian F. Fergusson.

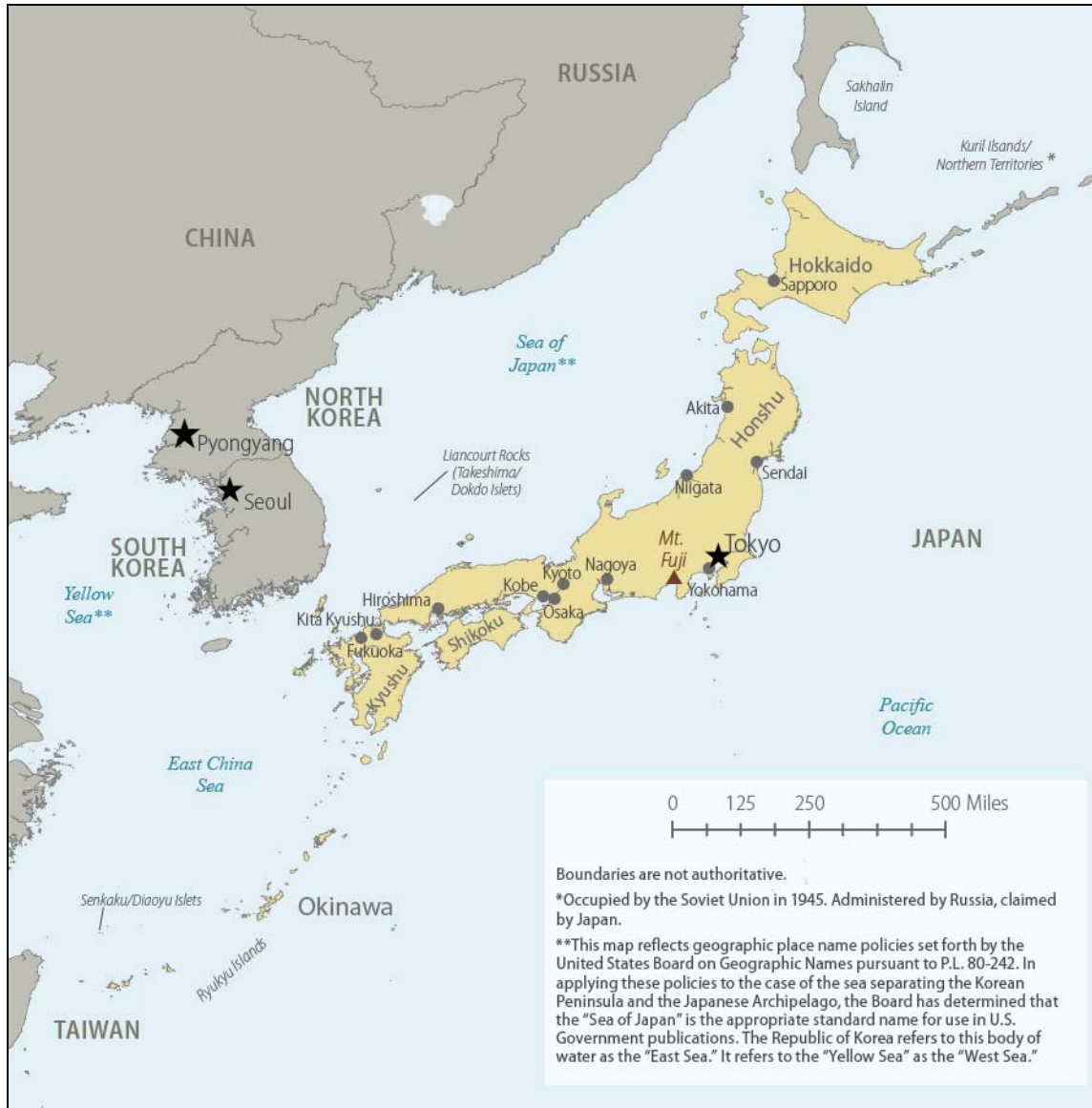
passage of controversial legislation in the Diet in the upcoming year, to fully implement the new policy. Simultaneously, the United States and Japan are in the process of revising the bilateral Mutual Defense Guidelines (MDG) to establish new outlines for cooperation, including security cooperation beyond the defense of Japan. The new guidelines are expected to be announced by the end of 2014.

## **Regional Relations Remain Strained**

In office since late 2012, Abe has yet to hold a bilateral summit with either South Korean President Park Geun-hye or Chinese President Xi Jinping. Abe's December 2013 visit to the controversial Yasukuni Shrine drew protests from both Seoul and Beijing. Other actions that appeared to question Japan's culpability in World War II-era atrocities or glorify Imperial Japan's military have further upset Japan's neighbors. In summer 2014, Japan and China appeared to be seeking ways to plan a bilateral summit through back channels: former Prime Minister Yasuo Fukuda met with Xi to discuss relations in a later-disclosed secret meeting in July, followed by talks between the two nations' foreign ministers at an ASEAN meeting in August. In the past, China has said that preconditions to a leaders' meeting would include a pledge by Abe to refrain from visiting Yasukuni Shrine again, as well as acknowledgement of a dispute over the Senkaku/Diaoyutai Islands in the East China Sea. Japanese and South Korean officials have engaged in more intensive dialogues since summer 2014, but this overall thaw in relations has not been accompanied by signs of progress on resolving deeply contentious historical issues. (For more, see "Japan's Foreign Policy and U.S.-Japan Relations" section.)

In May 2014, Japan and North Korea announced an agreement to work towards the resolution of their chief bilateral dispute: the fate of Japanese citizens abducted by North Korea agents in the 1970s and 1980s. In exchange for a new investigation of the individuals, Japan pledged to relax some of its sanctions against Pyongyang. Despite the announcement, analysts remain skeptical that North Korea will satisfy Japan's demands. Abe, long associated with championing the abductees' cause, may be seeking domestic political gains with the gambit, while Pyongyang appears anxious for aid and to drive wedges between Japan, South Korea, and the United States.

Figure I. Map of Japan



Source: Map Resources. Adapted by CRS.



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

The U.S.-Japan relationship is broad, deep-seated, and stable. Regionally, Tokyo and Washington share the priorities of managing relations with a rising China and addressing the North Korean threat. Globally, the two countries cooperate on scores of multilateral issues, from nuclear nonproliferation to climate negotiations.

The return of the conservative Liberal Democratic Party (LDP) to power in late 2012, led by Prime Minister Shinzo Abe, has stabilized Japanese politics. The LDP coalition controls both chambers of the Japanese parliament, known as the Diet, with no elections required until summer 2016. This period of expected stability follows a prolonged stretch of divided government from 2007 until 2012, when six different men served as Prime Minister, each for about one year.

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

### Abe and History Issues

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

#### Japan Country Data

**Population:** 127.1 million

**% of Population over 64:** 25% (U.S. = 12.4%)

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

**Life Expectancy:** 84 years

**Per Capita GDP:** \$37,100 (2013 est.) purchasing power parity

**Primary Export Partners:** China 18.1%, US 17.8%, South Korea 7.7%, Thailand 5.5%, Hong Kong 5.1% (2012)

**Primary Import Partners:** China 21.3%, US 8.8%, Australia 6.4%, Saudi Arabia 6.2%, UAE 5%, South Korea 4.6%, Qatar 4% (2012)

**Yen: Dollar Exchange Rate:** 97.44 (2013 est.), 79.42 (2012 est.), 79.81 (2011 est.), 87.78 (2010 est.)

**Foreign Exchange Reserves:** \$1.268 trillion (December 2012 est.)

**Source:** CIA, *The World Factbook*, September 2014.

applauded for liberating much of East Asia from Western colonial powers, that the 1946-1948 Tokyo War Crimes tribunals were illegitimate, and that the killings by Imperial Japanese troops during the 1937 “Nanjing massacre” were exaggerated or fabricated.<sup>4</sup>

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

In his first term in 2006-2007, Abe took a generally pragmatic approach to regional relations and had some success at the time mending poor relations with Seoul and Beijing. During his second term, Abe has demonstrated an inconsistent pattern of making, and then at least partially recanting, controversial statements that upset China and South Korea. In April 2013, he made comments to the Diet that suggested that his government would not re-affirm the apology for Japan’s wartime actions issued by then-Prime Minister Tomiichi Murayama in 1995. The “Murayama Statement” is regarded as Japan’s most significant official apology for wartime acts. Through his spokesperson, Abe later said, “during the wars of the 20<sup>th</sup> century, Japan caused tremendous damage and suffering to the people of many countries, particularly to those of Asian nations ... this understanding is an understanding that the Abe Cabinet shares with previous cabinets.”<sup>5</sup> From the earliest days of the Abe Administration, his chief spokesman has said that the Abe government will abide by the Murayama Statement. Similar treatment was given to the 1993 “Kono Statement” (see “Comfort Women Issue” section below); an official inquiry into its drafting seemed to undermine the legitimacy of the apology, even as the Chief Cabinet Secretary pledged to uphold the statement. Abe periodically makes other ceremonial gestures that rile South Korea and China. In April 2014, he sent a letter to a ceremony at a monument that honors soldiers who fought for Japan, including war criminals. The letter reportedly referred to “martyrs who gave their lives for the sake of today’s peace and prosperity, becoming the foundation of the fatherland.”<sup>6</sup>

## Yasukuni Shrine

The controversial Yasukuni Shrine has been a flashpoint for regional friction over history. The Tokyo shrine houses the spirits of Japanese soldiers who died during war, but also includes 14 individuals who were convicted as “Class A” war criminals after World War II. The origins of the shrine reveal its politically charged status. Created in 1879 as Japan’s leaders codified the state-directed Shinto religion, Yasukuni was unique in its intimate relationship with the military and the emperor.<sup>7</sup> The Class A war criminals were enshrined in 1978; since then, the emperor has not visited the shrine and scholars suggest that it is precisely because of the criminals’ inclusion. Adjacent to the shrine is the Yushukan, a war history museum, which to many portrays a revisionist account of Japanese history that at times glorifies Japan’s militarist past.

<sup>4</sup> See, for instance, Asia Policy Point, *The Abe Administration Cabinet 2012-2014*, August 2, 2014.

<sup>5</sup> Press Conference by the Chief Cabinet Secretary, May 8, 2013, at [http://www.kantei.go.jp/foreign/tyoukanpress/201305/08\\_a.html](http://www.kantei.go.jp/foreign/tyoukanpress/201305/08_a.html).

<sup>6</sup> “Japan PM Shinzo Abe Marks War Criminal Ceremony,” *BBC News*, August 27, 2014.

<sup>7</sup> John Breen, editor, *Yasukuni, the War Dead and the Struggle for Japan’s Past*. Columbia University Press, 2008.

In December 2013, Prime Minister Abe paid a highly publicized visit to Yasukuni Shrine, his first since becoming Prime Minister. Response to the visit, which had been discouraged in private by U.S. officials, was uniformly negative outside of Japan. Unusually, the U.S. Embassy directly criticized the move, releasing a statement that said, “The United States is disappointed that Japan’s leadership has taken an action that will exacerbate tensions with Japan’s neighbors.”<sup>8</sup> Since then, sizeable numbers of LDP lawmakers, including three Cabinet ministers, have periodically visited the Shrine on ceremonial days, including the sensitive date of August 15, the anniversary of Japan’s surrender in World War II. The Japanese politicians say that they go to Yasukuni to pay respects to the nation’s war dead, as any national leaders would do. Some politicians and observers have suggested that the Chidorigafuchi National Cemetery, which houses the remains of unidentified Japanese killed in World War II, could serve as an alternative place to honor Japan’s war dead. In October 2013, U.S. Secretary of State John Kerry and Secretary of Defense Chuck Hagel paid their respects at Chidorigafuchi.

### **Comfort Women Issue**

Abe’s statements on the so-called “comfort women”—forced prostitutes used by the Japanese imperial military during its conquest and colonization of several Asian countries in the 1930s and 1940s—have been criticized by other regional powers and the U.S. House of Representatives in a 2007 resolution. In the past, Abe has supported the claims made by many on the right in Japan that the women were not directly coerced into service by the Japanese military. When he was prime minister in 2006-2007, Abe voiced doubts about the validity of the 1993 “Kono Statement,” an official statement issued by then-Chief Cabinet Secretary Yohei Kono that apologized to the victims and admitted responsibility by the Japanese military. As the U.S. House of Representatives considered H.Res. 121 (110<sup>th</sup> Congress), calling on the Japanese government to “formally acknowledge, apologize, and accept historical responsibility” for forcing young women into military prostitution, Abe appeared to soften his commentary and asserted that he would stand by the statement. (The House later overwhelmingly endorsed the resolution<sup>9</sup>.) In recent years, Abe periodically has suggested that his government might consider revising the Kono Statement, a move that would be sure to degrade Tokyo’s relations with South Korea and other countries. Since the days after Abe’s election in December 2012, Abe’s Chief Cabinet Secretary Yoshihide Suga has said that the Abe government would abide by the Kono statement. However, in June 2014, in response to a request by an opposition party Diet member, the Abe government released a study that examined the document, concluding that the statement had been crafted in consultation with Seoul, implying that the document was not based solely on historical evidence. Critics claim that the study discredits the apology and gives further proof of Tokyo’s (and specifically Abe’s) revisionist aims.

The issue of the so-called comfort women has gained visibility in the United States, due primarily to Korean-American activist groups. These groups have pressed successfully for the erection of monuments commemorating the victims, passage of a resolution on the issue by the New York State Senate, and the naming of a city street in the New York City borough of Queens in honor of the victims.

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<sup>8</sup> <http://japan.usembassy.gov/e/p/tp-20131226-01.html>

<sup>9</sup> In the 113<sup>th</sup> Congress, the 2014 Consolidated Appropriations Act (P.L. 113-76, H.R. 3547) indirectly referred to this resolution. P.L. 113-76’s conference committee issued a Joint Explanatory Statement that called on Federal Agencies to implement directives contained in the July 2013 H.Rept. 113-185, which in turn “urge[d] the Secretary of State to encourage the Government of Japan to address the issues raised” in H.Res. 121.

## Territorial Dispute with China

Japan and China have engaged in a struggle over islets in the East China Sea known as the Senkakus in Japan, Diaoyu in China, and Diaoyutai in Taiwan, which has grown increasingly heated since summer 2012. The uninhabited territory, administered by Japan but also claimed by China and Taiwan, has been a subject of contention for years, despite modest attempts by Tokyo and Beijing to jointly develop the potentially rich energy deposits nearby, most recently in 2008-2010. In August 2012, the Japanese government purchased three of the five islands from a private landowner in order to preempt their sale to Tokyo's nationalist governor Shintaro Ishihara.<sup>10</sup> Claiming that this act amounted to "nationalization" and thus violated the tenuous status quo, Beijing issued sharp objections. Chinese citizens held massive anti-Japan protests, and the resulting tensions led to a drop in Sino-Japanese trade. In April 2013, the Chinese foreign ministry said for the first time that it considered the islands a "core interest," indicating to many analysts that Beijing was unlikely to make concessions on this sensitive sovereignty issue.

Starting in the fall of 2012, China began regularly deploying maritime law enforcement ships near the islands and stepped up what it called "routine" patrols to assert jurisdiction in "China's territorial waters." Chinese military surveillance planes reportedly have entered airspace that Japan considers its own, in what Japan's Defense Ministry has called the first such incursion in 50 years. Since early 2013, near-daily encounters have escalated: both countries have scrambled fighter jets, and, according to the Japanese government, a Chinese navy ship locked its fire-control radar on a Japanese destroyer and helicopter on two separate occasions.

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

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

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<sup>10</sup> In April 2012, Tokyo governor Shintaro Ishihara announced in Washington, DC, that he intended to purchase three of the five islets from their private Japanese owner. Ishihara, who is known for expressing nationalist views, called for demonstrating Japan's control over the islets by building installations on the island and raised nearly \$20 million in private donations for the purchase. In September, the central government purchased the three islets for ¥2.05 billion (about \$26 million at an exchange rate of ¥78:\$1) to block Ishihara's move and reduce tension with China.

## China's Air Defense Identification Zone (ADIZ)

In November 2013, China abruptly announced that it would establish an air defense identification zone in the East China Sea, covering the disputed Senkaku/Diaoyu islets as well as airspace that overlaps with the existing ADIZs of Japan, South Korea, and Taiwan. The move appeared to fit with an overall pattern of China asserting territorial claims more aggressively in the past few years. China's announcement produced indignation and anxiety in the region and in Washington for several reasons: the ADIZ represented a new step to pressure—to coerce, some experts argue—Japan's conciliation in the territorial dispute over the islets; China had not consulted with affected countries; the announcement used vague and ominous language that seemed to promise military enforcement within the zone; the requirements for flight notification in the ADIZ go beyond international norms and impinge on the freedom of navigation; and the overlap of ADIZs could lead to accidents or unintended clashes, thus raising the risk of conflict in the East China Sea. Some analysts argue that China's ADIZ also represents a challenge to Japanese *administration* of the Senkaku/Diaoyu islets, which is the basis of the U.S. treaty commitment to defend that territory. In November 2013, Japan submitted a proposal to the International Civil Aviation Organization to examine whether China's actions threatened the order and safety of international aviation.

The United States and Japan coordinated at a high level their individual and joint responses to China's ADIZ announcement. Secretary of Defense Chuck Hagel declared that the ADIZ is a destabilizing attempt to alter the status quo and will not change how the U.S. military conducts operations. Two days following the announcement, the U.S. Air Force flew B-52 bombers on a planned training flight through China's new ADIZ without notifying China, and Japanese military aircraft did the same soon after. However, the respective instructions of each government to commercial airlines differed. Whereas the State Department has said that the United States generally expects U.S. commercial air carriers to follow Notices to Airmen (NOTAMs), including Chinese requests for identification in the controversial ADIZ, Tokyo instructed Japanese commercial airlines to not respond to Chinese requests when traveling through the ADIZ on routes that do not cross into Chinese airspace. The discrepancy contributed to latent anxieties in Tokyo about U.S.-Japan unity and the relative prioritization of China and Japan in U.S. policymaking.

## Japan and the Korean Peninsula

### Japan's Ties with South Korea

Japan's relations with South Korea continued to worsen in late 2013 and 2014, a development that spurred President Obama to convene a trilateral meeting of heads-of-state on the sidelines of the Nuclear Security Summit in The Hague in March 2014. The meeting focused on cooperation to deal with North Korea's nuclear weapons program, but the underlying goal appeared to be to encourage Seoul and Tokyo to mend their frayed relations. A poor relationship between Seoul and Tokyo jeopardizes U.S. interests by complicating trilateral cooperation on North Korea policy and other regional challenges. Tense relations also complicate Japan's desire to expand its military and diplomatic influence, goals the Obama Administration generally supports, as well as the creation of an integrated U.S.-Japan-South Korea ballistic missile defense system.

As of September 2014, Abe and his South Korean counterpart President Park Geun-hye had yet to hold a summit, and the high-level interaction that has occurred between the two governments

frequently has been contentious. South Korean leaders have objected to a series of statements and actions by Abe and his Cabinet officials that many have interpreted as denying or even glorifying Imperial Japan's aggression in the early 20<sup>th</sup> Century. For much of 2013, South Korean leaders stated that they would have difficulty holding a summit, or improving relations, unless Japan adopts a "correct understanding" of history. Officials in Japan refer to rising "Korea fatigue," and express frustration that for years South Korean leaders have not recognized and in some cases rejected the efforts Japan has made to acknowledge and apologize for Imperial Japan's actions. Past overtures, including a proposal that the previous Japanese government floated in 2012 to provide a new apology and humanitarian payments to the surviving "comfort women," have faltered. In addition to the comfort women issue, the perennial issues of Japanese history textbooks and a territorial dispute between Japan and South Korea continue to periodically rile relations. A group of small islands in the Sea of Japan, known as Dokdo in Korean and Takeshima in Japanese (the U.S. government refers to them as the Liancourt Rocks), are administered by South Korea but claimed by Japan. Mentions of the claim in Japanese defense documents or by local prefectures routinely spark official criticism and public outcry in South Korea. Similarly, Seoul expresses disapproval of some of the history textbooks approved by Japan's Ministry of Education that South Koreans claim diminish or whitewash Japan's colonial-era atrocities.

### **Shifts in Japan's North Korea Policy**

Since 2009, Washington and Tokyo have been largely united in their approach to North Korea, driven by Pyongyang's string of missile launches and nuclear tests. Japan has employed a hardline policy toward North Korea, including a virtual embargo on all trade and vocal leadership at the United Nations to punish the Pyongyang regime for its human rights abuses and military provocations. In 2014, Abe appeared to adjust his approach to Pyongyang by addressing the long-standing issue of Japanese citizens kidnapped by North Korean agents decades ago. In 2002, then-North Korean leader Kim Jong-il admitted to the abductions and returned five survivors, claiming the others had perished from natural causes. Since that time, Abe has been a passionate champion for the abductees' families and pledged as a leader to bring home all surviving Japanese. In May 2014, back-channel negotiations between Tokyo and Pyongyang yielded an agreement by North Korea to re-open the investigation into remaining abductees' fates in exchange for Japan relaxing some of its unilateral sanctions. Abe may be motivated by the prospect of a domestic political victory if he is able to secure the return of more Japanese. In addition, Japan had become somewhat marginalized in the Six-Party Talks in the mid-2000s because of its overriding priority on the abduction issue; if the multilateral negotiations, frozen since 2009, restarted, Tokyo may be able to play a more influential role. The move is risky, however, as Abe risks disappointing the Japanese public if the North Korean accounting is incomplete, as well as irking the United States by breaking from its policy of isolating Pyongyang.

### **Renewed Relations with India, Russia, Australia, and ASEAN**

The Abe Administration's foreign policy has displayed elements of both power politics and an emphasis on democratic values, international laws, and norms. Shortly after returning to office, Abe released an article outlining his foreign and security policy strategy titled "Asia's Democratic Security Diamond," which described how the democracies Japan, Australia, India, and the United

States could cooperate to deter Chinese aggression on its maritime periphery.<sup>11</sup> In Abe's first year in office, Japan held numerous high-level meetings with Asian countries to bolster relations and, in many cases, to enhance security ties. Abe had summit meetings in India, Russia, Great Britain, all 10 countries in Southeast Asia, and several countries in the Middle East and Africa. This energetic diplomacy indicates a desire to balance China's growing influence with a loose coalition of Asia-Pacific powers, but this strategy of realpolitik is couched in the rhetoric of international laws and democratic values.

Abe's international outreach has yielded mixed results. Bilateral ties with Australia are robust; Abe's highly-publicized July 2014 visit to Canberra yielded new economic and security arrangements, including an agreement to transfer defense equipment and technology. Overall relations with ASEAN are also strong and provide quiet support for Japan's increasing role in Southeast Asia. India's new leader Narendra Modi and Abe held a summit meeting soon after Modi's inauguration. Ambitious plans to revitalize relations with Moscow, including resolution of the disputed Kurile Islands (referred to as the Northern Territories in Japan) north of Hokkaido, however, have faltered, at least partially because of Russian President Vladimir Putin's actions in the Ukraine. In the face of international pressure, Japan has imposed modest sanctions on Russia, but appears unsure of whether to continue efforts to advance relations with Moscow.

## International Child Custody Disputes

Another prominent issue in bilateral relations is child custody cases involving overseas Japanese women in failed marriages taking children to Japan without the consent of the foreign husband or ex-husband. Sometimes, these women have acted in contravention of custody settlements and, after arriving in Japan, have prevented the children from meeting their fathers. After several years of persistent but low-decibel pressure from the United States (including from Members of Congress), in April 2014 Japan acceded to the 1980 Hague Convention on the Civil Aspects of International Child Abduction. The Hague Convention sets out rules for resolving child custody in failed international marriages. In July 2014, Congress took further action to ensure worldwide compliance with the Hague Convention by passing the Sean and David Goldman International Child Abduction Prevention and Return Act of 2014 (P.L. 113-150). The law directs the U.S. government, especially the State Department, to devote additional resources to assist "left-behind" parents and to prevent child abduction with existing authorities. P.L. 113-150 also instructs the Secretary of State to take actions, which range from a demarche to the suspension of U.S. development and security assistance funding, against consistently non-compliant countries.

The United States reportedly has as many as 200 custody disputes with Japan.<sup>12</sup> In its domestic laws, Japan only recognizes sole parental authority, under which only one parent has custodial rights, and there is a deep-rooted notion in Japan that the mother should assume custody. Japanese officials say that, in many cases, the issue is complicated by accusations of abuse or neglect on the part of the foreign spouse, though a senior U.S. State Department official has said that there are "almost no cases" of substantiated claims of violence.<sup>13</sup> Some observers fear that, given the existing family law system, Japanese courts may cite clauses in the Hague Convention that

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<sup>11</sup> Shinzo Abe, "Asia's Democratic Security Diamond," *Project Syndicate*, December 27, 2012.

<sup>12</sup> "U.S. Fathers Urge Japan to Comply with Child Custody Treaty," *Kyodo News Agency*, March 31, 2014.

<sup>13</sup> U.S. State Department, "Press Availability on International Parent Child Abduction," Kurt Campbell, Assistant Secretary, Bureau of East Asian and Pacific Affairs, February 2, 2010.

prevent return of the child in the case of “grave risk.”<sup>14</sup> Furthermore, the Hague Convention process for repatriation of a kidnapped child will only apply to cases initiated after April 2014, although parents in pre-existing custody disputes now have a legal channel for demanding a meeting with the child.

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

For decades, U.S. soldiers who were held captive by Imperial Japan during World War II have sought official apologies from the Japanese government for their treatment. A number of Members of Congress have supported these campaigns. The brutal conditions of Japanese POW camps have been widely documented.<sup>15</sup> In May 2009, Japanese Ambassador to the United States Ichiro Fujisaki attended the last convention of the American Defenders of Bataan and Corregidor to deliver a cabinet-approved apology for their suffering and abuse. In 2010, with the support and encouragement of the Obama Administration, the Japanese government financed a Japanese/American POW Friendship Program for former American POWs and their immediate family members to visit Japan, receive an apology from the sitting Foreign Minister and other Japanese Cabinet members, and travel to the sites of their POW camps. Annual trips were held in 2010, 2011, 2012 and 2013, and one is scheduled for 2014.<sup>16</sup>

In the 112<sup>th</sup> Congress, three resolutions—S.Res. 333, H.Res. 324, and H.Res. 333—were introduced thanking the government of Japan for its apology and for arranging the visitation program.<sup>17</sup> The resolutions also encouraged the Japanese to do more for the U.S. POWs, including by continuing and expanding the visitation programs as well as its World War II education efforts. They also called for Japanese companies to apologize for their or their predecessor firms’ use of un- or inadequately-compensated forced laborers during the war.

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<sup>14</sup> Koji Kawamura, “Japan Implements Domestic Law Concerning the Convention on the Civil Aspects of International Child Abduction,” *Monday Business Briefing*, April 4, 2014.

<sup>15</sup> By various estimates, approximately 40% held in the Japanese camps died in captivity, compared to 1%-3% of the U.S. prisoners in Nazi Germany’s POW camps. Thousands more died in transit to the camps, most notoriously in the 1942 “Bataan Death March,” in which the Imperial Japanese military force-marched almost 80,000 starving, sick, and injured Filipino and U.S. troops over 60 miles to prison camps in the Philippines. For more, see out-of-print CRS Report RL30606, *U.S. Prisoners of War and Civilian American Citizens Captured and Interned by Japan in World War II: The Issue of Compensation by Japan*, by Gary Reynolds (available from the co-authors of this report). Estimates of the death rates in German prison camps for POWs are in the low single digits, compared to rates near 40% for Imperial Japanese camps.

<sup>16</sup> For more on the program, see <http://www.us-japandialogueonpows.org/>. Since the mid-1990s, Japan has run similar programs for the POWs of other Allied countries.

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



**March 2011 “Triple Disaster”**

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

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

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

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

## Energy and Environmental Issues

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

(EAS). However, because of the shutdown of Japan's nuclear reactors (see below), international observers have raised concerns about losing Japan as a global partner in promoting nuclear safety and non-proliferation measures, and in reducing greenhouse gas emissions.

## Nuclear Energy Policy

Japan is undergoing a national debate on the future of nuclear power, with major implications for businesses operating in Japan, U.S.-Japan nuclear energy cooperation, and nuclear safety and non-proliferation measures worldwide. Prior to 2011, nuclear power was providing roughly 30% of Japan's power generation capacity, and the 2006 "New National Energy Strategy" had set out a goal of significantly increasing Japan's nuclear power generating capacity. However, the policy of expanding nuclear power encountered an abrupt reversal in the aftermath of the March 11, 2011, natural disasters and meltdowns at the Fukushima Daiichi nuclear power plant. Public trust in the safety of nuclear power collapsed, and a vocal anti-nuclear political movement emerged. This movement tapped into an undercurrent of anti-nuclear sentiment in modern Japanese society based on its legacy as the victim of atomic bombing in 1945. As the nation's 52 nuclear reactors were shut down one by one for their annual safety inspections in the months after March 2011, the Japanese government did not restart them (except a temporary reactivation for two reactors at one site in central Japan). Since September 2013, no reactors have been operating.

The drawdown of nuclear power generation resulted in many short- and long-term consequences for Japan: rising electricity costs for residences and businesses; heightened risk of blackouts in the summer, especially in the Kansai region; widespread energy conservation efforts by businesses, government agencies, and ordinary citizens; the possible bankruptcy of major utility companies; and increased fossil fuel imports (see next section). The Institute of Energy Economics, Japan, calculated that the nuclear shutdowns led to the loss of 420,000 jobs and \$25 billion in corporate revenue in 2012 alone.<sup>18</sup>

The LDP has promoted a relatively pro-nuclear policy, despite persistent anti-nuclear sentiment among the public. The Abe Administration released a Strategic Energy Plan in April 2014 that identifies nuclear power as an "important base-load power source," although the plan does not provide target percentages for Japan's ideal mix of different energy sources.<sup>19</sup> In September 2014, following a safety review, Japan's Nuclear Regulation Authority (NRA) issued its approval to restart two nuclear reactors operated by Kyushu Electric. Although the actual restart is still subject to approvals by local politicians, some analysts project that the first nuclear restarts will occur in the first quarter of 2015.<sup>20</sup> In the coming years, the government likely will approve the restart of many of Japan's existing 48 nuclear reactors, but as many as half, or even more, may never operate again. However, approximately 60% of the Japanese public opposes the restart of nuclear reactors, compared to approximately 30% in favor.<sup>21</sup> The Abe Cabinet faces a complex challenge: how can Japan balance concerns about energy security, promotion of renewable energy

<sup>18</sup> Masakazu Toyoda, "Energy Policy in Japan: Challenges after Fukushima," Institute of Energy Economics, Japan, presentation prepared for delivery on January 24, 2013.

<sup>19</sup> "Strategic Energy Plan," Japan Ministry of Economy, Trade, and Industry, April 2014, [http://www.enecho.meti.go.jp/en/category/others/basic\\_plan/pdf/4th\\_strategic\\_energy\\_plan.pdf](http://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf).

<sup>20</sup> Bloomberg New Energy Finance, "Japan Nuclear Restart Likely in 2015," August 8, 2014

<sup>21</sup> "Over Half Oppose Japan Engaging in Collective Self-Defense: Survey," *Kyodo News Agency*, January 26, 2014. "30% Approve of Raising Sales Tax to 10% as Scheduled; Cabinet Support Flat," *Nikkei*, August 25, 2014.

sources, the viability of electric utility companies, the health of the overall economy, and public concerns about safety?

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

Japan imports more LNG than any other country and is a large potential market for U.S. LNG exports. Due to the suspension of nuclear power at present, Japan has become increasingly dependent on fossil fuels for electric power generation (see previous section). Japan imported a record 87.5 million metric tons of LNG in 2013, with Australia, Malaysia, and Qatar the leading suppliers. Japanese utility companies are attracted to the large difference between global market prices for natural gas and the much lower price prevailing in North America. The lower price is largely a result of the recent expansion of natural gas production from shale.

As of July 2014, the Department of Energy (DOE) has approved, either fully or conditionally, seven terminals in the continental United States to export LNG to countries with which the United States does not have a free trade agreement (FTA).<sup>22</sup> It will require several years for each proposed terminal to construct the infrastructure necessary to liquefy natural gas, with the first due online in 2015. Japanese energy and trading companies have already signed contracts for delivery of LNG in 2017 with multiple U.S. export projects. The Natural Gas Act requires that DOE issue a permit to export natural gas to non-FTA countries, including Japan, if DOE determines that such export would be in the public interest. A DOE-commissioned study concluded in December 2012 that LNG exports would produce net economic benefits for the United States, but the study has been controversial. Critics of increased exports have raised concerns about the environment and higher gas prices for domestic industries and consumers. As of July 2014, there are approximately 36 terminals awaiting DOE approval to export LNG.

Some Members of Congress have joined the debate on LNG exports to Japan. Senator Lisa Murkowski reportedly wrote in a letter to the Secretary of Energy Steven Chu, “Exporting LNG, particularly to allies that face emergency or chronic shortages, but with whom we do not have free-trade agreements, is in the public interest.”<sup>23</sup> On the other side of the debate, Senator Ron Wyden, chairman of the Senate Energy and Natural Resources Committee, wrote in a letter to Secretary Chu, “The shortcomings of the [DOE] study are numerous and render this study insufficient for the Department to use in any export determination.”<sup>24</sup> Numerous bills on the issue have been introduced in the 113<sup>th</sup> Congress and are at various stages of the legislative process. The Domestic Prosperity and Global Freedom Act (H.R. 6), introduced by Representative Cory Gardner, was passed by the House as amended on June 25, 2014. Senator Mark Udall introduced the American Job Creation and Strategic Alliances LNG Act (S. 2083) on March 5, 2014 and then introduced S. 2274 to expedite the LNG approval process.

## Japanese Participation in Sanctions on Iran

Over the past decade, concerns over Iran’s nuclear program have led to increased scrutiny of Japan’s long-standing trade with and investments in Iran. Japan is one of the top consumers of

<sup>22</sup> Japan currently imports less than 1% of its natural gas supply from Alaska.

<sup>23</sup> Geof Koss, “With Eye on Japan, Murkowski Makes Case for Gas Exports,” *CQ Roll Call*, January 25, 2013.

<sup>24</sup> Office of Senator Ron Wyden, “Wyden Highlights Flaws in DOE Export Study,” press release, January 10, 2013, <http://www.wyden.senate.gov/news/press-releases/wyden-highlights-flaws-in-doe-export-study->

Iranian oil exports, albeit now at greatly reduced volumes. As part of their efforts to enhance economic penalties on Iran, the Bush and Obama Administrations have pushed Japan to curtail its economic ties with Tehran. In general, although Japan has been a follower rather than a leader in the international campaign to pressure Tehran, Japanese leaders have in recent years increased their cooperation with the U.S.-led effort, reducing significantly what had been a source of tension between Washington and Tokyo during the 1990s and early 2000s. For most of the past decade Iran was Japan's third-largest source of crude oil imports, but it fell to sixth after sanctions took effect in 2011 and Iran accounted for only 5% of Japan's oil imports in 2012-2013.<sup>25</sup> Japanese firms have withdrawn from energy sector investments in Iran, and some major companies such as Toyota Motors have ceased doing business there, viewing it as a "controversial market."

In January 2014, the Obama Administration granted Japan another waiver under P.L. 112-81, the National Defense Authorization Act for Fiscal Year 2012, which could have placed strict limitations on the U.S. operations of Japanese banks that process transactions with Iran's Central Bank.<sup>26</sup> Japan has reduced its imports of Iranian oil over the past several years, despite its increased need for oil imports with the shutdown of virtually all of its nuclear power industry. Japan's crude oil imports from Iran fell by roughly 40% in 2012, and declined a further 6% in 2013.<sup>27</sup> Additionally, Japan has restricted the activities of 21 Iranian banks.<sup>28</sup>

U.S. sanctions that went into effect in February 2013 pressure banks that deal with the Iranian Central Bank to either prevent repatriation of Iran's foreign currency (non-rial) assets or else be frozen out of the U.S. financial system. Iran can still use the funds to finance trading activities not covered by sanctions, but, since it runs a large trade surplus with Japan (and other Asian oil importers), a significant portion of its oil export earnings are held in Japan and other importing countries.<sup>29</sup> An interim agreement on Iran's nuclear program in November 2013 allowed for the repatriation of \$4.2 billion of Iranian foreign currency assets held abroad. The Bank of Japan transferred the first \$550 million of this sum to Iran in February 2014.

## Alliance Issues

The U.S.-Japan alliance has long been an anchor of the U.S. security role in Asia. Forged in the U.S. occupation of Japan after its defeat in World War II, the alliance provides a platform for U.S. military readiness in the Pacific. About 50,000 U.S. troops are stationed in Japan and have the exclusive use of 89 facilities (see **Figure 3**). In exchange, the United States guarantees Japan's security, including inclusion under the U.S. "nuclear umbrella." The U.S.-Japan alliance, which many believe has been missing a strategic rationale since the end of the Cold War, may have found a new guiding rationale in shaping the environment for China's rise. In addition to serving as a hub for forward-deployed U.S. forces, Japan provides its own advanced military assets, many

<sup>25</sup> Takeo Kumagai, "Japan's 2013 Crude Imports from Iran Drop 6% on Year to 177,414 b/d," *Platts Commodity News*, February 2, 2014.

<sup>26</sup> State Department Press Release, "Statement on Significant Reductions of Iranian Crude Oil Purchases," March 20, 2012. For more on Iran sanctions, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

<sup>27</sup> "Corrected: Japan Nov Crude Imports from Iran Fall 20.3 Pct yr/yr—METI," *Reuters News*, January 7, 2013.

<sup>28</sup> Ministry of Economy, Industry, and Trade Press Release, "Addition of an Entity Subject to Accompanying Measures Implemented Pursuant to the UN Resolution Against Iran," March 13, 2012.

<sup>29</sup> "Asian Buyers to Deepen Iranian Crude Import Cuts in 2013," *Metis Energy Insider*, December 24, 2012.

of which complement U.S. forces. For more information and analysis, see CRS Report RL33740, *The U.S.-Japan Alliance*.

Since the early 2000s, the United States and Japan have taken significant strides to improve the operational capability of the alliance as a combined force, despite political and legal constraints. Japan's own defense policy has continued to evolve, and major strategic documents reflect a new attention to operational readiness and flexibility. The originally asymmetric arrangement of the alliance has moved toward a more balanced security partnership in the 21<sup>st</sup> century, and Japan's decision to engage in collective self-defense may accelerate that trend. Unlike 25 years ago, the Japan Self-Defense Forces (SDF) are now active in overseas missions, including efforts in the 2000s to support U.S.-led coalition operations in Afghanistan and the reconstruction of Iraq. Japanese military contributions to global operations like counter-piracy patrols relieve some of the burden on the U.S. military to manage every security challenge. Due to the co-location of U.S. and Japanese command facilities in recent years, coordination and communication have become more integrated. The joint response to a 2011 tsunami and earthquake in Japan demonstrated the interoperability of the two militaries. The United States and Japan have been steadily enhancing bilateral cooperation in many other aspects of the alliance, such as ballistic missile defense, cyber security, and military use of space. In 2013, the two allies agreed to revise the Mutual Defense Guidelines, the main document defining the bilateral defense arrangement, by the end of 2014. Alongside these improvements, Japan continues to pay nearly \$2 billion per year to defray the cost of stationing U.S. forces in Japan.

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

## Collective Self-Defense

Perhaps the most symbolically significant—and controversial—security reform of the Abe Administration has been Japan's potential participation in collective self-defense. Dating back to his first term in 2006-2007, Abe has shown a determination to adjust this highly asymmetric aspect of the alliance: the inability of Japan to defend U.S. forces or territory under attack. According to the traditional Japanese government interpretation, Japan possesses the right of collective self-defense, which is the right to defend another country that has been attacked by an aggressor,<sup>30</sup> but exercising that right would violate Article 9 of the Japanese constitution.<sup>31</sup> However, Japan has interpreted Article 9 to mean that it can maintain a military for national

<sup>30</sup> Article 51 of the U.N. Charter provides that member nations may exercise the rights of both individual and collective self-defense if an armed attack occurs.

<sup>31</sup> Article 9 of the Japanese constitution, drafted by American officials during the post-war occupation, outlaws war as a "sovereign right" of Japan and prohibits "the right of belligerency," stipulating that "land, sea, and air forces, as well as other war potential, will never be maintained."

defense purposes and, since 1991, has allowed the SDF to participate in non-combat roles overseas in a number of U.N. peacekeeping missions and in the U.S.-led coalition in Iraq.

In early July 2014, the Abe Cabinet announced a new interpretation, under which collective self-defense would be constitutional as long as it met certain conditions. These conditions, developed in consultation with the LDP's dovish coalition partner the New Komei Party and in response to negative public sentiment, are rather restrictive and could limit significantly the latitude for Japan to craft a military response to crises outside its borders. Other legal and institutional obstacles in Japan likely will inhibit full implementation of this new policy in the near term. However, the removal of the blanket prohibition on collective self-defense will enable Japan to engage in more cooperative security activities, like non-combat logistical operations and defense of distant sea lanes, and to be more effective in other areas, like U.N. peacekeeping operations. For the U.S.-Japan alliance, this shift could mark a step toward a more equal and more capable defense partnership. Chinese and South Korean media, as well as some Japanese civic groups and media outlets, have been critical, implying that collective self-defense represents an aggressive, belligerent security policy for Japan.

The United States and Japan currently are in the process of revising the bilateral Mutual Defense Guidelines (MDG), first codified in 1978 and then updated in 1997. The MDG outline how the U.S. and Japanese militaries will interact in peacetime and in war as the basic parameters for defense cooperation based on a division of labor. U.S. and Japanese officials say that one main objective of the revision is to establish new guidelines for cooperation in domains of combat that were not addressed in 1997: cyber warfare, military uses of space, ballistic missile defense, and others. The revised MDG also may outline new areas for U.S.-Japan security cooperation beyond the defense of Japan, depending on what new missions Japan is willing to carry out under the banner of collective self-defense.

## **Realignment of the U.S. Military Presence on Okinawa**

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

In the last days of 2013, the United States and Japan cleared an important political hurdle in their long-delayed plan to relocate a major U.S. military base on the island of Okinawa.<sup>32</sup> The governor

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<sup>32</sup> The relocation of the Futenma base is part of a larger bilateral agreement developed by the U.S.-Japan Special Action Committee on Okinawa (SACO) in 1996. In the SACO Final Report, the United States agreed to return approximately 20% of land used for U.S. facilities on Okinawa, including all or parts of a dozen sites. Handover of MCAS Futenma was contingent on "maintaining the airfield's critical military functions and capabilities."<sup>32</sup> The plan for implementing the SACO agreement evolved over the late 1990s and early 2000s until Washington and Tokyo settled on a "roadmap" in 2006: once Japan constructed the Futenma replacement facility at the Henoko site, the United States would relocate roughly 8,000 marines from Okinawa to Guam, about half of the U.S. Marine Corps (USMC) presence then on Okinawa. In 2012, the allies revised the implementation plan to "de-link" the Futenma relocation and the realignment of marines to Guam; in other words, the construction of a replacement facility was no longer a precondition for (continued...)

of Okinawa Prefecture, Hirokazu Nakaima, approved construction of an offshore landfill necessary to build the replacement facility. This new base, located in the sparsely populated Henoko area of Nago City, would replace the functions of Marine Corps Air Station (MCAS) Futenma, located in the center of a crowded town in southern Okinawa. The encroachment of residential areas around the Futenma base over decades has raised the risks of a fatal aircraft accident, which could create a major backlash on Okinawa and threaten to disrupt the alliance. Although the mayor of Nago City has displayed firm opposition to the new facility, most experts agree that his powers to obstruct and delay its construction are limited. The governor's approval of the landfill permit in theory should allow Washington and Tokyo to consummate their agreement to return the land occupied by MCAS Futenma to local authorities, while retaining a similar level of military capability on Okinawa. A U.S.-Japan joint planning document in April 2013 indicated that the new base at Henoko would be completed no earlier than 2022. For more information and analysis, see CRS Report R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*.

Despite the decision by Governor Nakaima, most Okinawans oppose the construction of a new U.S. base for a mix of political, environmental, and quality-of-life reasons. Law enforcement authorities appear prepared to manage disruptive protests, but Okinawan anti-base civic groups may take extreme measures to prevent construction of the facility at Henoko. The Abe Administration, having invested significant time and money in meeting Nakaima's conditions for approval, will likely need to invest additional political capital to ensure that the base construction proceeds without significant delays and without further alienating the Okinawan public. Failure to implement the Futenma relocation could solidify an impression among some American observers that the Japanese political system struggles to follow through with difficult tasks. On the other hand, the risk remains that heavy-handed actions by Tokyo or Washington could lead to anti-base politicians making gains in Okinawa, particularly in the gubernatorial election in late 2014.

### **Challenges to Guam Realignment Remain**

The realignment of marines from Okinawa to Guam and elsewhere is now proceeding on its own timeline, separate from the issue of the Futenma replacement facility, but that process has its own challenges. The 2012 "distributed laydown" cut the projected USMC presence on Guam in half, requiring a new set of infrastructure plans and a Supplemental Environmental Impact Statement. Following this two-year environmental study, the U.S. Navy expects to announce a Record of Decision (a key planning milestone) for the Guam realignment in spring 2015. Observers report that Department of Defense (DOD) planning for the increased USMC presence on Hawaii is still in its early stages. The FY2014 National Defense Authorization Act (NDAA, P.L. 113-66) continued the freeze on funding to implement the Okinawa/Guam realignment from the past two NDAAAs, with key exceptions, until DOD can meet certain requirements. DOD has submitted to Congress the report on military resources necessary to execute U.S. force posture strategy in the Asia-Pacific region (Sec. 1068 of the FY2013 NDAA) and the Master Plan for the Marines' realignment to Guam (Sec. 2822 of the FY2014 NDAA), but other requirements remain unfulfilled. Although the start of construction on the Futenma replacement facility is not an explicit requirement stated in the NDAA, signs of tangible progress there may give renewed

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(...continued)

deploying marines off Okinawa. The 2012 agreement also revised the USMC realignment into a plan called the "distributed laydown": 9,000 marines would be relocated from Okinawa; 4,700 to Guam; 2,500 to Australia (on a rotational basis); and the remainder to Hawaii and the continental United States.

urgency to other parts of the realignment.<sup>33</sup> The exceptions to the funding freeze in the FY2014 NDAA—exceptions that may allow the realignment to proceed more expeditiously—are that DOD may expend funds to initiate planning and design of construction projects on Guam, to undertake additional environmental studies, and to begin military construction authorized elsewhere in the bill.

## **Burden-Sharing Issues**

The Japanese government provides nearly \$2 billion per year to offset the cost of stationing U.S. forces in Japan (see **Figure 2**). United States spends an additional \$2 billion per year (on top of the Japanese contribution) on non-personnel costs for troops stationed in Japan.<sup>34</sup> Japanese host nation support is comprised of two funding sources: Special Measures Agreements (SMAs) and the Facilities Improvement Program (FIP). Each SMA is a bilateral agreement, generally covering five years, that obligates Japan to pay a certain amount for utility and labor costs of U.S. bases and for relocating training exercises away from populated areas. The current SMA, which runs from 2011-2015, allows a gradual decline in Japan's contributions to labor and utility costs, although U.S. costs are slowly rising, according to an April 2013 report issued by the Senate Armed Services Committee (SASC).<sup>35</sup> The amount of FIP funding is not strictly defined, other than an agreed minimum of \$200 million per year, and thus the Japanese government adjusts the total at its discretion. Tokyo also decides which projects receive FIP funding, taking into account, but not necessarily deferring to, U.S. priorities.

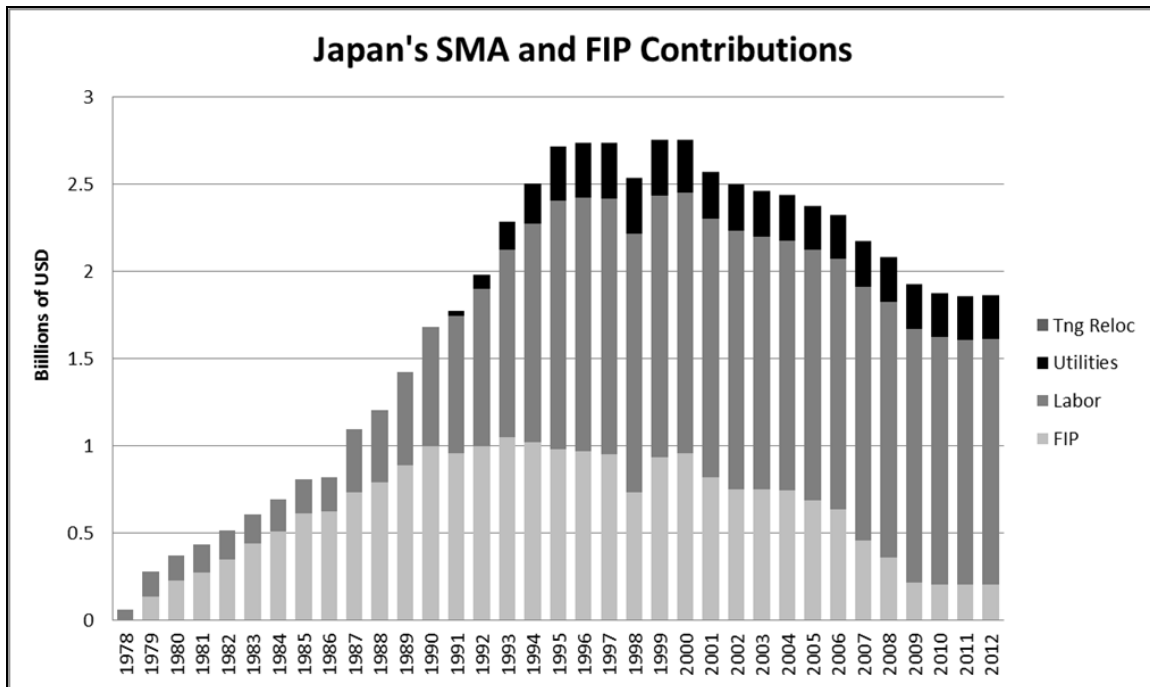
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<sup>33</sup> Senator John McCain, who in the past had criticized various aspects of the realignment plan, released a statement on December 27, 2013, praising Governor Nakaima's approval of the landfill permit as a "major achievement" for the U.S.-Japan alliance. The statement said, "After 17 years of hard work and setbacks, today's action paves the way for the construction of the Futenma Replacement Facility at Camp Schwab, the redeployment of U.S. Marines from Marine Corps Air Station Futenma, and the broader realignment of U.S. forces on Okinawa and in the Asia-Pacific region."

<sup>34</sup> U.S. Congress, Senate Committee on Armed Services, *Inquiry into U.S. Costs and Allied Contributions to Support the U.S. Military Presence Overseas*, 113<sup>th</sup> Cong., April 15, 2013, S.Rept. 113-12 (Washington: GPO, 2013).

<sup>35</sup> *Ibid.*



**Figure 2. Host Nation Support for USFJ**

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

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

## Extended Deterrence

The growing concerns in Tokyo about North Korean nuclear weapons development and China's modernization of its nuclear arsenal in the 2000s provoked renewed attention to the U.S. policy of extended deterrence, commonly known as the "nuclear umbrella." The United States and Japan initiated the bilateral Extended Deterrence Dialogue in 2010, recognizing that Japanese perceptions of the credibility of U.S. extended deterrence were critical to its effectiveness. The dialogue is a forum for the United States to assure its ally and for both sides to exchange assessments of the strategic environment. The views of Japanese policymakers (among others) influenced the development of the 2010 U.S. Nuclear Posture Review.<sup>36</sup> Reportedly, Tokyo discouraged a proposal to declare that the "sole purpose" of U.S. nuclear weapons is to deter nuclear attack. Japanese diplomatic support for nuclear non-proliferation is another element of cooperation to reduce nuclear threats over the long-term.

Japan also plays an active role in extended deterrence through its ballistic missile defense (BMD) capabilities. The United States and Japan have cooperated closely on BMD technology development since the earliest programs, conducting joint research projects as far back as the 1980s. Japan's purchases of U.S.-developed technologies and interceptors after 2003 give it the

<sup>36</sup> Brad Roberts, "Extended Deterrence and Strategic Stability in Northeast Asia," National Institute of Defense Studies (Japan), Visiting Scholar Paper Series, No. 1, August 9, 2013, p. 24.

second-most potent BMD capability in the world. The U.S. and Japanese militaries both have ground-based BMD units deployed on Japanese territory and BMD-capable vessels operating in the waters near Japan. The number of U.S. and Japanese BMD interceptors is judged to be sufficient for deterring North Korea without affecting strategic stability with China. North Korea's long-range missile launches in 2009 and 2012 provided opportunities for the United States and Japan to test their BMD systems in real-life circumstances. In the future, Japan may develop a conventional strike capability with the intent to augment extended deterrence.<sup>37</sup> For more information, see CRS Report R43116, *Ballistic Missile Defense in the Asia-Pacific Region: Cooperation and Opposition*.

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<sup>37</sup> Ibid., p. 20.

**Figure 3. Map of U.S. Military Facilities in Japan**



**Source:** Map Resources. Adapted by CRS.

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

## Economic Issues

U.S. trade and broader economic ties with Japan remain highly important to U.S. national interest and, therefore, to the U.S. Congress.<sup>38</sup> By the most conventional method of measurement, the United States and Japan are the world's largest and third-largest economies (China is number two), accounting for nearly 30% of the world's gross domestic product (GDP) in 2013. Furthermore, their economies are intertwined by trade in goods and services and by foreign investment. For more information, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*.

### Overview of the Bilateral Economic Relationship

Japan remains an important economic partner of the United States, but its importance has been eclipsed by other partners, notably China. Japan was the United States' fourth-largest merchandise export market (behind Canada, Mexico, and China) and the fourth-largest source of U.S. merchandise imports (behind China, Canada, and Mexico) at the end of 2013. These numbers probably underestimate the importance of Japan in U.S. trade since Japan exports intermediate goods to China that are then used to manufacture finished goods that China exports to the United States.

The United States was Japan's largest export market and second-largest source of imports in 2013. The global economic downturn had a significant impact on U.S.-Japan trade: both exports and imports declined in 2009 from 2008. U.S.-Japan bilateral trade increased since 2009 and until 2012, but declined in 2013. (See **Table 1**.)

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

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

<sup>38</sup> For a more complete treatment of U.S.-Japan economic ties, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

Year	Exports	Imports	Balances
2010	60.5	120.3	-59.8
2011	66.2	128.8	-62.2
2012	70.0	146.4	-76.3
2013	65.1	138.5	-73.4

**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 have contributed to this trend:

- Japan’s slow, if not stagnant, economic growth, which began with the burst of the asset bubble in the latter half of the 1990s and continued as a result of the 2008-2009 financial crisis and the 2011 disasters, has changed the general U.S. perception of Japan from one as an economic competitor to one as a “humbled” economic power;
- the rise of China as an economic power and trade partner has caused U.S. policymakers to shift attention from Japan to China as a source of concern;
- the increased use by both Japan and the United States of the WTO as a forum for resolving trade disputes has de-politicized disputes and helped to reduce friction;
- shifts in U.S. and Japanese trade policies that have expanded the formation of bilateral and regional trade agreements with other countries have lessened the focus on their bilateral ties; and
- the rise of China as a military power and the continued threat of North Korea have forced U.S. and Japanese leaders to give more weight to security issues within the bilateral alliance.

Japan was hit by two economic crises in the last few years that affected U.S.-Japan economic relations. The first was the global financial crisis which began in 2008 and intensified in 2009. Japan was adversely impacted by the decline in global demand for its exports, particularly in the United States and Europe. The second crisis was the March 11, 2011, earthquake, tsunami, and nuclear reactor meltdowns in northeast Japan. (See box on the March 2011 “Triple Disaster.”) The Japanese government has responded with supplemental fiscal packages to finance reconstruction, although implementation of reconstruction efforts has been slower than expected. The two crises, among other factors, have adversely affected Japan’s economic growth. Japan’s economy contracted by 1.0% in 2008 and 5.5% in 2009, but grew in 2010 by 4.7%. The recovery proved short-lived as Japan experienced -0.4% growth in 2011, 1.4% in 2012, and 1.5% in 2013. The International Monetary Fund (IMF) projects Japan’s economy will grow moderately in 2014 and 2015, at 1.4% and 1.0%, respectively.<sup>39</sup>

<sup>39</sup> International Monetary Fund, *World Economic Outlook*, April 2014.

## Abenomics

Prime Minister Abe has made it a priority of his administration to boost economic growth and to eliminate deflation, which has plagued Japan for many years. Abe is promoting a three-pronged, or “three arrow,” economic program. The first arrow consisted of fiscal stimulus packages worth about \$145 billion, aimed at spending on infrastructure, particularly in areas affected by the March 2011 disaster. While the package appears to have boosted growth somewhat, its effects appear to have largely run their course and it has added to Japan’s already large public debt, which at over 240% of the country’s gross domestic product (GDP) is the highest of any economy in the world. To address the fiscal pressures facing Japan, the government raised the sales tax from 5% to 8% in April 2014, and may raise it again next year.

The second arrow consists of monetary stimulus to arrest deflation. As a result, the central bank (Bank of Japan, or BOJ) announced in the spring of 2013 a continued loose monetary policy with interest rates of 0%, quantitative easing measures, and a target inflation rate of 2%. The Japanese yen rapidly dropped in value against the U.S. dollar and other major currencies after that announcement. Although few observers think that the BOJ will reach its target in the short term, according to a number of measures it appears that inflationary pressures have re-emerged in the economy, at least in part due to the rise in import prices resulting from the yen’s depreciation.

The third arrow consists of economic reforms that are aimed at restructuring the agricultural, medical services, and electricity sectors (among others) and promoting new services and industries. For Abe, Japan’s participation in the TPP is a catalyst for those growth-promoting reforms, but many of the established economic interests are deeply entrenched, particularly within his own party, the LDP. Critics argue that Abe has pursued structural reforms cautiously, and has backtracked on many of them, such as liberalizing the sale of pharmaceuticals. In a July 2014 assessment of the Japanese economy, the IMF recommended that Japan should, in particular, raise the employment of women, older workers, and foreign labor, to offset Japan’s aging labor force, as well as deregulate agriculture and domestic services sectors and reform corporate governance, which would help raise productivity and encourage investment.<sup>40</sup>

### Emphasis on “Womenomics”

Abe announced that a key component of the third arrow will focus on “womenomics,” or boosting economic growth through reforms and policies to encourage the participation and advancement of women in the workforce. Japan lags behind many other high-income countries in terms of gender equality, with one of the lowest rates of female participation in the workforce among OECD countries. A strategist with Goldman Sachs in Japan estimates that closing the gender employment gap could boost Japan’s GDP by nearly 13%.<sup>41</sup> To advance its “womenomics” initiative, the government has proposed, and is in various stages of implementing, a number of policies, such as expanding the availability of daycare, increasing parental leave benefits, and allowing foreign housekeepers in special economic zones, among other measures. Although some are optimistic that the measures will help close the gender gap in Japan, others

<sup>40</sup> IMF, “Japan’s Bumpy Growth Path Puts Premium on Structural Reforms,” *IMF Survey*, July 31, 2014, <http://www.imf.org/external/pubs/ft/survey/so/2014/car073114a.htm>.

<sup>41</sup> Kathy Matsui et al., “Womenomics 4.0: Time to Walk the Talk,” *Goldman Sachs*, May 30, 2014, <http://www.goldmansachs.com/our-thinking/investing-in-women/womenomics4-folder/womenomics4-time-to-talk-the-talk.pdf>.

express concern about potential challenges, such as a work culture that demands long-hours and makes it hard to balance work and family demands. For further information, see CRS Report R43668, *“Womenomics” in Japan: In Brief*.

## **Bilateral Trade Issues**

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

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

As the second-largest East Asian economy and a crucial link in Asian production networks, Japan’s participation in the TPP (officially joining in July 2013) is economically significant, although it continues to be the subject of debate within the Japanese political leadership and among Japanese and U.S. stakeholders. In deciding to participate in the TPP, Abe confronted influential domestic interests that argued against the move. Among the most vocal have been Japanese farmers, especially rice farmers, and their representatives. They argued that Japanese agriculture will be severely harmed by foreign competition if Japan removes its high tariffs and other protective measures on imports of agricultural products. Some Japanese health providers have argued that Japan’s national health insurance system will be adversely affected because, they claim, the TPP could force Japanese citizens to buy foreign-produced pharmaceuticals and medical devices. Abe has acknowledged those domestic sensitivities, but has also insisted that Japan needs to be part of TPP to support economic growth. Other Japanese business interests, including manufacturers, strongly support the TPP.

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

If an agreement is reached, Japan’s membership in the proposed TPP would constitute a de facto U.S.-Japan FTA. Japan’s participation enhances the clout and viability of the proposed TPP, which would be a core component of Obama Administration efforts to rebalance U.S. foreign policy priorities toward the Asia-Pacific region. When Japan entered the talks, the share of the world economy accounted for by TPP countries rose from around about 30% to about 38%. If successful, the negotiations could reinvigorate a bilateral economic relationship that has remained steady but stagnant by forcing the two countries to address longstanding, difficult trade issues. On the other hand, failure to resolve these bilateral issues could indicate that the underlying problems are too fundamental to overcome, which could set back the relationship.

### Parallel U.S.-Japan Negotiations

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

Despite a continued push for progress by both governments, U.S. bilateral negotiations with Japan remain a key challenge in the overall TPP negotiations. (As discussed in the accompanying text box, the separate U.S.-Japan negotiations are occurring in parallel with the plurilateral TPP talks.) On many of the non-tariff issues in the agreement, such as intellectual property rights protections, U.S. and Japanese goals are reportedly closely aligned. In the areas of auto and agricultural trade, however, disagreements remain. U.S. automakers are closely watching the negotiations and have expressed concerns with reducing U.S. auto import tariffs without greater reciprocal access to the Japanese market. Although U.S. auto exports to Japan face no tariff, U.S. import penetration is low, which U.S. automakers partially blame on allegedly discriminatory regulations and other non-tariff measures. On agriculture, Japan has highlighted the importance of maintaining certain import protections for the five “sacred” commodities, noted above, while some U.S. industry groups are strongly opposed to any agricultural carve-outs and have suggested that the TPP be concluded without Japan if Japan refuses to provide sufficient market access.

Japan is also participating in other bilateral and regional trade negotiations in the Asia-Pacific. Japan, together with the 10 members of the Association of Southeast Asian Nations (ASEAN), China, South Korea, Australia, New Zealand, and India, announced in November 2012, their intention to begin negotiations to form a trade arrangement—the Regional Comprehensive Economic Partnership (RCEP). While not ostensibly in conflict with the TPP, some have suggested the RCEP could be a less ambitious alternative to the more comprehensive TPP, and thus, perhaps easier to conclude. While RCEP would include some TPP partners, it is noteworthy for the absence of the United States and the inclusion of China.<sup>42</sup> In 2013, Japan began negotiating a trilateral FTA with China and South Korea.

### Debates about Exchange Rates and “Currency Manipulation”

The second “arrow” of Abenomics, expansionary monetary policies, has contributed to a depreciation of the yen against the U.S. dollar. In October 2011 the yen was valued an average of ¥76.66=\$1. Since that time, it has depreciated by more than 35% to ¥104.94=\$1, as of September 5, 2014.<sup>43</sup> Some analysts allege that Japan is “manipulating” its exchange rate to drive down the value of the yen and boost its exports at the expense of other countries, including the United

<sup>42</sup> See, for example, Pakpahan, Beginda, “Will RCEP Compete with the TPP?” *EastAsiaForum*, <http://www.eastasiaforum.org>.

<sup>43</sup> Federal Reserve.



States. Japanese officials deny any manipulation of the yen. Some analysts argue that Japan's monetary policies, similar to the Fed's quantitative easing programs, are aimed at boosting economic growth and that any impact on the value of the yen is a side-effect, rather than the goal, of the policies.<sup>44</sup>

Some Members of Congress and analysts have expressed concerns about "currency manipulation" in the context of the proposed TPP, primarily focused on Japan. It has been argued that Japan has a history of intervening in foreign exchange markets to impact the value of the yen, manipulation of exchange rates has a large and unfair impact on competitiveness, current forums for addressing exchange rate disputes are ineffective, and trade agreements should tackle "currency manipulation" to create a level playing field. In 2013, 230 Representatives and 60 Senators sent letters to the Obama Administration calling for "currency manipulation" to be addressed in TPP.<sup>45</sup> Additionally, addressing currency manipulation is identified as a principal negotiating objective in Trade Promotion Authority (TPA) legislation introduced in the House and the Senate in January 2014 (H.R. 3830; S. 1900).

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

## Japanese Politics

### The Stabilization of Japanese Politics Around the LDP

From 2007 to 2012, Japanese politics was plagued by instability. The premiership changed hands six times in those six years, and no party controlled both the Lower and Upper Houses of the parliament for more than a few months. The LDP coalition's dominant victories in two parliamentary elections, in December 2012 and July 2013, appear to have ended this period of turmoil. The former event, the 2012 elections for Japan's Lower House, returned the LDP and its coalition partner, the New Komeito party, into power after three years in the minority. The 2013 election consolidated the LDP coalition's hold by giving it a majority in the Upper House. (See **Figure 4** and **Figure 5** for a display of major parties' strength in Japan's parliament, which is called the Diet.) The fact that parliamentary elections do not have to be held until the summer of

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<sup>44</sup> For more information about exchange rates and "currency manipulation," see CRS Report IF00045, *Debates over "Currency Manipulation" (In Focus)*, by Rebecca M. Nelson and CRS Report R43242, *Current Debates over Exchange Rates: Overview and Issues for Congress*, by Rebecca M. Nelson.

<sup>45</sup> Representative Mike Michaud, "Majority of House Members Push Obama to Address Currency Manipulation in TPP," Press Release, June 6, 2013, <http://michaud.house.gov/press-release/majority-house-members-push-obama-address-currency-manipulation-tp>; Senator Debbie Stabenow, "Sixty Senators Urge Administration to Crack Down on Currency Manipulation in Trans-Pacific Partnership Talks," Press Release, September 24, 2013, [http://www.stabenow.senate.gov/?p=press\\_release&id=1171](http://www.stabenow.senate.gov/?p=press_release&id=1171).

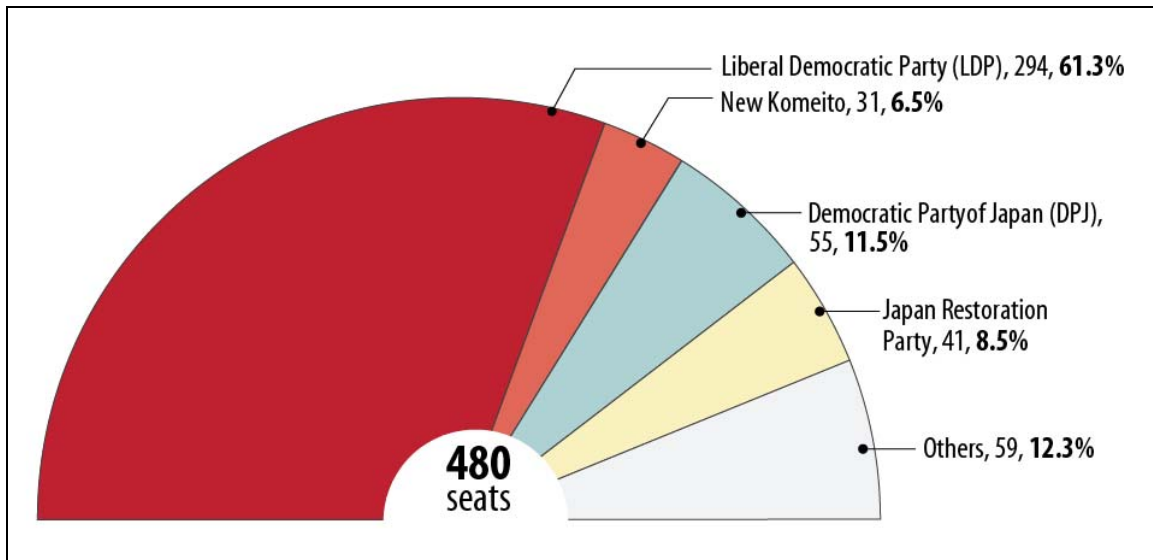
2016 presumably gives Abe and the LDP a relatively prolonged period in which to promote their agenda. Since 1955, the LDP has ruled Japan for all but about four years.

For much of his tenure, Abe's approval ratings have been unusually high for a Japanese prime minister, generally above 50%. Abe's popularity may be challenged in late 2014 and/or early 2015 due to economic issues. By the end of 2014, his Cabinet is due to decide whether to proceed with a plan to raise Japan's national consumption tax to 10%. In April, the tax was hiked from 5% to 8%, a move that appears to have curtailed economic growth at a time when many of the short-term benefits of "Abenomics" have run their course. Also, many analysts—and Abe himself—argue that longer term economic growth will require structural reforms, which critics argue that Abe has pursued tentatively, in part due to opposition from entrenched interests, including elements within the LDP.

The Cabinet reshuffle in September 2014 broadly indicated continuity and Abe's confidence. The most significant posts (Chief Cabinet Secretary and the Ministers of Foreign Affairs and Finance) did not change hands. Abe has said that his current Cabinet's goals are to continue efforts to revitalize Japan's economy by, among other steps, spurring growth in rural areas, implementing economic reforms, and empowering Japanese women to play a bigger role in the country's economy.<sup>46</sup> Possible indications of Abe's determination on these issues were the appointments of a known deregulation proponent to be the minister of Health, Welfare, and Labor and a veteran member of Japan's agricultural policy "tribe" to head the Ministry of Agriculture, Forestry, and Fisheries. Many speculate that the new farm ministry head, Koya Nishikawa, could help Abe bring about the changes in Japan's agricultural policy that would be needed if there is to be a breakthrough in the TPP talks.

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

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



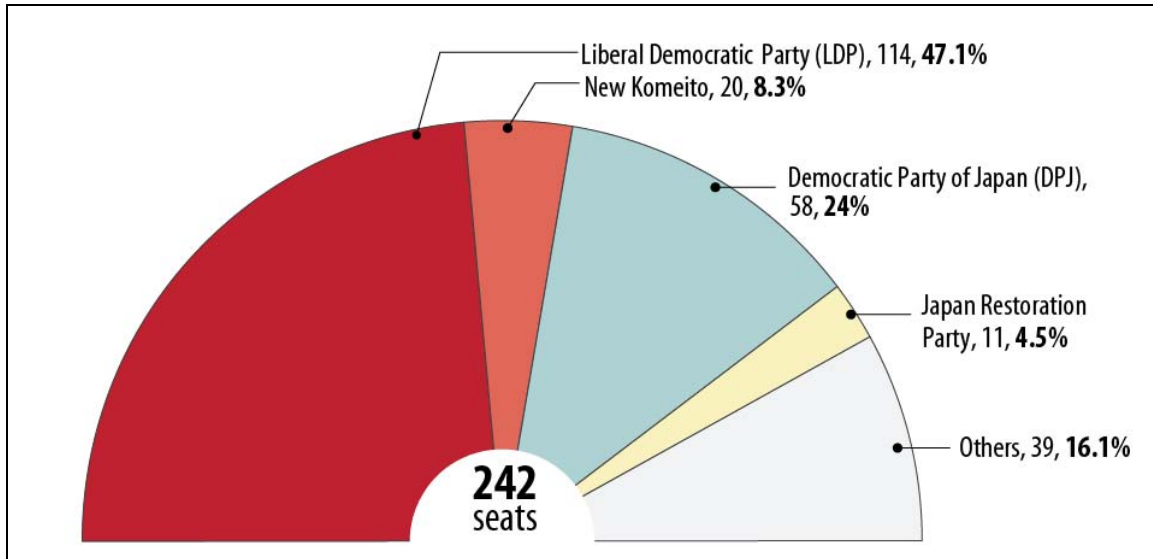
**Source:** Website of the Lower House of the Japanese Diet (Parliament), July 9, 2014.

<sup>46</sup> Masashi Yano and Yasushi Sugimoto, "Interview with PM Abe on Cabinet Reshuffle," *Sankei Shimbun*, September 6, 2014, translation by U.S. Embassy Tokyo.

**Notes:** The Lower House's official name is the "House of Representatives." The Lower House must be dissolved, and elections held for all Members' seats, at least once every four years. The last such elections were held in December 2012.

### Figure 5. Party Affiliation in Japan's Upper House of Parliament

(The LDP-New Komeito coalition controls the Upper House)



**Source:** Website of the Upper House of the Japanese Diet, September 15, 2014.

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

## The DPJ and Alternative Political Forces

The December 2012 and July 2013 parliamentary elections drastically reduced the size of Japan's largest opposition party, the Democratic Party of Japan (DPJ), which was the ruling party from 2009-2012. In the Lower House election, the DPJ's seat total tumbled from 230 seats to 57, and a number of prominent DPJ leaders lost their seats. In the July Upper House election, the DPJ seat total fell by nearly half, from 106 to 59 seats. The DPJ's public approval numbers have remained in the single digits since it lost its hold on power.

Over the past 20 years, growing frustration with Japan's political status quo has periodically given rise to small-to-moderate protest movements. Until the spring of 2013, many Japanese seemed to embrace alternative leaders such as Osaka mayor Toru Hashimoto, who captured national attention as the *de facto* leader of a populist deregulatory and decentralization movement starting in 2011. Together with former Tokyo mayor Shintaro Ishihara, Toru Hashimoto formed the Japan Restoration Party (JRP, also known as *Ishin No Kai*) in the fall of 2012 and captured enough seats to almost overtake the DPJ as the leading opposition party in the Lower House. Both Hashimoto and Ishihara are known to support nationalist positions on matters of security and history, and thus were thought to perhaps be natural ad hoc allies for Abe on these issues. However, the JRP's poll numbers fell dramatically after Hashimoto made statements in early May 2013 that many interpreted as condoning Imperial Japan's "comfort women" system of forced prostitution. Although the party gained seats in the July 2013 Upper House elections, its performance was weaker than many had expected before the mayor's remarks, and it has polled at

or below the DPJ's levels ever since. In 2014, Hashimoto and Ishihara parted ways, splitting the JRP.

## **Structural Rigidities in Japan's Political System**

Compared to most industrialized democracies, the Japanese parliament is structurally weak, as is the office of the prime minister and his cabinet. Though former Prime Minister Koizumi and his immediate predecessors increased politicians' influence relative to bureaucrats', with important exceptions Japan's policymaking process tends to be compartmentalized and bureaucratized, making it difficult to make trade-offs among competing constituencies on divisive issues. The result is often paralysis or incremental changes at the margins of policy, particularly during periods of weak premierships such as the one Japan experienced from 2006-2013. These difficulties were a major reason Abe took the unprecedented decision in early 2013 to house Japan's TPP negotiating team in the Prime Minister's office, in the hopes that this would help overcome the bureaucratic obstacles to making the trade-offs that are likely to be necessary to enable Japan's joining a final agreement, if one is reached.

## **Japan's Demographic Challenge**

Japan's combination of a low birth rate, strict immigration practices, and a shrinking and rapidly aging population presents policymakers with a significant challenge. Polls suggest that Japanese women are avoiding marriage and child-bearing because of the difficulty of combining career and family in Japan; the fertility rate has fallen to 1.25, far below the 2.1 rate necessary to sustain population size. Japan's population growth rate is -0.1%, and its current population of 127 million is projected to fall to about 95 million by mid-century. Concerns about a huge shortfall in the labor force have grown, particularly as the elderly demand more care. The ratio of working age persons to retirees is projected to fall from 5:2 around 2010 to 3:2 in 2040, reducing the resources available to pay for the government social safety net.<sup>47</sup> Japan's immigration policies have traditionally been strictly limited, closing one potential source of new workers

## **Selected Legislation**

### **113<sup>th</sup> Congress**

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

**P.L. 113-150.** Sean and David Goldman International Child Abduction Prevention and Return Act of 2014; expresses the sense of Congress that the United States should set a strong example for

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<sup>47</sup> Lynann Butkiewicz, "Implications of Japan's Changing Demographics," National Bureau of Asian Research, Washington, DC, October 2012.

other countries under the Hague Convention on the Civil Aspects of International Child Abduction in the resolution of cases involving children abducted abroad and brought to the United States. The law directs the U.S. government, especially the State Department, to devote additional resources to assisting “left-behind” parents and to preventing child abduction with existing authorities. P.L. 113-150 also instructs the Secretary of State to identify and take actions against consistently non-compliant countries, including the suspension of U.S. development and security assistance funding. Became law on August 8, 2014.

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

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

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

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