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

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## Summary

Japan is a significant partner of 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 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 increases the size of the proposed trade pact, which is a core component of Obama Administration efforts to "rebalance" U.S. foreign policy priorities toward the Asia-Pacific region. The strength of the bilateral relationship was on display during President Obama's visit to Hiroshima in May 2016 and Prime Minister Shinzo Abe's address to Congress in April 2015, historic firsts for leaders of the two countries.

After years of turmoil, Japanese politics has been relatively stable since the December 2012 election victory of Abe and his Liberal Democratic Party (LDP), which was further consolidated in the LDP's win in December 2014 elections. These victories provided Abe with some domestic political capital to pursue the more controversial initiatives of his agenda, such as joining the proposed TPP trade pact and increasing the Japanese military's capabilities and flexibility. 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. The upcoming July 2016 Upper House elections will test the strength of Abe's power as well as gauge the viability of Japan's struggling opposition parties.

On the other hand, comments and actions on controversial historical issues by Abe and members of his Cabinet have contributed to tense relations in the region. Issues include the so-called "comfort women" who were forced to provide sex to Japanese soldiers in the World War II era, Japanese history textbooks that critics claim whitewash Japanese atrocities, and visits by Japanese leaders to the Yasukuni Shrine that honors Japan's war dead including Class A war criminals. Since 2013 Abe seems generally to have avoided language and actions that could upset regional relations and held cordial summits with the leaders of South Korea and China. In late 2015, Seoul and Tokyo reached an agreement on how to resolve the "comfort women" issue, but questions about implementation and doubts about the agreement's durability remain.

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. Despite large-scale protests, the Diet's passage of controversial security legislation in September 2015 will allow Japan to implement a 2014 Cabinet decision to relax Japan's past prohibition on participating in collective self-defense. Analysts see this move as allowing the Japanese military to play a greater role in global security. In April 2015, the two sides updated their bilateral defense guidelines to modernize security cooperation and improve alliance coordination during contingencies. Despite these advances, concerns remain about the implementation of an agreement to relocate the controversial Futenma base on Okinawa due to opposition from the local population, particularly after the May 2016 murder of an Okinawan woman by a former Marine.

Outside of North America, Japan 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 party to the TPP free trade agreement. Congress must approve implementing legislation before it can take effect in the United States.

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## Recent Developments

### President Obama's Visit to Hiroshima

On May 27, on the heels of the G-7 Summit in Ise-Shima, President Obama became the first sitting U.S. president to visit Hiroshima since the United States dropped an atomic bomb on the city in the closing days of World War II. Together with Japanese Prime Minister Shinzo Abe, Obama laid a wreath in front of the cenotaph that memorializes the estimated 100,000 Hiroshima citizens killed by the bomb. In his speech, Obama spoke of moving toward a world free of nuclear weapons, a goal he first mentioned in the early days of his presidency and called for the examples of Hiroshima and Nagasaki to lead to a “moral awakening.” Following his speech, Obama greeted two atomic bomb survivors, embracing one. Before speaking, Obama addressed U.S. and Japanese troops at the Iwakuni Marine Corps base and then briefly toured the museum in Hiroshima that chronicles the experience of the bombing on August 6, 1945.

In his remarks, Obama emphasized the collective tragedy of all innocent victims of war, noting the deaths of thousands of Koreans and a dozen American prisoners of war in the Hiroshima attack. He also noted that “The United States and Japan have forged not only an alliance but a friendship that has won far more for our people than we could ever claim through war.” In his speech, Abe too emphasized the powerful symbolism of the reconciliation of erstwhile enemies. Abe also offered his “eternal condolences to all the American souls that were lost during World War II,” a sentiment he had expressed in an April 2015 speech to a joint meeting of Congress that helped set the stage for Obama's visit to Hiroshima. Abe also visited and laid a wreath at the World War II memorial in Washington.

Obama's visit appears to have been widely welcomed by the Japanese public, who expressed in multiple opinion polls that they did not expect an apology.<sup>1</sup> After Obama's departure, thousands of Japanese lined up to view the wreath he lay and the visitation book he signed in the peace museum. Despite some anticipation that it might trigger political backlash in the United States, criticism of the visit appeared muted.

### Abe Looks to Consolidate Power in July Upper House Elections

Since coming to power in December 2012, Prime Minister Abe's Liberal Democratic Party (LDP) and a smaller coalition partner have dominated Japanese politics. The next electoral test for Abe will come on July 10, 2016, when Japanese voters will vote for half the 242 members of the Upper House of the Japan's bicameral Diet (Parliament). The election will also give an indication of whether Japan's struggling opposition parties can mount a credible challenge to the LDP coalition. Although the Upper House is the less powerful of the two parliamentary chambers, the election could have an impact on Abe's ability to enact key items in his policy agenda. If the elections give the LDP coalition a “super-majority” of two-thirds or more of the Upper House's seats, Abe will cross the numerical threshold that is necessary to more easily control the chamber, including for votes on the Trans-Pacific Partnership (TPP) trade agreement. Also importantly, a two-thirds majority theoretically would give Abe's coalition the votes to pass amendments to Japan's Constitution, including the war-renouncing Article 9 that Abe has said he would like to

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<sup>1</sup> See, for example, this *Japan Times* poll: <http://www.japantimes.co.jp/news/2016/05/13/national/majority-see-no-need-for-obama-to-apologize-for-atomic-bombing-of-hiroshima-and-nagasaki-japan-times-poll/#.V2rXbkrLct>.

change. However, any constitutional changes passed by the Diet also must be approved by a majority in a nationwide referendum.

According to a variety of opinion polls,<sup>2</sup> support for Abe's Cabinet in early-to-mid June was between 40% and 50%, high by recent Japanese standards and in seeming defiance of the economy's lackluster performance in late 2015 and the first half of 2016. In the spring of 2016, Abe decided to postpone a planned increase in Japan's consumption tax and delay parliamentary consideration of legislation to approve the TPP, citing the sluggish global economy and a series of major earthquakes on the island of Kyushu between between April and June. The upcoming Upper House election may have been a more significant political consideration for Abe to delay unpopular decisions.

## Improvement in Japan-South Korea Relations

U.S. officials have voiced continued concern about discord in the Tokyo-Seoul relationship under Prime Minister Abe and South Korean President Park Geun-hye. Since early 2015, relations have warmed tentatively but steadily. In November 2015, Abe and Park held their first bilateral summit. In December 2015, Seoul and Tokyo reached an agreement on how to resolve the "comfort women" issue, a euphemism that refers to the thousands of women who were forced to provide sex to Japanese soldiers during the 1930s and 1940s. The agreement included a new apology from Abe and the provision of 1 billion yen (about \$8.3 million) from the Japanese government to a new Korean foundation that supports surviving victims. U.S. officials praised the agreement as a breakthrough, and, combined with North Korea's provocative behavior, it may lead to more effective trilateral cooperation. However, as of mid-2016, implementation has faltered as Seoul has yet to establish the foundation and some politicians in Tokyo balked at providing the funds to South Korea before a controversial statue of a comfort woman is removed from in front of the Japanese Embassy in Seoul. After Park's political party unexpectedly lost its majority in April 2016 parliamentary elections, doubts about effective implementation of the agreement have persisted; the two main South Korean opposition parties opposed the agreement. (See "A Tokyo-Seoul Breakthrough Agreement on the Comfort Women Issue?" section below for background.)

## TPP Negotiations Concluded, Awaiting Ratification<sup>3</sup>

In late 2015, the United States, Japan, and 10 other Asia-Pacific countries concluded the Trans-Pacific Partnership (TPP) negotiations and in February 2016 signed the final text of the proposed free trade agreement (FTA).<sup>4</sup> The agreement now awaits ratification in each country, per respective requisite domestic procedures, before it can become effective—for the United States and Japan this entails action by Congress and the Diet. President Obama and Prime Minister Abe have made the TPP a centerpiece of U.S.-Japan bilateral relations. In Japan, the Diet is expected to take up TPP bills sometime after the July Upper House elections.<sup>5</sup> Given the LDP coalition's

<sup>2</sup> See, for example, "Opinion Poll and Results from Asahi Shimbun," June 6, 2016, translated by U.S. Embassy Tokyo, Japan Press Highlights, June 7, 2016. Since 2000, it has not been unusual for sitting prime ministers' Cabinet approval ratings to be consistently in the 20%-30% range.

<sup>3</sup> For more on the TPP negotiations, see CRS Report R44489, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, coordinated by (name redacted) and (name redacted).

<sup>4</sup> The 10 other TPP participants are Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

<sup>5</sup> "Japan to Delay TPP Ratification as Quakes Dominate Policy Debate," *Nikkei*, April 20, 2016.

firm control, the Diet is expected to pass the bills, though not without vocal opposition, particularly from traditional agricultural interests.

In the United States, trade has become a major focus of the presidential election with both parties' presumptive nominees stating that they oppose TPP in its current form. Congressional consideration of TPP seems unlikely before the November election. TPP was concluded under the grant of Trade Promotion Authority (TPA) renewed by Congress last June (P.L. 114-26). This would give implementing legislation privileged status once introduced, including guaranteed consideration and no amendments, if Congress determines the agreement advances U.S. negotiating objectives, and meets other TPA criteria.<sup>6</sup>

Japan's decision to join the TPP talks in July 2013—the last of the current members to do so—increased both the economic and strategic significance of the potential FTA to the United States, but also introduced a number of challenges into the negotiations. Issues related to auto and agricultural trade were particularly difficult and remain contentious as the countries consider ratification. In order to address the particular concerns and priorities in U.S.-Japan trade, the two countries negotiated bilateral side letters that include additional commitments beyond the TPP text related to non-tariff barriers in insurance, express delivery, and auto trade.<sup>7</sup> Key market access outcomes for the U.S.-Japan trading relationship if TPP is implemented include (1) eventual elimination of duties on 99% of U.S. tariff lines, including the 2.5% auto and 25% light truck tariffs, over 25 and 30 years, respectively; and (2) eventual elimination of duties on 95% of Japanese tariff lines, as well the expansion of quotas and reduction of duties on major U.S. agricultural exports, particularly beef, pork, and certain dairy products. (See “Japan and the Proposed Trans-Pacific Partnership Agreement (TPP)” for more on TPP commitments).

## Treasury Places Japan on New Currency Monitoring List

Some policymakers and analysts allege that Japan has been 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 States. In April 2016, the Treasury Department placed Japan, along with China, Germany, South Korea, and Taiwan, on a new “monitoring list” required by the Trade Facilitation and Trade Enforcement Act (P.L. 114-125), signed by President Obama in February 2016. Japan met two of the criteria for inclusion on the list: it has a bilateral trade surplus with the United States larger than \$20 billion; and it runs a current account surplus that is larger than 3.0% of its GDP.<sup>8</sup> The Treasury Department, in its most recent semiannual report on international exchange rate policies, now expanded to include this new monitoring list, stated that it will “closely monitor and assess the economic trends and foreign exchange policies” of Japan and the other four countries.<sup>9</sup> Treasury also described existing conditions in the dollar-yen exchange market as “orderly” and determined that no major U.S. trading partner, including Japan, was engaged in exchange rate manipulation to gain a competitive trade advantage. Since early 2016 the yen has appreciated sharply, from around 120 yen (¥) per dollar to as high as 106 yen (¥) to the dollar,

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<sup>6</sup> For more on TPA, see CRS In Focus IF10297, *TPP-Trade Promotion Authority (TPA) Timeline*, by (name redacted).

<sup>7</sup> The full text of the agreement and the bilateral side letters can be found at <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

<sup>8</sup> The Treasury Department determined that Japan did not meet the third criteria for inclusion on the list, engaging in persistent one-sided intervention in the foreign exchange market. According to Treasury and to Japan's Ministry of Finance, Japan has not intervened in the foreign exchange market since late 2011.

<sup>9</sup> U.S. Department of the Treasury Office of International Affairs, *Report to Congress. Foreign Exchange Policies of Major Trading Partners of the United States*, April 29, 2016, especially pp. 5-7.



despite poor economic growth and the Bank of Japan's January 2016 introduction of negative interest rates. The yen's rise has led to speculation that Japanese authorities might intervene to halt or reverse the yen's appreciation and help boost Japan's exports.<sup>10</sup>

## Japan-China Tensions in the East China Sea

The territorial dispute between Japan and China over the Senkaku/Diaoyu Islands in the East China Sea continues to roil relations between the two nations. Although the sense of crisis in Tokyo and Beijing has lessened since late 2012, developments in the first half of 2016 indicate that the fragile equilibrium of the past three years could be disrupted. (See later section "Territorial Dispute with China" for background information.) In one prominent incident, a Chinese naval vessel for the first time sailed within 24 nautical miles of the territorial waters around the Senkaku/Diaoyu Islands, following a Japanese naval vessel that was trailing Russian naval vessels that had entered into the islands' territorial waters. Although the Chinese vessel did not violate international law, some Japanese officials nevertheless interpreted the act as a unilateral escalation intended to pressure Japan. Other Japanese experts did not see the Chinese vessel's action as an aggressive signal.<sup>11</sup> In its maritime territorial disputes, China has advanced its claims opportunistically, in response to perceived affronts to its sovereignty or administration of disputed areas; this incident follows that pattern.

From Japan's perspective, two other trends may be more alarming. First, China has constructed two enormous coast guard vessels displacing approximately 12,000 tons—more than a U.S. Navy *Arleigh Burke*-class guided missile destroyer—that give the Chinese Coast Guard a qualitative equipment advantage over other coast guards in the East China Sea and South China Sea.<sup>12</sup> In recent years, China also has converted naval vessels into Coast Guard vessels. Second, China has been building more oil and gas extraction platforms (and expanding the size of existing ones) on its side of the geographical equidistance line in the East China Sea. Some observers in Japan have raised complaints that China could unilaterally extract the seabed energy resources that straddle the equidistance line, and others are concerned about whether China may find a military use for these maritime platforms.<sup>13</sup>

## More Challenges to U.S. Base Relocation in Okinawa

The long-delayed plan to relocate Marine Corps Air Station Futenma from a densely populated area of Okinawa to a new facility in a remote part of the island has encountered further complications in the first half of 2016. The Governor of Okinawa Prefecture, Takeshi Onaga, has firmly resisted the planned relocation of the Futenma base to the Henoko site of Camp Schwab since he was elected in late 2014. Many Okinawans oppose construction of a new U.S. military facility at this site on the existing Marine Corps base (see the section "Realignment of the U.S. Military Presence on Okinawa"). Governor Onaga and the Japanese central government took their political battle over the base relocation into the Japanese court system in 2015, and the result has been a stalemate, as of June 2016. In March 2016, the Abe Administration and Onaga agreed to the court's proposal to set aside their competing lawsuits and resume negotiations for one year,

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<sup>10</sup> Kana Inagaki and Robin Harding, "Japanese Finance Official Defends Yen Intervention Option," *FT.com*, May 16, 2016.

<sup>11</sup> "Did China Seek to Restrain Japan, U.S.?" *Yomiuri Shimbun*, June 9, 2016.

<sup>12</sup> Franz-Stefan Gady, "Beijing Builds 'Monster' Ship for Patrolling the South China Sea," *Diplomat*, January 13, 2016.

<sup>13</sup> "China Making New Platform in East China Sea," *Yomiuri Shimbun*, July 12, 2015.



during which time construction of the Futenma replacement facility will be suspended. As part of the mediation, both sides agreed to abide by the terms of any future court ruling. The Abe Administration may see this agreement as a way to strengthen its hand in enforcing Okinawa's compliance with the base relocation in the future. On the other hand, Onaga was able to buy more time before the main phase of construction begins, and he may believe that he can convince either Tokyo or Washington to abandon the current Futenma base relocation plan during this period of renewed negotiations.

In May 2016, a criminal incident inflamed the already contentious issue. Media outlets reported that an American civilian contractor working at a base in Okinawa admitted to murdering a young Okinawan woman. The fact that the alleged perpetrator, Kenneth Franklin Shinzato, was a former U.S. Marine sparked memories of a 1995 incident in which three U.S. servicemembers raped an Okinawan girl. That 1995 case instigated widespread protests on Okinawa and led to the creation of a high-level U.S.-Japan bilateral committee to reduce the U.S. military presence on Okinawa. (The committee's 1996 plan outlines the original agreement to relocate the Futenma base.) As in 1995, tens of thousands of Okinawans demonstrated against the incident and the U.S. troop presence.

While attending the G7 Summit in Japan, President Obama expressed his "sincere condolences and deepest regrets" regarding the May 2016 incident, and Prime Minister Abe vowed to come up with new measures to prevent base-related crimes in Japan. The U.S. military imposed a midnight curfew on U.S. service members in Japan. Less than two weeks later, a U.S. Navy sailor was arrested for injuring two Japanese civilians while allegedly driving under the influence. Governor Onaga and other voices in Okinawa called for a revision of the U.S.-Japan Status of Forces Agreement, although Shinzato, the murder suspect, will face trial under the Japanese legal system because of his status as a civilian. The murder of the Okinawan woman was seen as a factor in June 2016 elections for the Okinawa Prefectural Legislature, in which politicians supporting Onaga's anti-base stance retained their majority.

Figure I. Map of Japan



Source: Map Resources. Adapted by CRS.

### Japan Country Data

**Population:** 126,919,659 (July 2015 est.)  
**Percentage of Population over 64:** 26.59% (U.S. = 12.4%)  
**Life Expectancy:** 84.7 years  
**Area:** 377,835 sq km (slightly smaller than California)  
**Per Capita GDP:** \$37,400 (2014 est.) purchasing power parity  
**Primary Export Partners:** US 18.9%, China 18.3%, South Korea 7.5%, Hong Kong 5.5%, Thailand 4.5% (2014)  
**Primary Import Partners:** China 22.3%, US 9%, Australia 5.9%, Saudi Arabia 5.9%, UAE 5.1%, Qatar 4.1%, South Korea 4.1% (2014)  
**Yen: Dollar Exchange Rate:** 105.8 (2014 est.), 97.44 (2013 est.), 79.42 (2012 est.), 79.81 (2011 est.), 87.78 (2010 est.)  
**Source:** CIA, *The World Factbook*, September 2015.

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

Many analysts say U.S.-Japan relations have reached a high-water point under President Obama and Prime Minister Abe. Updated defense arrangements, regular and successful high-level visits, and broad strategic alignment have solidified the two countries' military alliance. Globally, the two countries cooperate on scores of multilateral issues, from nuclear nonproliferation to climate change negotiations to responding to pandemics. The closeness of the relationship was on display on two symbolic occasions: Abe's address to a joint meeting of Congress in April 2015 and President Obama's visit to Hiroshima in May 2016. Both instances were historic firsts for leaders of the two countries.

Abe is positioned to be one of the longest-serving prime ministers in post-war Japan. After serving in 2006-2007, Abe led the conservative Liberal Democratic Party (LDP) back into power in late 2012 following a six-year period in which six different prime ministers served. Since then, he appears to have stabilized Japanese politics and shored up the foundation for long-term U.S.-Japan cooperation and planning. Abe has prioritized Japan's alliance with the United States. Under his leadership, the defense budget was increased for three consecutive years after a decade of decline, a set of controversial bills that reform Japanese security policies was passed, and approval from the Okinawan governor for the construction of a new U.S. Marine Corps base on Okinawa was secured. He also led Japan into the Trans-Pacific Partnership (TPP) free trade agreement (FTA) negotiations and has attempted to revitalize Japan's economy, including seeking a number of economic reforms favored by many in the United States. Abe's boldness in pursuing such measures has been welcomed by U.S. officials. Abe's handling of controversial history issues (see below) has riled relations with South Korea, to the consternation of many U.S. policymakers, but tensions appear to have eased since late 2015.

Despite the robust state of the relationship, nuanced differences in strategic outlook have the potential to disrupt the alliance. Most of these issues center around the view of China's intentions in the region. Although Washington has repeatedly backed Japan's claims on the disputed territory (see below) and has raised objections to many of Beijing's maritime activities, Tokyo is more alarmed by China's incursions and could potentially push for a more confrontational stance. Relatedly, many in Tokyo's elite view Xi Jinping's regime as untrustworthy, while U.S. policymakers appear to want to work toward a relationship with Xi that can be productive on a number of issues on their bilateral agenda. Further, many in Japan have been alarmed by campaign rhetoric in the U.S. presidential campaign, particularly comments by presumptive Republican Party nominee Donald Trump that question Japan's trade practices, appear to welcome Japan developing its own nuclear arsenal, and question if Tokyo is paying its share of hosting U.S. troops on Japanese soil.<sup>14</sup>

### Abe and Historical Issues

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 known for advocating nationalist, and in some cases ultra-nationalist, views that many argue appear to glorify Imperial Japan's actions.

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<sup>14</sup> "In Donald Trump's Rise, Allies See New American Approach," *New York Times*, May 5, 2016.

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, but at the same time succeeded in improving relations with China and South Korea through pragmatic diplomacy. Some of Abe's positions—such as changing the interpretation of Japan's constitution to allow for Japanese participation in collective self-defense—largely have been 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 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>15</sup>

During his second term, Abe initially made several statements that drew protest from Seoul and Beijing, but since 2013 he has generally avoided language and actions that would upset regional relations. Abe suggested early in his term that he may 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. 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. U.S. government officials and Members of Congress encouraged Abe and his government to back the Murayama and Kono statements. In both his April 2015 address to a joint meeting of the U.S. Congress and his 70<sup>th</sup> anniversary statement, Abe himself stated that his government would uphold the Kono and Murayama statements. In his address to the U.S. Congress, Abe also expressed his condolences "to all the American souls that were lost during World War II." Abe appears to have responded to criticism that his handling of these controversial issues could be damaging to Japan's and—to some extent—the United States' national interests.

### Comfort Women Issue

Other regional powers have criticized Abe's statements on the so-called "comfort women," who were forced to provide sexual services for Japanese soldiers during the imperial military's conquest and colonization of several Asian countries in the 1930s and 1940s. In the past, Abe has supported the claims made by many conservatives 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. At that time, the U.S. House of Representatives was considering 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>16</sup>

<sup>15</sup> See, for instance, Asia Policy Point, *The Abe Administration Cabinet 2012-2014*, August 2, 2014.

<sup>16</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 (continued...)

In the past, Abe has suggested that his government might consider revising the Kono Statement, but has recently pledged to uphold the statement. In June 2014, in response to a request by an opposition party Diet member, the Abe government released a study that examined the Kono Statement and concluded that it had been crafted in consultation with Seoul, implying that the document was not based solely on historical evidence. The Abe Cabinet did not take any steps to disavow the Kono Statement, but critics claimed 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 in part 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. In September 2015, the San Francisco Board of Supervisors voted to erect a memorial to the comfort women, spurring the Japanese government to call the decision "extremely regrettable" and "incompatible with the Japanese government's view of and approach to the issue."

### *A Tokyo-Seoul Breakthrough Agreement on the Comfort Women Issue?*

A month after Park and Abe held their first bilateral summit in November 2015, the two sides' Foreign Ministers announced an agreement on how Japan should address the comfort women issue.<sup>17</sup> The agreement included a new apology from Abe and the provision of 1 billion yen (about \$8.3 million) from the Japanese government to a new Korean foundation that supports surviving victims.<sup>18</sup> The two Foreign Ministers agreed that this long-standing bilateral rift would be "finally and irreversibly resolved" pending the Japanese government's implementation of the agreement.<sup>19</sup> Additionally, the Japanese Foreign Minister stated that the Imperial Japanese military authorities were involved in the comfort women's situation, and that the current Japanese government is "painfully aware of responsibilities from this perspective."<sup>20</sup>

U.S. officials hailed the December 2015 ROK-Japan agreement as a breakthrough, and observers report that U.S. officials played a role in encouraging the agreement.<sup>21</sup> Strong criticism of the

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(...continued)

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.

<sup>17</sup> No text of the agreement was released, perhaps indicating the delicate nature of the issue. Instead, the agreement was announced in a joint public appearance in Seoul by South Korean Foreign Minister Yun Byung-se and Japanese Foreign Minister Fumio Kishida. For the South Korean Foreign Ministry's translation of the joint appearance, see [http://www.mofa.go.kr/ENG/image/common/title/res/Remarks%20at%20the%20Joint%20Press%20Availability\\_1.pdf](http://www.mofa.go.kr/ENG/image/common/title/res/Remarks%20at%20the%20Joint%20Press%20Availability_1.pdf). For the Japanese Foreign Ministry's translation, see [http://www.mofa.go.jp/a\\_o/na/kr/page4e\\_000364.html](http://www.mofa.go.jp/a_o/na/kr/page4e_000364.html).

<sup>18</sup> In contrast to past apologies from Japanese Prime Ministers that were made in their personal capacities, Kishida stated that Abe's apology was issued in his capacity "as Prime Minister of Japan."

<sup>19</sup> South Korean and Japanese Foreign Ministries' translations of the December 28, 2015, joint announcement.

<sup>20</sup> The full quote from the Japanese translation is "The issue of comfort women, with an involvement of the Japanese military authorities at that time, was a grave affront to the honor and dignity of large numbers of women, and the Government of Japan is painfully aware of responsibilities from this perspective." The Korean translation reads "The issue of 'comfort women' was a matter which, with the involvement of the military authorities of the day, severely injured the honor and dignity of many women. In this regard, the Government of Japan painfully acknowledges its responsibility." Kishida's statement appears significant because some Japanese conservatives have said that the Imperial Japanese military did not directly recruit the comfort women and have used this argument to downplay or deny the military's role in administering the comfort women system.

<sup>21</sup> Daniel Sneider, "Behind the Comfort Women Agreement," *Toyo Keizai Online*, January 10, 2016.

agreement in South Korea, however, underscored the fragility of the bilateral relationship, which continues to be strained by mutual distrust between both the two countries' governments and their publics.

Analysts cautioned that the agreement could falter due to several different issues. The first is implementation: namely, whether South Korea successfully establishes the new comfort women foundation and Japan provides the money it has pledged; and whether Seoul satisfies Tokyo that it is following through on its December 2015 pledge to "make efforts to appropriately address" Japan's objections to a comfort woman statue that stands in front of the Japanese Embassy in Seoul.<sup>22</sup> According to a variety of media reports, Japanese leaders hope and perhaps expect that the statue will be moved to a different location. Another factor that could stymie the agreement is if Japanese leaders make statements or engage in actions that appear to glorify or deny Imperial Japan's actions, and whether South Korean leaders call attention to such statements or actions.

### Yasukuni Shrine

The controversial Yasukuni Shrine has been a flashpoint for regional friction over history. The Tokyo shrine was established to house 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>23</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 its militarist past.

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 in Tokyo 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>24</sup> Since then, sizeable numbers of LDP lawmakers, including a number of 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. Abe has periodically visited ceremonial events and paid respects at Chidorigafuchi throughout his term, most recently in May 2016.

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<sup>22</sup> According to the Japanese Foreign Ministry's translation, Yun said that the South Korean government would "strive to solve" the issue.

<sup>23</sup> John Breen, ed., *Yasukuni, the War Dead and the Struggle for Japan's Past* (New York: Columbia University Press, 2008).

<sup>24</sup> "Statement on Prime Minister Abe's December 26 Visit to Yasukuni Shrine," U.S. Embassy in Tokyo, Japan, December 26, 2013, <http://japan.usembassy.gov/e/p/tp-20131226-01.html>.



## Territorial Dispute with China

Japan and China have engaged in a diplomatic and at times physical struggle over islets in the East China Sea known as the Senkakus in Japan, Diaoyu in China, and Diaoyutai in Taiwan. 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>25</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 Ministry of Foreign Affairs 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."<sup>26</sup> Chinese military surveillance planes reportedly have entered airspace that Japan considers its own.<sup>27</sup> In 2013, near-daily encounters occasionally escalated: both countries 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. Since early 2014, however, the number of Chinese vessels that have entered into territorial sea surrounding the islands has decreased to a steady level of several patrols per month.<sup>28</sup> In November 2014, Japan and China agreed to re-start talks on establishing a maritime communication mechanism to prevent unexpected military encounters.

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.<sup>29</sup> 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."<sup>30</sup>

<sup>25</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.

<sup>26</sup> "Chinese Ships Continue Patrol Around Diaoyu Island," *China Daily*, October 28, 2012.

<sup>27</sup> "Japan Scrambles Jets in Islands Dispute with China," *New York Times*, December 13, 2012.

<sup>28</sup> Statistics provided by the Japanese Ministry of Foreign Affairs, [http://www.mofa.go.jp/region/page23e\\_000021.html](http://www.mofa.go.jp/region/page23e_000021.html).

<sup>29</sup> Speaking in Japan in April 2014, President Obama stated that "Article 5 covers all territories under Japan's administration, including the Senkaku Islands," in what is believed to be the first time a U.S. President publically has stated the United States' position. The White House, "Joint Press Conference with President Obama and Prime Minister Abe of Japan," Akasaka Palace, Tokyo, Japan, April 24, 2014.

<sup>30</sup> For more information, see CRS Report R42761, *Senkaku (Diaoyu/Diaoyutai) Islands Dispute: U.S. Treaty Obligations*, by (name redacted), and CRS Report R42930, *Maritime Territorial Disputes in East Asia: Issues for* (continued...)



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 goes to war with China, particularly over a group of uninhabited land features. Operationally, Japan has built up the capacity of its military, known as the Japan Self Defense Forces (SDF), in the southwest part of the archipelago.

### **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. 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.

The U.S. and Japanese governments coordinated at a high level their individual and joint responses to China's ADIZ announcement, and both governments stated that they do not recognize the Chinese ADIZ. Two days after 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.<sup>31</sup>

## **Japan and the Korean Peninsula**

### **Japan's Ties with South Korea**

South Korea's relations with Japan have been strained since 2012 but have improved steadily, albeit delicately, since early 2015. This rapprochement is due in large measure to Prime Minister Abe's avoidance of flagrantly inflammatory actions or statements on historical issues, the strength of the U.S.-Japan relationship, and Park's decision to relax the firm linkage between the Japanese government's treatment of historical issues and Seoul's willingness to participate in most forms of high-level bilateral activities.<sup>32</sup> In November 2015, Park and Abe held their first bilateral summit meeting, in Seoul.

Washington has encouraged the tentative rapprochement between its two Pacific allies. President Obama has twice convened trilateral meeting of heads of state on the sidelines of the Nuclear Security Summit, the first in 2014 and the second in 2016. The meetings focused on cooperation

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(...continued)

*Congress*, by (name redacted), (name redacted), and (name redacted)

<sup>31</sup> For more information and analysis, see CRS Report R43894, *China's Air Defense Identification Zone (ADIZ)*, by (name redacted) and (name redacted)

<sup>32</sup> Alastair Gale, "South Korea's Park Chides Abe but Seeks Stable Japan Ties," *Wall Street Journal*, May 4, 2015.

to deal with North Korea's nuclear weapons program, with the underlying goal of pressuring 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 on responding to China's rise. 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.

In late 2014, the three countries signed a trilateral intelligence-sharing agreement that enables Japan and South Korea to exchange information regarding North Korea's missile and nuclear threats. In late June 2016, the three countries plan to hold their first joint military training exercise with Aegis ships that focuses on tracking North Korean missile launches by sharing intelligence. Underscoring the sensitivity of military cooperation, however, the exercises will not involve intercepting the missile and South Korean officials noted that it was "not a strategic exercise" and had "nothing to do with any country's missile defense program."<sup>33</sup>

The persistent Japan-Korea discord centers on history issues. Officials in Japan refer to rising "Korea fatigue" among their public 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. 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. Japanese statements of the claim in 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.

### **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 bilateral 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 re-opening talks regarding 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 investigate the remaining abductees' fates in exchange for Japan's relaxing some of its unilateral sanctions. By fall 2015, however, many analysts doubt that North Korea will deliver on its promises, and forward progress in bilateral relations appeared limited.

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<sup>33</sup> "South Korea, Japan to Hold Missile Defense Drill in June," *The Diplomat*, May 23, 2016.

## Renewed Relations with India, 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 of Japan, Australia, India, and the United States could cooperate to deter Chinese aggression on its maritime periphery.<sup>34</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 the Association of Southeast Asian Nations (ASEAN), and several countries in the Middle East and Africa. Japan has particularly focused on issues of freedom of navigation in the South China Sea, in part because of the implications for Japan's trade flows and for the Senkakus/Diaoyu dispute. Since 2012, even before Abe came into office, Japan has been working to strengthen the maritime capabilities of Southeast Asian countries such as Vietnam and the Philippines, and Abe has accelerated these efforts, which the Obama Administration has supported.<sup>35</sup> 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 positive results. Despite a failed submarine deal (see text box below), 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. Japan-Indian ties have blossomed under Abe and Prime Minister Narendra Modi, including expanded military exercises and negotiations on defense export agreements. Overall relations with ASEAN are also strong and provide quiet support for Japan's increasing role in Southeast Asia.

### Japan's Bid Fails in Australian Submarine Contract Competition

The Australian government announced in April 2016 that the French defense firm DCNS had won the \$37 billion contract for Australia's next generation of submarines, beating out bidders from Japan and Germany. Some American observers lamented the missed opportunity for better Japan-Australia defense cooperation and argued that it was a minor strategic setback for the United States in its efforts to integrate Asia-Pacific regional security cooperation among allies.<sup>36</sup> When Australia and Japan first reached an agreement to cooperate on advanced submarine technology in June 2014, Japan seemed like the heavy favorite to build Australia's new submarines, but a variety of political and bureaucratic factors appeared to derail the partnership. On the Japanese side, bidders encountered problems coordinating the bid between government officials and businessmen in part due to Japan's lack of experience with arms exports, according to reports.<sup>37</sup> On the Australian side, the Abbott Administration initially presented the submarine deal as a bilateral agreement to cooperate on technology development, building on Japan's world-class air-independent-propulsion systems. However, Australian shipbuilders criticized their government for neglecting the domestic shipbuilding industry. Then-Prime Minister Tony Abbott, concurrently facing a challenge to his leadership

<sup>34</sup> Shinzo Abe, "Asia's Democratic Security Diamond," *Project Syndicate*, December 27, 2012.

<sup>35</sup> Testifying before the Senate Armed Services Committee on September 17, 2015, Assistant Secretary of Defense for Asian and Pacific Security Affairs David Shear said, "We strongly support Japanese efforts to coordinate with us in building partner capacity, particularly with countries like Vietnam, the Philippines, and probably in the future, Malaysia."

<sup>36</sup> Eric Heginbotham and Richard Samuels, "Poor Substitute: No Japanese Submarines Down Under," *Foreign Affairs*, May 3, 2016.

<sup>37</sup> Jamie Smyth and Leo Lewis, "DCNS of France Wins A\$50bn Australia Submarines Contract," *Financial Times*, April 26, 2016.

from within his party, vowed to open the bidding process for the submarine contract, making domestic production of submarines a factor in the competitive bid evaluation. Reportedly, the Australian government was not confident that Japan would be able to transfer its cutting-edge technologies to Australia and may have been wary about bolstering Australia-Japan defense ties that China claims are provocative.<sup>38</sup> The Australian government will select one of two U.S. defense firms (Lockheed Martin or Raytheon) to produce the weapons systems in its new submarines. News reports in early 2016 indicated that U.S. officials had supported the Japanese submarine production bid.<sup>39</sup>

## Japan-Russia Relations

Part of Abe's international diplomacy push has been to reach out to Russia. Japan and the Soviet Union never signed a peace treaty following World War II due to a territorial dispute over four islands north of Hokkaido in the Kuril Chain, known in Japan as the Northern Territories, that the Soviets seized in the waning days of the war. Since the breakup of the Soviet Union in the early 1990s, Japan and Russia also have been unable to sign a formal peace treaty. Both Japan and Russia face security challenges from China and may be seeking a partnership to counter Beijing's growing economic and military power. Ambitious plans to revitalize relations with Moscow, including resolution of the disputed islands, however, do not appear to have made progress. Russia's aggression in the Ukraine in 2014 disrupted the improving relationships. Tokyo signed on to the G7 statement condemning Russia's action and implemented sanctions and asset freezes. Japan attempted to salvage the potential breakthrough by imposing only relatively mild sanctions despite pressure from the United States and other Western powers.

In 2016, Abe appears to have re-started his effort to resolve the territorial issue, while simultaneously working to improve economic ties, particularly through investment in the energy sector in Russia's resource-rich Far East. In May, ahead of the G-7 summit, Abe traveled to Sochi, Russia, to meet with Putin, and the leaders agreed to meet again in Vladivostok in September. Russian officials reportedly are pressuring Abe to invite Putin for an official state visit in the coming year,<sup>40</sup> a move that U.S. officials likely would not welcome. Tokyo may face pressure from the United States to curb any further rapprochement with Moscow due to Russian actions that are perceived to harm U.S. interests in Europe and the Middle East.

## 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>41</sup> In May 2009, the Japanese Ambassador to the United States 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

<sup>38</sup> Nigel Pittaway, "Australia Makes Major Shipbuilding Announcements for Navy," *Defense News*, April 26, 2016.

<sup>39</sup> Leo Lewis, "French Bid to Make Australia Submarines Fades on US Security Fears," *Financial Times*, February 8, 2016.

<sup>40</sup> "Russia Demands Formal Visit to Japan by President Putin," *Mainichi News*, May 31, 2016.

<sup>41</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).

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, 2013, 2014, and 2015.<sup>42</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>43</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. In July 2015, Mitsubishi became the first major Japanese company to apologize to U.S. POWs on behalf of its predecessor firm, which ran several POW camps that included over 1,000 Americans.<sup>44</sup>

## Energy and Environmental Issues

Japan and the United States cooperate on a wide range of environmental initiatives both bilaterally and through multilateral organizations 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). Japan is generally regarded by U.S. officials as 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. 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 nonproliferation measures and in reducing greenhouse gas emissions.<sup>45</sup>

Bilaterally, energy and climate cooperation spans many agencies. In April 2013, Secretary of State John Kerry and the Japanese Foreign Minister 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 research and development (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

In recent years, the two countries have increased their bilateral cooperation on nuclear security coordinated by the U.S.-Japan Nuclear Security Working Group, under the U.S.-Japan Commission on Civil Nuclear Cooperation. They agreed at the 2014 Nuclear Security Summit to

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<sup>42</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>43</sup> H.Res. 333 (Feinstein) was introduced and passed by unanimous consent on November 17, 2011. (Honda) and (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.

<sup>44</sup> "Mitsubishi Materials Apologizes for Using US Prisoners of War as Slave Labor," *The Guardian*. July 19, 2015.

<sup>45</sup> Hideshi Futori, "Japan's Role in Asia's Nuclear Security," Woodrow Wilson Center, February 10, 2014.



remove weapon-usable nuclear materials from research institutes in Japan. A mutual goal of the United States and Japan is to remove highly enriched uranium (HEU) and plutonium from civilian nuclear programs worldwide in order to reduce the risk of diversion or use by terrorists. HEU and separated plutonium from fuel assemblies were removed from the Fast Critical Assembly (FCA) at the Tokai Research and Development Center and shipped in March 2016 to the Savannah River Site in South Carolina.<sup>46</sup> This material had been used for civilian research purposes and was under international safeguards prior to its removal. The U.S. Department of Energy intends to dilute the plutonium and package it for disposal at the Waste Isolation Pilot Plant near Carlsbad, NM. At the 2016 Nuclear Security Summit, the United States and Japan pledged to work together to convert the Kyoto University Critical Assembly (KUCA) from HEU to LEU fuel, and ship the HEU to the United States. Some observers, particularly in China, have been critical of Japan's large stockpile of plutonium, which could be used to make nuclear weapons. Japan has consistently rejected the option of developing nuclear weapons.

### 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.

<sup>46</sup> U.S.-Japan Joint Statement on Nuclear Security Cooperation, March 31, 2016, <http://www.nss2016.org/document-center-docs/2016/4/1/joint-statement-on-us-japan-cooperation>.

## **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 nonproliferation 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 for several years (except a temporary reactivation for two reactors at one site in central Japan). No reactors were operating from September 2013 until August 2015.

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>47</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>48</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. The first of these reactors resumed operations in August 2015. 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. Approximately 60% of the Japanese public opposes the restart of nuclear reactors, compared to approximately 30% in favor.<sup>49</sup> The Abe Cabinet faces a complex challenge: how can Japan balance concerns about energy security, promotion of renewable energy sources, the viability of electric utility companies, the health of the overall economy, and public concerns about safety? If Japan closes down its nuclear power industry, will it still play a lead role in promoting nuclear safety and nonproliferation around the world?

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<sup>47</sup> Masakazu Toyoda, "Energy Policy in Japan: Challenges After Fukushima," Institute of Energy Economics, Japan, presentation prepared for delivery on January 24, 2013.

<sup>48</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>49</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.



## 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 reduction of nuclear power at present, Japan has become increasingly dependent on fossil fuels for electric power generation (see previous section). Japan imported a record 88.5 million metric tons of LNG in 2014, with Australia, Qatar, and Malaysia the leading suppliers. Japanese utilities have been attracted to the large difference between their oil-linked prices for natural gas and the much lower price prevailing in North America. The lower price is largely a result of the expansion of natural gas production from shale. For more information, see CRS Report R42074, *U.S. Natural Gas Exports: New Opportunities, Uncertain Outcomes*, by (name redacted) et al.

As of August 2015, the Department of Energy (DOE) has approved, either fully or conditionally, 10 projects in the continental United States to export LNG to countries with which the United States does not have a free trade agreement (FTA).<sup>50</sup> 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 was controversial. Critics of increased exports have raised concerns about the environment and higher gas prices for domestic industries and consumers. As of August 2015, there are approximately 32 applications awaiting DOE approval to export LNG to non-FTA countries.

## 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 approximately 90 facilities (see **Figure 2**). In exchange, the United States guarantees Japan's security, including through extended deterrence, known colloquially as 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 of which complement U.S. forces.<sup>51</sup>

Since the early 2000s, the United States and Japan have taken 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 its major strategic documents reflect a new attention to operational readiness and flexibility. The original, 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

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<sup>50</sup> Japan currently imports less than 1% of its natural gas supply from Alaska.

<sup>51</sup> For more information and analysis, see CRS Report RL33740, *The U.S.-Japan Alliance*, by (name redacted) and (name redacted)

on the U.S. military to manage security challenges. 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, cybersecurity, and military use of space. 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 approach termed "Proactive Pacifism" that involves Japan taking a greater role in international security 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."

Figure 2. 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.

## Revised Mutual Defense Guidelines

In late April 2015, the United States and Japan announced the completion of the revision of their bilateral defense guidelines, a process that began in late 2013. First codified in 1978 and later updated in 1997, the guidelines outline how the U.S. and Japanese militaries will interact in peacetime and in war as the basic framework for defense cooperation based on a division of labor. The new guidelines account for developments in military technology, improvements in interoperability of the U.S. and Japanese militaries, and the complex nature of security threats in the 21<sup>st</sup> century. For example, the revision addresses bilateral cooperation on cybersecurity, the use of space for defense purposes, and ballistic missile defense, none of which were mentioned in the 1997 guidelines. The new guidelines lay out a framework for bilateral, whole-of-government cooperation in defending Japan's outlying islands. They also significantly expand the scope of U.S.-Japan security cooperation to include defense of sea lanes and, potentially, Japanese contributions to U.S. military operations outside East Asia. The Abe Administration pushed through controversial legislation in fall 2015 to provide a legal basis for these far-reaching defense reforms, despite vocal opposition from the opposition parties and the Japanese public. Japan's implementation of the new guidelines and related defense reforms has been slow and incremental, as of June 2016, perhaps because of the controversy that surrounded passage of the new security legislation.

The new bilateral defense guidelines also seek to improve alliance coordination. The guidelines establish a standing Alliance Coordination Mechanism (ACM), which will involve participants from all the relevant agencies in the U.S. and Japanese governments, as the main body for coordinating a bilateral response to any contingency. This new mechanism removes obstacles that had inhibited alliance coordination in the past. The previous ACM only would have assembled if there was a state of war, meaning that there was no formal organization to coordinate military activities in peacetime, such as during the disaster relief response to the March 2011 disasters in northeast Japan. The U.S. and Japanese governments have convened the ACM to coordinate responses to North Korea's January 2016 nuclear weapon test, the earthquakes near Kumamoto, Japan, in April 2016, and other episodes impacting East Asian regional security.

## 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>52</sup> but exercising that right would violate Article 9 of the Japanese constitution.<sup>53</sup> However, Japan has interpreted Article 9 to mean that it can maintain a military for national defense purposes and, since 1991, has allowed the SDF to participate in noncombat roles overseas in a number of United Nations (U.N.) peacekeeping missions and in the U.S.-led coalition in Iraq.

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<sup>52</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>53</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."

In 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 Komeito and in response to cautious public sentiment, are rather restrictive and could limit significantly the latitude for Japan to craft a military response to crises outside its borders. The security legislation package that the Diet passed in September 2015 provides a legal framework for new SDF missions, but institutional obstacles in Japan may inhibit full implementation 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 noncombat 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.

## 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 Okinawa remains a critical challenge for the alliance.<sup>54</sup>

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>55</sup> Hirokazu Nakaima, then-governor of Okinawa, 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. Nakaima's approval of the landfill permit gave hope to Washington and Tokyo that, after decades of delay, they could 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. military official testified

<sup>54</sup> For more information and analysis, see CRS Report R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*, by (name redacted) and (name redacted)

<sup>55</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." 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. The 2012 agreement also revised the USMC realignment: 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.

to Congress in 2016 that the expected completion of the new base at Henoko had been delayed from 2022 to 2025.

Despite the decision by Nakaima, most Okinawans oppose the construction of a new U.S. base for a mix of political, environmental, and quality-of-life reasons. Politicians opposed to the Futenma relocation won elections in 2014 for governor of Okinawa, mayor of Nago City, and all four Okinawan districts in the Lower House of the Diet. In March 2015, current Okinawa Governor Takeshi Onaga ordered the Japanese central government to cease construction at the Henoko site, and in September 2015 he declared that he would revoke the landfill permit issued by his predecessor. This decision launched a series of lawsuits and counter-suits by the Japanese central government and Okinawa Prefecture, essentially contesting the legitimacy of Governor Onaga's revocation of the landfill permit and the central government's ability to override his action.

The two sides agreed in March 2016 to a court-recommended mediation process, and the construction of the Futenma replacement facility is suspended until 2017 while Tokyo and Naha resume negotiations. If talks prove fruitless, the Japanese court is expected to deliver a judgement in 2017 that will either allow the Abe Administration to override Governor Onaga's opposition or, conversely, prevent construction of the new facility at Henoko as planned. 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 more intense anti-base protests. Okinawan anti-base civic groups have ramped up their protest activities since 2015, and some groups may take extreme measures to prevent construction of the facility at Henoko.

### **Marine Corps Realignment to Guam**

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. The FY2015 National Defense Authorization Act (NDAA, P.L. 113-291) removed prior restrictions on military construction for the Guam realignment, the Department of Defense (DOD) may only spend funds on prescribed components of Guam's civilian infrastructure. DOD is now able to spend Japanese government funds allocated for the realignment. Japan has agreed to pay \$3.1 billion of the estimated \$8.7 billion total cost and will have preferential access to some of the new training facilities. In the FY2013 and FY2014 NDAs, Congress had imposed several requirements on DOD before it could begin military construction for the Marine Corps realignment. DOD was able to fulfill most of those requirements, culminating in its submission of the Guam Master Plan to Congress in August 2014. The U.S. Navy announced a Record of Decision (a key planning milestone) for the Guam realignment in August 2015. DOD still faces a number of challenges on Guam, particularly regarding civilian infrastructure and public services, but provisions in the FY2015 and FY2016 NDAs have given momentum to this massive project.

### **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 3**). The United States spends an additional \$2.7 billion per year (on top of the Japanese contribution) on non-personnel costs for troops stationed in Japan.<sup>56</sup> At the

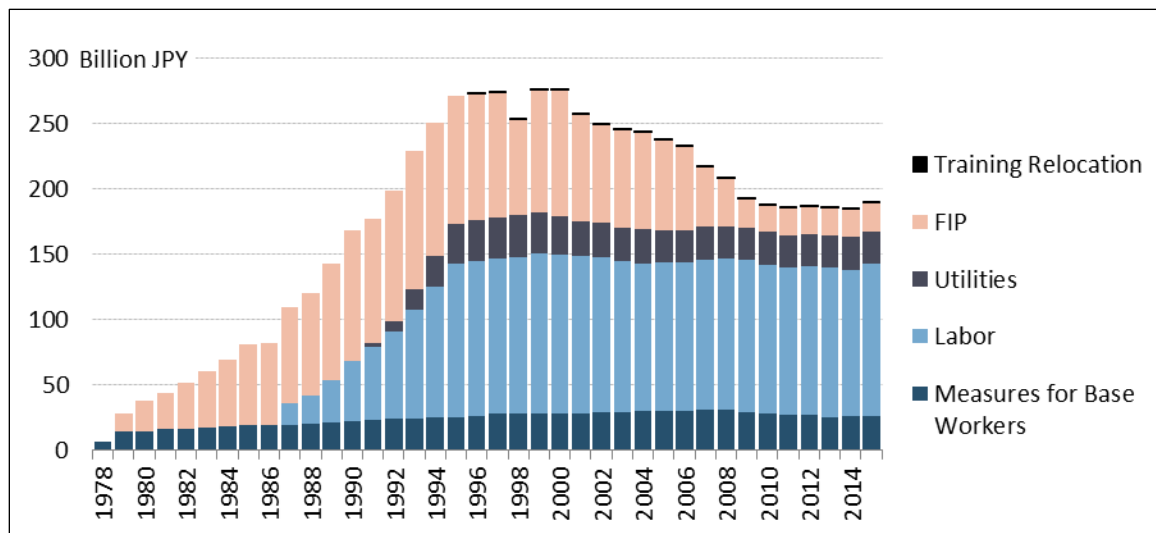
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<sup>56</sup> Office of the Under Secretary of Defense, Comptroller, *Operation and Maintenance Overview: Fiscal Year 2017 Budget Estimates*, Washington, DC, February 2016, pp. 225-228.



current exchange rate, therefore, Japan is paying about 40% of the non-personnel costs of the U.S. military presence. Japanese host nation support is composed 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. Under the current SMA, covering 2016-2020, the United States and Japan agreed to keep Japan's host nation support at roughly the same level as it had been paying in the past. Japan will contribute ¥189 billion (\$1.6 billion) per year under the SMA and contribute at least ¥20.6 billion (\$175 million) per year for the FIP. Depending on the yen-to-dollar exchange rate, Japan's host nation support likely will be in the range of \$1.7-2.1 billion per year. The amount of FIP funding is not strictly defined, other than the agreed minimum, 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. In addition to host nation support, which offsets costs that the U.S. government would otherwise have to pay, Japan spends approximately ¥128 billion (\$1.2 billion) annually on measures to subsidize or compensate base-hosting communities.<sup>57</sup> Based on its obligations defined in the U.S.-Japan Mutual Security Treaty, Japan also pays the cost of relocating U.S. bases within Japan and rent to any landowners of U.S. military facilities in Japan.

**Figure 3. Host Nation Support for USFJ**  
in billions of Japanese yen



**Source:** Japanese Ministry of Defense, [http://www.mod.go.jp/j/approach/zaibeigun/us\\_keihi/sui\\_img.pdf](http://www.mod.go.jp/j/approach/zaibeigun/us_keihi/sui_img.pdf)

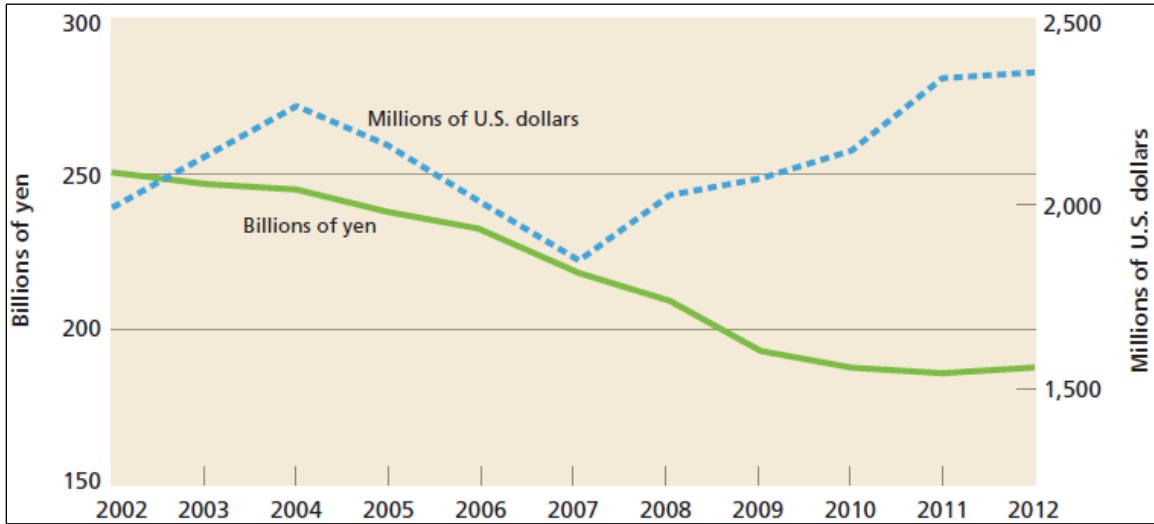
**Notes:** This graph uses data for expenditures, not contracts. Training relocation contributions are less than JPY 1 billion per year, much smaller than other categories. "Measures for Base Workers" encompasses welfare costs, benefits, and other expenses not included in the base salary of Japanese employees on U.S. bases.

The value of Japan's host nation support in dollar terms fluctuates based on the dollar-to-yen exchange rate. As **Figure 4** demonstrates, the value in U.S. dollars of Japan's contributions was higher in 2012 than in 2005, despite a notable drop in the yen-denominated contributions.

<sup>57</sup> Japanese Ministry of Foreign Affairs, "U.S. Forces in Japan-related Costs borne by Japan (JFY2015)," <http://www.mofa.go.jp/mofaj/files/000098651.pdf>.



**Figure 4. Exchange Rate Comparison for Host Nation Support**  
Based on Japanese fiscal year estimates in nominal currency values



**Source:** Michael Lostumbo, Michael McNerney, and Eric Peltz, et al., *Overseas Basing of U.S. Military Forces: An Assessment of Relative Costs and Strategic Benefits*, RAND Corporation, Santa Monica, CA, 2013, p. 150.

## 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.<sup>58</sup> 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>59</sup> Reportedly, Tokyo discouraged a proposal to declare that the "sole purpose" of U.S. nuclear weapons is to deter nuclear attack.

A lack of confidence in the U.S. security guarantee could lead Tokyo to reconsider its own status as a non-nuclear weapons state. Presidential candidate Donald Trump in spring 2016 stated that he was open to Japan developing its own nuclear arsenal to counter the North Korean nuclear threat.<sup>60</sup> Analysts point to the potentially negative consequences for Japan if it were to develop its own nuclear weapons, including significant costs; reduced international standing in the campaign to denuclearize North Korea; the possible imposition of economic sanctions that would be triggered by leaving the global non-proliferation regime; and potentially encouraging South Korea to develop nuclear weapons capability. For the United States, analysts note that encouraging Japan to develop nuclear weapons could mean diminished U.S. influence in Asia, the

<sup>58</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.

<sup>59</sup> Roberts (2013).

<sup>60</sup> "Transcript: Donald Trump Expounds on His Foreign Policy Views," *New York Times*, March 26, 2016.

unraveling of the U.S. alliance system, and the possibility of creating a destabilizing nuclear arms race in Asia.<sup>61</sup> Japanese leaders have repeatedly rejected developing their own nuclear weapon arsenal.

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 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 since 2009 have provided opportunities for the United States and Japan to test their BMD systems in real-life circumstances.<sup>62</sup>

## 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. 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 2015. Furthermore, their economies are intertwined by trade in goods and services and by foreign investment.<sup>63</sup>

### Overview of the Bilateral Economic Relationship

Japan remains an important economic partner of the United States, but its importance arguably has been eclipsed by other partners, notably China. Including both goods and services trade, Japan was the United States' fifth-largest export market (behind Canada, Mexico, China, and the United Kingdom) and the fourth-largest source of U.S. imports (behind China, Canada, and Mexico) in 2015. These numbers probably underestimate the importance of Japan in U.S. trade since Japanese firms export intermediate goods to China that are then used to manufacture finished goods that Chinese enterprises export to the United States. The United States was Japan's largest goods export market and second-largest source of goods imports (after China) in 2015. The global economic downturn had a significant impact on U.S.-Japan trade: both U.S. exports and imports declined in 2009 from 2008. Trade with Japan has again declined since 2012, though the large change in valuation of the *yen* during that time likely affected both the quantity and value of trade—valued in *yen*, U.S. trade with Japan, both imports and exports, has increased over the same period. (See **Table 1**.)

<sup>61</sup> See, for example, Robert Manning, "Trump's 'Sopranos' Worldview Would Undo Asian Alliances," *New Atlanticist* blog post, March 29, 2016.

<sup>62</sup> For more information, see CRS Report R43116, *Ballistic Missile Defense in the Asia-Pacific Region: Cooperation and Opposition*, by (name redacted), (name redacted), and (name redacted).

<sup>63</sup> For background, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by (name redacted).

**Table I. U.S. Trade with Japan, Goods and Services**  
(\$ billions)

Year	Goods Exports	Goods Imports	Goods Balance	Services Exports	Services Imports	Services Balance
2005	54.8	140.4	-85.6	39.5	20.6	19.0
2006	59.3	150.9	-91.6	39.2	23.9	15.3
2007	62.8	148.3	-85.5	37.9	24.4	13.6
2008	67.1	142.4	-75.3	39.8	24.6	15.1
2009	52.9	97.8	-44.9	38.0	21.4	16.7
2010	61.4	122.9	-61.5	43.3	24.6	18.7
2011	67.3	131.8	-64.6	43.8	24.7	19.1
2012	71.6	149.2	-77.6	46.7	27.3	19.4
2013	66.5	141.3	-74.8	46.4	30.0	16.4
2014	68.0	136.7	-68.7	46.7	31.2	15.5
2015	63.7	134.5	-70.8	43.5	29.4	14.1

**Source:** U.S. Bureau of Economic Analysis (BEA), International Transactions Tables. Balance of payment 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—beginning with the burst of the asset bubble in the 1990s, continuing as a result of the 2008-2009 financial crisis and the 2011 disasters, and remaining sluggish despite Prime Minister Abe’s pro-growth agenda—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;
- the growth in the complexity and number of countries involved in international supply chains has likely diffused or shifted concerns over import competition as many Japanese products are now imported into the United States as components in finished products from other countries, reducing the bilateral trade deficit; and
- 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.

## Abenomics

Between the end of World War II and 1980s, Japan experienced high levels of economic growth. It was dubbed an “economic miracle” until the collapse of an economic bubble in Japan in the early 1990s brought an end to rapid economic growth. Many economists have argued that, despite the government’s efforts, Japan has never fully recovered from the 1990s crisis. Japan’s economy has suffered from chronic deflation (falling prices) and low growth over the past two decades.

Additionally, in the past several years, Japan's economy was hit by two economic crises: the global financial crisis in 2008 and 2009, and the March 2011 earthquake, tsunami, and nuclear reactor meltdowns in northeast Japan (see box on the March 2011 "Triple Disaster").

Prime Minister Abe has made it a priority of his administration to boost economic growth and to eliminate deflation. Abe has promoted a three-pronged, or "three arrow," economic program, nicknamed "Abenomics." The three arrows include monetary stimulus, fiscal stimulus, and structural reforms that improve the competitiveness of Japan's economy. Most economists agree that progress across the three arrows has been uneven at best.

- The first arrow of Abenomics, monetary stimulus to reverse deflation, has been implemented most aggressively. In the spring of 2013, Japan's central bank (Bank of Japan, or BOJ) announced a continued loose monetary policy with interest rates of 0%, quantitative easing measures, and a target inflation rate of 2%. After Japan's economy slipped back into recession in 2014, the BOJ began a second round of quantitative easing in October 2014. In January 2016, with inflation recording around 0.2% the previous month, the BOJ made a surprise move of cutting interest rates on new bank reserves from 0.1% to -0.1%. Despite monetary stimulus measures, including the adoption of negative interest rates, inflation in Japan remains well below the BOJ's target of 2%.
- The Japanese government has also taken some steps to use fiscal policy to stimulate the economy (the second arrow). The government initially implemented fiscal stimulus packages worth about \$145 billion, aimed at spending on infrastructure, particularly in the areas affected by the March 2011 disaster. However, the government's willingness to use expansionary fiscal policies has been constrained by concerns about its public debt, the largest in the world at over 240% of GDP. To address the fiscal pressures, the government raised the sales tax from 5% to 8% in April 2014. However, many economists argued that the sales tax increase was responsible for pushing Japan into recession in 2014. The government twice has postponed a planned second sales tax increase, to 10%, which now is scheduled to occur in October 2019, four years later than originally planned. Additionally, the Abe government has approved multiple supplementary stimulus budgets. Most recently, in May 2016, it unveiled a \$7.3 billion package to give the economy a boost and to fund reconstruction efforts in the region around Kumamoto, which between April and June 2016 was hit by a series of powerful earthquakes. At the G-7 summit in May, Abe reportedly put significant emphasis on the risk of a global economic crisis brought on by weak global demand, and his government reportedly will introduce another supplementary budget in the summer of 2016.<sup>64</sup>
- Progress on the third arrow, structural reforms, has been more uneven.<sup>65</sup> The government has made progress on reforming agricultural co-operatives (which have traditionally been a strong vested interest), reforming corporate governance (which has helped increase returns on equity), and has planned to fully liberalize the electricity market by 2016, among other reforms. In other areas, however, progress has been slower. There has been little labor market reform to address

<sup>64</sup> Craig Trudell, "Japan's Abe Plans Up to \$90.7 Billion Stimulus, Nikkei Says," *Bloomberg.com*, May 27, 2016.

<sup>65</sup> Robin Harding and Leo Lewis, "The Third Arrow of Abenomics: A Scorecard," *Financial Times*, September 9, 2015.

Japan's two-tier labor system (permanent vs. temporary employees), resistance to more liberal immigration policies (which could help bring in workers needed to offset Japan's rapidly aging population), and corporate taxes (which, despite some cuts, remain among the highest in the world). In July 2015, the IMF urged the Japanese government to swiftly implement reforms that had already been announced as well as pursue additional "high-impact" reforms, that would lift the labor supply, reduce labor market duality, and continue agricultural and services sector deregulation.<sup>66</sup> Some analysts have noted that the structural reform agenda appears to have lost some steam since 2015 as Abe has spent significant political capital pushing defense legislation.<sup>67</sup>

After mixed results in the initial two to three years of the Prime Minister's economic program, weak economic growth in the first half of 2016 has caused many observers to wonder whether Abenomics has run its course.<sup>68</sup> As noted above, Japan's economy slipped back into recession in 2014. This was Japan's fourth recession since 2008, and was largely attributed to the April 2014 sales tax increase. Japan's economy recovered in the fourth quarter of 2014, but has averaged around 0.5% real GDP growth since, according to the Economist Intelligence Unit. Weak demand domestically and globally, particularly in China, combined with an appreciation of the *yen*, are the short-term trends commonly attributed to Japan's recent slow growth rates. The IMF argues that structural reforms have improved long-term prospects modestly but that Abenomics needs to be "reloaded," particularly with the identification and pursuit of additional structural reforms.<sup>69</sup> The IMF has also stressed that a medium-term fiscal consolidation plan is needed to put the debt on a downward path and that the BOJ should be ready to engage in additional monetary stimulus as needed. Some experts are skeptical about the government's willingness to push through economic reforms. In September, a major credit rating agency, Standard & Poor's, downgraded Japan's long-term credit rating, saying it sees little chance of the Abe government turning around the poor outlook for economic growth and inflation over the next few years.<sup>70</sup>

### Emphasis on "Womenomics"

A key component of the third arrow focuses 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 Organization for Economic Cooperation and Development countries. A strategist with Goldman Sachs in Japan estimates that closing the gender employment gap could boost Japan's GDP by nearly 13%.<sup>71</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 day care, 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

<sup>66</sup> IMF, "IMF Executive Board Concludes 2015 Article IV Consultation with Japan," July 23, 2015.

<sup>67</sup> Linda Sieg and Kaori Kaneko, "Japan's Abe Unlikely to Tackle Hard Reforms in Next Term: Economists," *Reuters*, September 7, 2015.

<sup>68</sup> "A State of Paralysis in Japan," *Stratfor.com Analysis*, June 6, 2016.

<sup>69</sup> IMF, "IMF Executive Board Concludes 2015 Article IV Consultation with Japan," July 23, 2015.

<sup>70</sup> Keiko Ujikane, "Japan Rating Cut by S&P as Abe Falls Short of Early Promise," *Bloomberg*, September 16, 2015.

<sup>71</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>.

Japan, and Japanese female employment has reached a record high under the new policies.<sup>72</sup> Others express concern about potential challenges, such as a work culture that demands long hours and makes it hard to balance work and family. Additionally, some argue that Japan's workplace remains "rife" with illegal and overt harassment of pregnant workers.<sup>73,74</sup>

## Bilateral Trade Issues

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

The TPP is a proposed regional free trade agreement (FTA) signed on February 4, 2016, now awaiting ratification. Originally formed as an FTA among Singapore, New Zealand, Chile, and Brunei, the TPP negotiations gradually expanded to include the United States, Australia, Canada, Mexico, Peru, Malaysia, Vietnam, and finally, Japan. These 12 countries negotiated, in their view, a comprehensive and high standard agreement to liberalize trade and to establish enhanced trade rules and disciplines. They envision the TPP to be a "21<sup>st</sup> century" framework for governing trade within the Asia-Pacific region including through its new provisions on issues such as regulatory coherence, transparency, state-owned enterprises, and in particular, digital trade. To enter into force the agreement must be ratified by each of the 12 countries, according to their own domestic procedures. Alternatively, after two years, the agreement may enter into force with only six countries' ratification, if the six account for 85% of the group's GDP—effectively requiring both U.S. and Japanese participation.

As the second largest East Asian economy and a crucial link in Asian production networks, Japan's participation in the TPP is economically significant, although it continues to be the subject of debate 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 argue that Japanese agriculture will be severely harmed by foreign competition as a result of TPP's elimination and reduction of tariff and quota barriers. The Diet will likely consider measures to expand farm support in a package of bills related to TPP.<sup>75</sup> Other Japanese business interests, including manufacturers, strongly support the TPP.

Abe has acknowledged the domestic sensitivities to participation in TPP, but has also insisted that Japan needs to be part of the agreement to support economic growth. Underlying his decision 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 to China and middle powers, such as South Korea. The rapid aging and gradual shrinking of Japan's population have also 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.

Among U.S. stakeholders, the auto and agriculture industries are among the most vocal, regarding Japan's TPP participation. U.S. auto companies have a long history of intense competition with Japanese firms, and have raised concerns about removing tariff protections in the U.S. market.

<sup>72</sup> Robin Harding and Leo Lewis, "The Third Arrow of Abenomics: A Scorecard," *Financial Times*, September 9, 2015.

<sup>73</sup> "Women and Work in Japan," *Economist*, September 5, 2015.

<sup>74</sup> For further information, see CRS Report R43668, "Womenomics" in Japan: In Brief, by (name redacted) and (name redacted).

<sup>75</sup> "Japan Lower House Votes to Launch TPP Special Committee," *Jiji Press*, March 24, 2016.



Although Japan has no auto tariffs, import penetration in Japan is extremely low, which U.S. producers blame on non-tariff barriers (NTBs). TPP commitments would address certain NTB issues, but some stakeholders question their effectiveness.<sup>76</sup> Most U.S. agriculture interests, however, are very supportive of Japan's involvement, seeing an opportunity to expand U.S. exports to a large and currently highly protected market. Recent analysis by the U.S. International Trade Commission (USITC) estimates that the U.S. food and agriculture sector would be the biggest relative beneficiary of the agreement, in large part due to expanded access in Japan.<sup>77</sup>

Japan also plays an important role in the potential strategic significance of the TPP, as the United States seeks to assert and maintain its regional leadership, in both economic and geo-political spheres.<sup>78</sup> One such strategic motive, as characterized by the President, is to use the TPP as a vehicle to write the region's trade rules. Japan's economic weight could make the disciplines in TPP not only more commercially significant given the trade volumes involved, but also expand their coverage, as Japan's participation has already prompted heightened interest in the TPP from other potential future members. Japan and the United States' cooperation in TPP, meanwhile, represents a key foundation of the argument that the pact is an important signal of U.S. credibility in the region. Additionally, while the *passage* of the TPP may not have a major direct impact on the strategic relationship, a *collapse* of the agreement would likely have a strong symbolic impact, particularly in how Japanese and other Asians may view the U.S.-Japan alliance and U.S. commitment to exerting its economic leadership and influence in East Asia.

Japan is also participating in other bilateral and regional trade negotiations in the Asia-Pacific. The most significant of these in terms of membership is the Regional Comprehensive Economic Partnership (RCEP), which would join Japan with the 10 members of the Association of Southeast Asian Nations (ASEAN), China, South Korea, Australia, New Zealand, and India in a regional trade agreement. 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, the absence of the United States and the inclusion of China is noteworthy.<sup>79</sup> In 2013, Japan began negotiating a trilateral FTA with China and South Korea. The Japan-Australia Economic Partnership Agreement entered into force on January 15, 2015.

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<sup>76</sup> "Levin, Citing ITC Findings, Blasts TPP for Impact on Auto Sector," *Inside U.S. Trade*, May 19, 2016.

<sup>77</sup> USITC, *Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*, Publication 4607, May 2016.

<sup>78</sup> For more information on the strategic aspects of TPP, see CRS Report R44361, *The Trans-Pacific Partnership (TPP): Strategic Implications*, coordinated by (name redacted) and (name redacted)

<sup>79</sup> See, for example, Beginda Pakpahan, "Will RCEP Compete with the TPP?" *EastAsiaForum*, <http://www.eastasiaforum.org>.



### 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, including an increase in 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. Vehicles entering under PHP benefit from expedited and less costly certification procedures. Japan also 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. Those negotiations resulted in bilateral side letters, in which the two countries agreed to additional commitments on autos, insurance, and express delivery.

The TPP includes 30 chapters covering a broad range of trade and investment-related issues and has the potential to impact U.S.-Japan economic relations in a number of ways. Select provisions of particular importance in the bilateral relationship include the following:

- **Agriculture.** TPP would include significant market openings for a number of competitive U.S. exports, such as beef and pork, for which Japan is already the largest U.S. export market despite current high tariffs (e.g. 38.5% on U.S. beef exports). Trade barriers on some agricultural goods, including certain dairy products, however, would remain unchanged or only partially eliminated through TPP, unlike industrial goods tariffs, which would be comprehensively eliminated.
- **Autos.** TPP would phase out the 2.5% U.S. auto and 30% U.S. light truck tariffs over 25 and 30 years, respectively. The auto rule of origin, one of the last issues resolved, would determine the extent to which TPP members can source inputs from non-TPP supply chains and still qualify for duty-free treatment, an especially important provision for Japanese automakers with extensive Asian supply chains.<sup>80</sup> TPP would require that 45% of the net cost of the auto's value come from a TPP country, a higher threshold than the U.S.-South Korea FTA (35%), but below that found in the North American Free Trade Agreement (NAFTA) (62.5%). TPP would also commit both countries to certain regulatory practices on autos, including notification procedures for regulatory changes, evidence-based safety determinations, and timely dispute resolution.
- **Insurance.** Japan is a major market for various insurance products. U.S. firms have raised concerns about market access in Japan and competition with Japan Post, the Japanese postal service which also sells financial products. TPP would require Japan to regulate Japan Post as a financial services firm and allow private companies access to its distribution channels.
- **Currency.** In a separate declaration with no enforcement mechanism, the 12 members also agreed to certain commitments related to exchange rate policy (see below for more).

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

The first “arrow” of Abenomics, expansionary monetary policies, has contributed to a depreciation of the yen against the U.S. dollar. In mid-2012, the yen was valued at an average of 79 yen (¥) per dollar. Thereafter, the yen depreciated by about 50% against the dollar over a three-year period, at one point in June 2015 hitting a trough of around 124 yen (¥) per dollar,

<sup>80</sup> For more information, see CRS In Focus IF10393, *TPP: Rules of Origin*, by (name redacted), (name redacted), and (name redacted).

similar to the value of the yen against the dollar in 2007.<sup>81</sup> Over the first five and a half months of 2016, the yen appreciated sharply, from around 120 yen (¥) per dollar to as high as 106 yen (¥) to the dollar, despite weak economic growth in Japan and the Bank of Japan's January 2016 introduction of negative interest rates.

Some policymakers and analysts allege that Japan has been 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 States. Japanese officials have denied any manipulation of the yen. According to the Treasury Department and to Japan's Ministry of Finance, Japan has not intervened in the foreign exchange market since late 2011.<sup>82</sup> 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>83</sup>

Some Members of Congress have pushed for "currency manipulation" to be addressed in the proposed TPP.<sup>84</sup> The TPA legislation signed into law in June 2015 (P.L. 114-26) includes principal negotiating objectives to address currency manipulation. They seek to prevent and address currency manipulation, particularly protracted, large-scale interventions in foreign exchange markets, through multiple possible remedies. The 12 TPP countries agreed to a joint declaration committing themselves to avoiding currency manipulation and ensuring transparency in reporting of foreign exchange holdings and transactions. The currency agreement, however, is not part of the actual TPP text and has no enforcement mechanism, a major concern of some U.S. stakeholders, including Ford Motor Company.<sup>85</sup>

The application of countervailing duties on imports from countries with undervalued exchange rates also was debated in the context of the Trade Facilitation and Trade Enforcement Act (H.R. 644/P.L. 114-125), which President Obama signed into law in February 2016. In addition to requiring that Treasury create a currency "monitoring list," the law established an advisory committee on international exchange rate policy that is responsible for advising the Treasury Secretary on the impact of exchange rate and financial policies on the U.S. economy. The law did not include language from an earlier Senate version of the bill, which would have applied countervailing duties on imports from countries that manipulate their currencies.

Proposals to address "currency manipulation" in TPP or through other means are controversial. Some argue that seeking to include currency issues in a trade agreement is not a straightforward 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

<sup>81</sup> Bank of Japan Time-Series Data Search, [http://www.stat-search.boj.or.jp/index\\_en.html#](http://www.stat-search.boj.or.jp/index_en.html#).

<sup>82</sup> U.S. Department of the Treasury Office of International Affairs, *Report to Congress. Foreign Exchange Policies of Major Trading Partners of the United States*, April 29, 2016, especially p. 5; Japanese Ministry of Finance, "Foreign Exchange Intervention Operations, Historical Data," available at [http://www.mof.go.jp/english/international\\_policy/reference/feio/index.htm](http://www.mof.go.jp/english/international_policy/reference/feio/index.htm).

<sup>83</sup> For more information about exchange rates and "currency manipulation," see CRS In Focus IF10049, *Debates over "Currency Manipulation"*, by (name redacted), and CRS Report R43242, *Current Debates over Exchange Rates: Overview and Issues for Congress*, by (name redacted).

<sup>84</sup> In 2013, 230 Representatives and 60 Senators sent letters to the Obama Administration calling for "currency manipulation" to be addressed in TPP.

<sup>85</sup> USITC, *Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*, Publication 4607, May 2016, p. 253.

it is possible to differentiate between “manipulation” and legitimate central bank activities; and the net effect of currency manipulation on the U.S. economy.

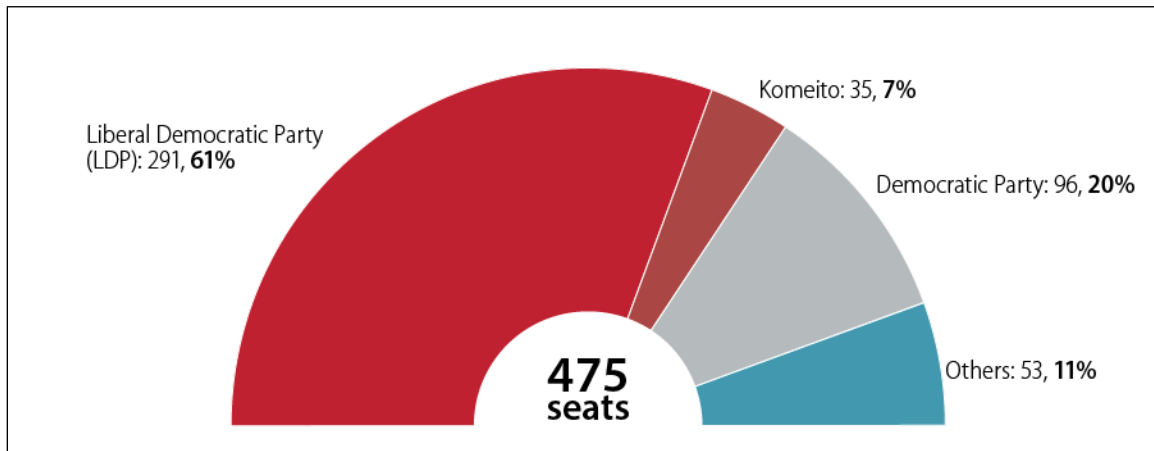
## Japanese Politics

### July 2016 Upper House Elections

Despite widespread perceptions in Japan that Abenomics is losing steam, few observers of Japan’s political scene believe that Abe’s premiership is in jeopardy, at least in the short run. In addition to facing no challengers in the LDP at the moment, Abe is benefitting from the apparent disarray in Japan’s major opposition parties, whose rate of support is at or below 10% of voters. The next electoral test for Abe will come on July 10, 2016, when Japanese voters will vote for half the 242 members of the Upper House of the Japan’s bicameral Diet (Parliament). Although the Upper House is the structurally less powerful of the two parliamentary chambers, the election could have an impact on Abe’s ability to enact key items in his policy agenda. On the one hand, if the elections give the LDP coalition a so-called “super-majority” of two-thirds or more of the Upper House’s seats—which the coalition enjoys in the more powerful Lower House—Abe will cross the numerical threshold that is necessary to more easily control the chamber. Perhaps most importantly, a two-thirds majority theoretically would give Abe’s coalition the votes to amend Japan’s Constitution, including the war-renouncing clauses that Abe has said he would like to change. (See **Figure 5** and **Figure 6** for a display of major parties’ strength in Japan’s parliament.)

#### Figure 5. Party Affiliation in Japan’s Lower House of Parliament

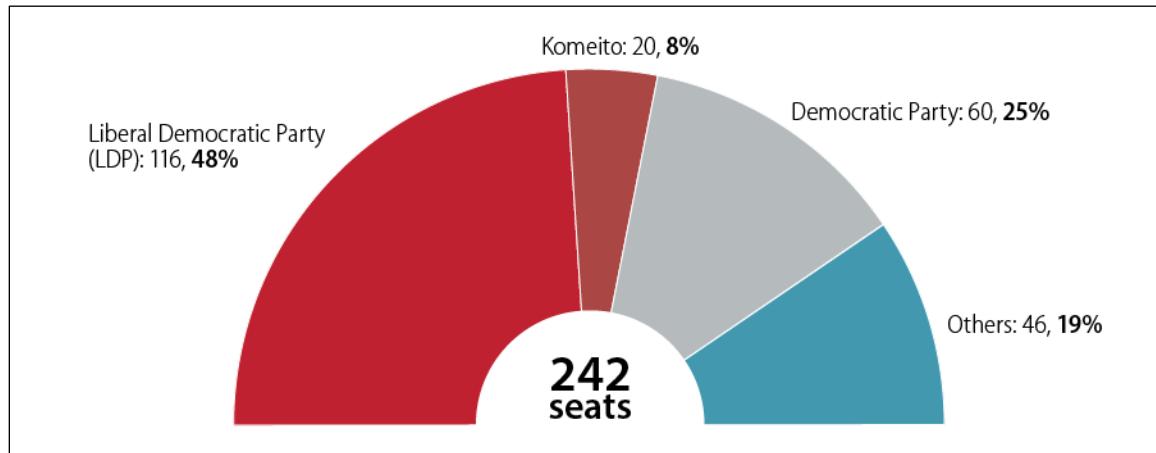
(The LDP and its partner, Komeito, control the Lower House, which elects the prime minister)



**Source:** Japan’s Lower House of Parliament, April 26, 2016.

**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 2014.

**Figure 6. Party Affiliation in Japan's Upper House of Parliament**  
(The LDP-Komeito coalition controls the Upper House)



**Source:** Japan's Upper House of Parliament, March 28, 2016.

**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.

On the other hand, if the election causes the LDP coalition to lose seats, it could puncture Abe's aura of electoral invulnerability; since becoming leader of the LDP in 2012, he has led the LDP coalition to three successive election victories. Additionally, a loss of seats could cause the coalition to lose its majority in the Upper House, making it more difficult for the Abe government to pass legislation. One dynamic many analysts are watching is how well the LDP fares in rural areas. If the LDP loses significant support in the agricultural communities, it could signal the expected Diet debate later in 2016 over the TPP free trade agreement will be more contentious than expected.

## 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 Abe-led LDP coalition's dominant victories in three parliamentary elections, in December 2012, July 2013, and December 2014, appear to have ended this period of turmoil. The first event, the 2012 elections for Japan's Lower House, returned the LDP and its coalition partner, the Komeito party, into power after three years in the minority. The fact that Lower House elections do not have to be held until 2018 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.

In September 2015, Abe won overwhelming support from his LDP colleagues for a second three-year term as party president. Abe ran for the party presidency unopposed. Abe's victory meant that he continued as prime minister; the Japanese Diet's (Parliament's) Lower House of Parliament chooses the prime minister, and the LDP-Komeito coalition controls more than two-thirds of the seats in the Lower House. Unless the LDP changes its rules limiting party presidents to two three-year terms—something it has done in the past—Abe's term in office will end in

2018. If he continues in office until the fall of 2017, Abe would become Japan's longest-serving prime minister since the 1960s.<sup>86</sup>

Some Japanese and Western analysts argue that one factor contributing to Abe's strength in his current stint in office is his government's and the LDP's success in managing the Japanese media. According to these sources, the government and the LDP have attempted to cow Japanese news outlets through measures such as hinting at revoking licenses of broadcasters, pressuring business groups not to purchase advertisements in certain media outlets, and shunning reporters from critical broadcasters and print publications.<sup>87</sup> In 2013, Abe appointed a new head of Japan's public broadcaster, NHK, who said that the network should not deviate too far from the government's views. Criticism from a number of media sources, particularly the left-of-center newspaper *Asahi Shimbun*, played a role in curtailing Abe's short-lived first term in office (2006-2007). Many accuse the Abe government of launching a campaign to discredit the *Asahi*.<sup>88</sup> Since Abe came to power in December 2012, the non-governmental organization Reporters without Borders has moved Japan down eight places, to 61<sup>st</sup> place, in its rankings of global freedom of the press.<sup>89</sup> Abe government officials deny that they have attempted to unduly influence the press or restrict press freedoms.

## The DP and Alternative Political Forces

The December 2012 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 to 2012. In March 2016, the DPJ merged with a smaller opposition group, the Japan Innovation Party (JIP) to form the Democratic Party (DP). Since 2012, the DP, DPJ, and JIP public approval ratings have rarely broken out of the single digit level, and the DP holds less than a third of the 230 seats the DPJ held when it was the ruling party. The DP is riven by divisions among its more hawkish and dovish factions, as well as among its market-oriented and socialist factions, that manifested themselves in 2015 in debates over collective self-defense legislation and the TPP. In the spring of 2016, the DP and some other opposition parties, including the Japanese Communist Party, reached an agreement on electoral coordination in single-member districts, which elect only one representative to the Diet (as in the U.S. system). This agreement will likely ameliorate the problem of opposition parties splitting their votes amongst competing candidates, a factor that had propelled the LDP to large majorities in recent elections.<sup>90</sup>

## 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

<sup>86</sup> This calculation does not include the one year of Abe's first stint as Prime Minister in 2006 and 2007.

<sup>87</sup> Aurelia George Mulgan, "Shinzo Abe's 'Glass Jaw' and Media Muzzling in Japan," *The Diplomat*, May 08, 2015; Martin Fackler, "Effort by Japan to Stifle News Media Is Working," *New York Times*, April 26, 2015; Robin Harding, "Shinzo Abe Accused of 'Emasculating Japanese Media,'" *Financial Times*, June 29, 2015; "German Journalist's Parting Shot to Abe over Press Freedom Causes Stir," *Asahi Shimbun*, April 28, 2015.

<sup>88</sup> Ibid.

<sup>89</sup> Reporters without Borders, <http://index.rsf.org/#!/index-details/JPN>, accessed September 17, 2015.

<sup>90</sup> Daniel M Smith, "The Challenge for Japan's Democratic Party in 2016: Simultaneously Increase Coordination and Turnout," in *New Perspectives on Japan from the U.S.-Japan Network for the Future*, Mansfield Foundation, June 2016, <http://mansfieldfdn.org/new-perspectives-on-japan-u-s-japan-network-for-the-future>.

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 to 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 -0.2%, according to the World Bank, 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>91</sup> Japan's immigration policies have traditionally been strictly limited, closing one potential source of new workers.

## Selected Legislation

### 114<sup>th</sup> Congress

**H.Res. 634 (Salmon).** Recognizes the importance of the United States-Republic of Korea-Japan trilateral relationship to counter North Korean nuclear proliferation and human rights violations, supports joint military exercises, and encourages development of coordinated missile defense systems. Referred to the Subcommittee on Asia and the Pacific on April 29, 2016.

**S.Res. 153 (Corker).** Recognizes the importance of the United States-Japan relationship to safeguarding global security, prosperity, and human rights. Submitted in the Senate, considered, and agreed to without amendment and with a preamble by Unanimous Consent on April 28, 2015.

**H.Con.Res. 124 (Takai).** Recognizes the 75<sup>th</sup> anniversary of the attack on Pearl Harbor and the lasting significance of National Pearl Harbor Remembrance Day. Referred to the Subcommittee on Military Personnel on March 21, 2016.

**S.Res. 247 (Isakson).** Commemorates and honors the actions of President Harry S. Truman and the crews of the Enola Gay and Bockscar in using the atomic bomb to bring World War II to an end. Referred to the Committee on Foreign Relations on August 5, 2015.

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<sup>91</sup> Lynann Butkiewicz, "Implications of Japan's Changing Demographics," National Bureau of Asian Research, Washington, DC, October 2012.



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

**P.L. 113-291.** Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for FY2015. Section 2821 removes prior restrictions on DOD spending to implement the realignment of the Marine Corps from Okinawa to Guam, including DOD expenditure of Japanese government funds transferred for that purpose. Section 1251 requires DOD to develop a strategy to prioritize U.S. defense interests in the Asia-Pacific region. Section 1255 encourages greater cooperation among the United States and its partners in Northeast Asia on ballistic missile defense. Section 1258 reaffirms Congress’s support for the U.S.-Japan alliance, including Japan’s initiative to engage in collective self-defense. Became law on December 19, 2014.

**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 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 noncompliant 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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