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U.S.-Japan Relations

Japan is a significant partner of the United States in a number of foreign policy areas, particularly security issues, which range from hedging against Chinese military modernization to countering threats from North Korea. The U.S.-Japan military alliance, formed in 1952, grants the U.S. military the right to base U.S. troops—currently numbering around 50,000—and other military assets on Japanese territory in return for a U.S. pledge to protect Japan's security. Japan also is the United States' fourth largest overall trading partner and second largest source of foreign direct investment, and Japanese investors are the second largest foreign holder of U.S. Treasuries.

For the first year of the Trump presidency, bilateral relations remained strong, at least on the surface, throughout several visits and leaders' meetings, cemented by common approach to North Korea. Japanese Prime Minister Shinzo Abe, Japan's longest-serving post-war leader, and President Trump presented a united front on dealing with Pyongyang's nuclear weapon test and multiple missile launches. Abe wholeheartedly endorsed the Trump Administration's "maximum pressure" approach.

Bilateral tensions arose in 2018, however, especially on trade issues. The Trump Administration has imposed tariffs on imports of steel and aluminum products from Japan and other countries. More significantly, the Administration is considering tariffs or other restrictions on U.S. motor vehicle imports, including from Japan. An Administration investigation under Section 232 of the Trade Act of 1962 found that U.S. auto imports threaten U.S. national security. On May 17, 2019, the President called for negotiations with Japan and the EU to address this threat within 180 days. Restrictions on bilateral auto trade could pose a serious threat to the Japanese economy. U.S. imports of Japanese autos and parts were \$56 billion, about one-third of total U.S. imports from Japan in 2018. Many analysts see the proposed auto tariffs as intended to influence broader bilateral trade agreement negotiations, which officially began in April 2019.

On North Korea, since early 2018 Trump has pursued a rapprochement with Pyongyang and held two summits with North Korean leader Kim Jong-un. Many Japanese are unconvinced that North Korea will give up its nuclear weapons or missiles and fear that Tokyo's interests will be marginalized if U.S.-North Korea relations improve. Chief among those issues are North Korea's abduction of Japanese citizens in the 1970s and 1980s. Trump's shift on North Korea and his statements questioning the value of alliances generally and Japan specifically have prompted questions among Japanese policymakers about the depth and durability of the U.S. commitment to Japan's security.

The U.S.-Japan Military Alliance

Since the early 2000s, the United States and Japan have taken significant strides to improve the operational capability of their alliance as a combined force, despite political and legal constraints. Many of these changes are guided by the threat from North Korea and a shared approach to China's increased assertiveness in the region.

Japan pays roughly \$2 billion per year to defray the cost of stationing U.S. military personnel in Japan. In addition, Japan pays compensation to localities hosting U.S. troops, rent for the bases, and the costs of new facilities to support the realignment of U.S. troops. Japan's current cost-sharing agreement with the United States, known as the "Special Measures Agreement" or SMA, is due to be re-negotiated next year. Some analysts predict that the Trump Administration will demand significant increases in Japan's contribution, and that the SMA negotiations will become entangled with the broader trade talks.

Abe has prioritized Japan's alliance with the United States, including accelerating reforms to make Japan's military (known as the Self-Defense Forces, or SDF) more capable, flexible, and interoperable with U.S. forces. Japan's 2014 decision to engage in limited collective self-defense—the right to defend another country that has been attacked by an aggressor—and the 2015 revision of the U.S.-Japan defense guidelines are both indications of these changes. U.S. and Japan officials say the main objectives of the guidelines revision are improving bilateral responses to contingencies in the "grey zone" short of war; enhancing cooperation in cyber warfare, military uses of space, and ballistic missile defense; and outlining new areas for cooperation.

A longstanding effort to relocate a U.S. Marine Corps base in Okinawa continues to face steep political challenges. Relocating the Futenma airbase to a less-congested area of the prefecture has divided Japan's central government and the Okinawan leadership for decades. Tokyo won a Japanese Supreme Court lawsuit in 2016 that restarted construction of the new facility. However, the Okinawan governor, who was elected in September 2018 on an anti-base platform, vows to block the plan. In February 2019, a non-binding referendum on the relocation revealed that 72% of voters opposed construction of the new base. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ personnel are located in Okinawa, which comprises less than 1% of Japan's total land area.

Regional Relations

Japan's relations with South Korea deteriorated sharply in 2018 and early 2019. Koreans hold long-standing grievances about Japan's colonial rule over the peninsula (1910-1945), particularly on the issue of Korean so-called "comfort women" who were forced to provide sex to Japanese soldiers in the World War II era. South Korea is suspicious of Abe in particular, who has been criticized for

earlier statements on sensitive historical issues. A U.S.-supported 2015 agreement on how to resolve the comfort women issue has fallen apart. In November 2018, the South Korean Supreme Court ruled that the Japanese company Mitsubishi should compensate Koreans forced to work in its factories during Japan's occupation of the Peninsula, despite the two governments settling this issue in the 1965 normalization treaty. Just a month later, a public spat erupted over whether a South Korean naval vessel had locked its radar on a Japanese reconnaissance aircraft.

The warming of relations between North and South Korea since early 2018 presents additional challenges to the relationship between U.S. allies South Korea and Japan. The North Korean threat has traditionally driven closer U.S.-Japan-South Korea trilateral coordination, and North Korea's provocations in the past provided both the motivation and the political room for South Korea and Japan to expand security cooperation. Japan is wary of Seoul's outreach to North Korea and argues that strong pressure against Pyongyang must be maintained. Some analysts have criticized the Trump Administration for not doing more to improve relations between Tokyo and Seoul.

Japan-China Relations

Tokyo is existentially concerned about Beijing's growing economic and military power. The two countries are engaged in a dispute over Japanese-administered uninhabited islets in the East China Sea known as the Senkaku Islands in Japan, Diaoyu in China, and Diaoyutai in Taiwan. The islets are also claimed by China and Taiwan. China regularly deploys maritime law enforcement ships near the area, and encounters between the two countries' ships occasionally have escalated. Chinese ships and aircraft incursions both increased sharply in 2016 before subsiding somewhat in 2017 and 2018. The United States does not take a position on sovereignty, but maintains that the U.S.-Japan Security Treaty covers the islets, because U.S. commitments extend to "the territories under the Administration of Japan."

Notwithstanding their territorial dispute and regional rivalry, relations between Japan and China have improved since 2016. Abe's government reversed its initial opposition to China's Belt and Road Initiative, agreeing to cooperate with Beijing in providing infrastructure development under certain conditions. Abe visited Beijing in October 2018, the first leaders' summit between the two countries since 2011, and concluded agreements on economic cooperation and people-to-people exchanges. Some analysts posit that the mutual interest in stabilizing relations may be driven by both countries' trade friction with the United States.

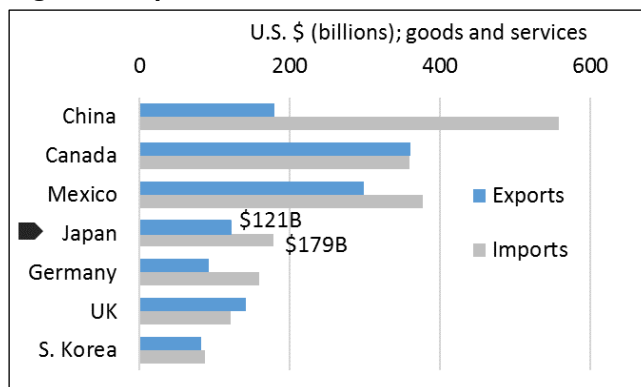
Economic and Trade Issues

The United States and Japan are the world's largest and third-largest economies, respectively, and are closely intertwined by trade and foreign investment. In 2017, Japan was the fifth-largest U.S. trading partner for goods and services exports (\$121 billion) and fourth largest for imports (\$179 billion).

Japan's economy remains on solid footing, but concerns over a slowdown are growing. GDP growth was 0.8% in 2018, down from 1.7% in 2017. Unemployment is at a two-

decade low and wages have increased, but deflation remains a concern and few analysts expect the Bank of Japan's aggressive monetary policy to achieve its 2% inflation target. The government's willingness to use expansionary fiscal policies is constrained by concerns about its public debt, the largest in the world at almost 240% of GDP. Potential risks to the economy include spillover effects from the trade dispute between the United States and China, Japan's two largest export markets, and a scheduled increase in the consumption tax in October.

Figure 1. Top U.S. Trade Partners



Source: Bureau of Economic Analysis.

Trade Agreement Negotiations

Bilateral trade negotiations officially began in April 2019, but the scope of talks remains unclear. Japan describes the negotiations as a trade agreement on goods, while USTR supports a more ambitious agenda. The Trump Administration is facing pressure from U.S. agriculture exporters to reach a quick deal as U.S. exporters now face price disadvantages in Japan's market. Two new Japanese FTAs—one among the remaining TPP members, the TPP-11, and the other with the EU—entered into force in 2019, lowering Japan's high agriculture tariffs for EU and TPP-11 exporters. In addition to agriculture, the talks are likely to involve commitments affecting auto trade. The Trump Administration's finding that auto imports threaten U.S. national security gives the President authority to impose unilateral auto import restrictions, creating a contentious negotiating environment. The Administration also seeks to address the U.S. bilateral trade deficit in the agreement, despite most economists' argument that macroeconomic factors, rather than trade agreements, drive trade balances.

Additional Information

For more, see CRS Report RL33436, Japan-U.S. Relations: Issues for Congress; CRS Report RL33740, The U.S.-Japan Alliance; CRS Report R42645, The U.S. Military Presence in Okinawa and the Futenma Base Controversy; and CRS In Focus IF11120, *U.S.-Japan Trade Agreement Negotiations*, U.S.-Japan Trade Agreement Negotiations.

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