



U.S.-Japan Relations

Overview

Japan, a U.S. treaty ally since 1951, is a significant partner of the United States in several foreign policy areas, particularly security and trade. Shared security goals range from meeting the challenge of an increasingly powerful China to countering threats from North Korea. The U.S.-Japan mutual defense treaty grants the United States 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. The two countries collaborate through multiple bilateral and multilateral institutions on issues such as science and technology, global health, energy, and agriculture. Japan is the fourth largest U.S. trading partner and largest source of foreign direct investment into the United States, and its investors are the largest foreign holders of U.S. Treasury securities.

The U.S.-Japan relationship remains strong, and recent leadership transitions in both capitals could smooth relations and deepen cooperation across a greater set of issues. Whereas alliance relations under former President Trump and former Prime Minister Shinzo Abe relied heavily on personal rapport between leaders, President Biden and Prime Minister Yoshihide Suga may revert to a more traditional partnership that relies more on institutionalized ties. Suga has pledged continuity in foreign policy, and Biden has emphasized rejuvenating bilateral alliances to deal with issues like North Korean denuclearization as well as China’s maritime assertiveness, human rights violations, and attempts to set new economic rules and norms through its growing outward investment. Both leaders are likely to prioritize parallel domestic challenges of curbing the Coronavirus Disease 2019 (COVID-19) pandemic and economic recovery. Cooperation on energy and climate issues also promises to increase. In the short term, the countries will confront the expiration of their existing cost-sharing agreement for hosting the U.S. military in Japan.

Japan and the Coronavirus Pandemic

Japan’s number of COVID-19 cases are low by Western standards: under 400,000 cases and 5,500 deaths as of January 2021. Periodic spikes—particularly in densely populated Tokyo—have prompted temporary restrictions on social gatherings. Japan has yet to begin administering vaccines, as it completes domestic clinical trials. Concerns about global supply shortages have alarmed officials and spurred new contracts with international vaccine producers. Japan has the largest percentage of people over 65 years of age in the world, making its citizens particularly vulnerable. In addition to the economic fallout from the pandemic, Japan faces a decision on whether to hold the Summer Olympics in Tokyo in July 2021. Last year’s Games were postponed because of the virus—a grave disappointment and major economic hit for Japan.

Political Transition in Tokyo

Abe, Japan’s longest-serving prime minister, dominated Japan’s politics during the eight years of his premiership, steering his Liberal Democratic Party (LDP)-led coalition to six successive parliamentary election victories. Following Abe’s September 2020 resignation, his ruling LDP overwhelmingly elected Suga to replace him. Japan’s parliament, the Diet, which is dominated by the LDP coalition, then elected him to serve as prime minister. Suga (born in 1948) has pledged to advance Abe’s initiatives, including revitalizing Japan’s economy and supporting the U.S.-Japan alliance. Aside from combating COVID-19, he has identified his priorities as administrative and structural reforms such as creating a digitization agency. Since becoming premier widespread criticism of his handling of the pandemic has dropped his approval rating numbers below 40% in several polls. Elections for the Diet’s Lower House, which selects the prime minister, must be held by October 2021. If Suga’s low poll numbers continue, the LDP may replace him when his term as party president ends in September, if not before.

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 Japanese political and legal constraints. Japan has accelerated reforms to make its military (known as the Self-Defense Forces, or SDF) more capable, flexible, and interoperable with U.S. forces. In the last few years, however, Japan appears to have been hedging against its reliance on the United States and taking tentative steps toward developing more strategic autonomy. In summer 2020, Japan suspended its plan to purchase Aegis Ashore ballistic missile defense batteries from the United States, and has begun to consider acquiring a strike capability, sometimes referred to as “counterattack,” that would allow it to hit enemy bases. The capability remains controversial in light of Japan’s pacifist constitution, but the willingness to explore it could indicate a desire to stand up its own defense, and rely less on U.S. protection.

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, expires at the end of March 2021. Officials could agree to a short-term extension of the current SMA and postpone negotiations to reach the customary five-year agreement.

A longstanding effort to relocate a U.S. Marine Corps base in Okinawa continues to face 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. Okinawan governor Denny Tamaki has vowed to block the plan even as construction efforts continue at the new site. A 2019 nonbinding referendum showed that 72% of Okinawan voters opposed the new base. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ personnel are in Okinawa, which comprises less than 1% of Japan's total land area.

Regional Relations

Tokyo is existentially concerned about Beijing's growing economic and military power. A perpetual challenge is a dispute between the two countries (as well as Taiwan) over a group of uninhabited Japanese-administered islets in the East China Sea (known as the Senkaku Islands in Japan, and Diaoyu in China). Despite these tensions, Tokyo has tried to stabilize relations with Beijing and had planned to host Chinese President Xi Jinping for an official visit in 2020, but the visit was cancelled due to the pandemic. Wary of China's rising influence, Japan has deepened ties with other countries in the region. Japan has cultivated warm relations with several Southeast Asian countries, launched a U.S.-Japan-Australia regional infrastructure financing initiative, and championed the Quadrilateral Security Dialogue with the United States, India, and Australia to improve defense coordination.

Japan's relations with South Korea are perennially fraught due to sensitive historical issues from Japan's colonization of the Korean Peninsula from 1910 to 1945. Since 2018, these relations marked their lowest levels in decades. A series of actions and retaliatory countermeasures by both governments involving trade, security, and history-related controversies in 2018 and 2019 caused bilateral relations to plummet, eroding U.S.-South Korea-Japan policy coordination. The Biden Administration has pledged to rejuvenate U.S. alliances and may be considering how to facilitate trust between the two U.S. allies to foster more effective trilateral cooperation.

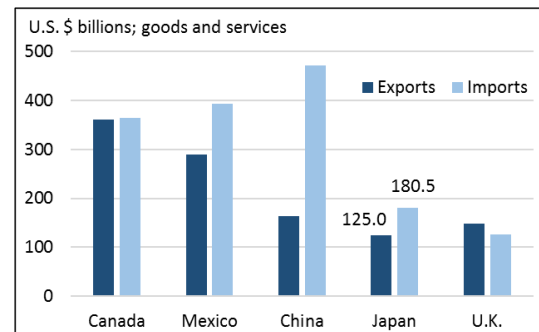
President Trump's 2018-2020 attempt at diplomacy with North Korea unnerved Tokyo, as many Japanese are unconvinced that North Korea will give up its nuclear weapons or missiles. Given Japan's proximity to North Korea, Japanese observers worry Pyongyang could target their homeland. Japanese officials also prioritize accounting for North Korea's abduction of Japanese citizens in the 1970s and 1980s, and hope the Biden Administration will include the issue in future negotiations with Pyongyang.

Economic and Trade Issues

The United States and Japan, two of the world's three largest economies, are key trade and investment partners. In 2019, Japan was the fifth-largest U.S. trading partner for exports (\$125.0 billion) and fourth-largest for imports (\$180.5 billion). Several long-term challenges (e.g., declining working-age population, low productivity growth, low inflation, and large government debt load) are perennial concerns for Japan's economic policy. Suga plans to continue his predecessor's expansionary fiscal and monetary policies and pursue new reform priorities focused on a digitalization campaign and green growth strategy.

The primary focus of Japan's economic policy in 2021 will likely be containing the economic fallout from COVID-19. Three supplementary budgets have been approved so far for FY2020 (ending March 2021) with roughly \$3 trillion of total stimulus (over 60% of GDP). Japan entered the COVID-19 era with sluggish growth (0.3% in 2019), in part due to a 2019 consumption tax increase from 8% to 10%. Even with the heavy fiscal stimulus, the International Monetary Fund (IMF) estimates GDP fell in 2020 by 5.1%. Resurgent infections and shutdowns in the Tokyo area highlight the fragility of the 2021 outlook. Japan's exports, particularly to China, are a recent bright spot, but tourism is heavily depressed, and concerns over spillover effects from ongoing U.S.-China trade tensions persist.

Figure 1. Top U.S. Trade Partners, 2019



Source: Bureau of Economic Analysis.

Trade Agreement Negotiations

The Trump and Abe Administrations negotiated two limited trade agreements, which took effect in early 2020 without action by Congress, liberalizing some agricultural and industrial goods trade and establishing rules on digital trade. By expanding market access for U.S. agricultural exports to Japan and eliminating the threat of proposed new U.S. tariffs on Japan's auto exports, the deals addressed key concerns in both countries and received broad stakeholder support. The Trump Administration did not pursue a more comprehensive second-stage trade deal, despite urging from many in Congress. President Biden's intent to focus on domestic economic policies before negotiating new trade deals suggests it may be some time before the two countries address significant issues left out of the initial agreements (e.g., auto trade, services, currency). A key question is whether the Administration might join the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Japan helped form after the Trump Administration withdrew from the Trans-Pacific Partnership (TPP) in 2017.

Additional products: RL33436, *Japan-U.S. Relations: Issues for Congress*; RL33740, *The U.S.-Japan Alliance*; CRS In Focus IF11644, *Japanese Prime Minister Abe's Resignation and the U.S.-Japan Alliance*, and IF11120, *U.S.-Japan Trade Agreement Negotiations*.

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