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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 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 Biden Administration has emphasized the importance of restoring U.S. alliances in Asia. Former Japan Prime Minister Suga was the first in-person visitor to the White House, signaling the importance of allied cooperation. Further reinforcing Japan's central role in the U.S. approach to the Indo-Pacific, the Biden Administration has boosted the Quadrilateral Security Dialogue—or “Quad”—convening the first-ever (virtual) leader-level meeting with Japan, Australia, and India in March.

Japan and the United States share a fundamental concern about China's role in the Indo-Pacific. Both governments distrust Beijing's intentions and see China's rising power and influence as detrimental to their national security. This shared strategic vision was reflected in the joint statement released following the Biden-Suga meeting, which noted the “importance of the peace and stability of the Taiwan Straits” and expressed serious concern over human rights abuses in Xinjiang and Hong Kong. Japan's proximity to China heightens its concern, particularly because of China's expansive maritime claims. Questions remain about how forcefully Japan will stand up to China given Beijing's economic and diplomatic power.

COVID-19 Pandemic Response

Japan has had moderate success in curbing the Coronavirus Disease 2019 (COVID-19) pandemic, with under 19,000 deaths and 1.7 million cases as of December 2021. After a slow vaccine campaign rollout, Japan accelerated its pace and had vaccinated close to 80% of its population by December 2021, overcoming some degree of vaccine hesitancy and managing to host the postponed 2020 Olympics Games in summer 2021. By December 2021, cases had dropped to about 150 per day. Japan has implemented strict quarantine requirements on international visitors and imposed emergency measures in much of the country to attempt to contain the virus.

Political Transition in Tokyo

The tightening strategic alignment between the United States and Japan over the past decade was possible because of the policy choices of Japan's previous three prime ministers, especially Shinzo Abe, who served as premier from 2012 to 2020. Commentators question whether current Prime Minister Fumio Kishida, who became premier in September 2021, will have the determination, longevity, and political influence to continue expanding alliance cooperation at the same pace. In October, Kishida led the Liberal Democratic Party (LDP) and its small coalition partner to better-than-expected results in elections for the Lower House of Japan's bicameral legislature (called the Diet), preserving their commanding majority. The victory is expected to provide Kishida with political momentum at least until Japan's Upper House elections in July 2022.

Kishida and the faction he leads within the LDP historically have been associated with dovish foreign policy positions, but Kishida took more hawkish stances during his campaign. Kishida said Japan needs to consider building a missile strike capability against potential foes—a capability Japan currently lacks—and said Tokyo and Washington need to run joint simulations of responses to a crisis scenario involving Taiwan. After Kishida became premier, the LDP said in its election platform that it would seek to significantly increase defense spending, perhaps eventually doubling it to 2% of GDP.

The U.S.-Japan Military Alliance

Since the early 2000s, the United States and Japan have made major 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 so-called “counterattack” strike capability that would allow it to hit enemy bases for the first time since 1945. The capability remains controversial in light of Japan's pacifist constitution; the willingness to explore it could indicate a desire to expand 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. Japan also pays compensation to localities hosting U.S. troops, rent for bases, and costs for new facilities to support the U.S. troop realignment. The Japan-U.S. 2016-2021 cost-sharing agreement, or “Special Measures Agreement” (SMA), was

extended for an additional year after President Biden took office, and negotiations are underway for a new agreement.

A long-standing effort to relocate a U.S. Marine Corps base in Okinawa to a less-congested area of the prefecture has divided Japan's central government and Okinawan leaders for decades. Many Okinawans have long expressed widespread opposition to new base construction and chafe at the large U.S. military presence more broadly, reflecting the tumultuous history and complex relationships with "mainland" Japan and with the United States. 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. In the October 2021 parliamentary elections, four LDP party candidates pulled off upset victories over Okinawa's anti-base party, due in part to rising concern among younger Okinawans about China's rising threat. Upcoming mayoral and gubernatorial elections in 2022 may further test whether Okinawan attitudes about the U.S. military presence are shifting.

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 Japan-administered islets in the East China Sea (known as the Senkaku Islands in Japan, and Diaoyu in China). Despite these tensions, Tokyo and Beijing have tried to stabilize relations. Wary of China's rising influence, Japan has cultivated warm relations with several Southeast Asian countries, launched a U.S.-Japan-Australia regional infrastructure financing initiative, and championed the Quad to improve defense coordination and buttress the region's institutions and norms.

Japanese policymakers and media have devoted increasing attention to Taiwan, with current and former leaders making heretofore rare remarks linking Taiwan's security (and ability to resist Chinese military aggression) to that of Japan. Japan's approach to supporting Taiwan's ability to defend itself—in peacetime and war—depends on several factors, including U.S. actions, legal limitations on Japan's ability to engage in military conflict, and public opinion.

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. 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 ever since. The Biden Administration has urged both sides to resolve their differences.

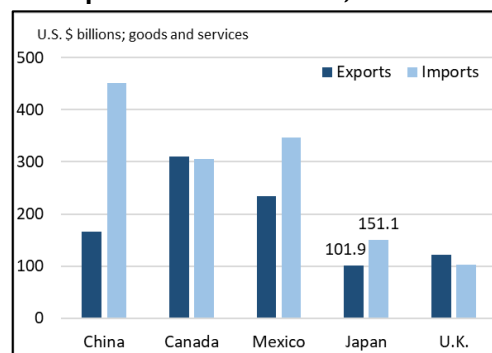
Economic and Trade Issues

The United States and Japan, two of the world's three largest economies, are key trade and investment partners. In 2020, Japan was the fifth-largest U.S. trading partner for exports (\$101.9 billion) and fourth-largest for imports (\$151.1 billion). Several long-term challenges (e.g., declining working-age population, low productivity growth, and large government debt load) are perennial economic concerns for Japan. Kishida appears poised to maintain his predecessors' expansionary fiscal economic policies in conjunction with continued loose monetary policy from the

Bank of Japan (BOJ). Other areas of economic-policy focus include supply-chain security, for which Kishida created a new ministerial economic-security post, broader income redistribution, and green growth. As the government develops a new energy strategy, the business community continues to question whether and how former Prime Minister Suga's calls for a 46% reduction in greenhouse gas emissions by 2030 (from 2013 levels) may be achieved.

Japan has deployed considerable fiscal stimulus to cushion the economy from pandemic-related fallout. In November, Kishida's cabinet approved a \$314 billion supplementary budget for FY2021, which ends in March. The IMF estimates Japan's pandemic stimulus (excluding loans and other guarantees) through fall 2021 was 16.7% of annual GDP, compared to U.S. stimulus of 25.5% of GDP. The Bank of Japan reports GDP fell in 2020 by 4.8%. Resurgent COVID-19 infections, shutdowns, and travel restrictions continued to depress economic activity in 2021, and the Tokyo Olympics had less economic impact than forecast.

Figure 1. Top U.S. Trade Partners, 2020



Source: Bureau of Economic Analysis.

Trade Agreement Negotiations

The Trump and Abe Administrations negotiated two limited trade deals, which took effect in early 2020 without action by Congress, liberalizing some agricultural and industrial goods trade and establishing rules on digital trade. The Trump Administration did not pursue a comprehensive second-stage trade deal, despite urging from many in Congress to resume negotiation on issues left out of the initial agreements (e.g., auto trade, services, currency). In October, President Biden announced plans for an Indo-Pacific economic framework, presumably to include Japan. Officials stated that it would not take the form of a "traditional trade agreement," raising questions over the enforceability of the envisioned framework. Some Members have called for a more active Asia trade policy from the Biden Administration, including consideration of rejoining the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Japan helped form after the Trump Administration withdrew U.S. signature from the proposed TPP in 2017.

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