

# 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 security concerns, 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. While core elements of the alliance may endure, the overall relationship under President Donald Trump will likely differ somewhat from relations under the Obama Administration. On January 30, 2017, the United States formally withdrew as a signatory from the Trans-Pacific Partnership (TPP) agreement. The TPP had been a centerpiece of the Obama Administration's policy of rebalancing U.S. economic and security interests to Asia and a top priority for Japanese Prime Minister Shinzo Abe's government. Although a positive February 2017 summit between Trump and Abe allayed some of the concerns that the alliance would suffer in the new Administration, the meeting did not resolve what some observers see as the most contentious issues in the relationship. As a candidate, Trump leveled criticism at Japan's trade practices and contributions to the security relationship.

Outside of North America, Japan is the United States' third-largest export market and second-largest source of imports. Japanese firms are the second-largest source of foreign direct investment in the United States, and Japanese investors are the largest foreign holders of U.S. treasuries. The U.S. withdrawal from TPP coupled with Japan's continued advocacy for the pact creates some uncertainty on next steps in the economic relationship, although some argue the discussions on a bilateral economic dialogue announced during the February 2017 summit could lead to formal FTA negotiations.

After years of turmoil, Japanese politics has been relatively stable since the December 2012 election victory of Abe and his Liberal Democratic Party (LDP), and further consolidated in the LDP's subsequent parliamentary gains. These victories provided Abe with some domestic political capital to pursue the more controversial initiatives of his agenda, like 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. The LDP coalition's landslide in the July 2016 Upper House elections further solidified Abe's strength and revealed the weakness of the opposition.

Earlier in his term, Abe was hampered by comments on sensitive historical issues involving Japan's record during the first half of the 20<sup>th</sup> century. Issues include the "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. Relations with South Korea soured, drawing concern from U.S. officials eager to foster trilateral cooperation among the allies. Abe was credited for tempering his comments and beginning a tentative rapprochement with Seoul, although gains are now threatened by political turmoil in South Korea. Elsewhere, Abe has pursued stronger relations with Australia, India, Russia, and several Southeast Asian nations.

U.S.-Japan defense cooperation has improved and evolved in response to security challenges, such as the North Korean missile threat and the confrontation between Japan and China over disputed islands. Abe accelerated the trend by passing controversial security legislation in 2015. Much of the implementation of the laws, as well as of U.S.-Japan defense guidelines updated the same year, lies ahead and full realization of the goals to transform alliance coordination could require additional political capital and effort. Additional concerns remain about the implementation of an agreement to relocate the controversial Futenma base on Okinawa due to opposition from the local population, despite a recent court ruling in Tokyo's favor.

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This report contains two main parts: a section describing recent events and a longer background section on key elements of the U.S.-Japan relationship.

## **Recent Developments**

### **Trump and Abe's February 2017 Summit**

Although candidate Donald Trump made statements critical of Japan during his campaign, a leaders' summit early in Trump's term allayed some of the concerns that the alliance would suffer under the new Administration. After Trump's victory, Abe was the first foreign leader to visit the President-Elect, and the second leader to visit the White House after the U.S. inauguration. During the course of Abe's two-day visit with President Trump, split between Washington, DC, and the Trump-owned Mar-A-Lago club in Florida, Abe and Trump displayed a strong personal rapport and issued a joint statement that echoed many of the previous tenets of the bilateral alliance. Tokyo was likely reassured by the statement's three-fold affirmation on the Senkaku Islands (the small islands are also claimed by China and Taiwan, and known as Diaoyu and Diaoyutai, respectively): the U.S. recognized Japanese administration of the islands, stated that Article 5 of the mutual defense treaty applies to the islands, and stated that it opposed "any unilateral action that seeks to undermine" Japan's administration of the islands.

A medium-range missile launch by North Korea during the visit provided an opportunity for the leaders to respond together to the provocation. Trump appeared to defer to Abe to deliver the response, who took the lead in condemning the test and calling on Pyongyang to comply with United Nations Security Council resolutions. Trump followed by restating the U.S. commitment to defend Japan against such threats.<sup>1</sup>

Despite the positive atmospherics of the February 2017 summit, questions remain about how the relationship will fare under the Trump Administration. During his first week in office, Trump formally withdrew the United States from the Trans-Pacific Partnership (TPP), a trade agreement that was a centerpiece of the alliance under President Obama. Trump's statements as a candidate were critical of Japan's trade practices and the unbalanced nature of the security alliance (see "U.S.-Japan Relations in the Trump Presidency" below), rattling Tokyo during the campaign. Many analysts think that the issues of economic relations and of cost-sharing for defense will dominate the bilateral agenda, with the Trump Administration demanding more from Japan. The initial summit, while seen as broadly successful, did not resolve what some see as the most contentious issues in the relationship. Abe appears to be anticipating this change, and has already stated that Japan will not remain bound by the customary limit of spending 1% of its GDP on defense. (See the "Burden-Sharing Issues" section below.)

### **United States Withdraws from TPP following Japan's Ratification<sup>2</sup>**

On January 30, the United States sent notice to its negotiating partners in the Trans-Pacific Partnership (TPP) that it has no intention of ratifying the agreement.<sup>3</sup> Signed in February 2016, TPP is a proposed free trade agreement (FTA) among the United States, Japan, and 10 other Asia-

<sup>1</sup> Transcript from Abe and Trump joint remarks. <http://transcripts.cnn.com/TRANSCRIPTS/170212/cnr.21.html>.

<sup>2</sup> For more on the TPP negotiations, see CRS Report R44489, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, coordinated by Ian F. Fergusson and Brock R. Williams.

<sup>3</sup> Letter from Maria L. Pagan, Acting USTR, to TPP Depository, January 30, 2017, <https://ustr.gov/sites/default/files/files/Press/Releases/1-30-17%20USTR%20Letter%20to%20TPP%20Depository.pdf>.

Pacific countries, and was awaiting individual participants' approval before it could become effective.<sup>4</sup> Japan, which made a number of politically challenging concessions in TPP, such as increased access to its agriculture market, ratified the agreement in December 2016. The President never submitted implementing legislation, the vehicle for ratification in the United States, to Congress for consideration as required under U.S. Trade Promotion Authority (TPA).<sup>5</sup> Former President Obama and Prime Minister Abe made the TPP a centerpiece of U.S.-Japan relations, and the U.S. withdrawal creates some uncertainty as to next steps in the bilateral economic relationship.

According to the Trump Administration, the United States will focus its future efforts on bilateral FTA negotiations, rather than multi-party talks like TPP.<sup>6</sup> During Abe's visit to Washington in February 2017, the two countries made no official announcements on an FTA, instead agreeing to initiate a "cross-sectoral dialogue" on the bilateral economic relationship, which will be led by Deputy Prime Minister Taro Aso and Vice President Mike Pence.<sup>7</sup>

Japan, for its part, has a number of options in how it responds to the U.S. withdrawal from the TPP. Although the agreement, as written, cannot go forward without U.S. participation, a modified agreement could be pursued by the remaining signatories. Such an agreement would be of considerably less economic value to Japan given the large size of the U.S. market, which may explain Japan's reported resistance to such an approach and the Abe government's continued efforts to stress the regional importance of TPP. Proponents of TPP argued that it solidified U.S. economic leadership in the region, including through the establishment of regional trade rules. The U.S. withdrawal, these groups argue, effectively cedes that leadership role to China, particularly in light of its economic influence in the ongoing Regional Comprehensive Economic Partnership (RCEP) talks, another regional trade negotiation including Japan and other major Asian trade partners, but not the United States.

If RCEP and other negotiations involving Japan move forward, it could disadvantage U.S. firms and exporters in Japanese and other markets and may place pressure on the United States to negotiate an agreement with Japan. Similarly, Japan's decision in 2013 to participate in the TPP may have been in part a response to the U.S.-South Korea (KORUS) FTA, which went into effect in 2012, and a move by Japan to ensure its exporters' competitiveness in the United States. If the Trump Administration does revisit its position on TPP or warms to the idea of another regional agreement, a bilateral negotiation may be the most viable option for Japan to address those concerns, though they could inject tensions into the U.S.-Japan relationship. TPP would have, in effect, included a U.S.-Japan FTA, and the commitments negotiated in TPP could serve as the starting point for bilateral talks. (See "Moving Beyond the Trans-Pacific Partnership Agreement (TPP)" section.)

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

<sup>5</sup> CRS In Focus IF10038, *Trade Promotion Authority (TPA)*, by Ian F. Fergusson.

<sup>6</sup> White House, "Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement," January 23, 2017.

<sup>7</sup> White House, "Remarks by President Trump and Prime Minister Abe of Japan," press release, February 10, 2017, <https://www.whitehouse.gov/the-press-office/2017/02/10/remarks-president-trump-and-prime-minister-abe-japan-joint-press>.

## **Abe Consolidates Power**

Prime Minister Abe has been Japan's premier since December 2012. Since mid-2016, Abe has continued to strengthen his hold on political power, with opposition forces polling at or below 10% and virtually no challengers in his Liberal Democratic Party (LDP). The LDP and its coalition partner, Komeito, scored a landslide victory in Japan's most recent elections, held in July 2016, for half of Japan's Upper House of the Diet (Parliament). The coalition came close to securing 2/3 of the chamber's seats, a key threshold that procedurally would allow Abe to more easily pass legislation and amendments to the constitution. Also importantly, a two-thirds majority—which many political experts believe Abe could reach by obtaining the support of smaller conservative parties and/or independents—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 change. There are many procedural and political hurdles to amending the constitution. For instance, any constitutional changes passed by the Diet also must be approved by a majority in a nationwide referendum. The constitution was written by the United States during the U.S. occupation of Japan in 1946 and has never been changed.

If he continues in office until the fall of 2017, Abe would become Japan's longest-serving prime minister since the 1960s. Under LDP rules, he is required to step down as party president—and prime minister—in the fall of 2018. There is speculation, however, that Abe will seek a rule change that will allow him to extend his time as party leader through 2020, when Tokyo is scheduled to host the summer Olympics. (See "Japanese Politics" section.)

## **Political Turmoil in South Korea: Relations with Japan Falter**

The December 2016 impeachment of South Korean President Park Geun-hye and a presidential election in Seoul in 2017 threaten to derail improving Japan-South Korea relations. For several years, U.S. officials have voiced continued concern about discord in the Tokyo-Seoul relationship. Under Abe and Park, initially chilly relations warmed tentatively but steadily starting in early 2015, culminating in a December 2015 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. (See "A Tokyo-Seoul Breakthrough Agreement on the Comfort Women Issue?" section below for background.) The deal remains controversial, particularly in light of two statues of comfort women in South Korea, including one located in front of the Japanese Embassy. Together with the conclusion of a modest military information sharing agreement in October 2016, the comfort women agreement and overall relations with Japan could become political flashpoints in the upcoming election in South Korea, a development that could hamper U.S.-Japan-South Korea trilateral cooperation.

## **Japan Fails to Reach Deal on Islands Dispute with Russia**

For several years, Abe has pursued a warmer relationship with Russia, meeting with President Vladimir Putin over a dozen times and touting their personal rapport. In December 2016, Abe received Putin in his hometown for a visit that had been postponed several times after Russia's annexation of Crimea and the G7's subsequent imposition of sanctions. Despite several previous meetings suggesting a possible breakthrough on their territorial dispute over four islands that the Soviet Union seized from Japan in the waning days of World War II (see "Japan-Russia Relations" section for background), little progress was made on the issue that has still prevented the two countries from signing a formal peace treaty following the War. Although Japan offered to enter into some joint economic projects, Putin appeared cool to Japanese overtures and unwilling to demonstrate any degree of flexibility on the islands' sovereignty.



Under the Obama Administration, Russia policy appeared to be one of the few areas of dissonance between Tokyo and Washington. When U.S.-Russia relations soured following the Russian annexation of Crimea in 2014, U.S. officials pressured Japan to distance itself from Moscow and stand firm on the G7 sanctions. Prior to the December 2016 visit to Japan, Putin appeared to signal his approach, telling reporters that Russia did not consider the islands to be a territorial problem for Russia and that he viewed the sanctions regime as an obstacle to any sort of agreement with Japan. The latest summit failed to produce strong results, leaving the future of Russia-Japan relations uncertain.

## **Tokyo Wins Court Case on U.S. Base Relocation in Okinawa**

In December 2016, Japan's Supreme Court ruled in favor of the Japanese central government in a dispute with the Okinawan prefectural government over the long-delayed plan to relocate U.S. Marine Corps Air Station Futenma from a densely populated area of Okinawa to a new facility in a remote part of the island. The Court ruled that Okinawan Governor Takeshi Onaga did not have the right to revoke a crucial landfill permit issued by the previous governor. 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, during which time construction of the Futenma replacement facility was suspended. As part of the mediation, both sides agreed to abide by the terms of any future court ruling.

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. Instead, Onaga has demanded that the Futenma base be relocated off the Okinawan archipelago. For decades, many Okinawans have chafed at what they perceive as an undue burden of hosting roughly half of all U.S. troops stationed in Japan in their prefecture. Despite the decision, Onaga has continued his opposition to the relocation and is pursuing other strategies to block or delay further construction. (See the "Realignment of the U.S. Military Presence on Okinawa" section below.)

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

In January 2017, Japan received its first shipment of liquefied shale gas from the contiguous United States, having previously only imported from Alaska. 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 since March 2011 earthquake, tsunami, and nuclear reactor accident in the northeastern part of the country, Japan has become increasingly dependent on fossil fuels for electric power generation. (See the "Nuclear Energy Policy" section.) 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.



Figure I. Map of Japan



Source: Map Resources. Adapted by CRS.

### Japan Country Data

**Population:** 126,702,133 (July 2016 est.)  
**Percentage of Population over 64:** 27.28% (2016 est.) (U.S. = 12.4%)  
**Life Expectancy:** 85 years  
**Area:** 377,835 sq km (slightly smaller than California)  
**Per Capita GDP:** \$38,900 (2016 est.) purchasing power parity  
**Primary Export Partners:** US 20.2%, China 17.5%, South Korea 7.1%, Hong Kong 5.6%, Thailand 4.5% (2015)  
**Primary Import Partners:** China 24.8%, US 10.5%, Australia 5.4%, South Korea 4.1% (2015)

Source: CIA, *The World Factbook*, January 2017.

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

## U.S.-Japan Relations in the Trump Presidency

After several years of strong ties, the U.S.-Japan relationship may face challenges ahead. Abe's February 2017 visit to Washington and statements by U.S. cabinet members have provided some reassurance that relations would remain stable. The new Secretaries of State and Defense affirmed America's "steadfast commitment" to Japan, and President Trump called the alliance "the cornerstone of peace and stability in the Pacific region." Statements made during the campaign, however, suggested that he may seek fundamental changes to the alliance. As a candidate, Trump repeatedly criticized Japan for its trade policies and questioned whether Japan was paying enough for its defense. He also suggested that Japan may consider developing its own nuclear weapons to defend itself against the threat from North Korea. (See text box below.)

These statements alarmed many officials in Japan, particularly given the strong state of the relationship in the previous years. Under President Obama and Prime Minister Abe, many analysts described the relationship as at a high water mark. Updated defense arrangements, regular and successful high-level visits, and broad strategic alignment solidified the two countries' military alliance. The two leaders registered several historic firsts that demonstrated the closeness of the relationship: in April 2015, Abe became the first Japanese Prime Minister to address a joint meeting of Congress; in May 2016 Obama became the first sitting U.S. President to visit Hiroshima; and in December 2016, Abe became the first Japanese prime minister to visit the USS Arizona Memorial in Pearl Harbor.

Some analysts also have expressed concern about the differences in approach to global issues between the Trump Administration and Tokyo. Internationally, the two countries traditionally have cooperated on scores of multilateral issues, from nuclear nonproliferation to climate change negotiations to responding to pandemics. Japan is a firm supporter of the United Nations as a forum for dealing with international disputes and concerns. In the past Japan and the United States have worked closely in fora such as the East Asia Summit and the Association of Southeast Asian Nations (ASEAN) Regional Forum. The shared sense of working together to forge a rules- and norms-based international order has long been a key component of the bilateral relationship. The Trump Administration, however, has expressed skepticism of multilateral organizations. Additionally, under the President's "America First" approach, a shift away from the United States' role as the guarantor of regional stability raises broader questions for Japan and other countries in the region about the durability of the alliance.<sup>8</sup> If Japan perceives the United States is moving away from its traditional role as guarantor of regional stability, Japan may decide to form other partnerships with like-minded countries and adjust its foreign policy to allow more flexibility to pursue its own national interests.

A central feature of candidate Trump's criticism was the assertion that Tokyo did not pay enough to ease the U.S. cost of providing security for Japan. In response, Japanese and U.S. officials have defended the system of host nation support that has been negotiated and re-negotiated over the years. Defenders of the alliance point to the strategic benefits as well as the cost saving of basing some of the most advanced capabilities of the U.S. military in Japan, including a forward-deployed aircraft carrier. The question of how much Japan spends, particularly when including the Japanese government's payments to compensate base-hosting communities and to shoulder the costs of U.S. troop relocation in the region, remains a thorny area with few easily quantifiable

<sup>8</sup> Laura Rosenberger, "Can the U.S.-Japan Alliance Survive Trump?" *Foreign Policy*, February 9, 2017.

answers. (See “Burden-Sharing Issues” section.) Japan appears to anticipate new demands from the United States, and Abe has already stated that Japan will no longer cap its defense spending at the customary 1% of GDP.

Despite the tension that could emerge in the relationship, some analysts think that the alliance will remain on firm ground, for two main reasons. The first is that Tokyo has few palatable options but to hew to the United States given Japan’s increasingly tenuous security position, with North Korean belligerency, a challenging political relationship with South Korea, and China’s economic and military assertiveness. The second is that, in some ways, U.S. pressure to provide more in the security realm may boost Abe’s efforts aimed at increasing the flexibility and capabilities of Japan’s military. The Japanese public remains somewhat wary of moving away from a strictly self-defense armed force, as well as of altering Japan’s constitution to allow for more offensive capabilities. Abe, with a secure political position, may be able to utilize pressure from the United States to convince a skeptical citizenry of the need to do more.<sup>9</sup>

#### **Donald Trump Statements on Japan as a Presidential Candidate**

“But right now we’re protecting, we’re basically protecting Japan, and we are, every time North Korea raises its head, you know, we get calls from Japan and we get calls from everybody else, and ‘Do something.’ And there’ll be a point at which we’re just not going to be able to do it anymore. Now, does that mean nuclear? It could mean nuclear.... And, would I rather have North Korea have them with Japan sitting there having them also? You may very well be better off if that’s the case.”

“... if we are attacked, [the Japanese] don’t have to do anything. If they’re attacked, we have to go out with full force.... That’s a pretty one-sided agreement, right there.... And that is a, that’s a real problem.”

—*Statements made to the New York Times in interview on March 26, 2016*

“So, North Korea has nukes. Japan has a problem with that. I mean, they have a big problem with that. Maybe they would in fact be better off if they defend themselves from North Korea.... Including with nukes, yes, including with nukes.”

—*Statement made in interview with Chris Wallace, Fox News, April 2016*

[CNN’s Wolf Blitzer: “You’re ready to let Japan and South Korea become nuclear powers?”]

Trump: “I am prepared to, if they’re not going to take care of us properly, we cannot afford to be the military and police for the world.”

—*Statement made in interview with Wolf Blitzer on CNN, May 2, 2016*

“Our allies must contribute toward the financial, political and human costs of our tremendous security burden. But many of them are simply not doing so.... We have spent trillions of dollars over time—on planes, missiles, ships, equipment—building up our military to provide a strong defense for Europe and Asia. The countries we are defending must pay for the cost of this defense—and, if not, the U.S. must be prepared to let these countries defend themselves.

—*Prepared speech remarks on April 27, 2016*

<sup>9</sup> See, for example, Andrew Oros’ comments in “Trump Targeted Japan During the Campaign. Now its Prime Minister is Embracing the New President,” *Washington Post*, February 9, 2017.

## Abe's Leadership

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 has increased 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 the United States. Abe's handling of controversial historical issues (see below) has at times concerned U.S. officials, but those concerns have eased as the relationship grew and Abe refrained from making provocative statements.

## 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 first half of the 20<sup>th</sup> century. Abe's selections for his cabinet posts 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. 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>10</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. After some waffling on key government statements made by past Japanese leaders (chief among them the 1995 "Murayama Statement" that apologized for Japan's wartime action and the 1993 "Kono Statement" that apologized to the "comfort women"), Abe reaffirmed the official government expressions of remorse after pressure from U.S. government officials and Members of Congress. 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.

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<sup>10</sup> See, for instance, Asia Policy Point, *The Abe Administration Cabinet 2012-2014*, August 2, 2014.

## Comfort Women Issue

Other powers in the region 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 Kono Statement. 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 in ... an unequivocal manner" 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.)

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 in California and New Jersey commemorating the victims, passage of a resolution on the issue by the New York State Senate, the naming of a city street in the New York City borough of Queens in honor of the victims, and approval to erect a memorial to the comfort women in San Francisco.

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

A month after Park and Abe held their first bilateral summit in November 2015, their Foreign Ministers announced an agreement on how Japan should address the comfort women issue.<sup>11</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>12</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>13</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>14</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>15</sup> Strong criticism of the

<sup>11</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>12</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>13</sup> South Korean and Japanese Foreign Ministries' translations of the December 28, 2015, joint announcement.

<sup>14</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>15</sup> Daniel Snider, "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.

Initially, both governments appeared to comply with the main elements of the agreement; after South Korea established the new comfort women foundation, Japan provided the money it had pledged. Subsequently, Seoul made payments to the majority of the victims and their families. More controversial has been Seoul's 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. The erection of a second statue in Busan in late December 2016 has further inflamed the controversy. With South Korean politics in turmoil after the December 2016 impeachment of President Park, it is unclear how future Seoul governments will comply with the terms of the agreement.

### **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>16</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>17</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. Abe has periodically visited ceremonial events and paid respects at Chidorigafuchi throughout his term.

### **Territorial Dispute with China in the East China Sea**

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

<sup>16</sup> John Breen, ed., *Yasukuni, the War Dead and the Struggle for Japan's Past* (New York: Columbia University Press, 2008).

<sup>17</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>.



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>18</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>19</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. In 2014 and 2015, the number of Chinese vessels entering into territorial sea surrounding the islands decreased to a steady level of several patrols per month, only to spike again in 2016.<sup>20</sup> Chinese aircraft activity around the East China Sea has also increased markedly every year, prompting an increase in the number of scramble takeoffs by Japan Air Self Defense Forces. In November 2014, Japan and China agreed to re-start talks on establishing a maritime communication mechanism to prevent unexpected military encounters, but have not established this link, raising fears of an inadvertent escalation.

In November 2013, China abruptly announced that it would establish an air defense identification zone in the East China Sea, covering the disputed 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; 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 as well as its increase in patrols 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. 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>21</sup> 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

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<sup>18</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>19</sup> "Chinese Ships Continue Patrol Around Diaoyu Island," *China Daily*, October 28, 2012.

<sup>20</sup> Statistics provided by the Japanese Ministry of Foreign Affairs, <http://www.mofa.go.jp/files/000170838.pdf>.

<sup>21</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.



unilateral action of a third party will not affect the United States' acknowledgment of the administration of Japan over the Senkaku Islands."<sup>22</sup>

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.

## **Japan and the Korean Peninsula**

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

The impeachment of South Korean President Park Geun-hye in December 2016 has interrupted a steady though delicate improvement in Japan's relations with South Korea. Under Park and Abe, relations initially were strained, marked by friction over historical issues. In 2015, a rapprochement developed, attributed in large measure to Abe's avoidance of flagrantly inflammatory actions or statements on historical issues 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>23</sup> Park's government concluded an agreement on how to deal with the controversial "comfort women" issue and signed a military information sharing pact with Tokyo. With a new election looming in 2017 in South Korea, more progressive candidates could target Park's outreach to Japan and reverse some of the initiatives that led to improved relations.

Washington encouraged the trend: President Obama 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 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 as well as the potential 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 held their first joint military training exercise with Aegis ships that focused on tracking North Korean missile launches by sharing intelligence. Such trilateral security cooperation could be threatened if a new president in South Korea takes a more critical stance toward the U.S. alliance and/or improved ties with Japan.

The persistent Japan-Korea discord centers on historical issues. Officials in Japan have referred to rising "Korea fatigue" among their public and expressed 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 how Japan's behavior before and during World War II is depicted in Japanese school textbooks and a territorial dispute between Japan and South Korea continue to

<sup>22</sup> For more information, see CRS Report R42761, *The Senkakus (Diaoyu/Diaoyutai) Dispute: U.S. Treaty Obligations*, by Mark E. Manyin, and CRS Report R42930, *Maritime Territorial Disputes in East Asia: Issues for Congress*, by Ben Dolven, Mark E. Manyin, and Shirley A. Kan.

<sup>23</sup> Alastair Gale, "South Korea's Park Chides Abe but Seeks Stable Japan Ties," *Wall Street Journal*, May 4, 2015.

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. The latest North Korean missile test in February 2017 took place while Abe was visiting Trump, providing an opportunity for the leaders to jointly respond to the provocation. 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. When the Six-Party Talks were active, Japan was considered a key actor in possible resolution of problems on the Korean peninsula, but the multilateral format has been dormant since 2009 and appears to be all but abandoned.

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.

### **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>24</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 supported.<sup>25</sup> This energetic diplomacy indicates a desire to balance China's

<sup>24</sup> Shinzo Abe, "Asia's Democratic Security Diamond," *Project Syndicate*, December 27, 2012.

<sup>25</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 (continued...)"

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. Even as cracks have appeared in the U.S.-Philippines alliance, Abe has made efforts to maintain Japan-Philippines defense relations. Overall, Japan's outreach to other Asian countries has dovetailed effectively with U.S. efforts in the region.

### 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>26</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>27</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 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>28</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 indicated that U.S. officials had supported the Japanese submarine production bid.<sup>29</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. The islands are known in Japan as the Northern Territories and were seized by the Soviets in the waning days of the war. 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,

(...continued)

building partner capacity, particularly with countries like Vietnam, the Philippines, and probably in the future, Malaysia."

<sup>26</sup> Eric Heginbotham and Richard Samuels, "Poor Substitute: No Japanese Submarines Down Under," *Foreign Affairs*, May 3, 2016.

<sup>27</sup> Jamie Smyth and Leo Lewis, "DCNS of France Wins A\$50bn Australia Submarines Contract," *Financial Times*, April 26, 2016.

<sup>28</sup> Nigel Pittaway, "Australia Makes Major Shipbuilding Announcements for Navy," *Defense News*, April 26, 2016.

<sup>29</sup> Leo Lewis, "French Bid to Make Australia Submarines Fades on US Security Fears," *Financial Times*, February 8, 2016.

including resolution of the disputed islands, however, do not appear to have made progress. (See “Recent Developments” section.) Russia’s aggression in the Ukraine in 2014 disrupted the improving relationship. 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. With many countries in the West isolating Moscow, Russia and China appear to have grown closer.<sup>30</sup>

## **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>31</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 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, 2015, and 2016.<sup>32</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>33</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 Materials Corporation (a member of the Mitsubishi Group) 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>34</sup> In addition, they made a one-time grant of \$50,000 to a library in West Virginia to maintain a collection of POW materials.

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<sup>30</sup> For more on Russia’s relations with Northeast Asia, see CRS Report R44613, *Northeast Asia and Russia’s “Turn to the East”: Implications for U.S. Interests*, by Emma Chanlett-Avery.

<sup>31</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).

<sup>32</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>33</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>34</sup> “Mitsubishi Materials Apologizes for Using US Prisoners of War as Slave Labor,” *The Guardian*. July 19, 2015.

## Energy and Environmental Issues

Under the Obama Administration, Japan and the United States cooperated on a wide range of environmental initiatives both bilaterally through multiple agencies 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 was 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 raised concerns about losing Japan as a global partner in promoting nuclear safety and nonproliferation measures and in reducing greenhouse gas emissions.<sup>35</sup> The Trump administration has yet to take a position on whether the United States will remain in the Paris Agreement on climate change, though during the campaign he said he would "cancel" it. As a result, it is unclear what shape U.S.-Japan environmental policies will take, although Trump's rhetorical support for the coal industry may be welcome to Japanese companies eager to export "clean-coal" technology to other countries.

The Nuclear Security Summit provided another venue for bilateral cooperation in recent years. The two countries agreed at the 2014 Nuclear Security Summit to remove weapon-usable nuclear materials from research institutes in Japan. A mutual goal of the United States and Japan has been 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. 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

<sup>35</sup> Hideshi Futori, "Japan's Role in Asia's Nuclear Security," Woodrow Wilson Center, February 10, 2014.



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.

## 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. As of January 2017, only four reactors were in operation, with one paused for a legal challenge.

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>36</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. 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>37</sup> The

<sup>36</sup> Masakazu Toyoda, "Energy Policy in Japan: Challenges After Fukushima," Institute of Energy Economics, Japan, presentation prepared for delivery on January 24, 2013.

<sup>37</sup> "Over Half Oppose Japan Engaging in Collective Self-Defense: Survey," Kyodo News Agency, January 26, 2014. (continued...)

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?

## 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 was missing a strategic rationale after 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>38</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 2014 decision to engage in collective self-defense may accelerate that trend. Unlike 25 years ago, the Japan Self-Defense Forces (SDF) are now active in overseas missions, including efforts in the 2000s to support U.S.-led coalition operations in Afghanistan and the reconstruction of Iraq. Japanese military contributions to global operations like counter-piracy patrols relieve some of the burden on the U.S. military to manage 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. (See "Burden-Sharing Issues" section below.)

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

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(...continued)

"30% Approve of Raising Sales Tax to 10% as Scheduled; Cabinet Support Flat," Nikkei, August 25, 2014.

<sup>38</sup> For more information and analysis, see CRS Report RL33740, *The U.S.-Japan Alliance*, by Emma Chanlett-Avery and Ian E. Rinehart.



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, 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>39</sup> but exercising that right would violate Article 9 of the Japanese constitution.<sup>40</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>39</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>40</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>41</sup>

The United States and Japan have faced decades of delay in an agreement to relocate a Marine Air Base. The new facility, slated to be built on the existing Camp Schwab 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 backlash on Okinawa and threaten to disrupt the alliance. Most Okinawans oppose the construction of a new U.S. base for a mix of political, environmental, and quality-of-life reasons. A U.S. military official testified to Congress in 2016 that the expected completion of the new base at Henoko had been delayed from 2022 to 2025.

The two sides agreed in March 2016 to a court-recommended mediation process, suspending construction of the Futenma replacement facility while Tokyo and Naha resumed ultimately fruitless negotiations. A December 2016 Supreme Court decision ruled that Okinawa Governor Takeshi Onaga could not revoke the previous governor's landfill permit needed to build the offshore runways at Camp Schwab. Governor Onaga has vowed to pursue further obstruction tactics to prevent the construction. Also in December, the United States returned nearly 10,000 acres of land in the northern part of the island to Japan.<sup>42</sup> Then-U.S. Ambassador to Japan Caroline Kennedy described the move as a step toward shrinking the U.S. military presence on

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<sup>41</sup> For more information and analysis, see CRS Report R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*, by Emma Chanlett-Avery and Ian E. Rinehart.

<sup>42</sup> Motoko Rich, "U.S. Returns Some Okinawa Land to Japan, but Unease Endures," *New York Times*, December 22, 2016, [https://www.nytimes.com/2016/12/22/world/asia/us-japan-okinawa.html?\\_r=0](https://www.nytimes.com/2016/12/22/world/asia/us-japan-okinawa.html?_r=0).

Okinawa. Governor Onaga, however, boycotted the ceremony, and instead joined a gathering to protest against the MV-22 Osprey crash that took place about a week before.

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**

Calculating how much Tokyo pays to defray the cost of hosting the U.S. military presence in Japan is difficult and depends heavily on how the contributions are counted. Further, the two governments present estimations based on different data depending on the political aims of the exercise; because of the skepticism among some Japanese about paying the U.S. military, for example, the Japanese government may use different baselines in justifying its contributions to the alliance when arguing for its budget in the Diet (Japan's Parliament). Other questions make it challenging to assess the value and costs of the U.S. military presence in Japan. Is the U.S. cost determined based strictly on activities that provide for the defense of Japan, in a narrow sense? Or is the system of American bases in Japan valuable because it affords the ability to disperse U.S. power in the Western Pacific? U.S. defense officials often cite the strategic advantage of forward-deploying the most advanced American military capabilities in the Asia-Pacific at a far lower cost than stationing troops on American soil.

Determining the percentage of overall U.S. costs that Japan pays is even more complicated. According to DOD's 2004 Statistical Compendium on Allied Contributions to the Common Defense (the last year for which the report was required), Japan provided 74.5% of the U.S. stationing cost.<sup>43</sup> In January 2017, Japan's Defense Minister provided data that set the Japanese portion of the total cost for U.S. forces stationed in Japan at over 86%.<sup>44</sup> Other estimates from

<sup>43</sup> "2004 Statistical Compendium on Allied Contributions to the Common Defense." See [http://archive.defense.gov/pubs/allied\\_contrib2004/allied2004.pdf](http://archive.defense.gov/pubs/allied_contrib2004/allied2004.pdf).

<sup>44</sup> "How Much Does Japan Pay to Host U.S. Forces? Depends on Who You Ask," *Japan Times*. January 31, 2017.

various media reports are in the 40-50% range. Most analysts concur that there is no authoritative, widely-shared view on an accurate figure that captures the percentage that Japan shoulders.

## Host Nation Support

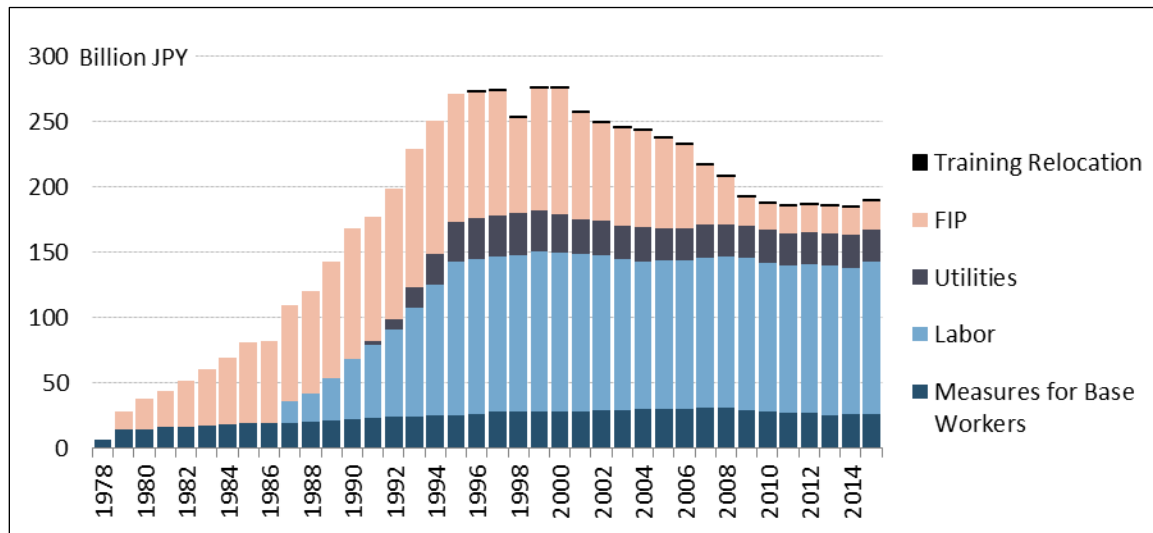
One component of the Japanese contribution is the Japanese government's payment of nearly \$2 billion per year to offset the cost of stationing U.S. forces in Japan (see **Figure 3**). All Japanese contributions are provided in-kind. The United States spends an additional \$2.7 billion per year (on top of the Japanese contribution) on non-personnel costs for troops stationed in Japan.<sup>45</sup>

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, which 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.

**Figure 3. Host Nation Support for U.S. Forces Japan (USFJ)**

in billions of Japanese yen



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

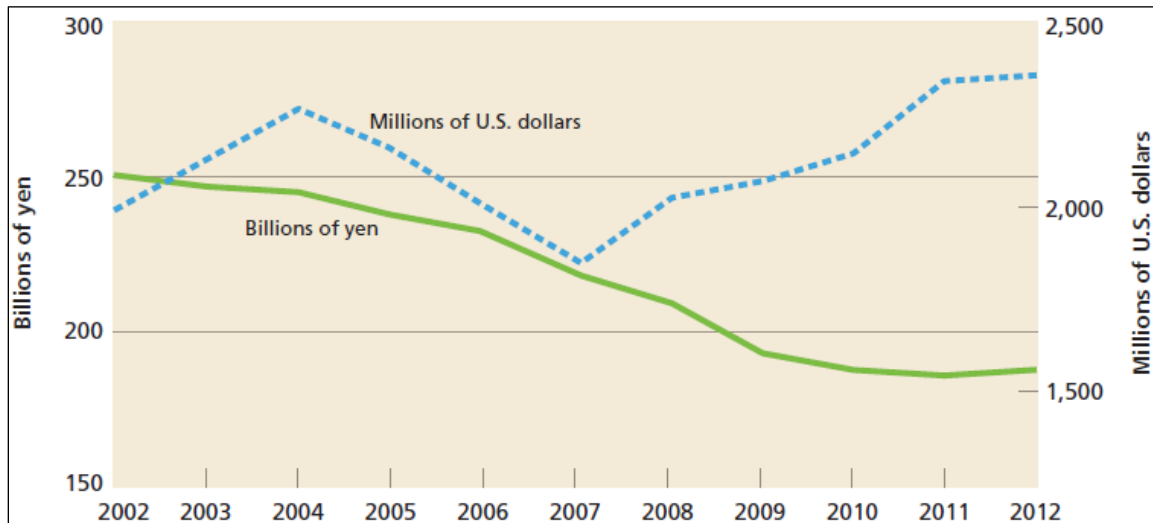
**Notes:** This graph uses data for expenditures, not contracts. Training relocation contributions are less than JPY 1 billion per year, much smaller than other categories. "Measures for Base Workers" encompasses welfare costs, benefits, and other expenses not included in the base salary of Japanese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

<sup>45</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.

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 lower in 2005 (when the average exchange rate was around ¥110:\$1US) than in 2012 (when the yen had appreciated to an average exchange rate of around ¥80:\$1US), despite a notable drop in the yen-denominated contributions.<sup>46</sup>

**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.

### Additional Japanese Contributions

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>47</sup> These are not costs that would be necessarily passed on to the United States, but alliance managers may argue that the U.S. bases would not be sustainable without these payments to areas affected by the U.S. military presence.

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. Japan pays for the majority of the costs associated with three of the largest international military base construction projects since World War II: the Futenma Replacement Facility in Okinawa (Japan provides \$12.1 billion), construction at the Marine Corps Air Station Iwakuni (Japan pays 94% of the \$4.8 billion), and facilities on Guam to support the move of 4,800 marines from Okinawa (Japan pays \$3.1 billion, about a third of the cost of construction).<sup>48</sup>

<sup>46</sup> Exchange rates are central rate average of interbank spot rates, Bank of Japan, as published in *Japan Statistical Yearbook 2017*, Table 6-10, "Foreign Exchange Rates (1995 to 2015)," <http://www.stat.go.jp/english/data/nenkan/66nenkan/1431-06.htm>.

<sup>47</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>.

<sup>48</sup> Figures provided by U.S. officials at the Office of the Secretary of Defense, January 2017.



Japan also procures over 90% of their defense acquisitions from U.S. companies. Japan's annual Foreign Military Sales are valued at about \$11 billion. Recent major acquisitions include Lockheed Martin F-35 Joint Strike Fighters, Boeing KC-46 Tankers, Northrup Grumman E2D Hawkeye airborne early warning aircraft, General Dynamics Advanced Amphibious Assault Vehicles, and Boeing/Bell MV-22 Ospreys.

## **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>49</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>50</sup> Reportedly, Tokyo discouraged a proposal to declare that the "sole purpose" of U.S. nuclear weapons is to deter nuclear attack. Tokyo also reportedly discouraged the Obama Administration from declaring a "no first use" policy on the rationale that it would weaken deterrence against North Korea.

A lack of confidence in the U.S. security guarantee could lead Tokyo to reconsider its own status as a non-nuclear weapons state. As discussed above, as a 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>51</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 unraveling of the U.S. alliance system, and the possibility of creating a destabilizing nuclear arms race in Asia.<sup>52</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.<sup>53</sup> In February 2017, the joint program achieved a significant milestone in a

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<sup>49</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>50</sup> Roberts (2013).

<sup>51</sup> "Transcript: Donald Trump Expounds on His Foreign Policy Views," *New York Times*, March 26, 2016.

<sup>52</sup> See, for example, Robert Manning, "Trump's 'Sopranos' Worldview Would Undo Asian Alliances," *New Atlanticist* blog post, March 29, 2016.

<sup>53</sup> For more information, see CRS Report R43116, *Ballistic Missile Defense in the Asia-Pacific Region: Cooperation and Opposition*, by Ian E. Rinehart, Steven A. Hildreth, and Susan V. Lawrence.



test off of Hawaii, when a new interceptor from a guided-missile destroyer hit a medium-range missile for the first time.<sup>54</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 2016. Furthermore, their economies are intertwined by trade in goods and services and by foreign investment.<sup>55</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 stemming from the 2008 financial crisis 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* has 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.**)

**Table 1. 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

<sup>54</sup> "New SM-3 Block IIA Intercepts Ballistic Missile in Space for the First Time," *U.S. Naval Institute*. February 6, 2017.

<sup>55</sup> For background, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

Year	Goods Exports	Goods Imports	Goods Balance	Services Exports	Services Imports	Services Balance
2012	71.6	149.2	-77.6	46.7	27.3	19.4
2013	66.6	141.3	-74.8	45.7	30.2	15.5
2014	68.1	137.3	-69.3	46.8	31.2	15.6
2015	64.0	134.3	-70.3	44.3	29.4	14.9

**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 eased since the 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 World Trade Organization (WTO) as a forum to resolve 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. 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 to improve the competitiveness of Japan’s economy. Most economists agree that progress across the three arrows has been uneven.

- 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%. The BOJ began a second round of quantitative easing in October 2014, after the economy slipped back into recession. The BOJ continued adopting new expansionary monetary policies in 2016, including negative interest rates for a portion of bank reserves in and targeting 0% interest rates on 10-year government bonds. Despite these measures, inflation in Japan remains well below the BOJ's target of 2%. The IMF forecasts it will be 0.5% in 2017.

- The Japanese government has taken some steps to use fiscal policy to stimulate the economy (the second arrow), initially implementing fiscal stimulus packages worth about \$145 billion, aimed at spending on infrastructure, particularly in the areas affected by the March 2011 disaster. 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 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 October 2016, the Parliament passed a \$32 billion supplementary budget package, including support for low-income families, efforts to cushion the economic impact of Britain's departure from the European Union, and partial costs for the construction of a magnetic-levitation train line.<sup>56</sup>
- Progress on the third arrow, structural reforms, has been more uneven.<sup>57</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 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 August 2016, the IMF urged the Japanese government to focus on "high-impact" structural reforms to the labor market and wage formation process, since wage growth could help boost the economy.<sup>58</sup>

After mixed results in the initial two to three years of the Prime Minister's economic program, weak economic growth in 2016 has caused many observers to wonder whether Abenomics has run its course.<sup>59</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

<sup>56</sup> Takashi Nakamichi, "Japan Passes \$32 Billion In Extra Economic Stimulus, but Some Seek More," *Wall Street Journal*, October 11, 2016. According to the World Bank, Japan's GDP in 2015 was around \$4.4 trillion. <http://data.worldbank.org/country/Japan>.

<sup>57</sup> Robin Harding and Leo Lewis, "The Third Arrow of Abenomics: A Scorecard," *Financial Times*, September 9, 2015.

<sup>58</sup> IMF, "2016 Article IV Consultation—Press Release and Staff Report: Japan," August 2016.

<sup>59</sup> "A State of Paralysis in Japan," *Stratfor.com Analysis*, June 6, 2016.

increase. Japan's economy recovered in the fourth quarter of 2014, but has averaged around 0.5% real GDP growth since and the IMF is forecasting 0.6% growth for 2017.<sup>60</sup> 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 is urging Japan's government to pursue ambitious income policies to boost wages, develop a credible fiscal consolidation plan, and implement bold structural reforms.<sup>61</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.<sup>62</sup> 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 (OECD) countries.<sup>63</sup> In 2014, a strategist with Goldman Sachs in Japan, estimated that closing the gender employment gap could boost Japan's GDP by nearly 13%.<sup>64</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. Some are optimistic that the measures will help close the gender gap in Japan, and Japanese female employment has reached a record high under the new policies.<sup>65</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.

Japan's female participation rate in the labor force has increased sharply, to a record high of 66% in 2016, surpassing the United States (64%).<sup>66</sup> The uptick is attributed to high demand for workers in Japan, as well as specific "womenomics" initiatives, including expanded day care capacity and more generous parental leave. Analysts note that additional policy reforms could continue to encourage women to join and remain in the workforce, including reforms to Japan's tax and social security programs that discourage married women from working outside the home and more flexible work schedules.

## Bilateral Trade Issues

### Moving Beyond the Trans-Pacific Partnership Agreement (TPP)

On January 30, 2017, the United States gave notice that it did not intend to become party to the Trans-Pacific Partnership (TPP), effectively ending TPP's ratification process in the United States

<sup>60</sup> IMF, *World Economic Outlook*, October 2016.

<sup>61</sup> IMF, "2016 Article IV Consultation—Press Release and Staff Report: Japan," August 2016.

<sup>62</sup> For further information, see CRS Report R43668, "Womenomics" in Japan: *In Brief*, by Emma Chanlett-Avery and Rebecca M. Nelson.

<sup>63</sup> "Women and Work in Japan," *Economist*, September 5, 2015.

<sup>64</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>.

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

<sup>66</sup> Kathy Matsui, "'Womenomics' Continues as a Work in Progress," *Japan Times*, May 25, 2016.

and possible entry into force.<sup>67</sup> TPP was a proposed regional free trade agreement (FTA) signed by the United States, Japan, and 10 other Asia-Pacific countries on February 4, 2016, after more than seven years of negotiations. 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. Japan ratified the Trump Administration's withdrawal from the pact.

To become effective, TPP, as signed, required ratification by countries representing at least 85% of the original signatories' gross domestic product (GDP). Hence, the agreement cannot proceed without the United States, which alone accounts for nearly 65% of the group's GDP. Japan, for its part, ratified the agreement in December 2016. The TPP signatories could go forward without the United States with a similar or modified agreement, which Australia reportedly has proposed, although Japan to date has been cool to the idea, with one of Abe's spokesmen calling the TPP "meaningless" without U.S. involvement.<sup>68</sup> Chile has invited the 12 TPP signatories, including the United States, as well as China, Colombia, and South Korea to a meeting in mid-March to discuss next steps for regional trade negotiations.<sup>69</sup>

President Trump has made international trade and concerns over potential negative impacts of U.S. trade agreements a primary focus both of his presidential campaign and during his Presidency to date. In addition to the U.S. withdrawal from the proposed TPP, the Administration has announced its intent to re-examine and possibly renegotiate the 14 U.S. FTAs currently in effect, especially NAFTA. Although they have not specified what provisions may be subject to revision, the President and his advisors have highlighted bilateral trade deficits as a key concern in U.S. trading relations.<sup>70</sup> These concerns would likely be discussed in any future bilateral trade negotiations with Japan, with whom the United States has its fourth-largest trade deficit (\$55.4 billion in 2015).<sup>71</sup> U.S. trade deficits with Japan, particularly in autos, have been a tense aspect of the bilateral relationship to varying degrees over the past several decades. Showing sensitivity to these concerns, the Japanese government has been eager to highlight job-creating investments in the United States. During his recent visit, Prime Minister Abe noted the \$150 billion dollars of Japanese investment in the U.S. economy last year.<sup>72</sup>

As part of its evaluation of U.S. trade policy, the Trump Administration has also announced its intention to shift from regional trade agreements to bilateral negotiations moving forward. The President views bilateral trade negotiations as providing greater leverage to the United States in achieving its objectives. Many analysts and former U.S. negotiators have argued, conversely, that, especially in the context of TPP, the multi-party approach made concessions by other countries more politically feasible, in part, by lessening the appearance of submitting solely to U.S. interests, and have highlighted their benefit in establishing uniform regional trade rules and

<sup>67</sup> Letter from Maria L. Pagan, Acting USTR, to TPP Depositary, January 30, 2017, <https://ustr.gov/sites/default/files/files/Press/Releases/1-30-17%20USTR%20Letter%20to%20TPP%20Depositary.pdf>

<sup>68</sup> Mitsuru Obe and Megumi Fujikawa, "Japan to Keep Pushing Free Trade as Trump Exits Pacific Pact," *Wall Street Journal*, January 23, 2017.

<sup>69</sup> Isabelle Hoagland, "Chilean Official Hopes Upcoming Summit will Provide Avenue for TPP-like Deal, Chinese Involvement," *Inside U.S. Trade*, February 3, 2017.

<sup>70</sup> Shawn Donnan, "Trump's Top Trade Adviser Accuses Germany of Currency Exploitation," *Financial Times*, January 31, 2017.

<sup>71</sup> The four countries with whom the United States had the largest bilateral goods and services trade deficits in 2015 were China (\$334.1 billion), Germany (\$77.3 billion), Mexico (\$57.9 billion), and Japan (\$55.4 billion).

<sup>72</sup> White House, "Remarks by President Trump and Prime Minister Abe of Japan in Joint Press Conference," press release, February 10, 2017.

disciplines.<sup>73</sup> Observers have also suggested that bilateral negotiations could be politically challenging for Japan and the United States as they would likely revisit TPP provisions on sensitive areas like autos and agriculture, and could include discussions on enforceable provisions on currency policies.<sup>74</sup>

In joining TPP and during the domestic ratification process, Abe confronted influential interests that argued against the trade liberalization including many Japanese agriculture groups. Despite these sensitivities to participation in TPP, he insisted that Japan needed to be part of the agreement to support economic growth. Underlying his decision was a growing view 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.

In contrast with the Trump Administration, Prime Minister Abe continues to stress the importance of TPP and a regional approach to Asia-Pacific trade negotiations. In joint remarks with President Trump he noted that the purpose, and in his view, continued importance of TPP, was to create a "free and fair common set of rules," and alluded to commitments on intellectual property and state-owned enterprises as of particular importance.<sup>75</sup> U.S.-Japan security relations may also factor into Abe's views on TPP. Japan relies heavily on the U.S. military presence in the region and some analysts have argued that U.S. participation in TPP was a signal of U.S. commitment to the region, and that the withdrawal signals declining U.S. economic leadership and influence in East-Asia.

These differing views by the two leaders on the best approach forward create some uncertainty as to possible next steps to further the bilateral trade and economic relationship. Proponents of TPP have suggested a bilateral deal with Japan that embodies TPP provisions could grow to include other TPP signatories. Japan and other TPP countries appear to be on a short list of potential candidates for new U.S. bilateral negotiations.<sup>76</sup> The two countries have agreed to discussions on a bilateral framework, with Japan "continuing to advance regional progress on the basis of existing initiatives."<sup>77</sup> The new dialogue framework is to be led by Vice President Pence and Deputy Prime Minister Taro Aso, and some analysts believe these talks could be a stepping stone to more formal bilateral trade negotiations.<sup>78</sup>

Japan is also participating in several bilateral and regional trade negotiations in the Asia-Pacific that do not involve the United States. 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. In 2013, Japan began negotiating a

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<sup>73</sup> Wendy Cutler, "TPP, Multi-Party Deals, Best Match for Complex Global Economy," *The Hill*, January 6, 2017.

<sup>74</sup> "Abe, Trump Take Baby Steps on Trade," *Japan Times*, February 11, 2017.

<sup>75</sup> White House, "Remarks by President Trump and Prime Minister Abe of Japan in Joint Press Conference," press release, February 10, 2017.

<sup>76</sup> White House, "Statement by Press Secretary Sean Spicer," press release, January 31, 2017.

<sup>77</sup> White House, "Joint Statement from President Donald J. Trump and Prime Minister Shinzo Abe," press release, February 10, 2017.

<sup>78</sup> For example, see Viki Needhman, "US to Form Economic Dialogue with Japan," *The Hill*, February 10, 2017, and Damian Paletta and Yuka Hayashi, "Japan's Abe Says U.S., Japan Leaders Working on New Economic Dialogue," *Wall Street Journal*, February 10, 2017.



trilateral FTA with China and South Korea, as well as a potential FTA with the European Union. Some TPP signatories have also suggested moving forward with TPP without the United States, and potentially including other countries such as China. Japan to date appears hesitant to this approach, noting the importance of U.S. participation to its interest in the TPP. Japan also has existing trade agreements with many TPP countries, including Singapore (2002), Mexico (2005), Malaysia (2006), Chile (2007), Brunei (2008), Vietnam (2009), Peru (2012), and Australia (2015).

Agreements that do not include the United States have the potential to disadvantage U.S. exporters to Japan and may increase pressure on the Trump Administration to proceed with some type of U.S.-Japan trade negotiation. For example, the Australia-Japan FTA gives Australian exporters a price advantage over U.S. exporters in the Japanese market through lowered tariffs on certain goods, such as beef. TPP would have eliminated this advantage over time through similar concessions by the Japanese to U.S. producers, and agriculture groups have urged the Trump Administration to move ahead with bilateral negotiations.<sup>79</sup>

If the United States and Japan initiate bilateral FTA negotiations, the provisions of the TPP could be an obvious starting point. Key outcomes in TPP included (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; (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; and (3) new rules and disciplines on services, digital trade, and state-owned enterprises among other areas. The two countries also negotiated bilateral side letters to TPP that included additional commitments beyond the TPP text related to non-tariff barriers in insurance, express delivery, and auto trade.

## Debates About Exchange Rates and “Currency Manipulation”

The first “arrow” of Abenomics, expansionary monetary policies, contributed to a depreciation of the yen against the U.S. dollar. In mid-2012, the yen was valued at about 80 yen (¥) per dollar. Over the next three years, the yen depreciated by about 50% against the dollar, at one point in June 2015 hitting a trough of around 124 yen (¥) per dollar (**Figure 5**).<sup>80</sup> Although the value of the yen fluctuated during 2016, by January 2017, its value was 112 yen (¥) per dollar. All else equal, a weak yen relative to the U.S. dollar makes it more difficult for U.S. products to compete with Japanese imports, and can exacerbate the U.S. trade deficit with Japan.

Some U.S. policymakers and stakeholders, particularly in the auto sector, allege that

**Figure 5. Yen-Dollar Exchange Rate**



**Source:** Created by CRS from Federal Reserve data.

**Notes:** The Y-axis is reversed to convey the fact that a decrease (increase) in the line on the chart represents a depreciation (appreciation) of the yen relative to the dollar.

<sup>79</sup> Letter from John Weber, President National Pork Producers Council, and Craig Uden, President National Cattlemen’s Beef Association, to President Donald J. Trump, February 7, 2017, <http://www.beefusa.org/CMDocs/BeefUSA/JapanFTALetter02-07-17.pdf>.

<sup>80</sup> Federal Reserve.

Japan has manipulated its exchange rate to drive down the value of the yen. At the end of January 2017, President Trump criticized Japan's (and China's) exchange rate policies as coming at the expense of U.S. companies.<sup>81</sup> 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 pushed for "currency manipulation" to be addressed in the proposed TPP.<sup>84</sup> Monetary authorities of the 12 TPP countries negotiated a joint declaration committing themselves to avoiding currency manipulation and ensuring transparency in reporting foreign exchange holdings and transactions. The joint declaration, 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> With the U.S. withdrawal from TPP, the current status of the joint declaration, which was to take effect with TPP, is unclear.

Provisions in the Trade Facilitation and Trade Enforcement Act (H.R. 644/P.L. 114-125), signed into law in February 2016, provide for enhanced surveillance and engagement on exchange rate issues by the U.S. Treasury Department. In responding to the new reporting requirements, the Treasury Department has developed a new currency "monitoring list." Japan was one of six countries included in the October 2016 list, due to its significant bilateral trade surplus with the United States and current account surplus. The report also emphasizes that Japan has not intervened in foreign exchange markets in almost five years, but the yen's upward movement in early 2016 was accompanied by public comments by some Japanese authorities aimed at resisting yen appreciation.<sup>86</sup> The next semi-annual report is expected in April 2017, and would be the first issued under the Trump Administration.

## Japanese Politics

### The LDP's Landslide Victory in 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

<sup>81</sup> Sinead Carew and Jamie McGeever, "Trump, Trade Advisor Signal Displeasure with U.S. 'Strong Dollar' Policy," Reuters, January 31, 2017.

<sup>82</sup> U.S. Department of the Treasury, *Foreign Exchange Policies of Major Trading Partners of the United States*, October 14, 2016; 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 Rebecca M. Nelson, and CRS Report R43242, *Current Debates over Exchange Rates: Overview and Issues for Congress*, by Rebecca M. Nelson.

<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.

<sup>86</sup> U.S. Department of the Treasury, *Foreign Exchange Policies of Major Trading Partners of the United States*, October 14, 2016.

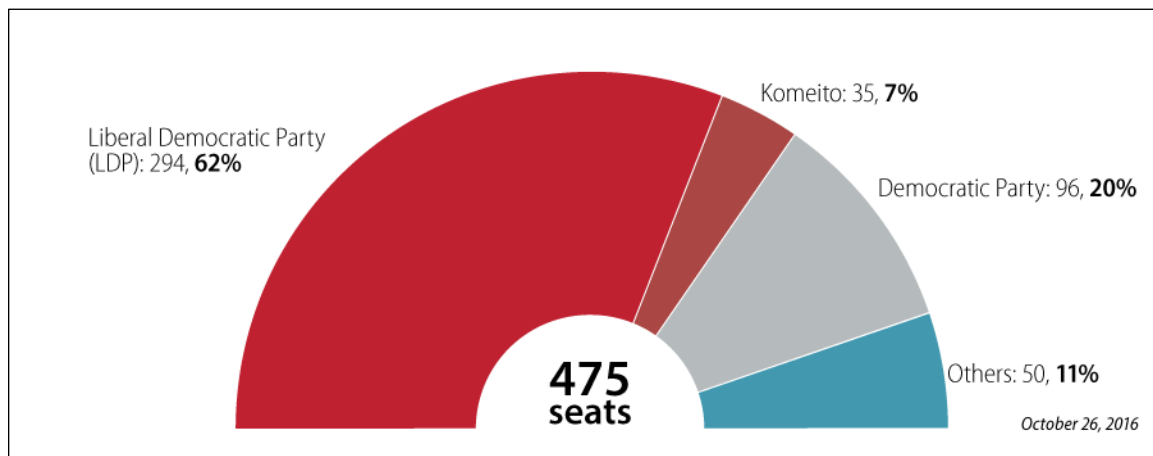
disarray in Japan's major opposition parties, whose rate of support is at or below 10% of voters. These trends were confirmed by Japan's latest elections, held in July 2016 for half the 242 members of the Upper House of the Diet (Parliament). The LDP/Komeito coalition won the vote in a landslide, securing nearly 2/3 of the seats, a key threshold that procedurally allows Abe to more easily control the chamber. Many political experts believe that Abe could reach that threshold by obtaining the votes of smaller conservative parties and/or conservative-minded independent parliamentarians.<sup>87</sup>

A two-thirds majority in the Upper House, combined with the LDP-Komeito coalition's control of 69% of the seats in the Lower House, also 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 eventually. Any attempt to change the constitution would have to surmount formidable political and procedural hurdles. Abe likely would have to overcome support from Komeito, which is torn between its pacifist leanings and its desire to support the coalition whenever it is forced to make decisions on whether to relax restrictions on Japan's use of military force. Decisions about priorities also will take time because there are calls to amend a number of other provisions of the constitution, which was written by the United States during the U.S. occupation of Japan in 1946 and has never been changed. Furthermore, any constitutional changes passed by the Diet also must be approved by a majority in a nationwide referendum, and many opinion polls show the Japanese public to be skeptical about the need for a revision.

There is speculation that Abe will call for early elections of Japan's Lower House of Parliament. Elections are not required until December 2018. (See **Figure 6** and **Figure 7** for a display of major parties' strength in Japan's parliament.)

**Figure 6. Party Affiliation in Japan's Lower House of Parliament**

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

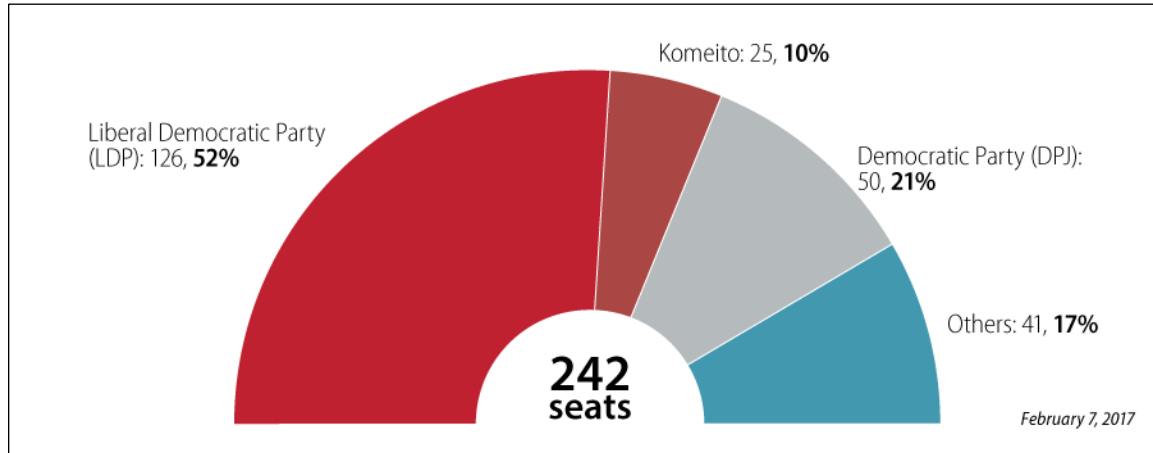


**Source:** Japan's Lower House of Parliament.

**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.

<sup>87</sup> Tobias Harris, "Abe's Victory Simplifies His Agenda," Sasakawa Peace Foundation USA, July 12, 2016.

**Figure 7. Party Affiliation in Japan's Upper House of Parliament**  
(The LDP-Komeito coalition controls the Upper House)



**Source:** Japan's Upper House of Parliament.

**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 2016.

## 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>88</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

<sup>88</sup> This calculation does not include the one year of Abe's first stint as Prime Minister in 2006 and 2007.

critical broadcasters and print publications.<sup>89</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>90</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>91</sup> Abe government officials deny that they have attempted to unduly influence the press or restrict press freedoms.

## The Democratic Party (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 to form the Democratic Party (DP). Since 2012, the DP/DPJ's 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 from 2009 to 2012. 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 was not enough to prevent a smashing defeat in the July 2016 Upper House election, after which the DP elected a new party president, Ms. Renho Murata.

A possible emerging political actor on the national stage is Tokyo's governor, Yuriko Koike. (Administratively, Tokyo is a prefecture—the Japanese equivalent of a U.S. state—rather than a city.) Although Koike is an LDP member, she defied her party's leadership by running against (and defeating) the candidate backed by the LDP/Komeito coalition in the August 2016 gubernatorial election. Koike campaigned on a platform of reform, including increasing the participation of women and the disabled in the workforce, promoting the environment, carrying out financial reform, and criticizing “the old party politics” that she said were stifling Japan's capitol. In early 2017, Koike announced she was creating a new party, *Tomin First* (Tokyo Citizens First), to field candidates in July 2017 elections for Tokyo's assembly, reportedly with a goal of defeating the LDP's Tokyo chapter.<sup>92</sup> If she succeeds in gaining control of the assembly, Koike—a former defense minister—could be poised to re-assume a role in national politics, particularly as Tokyo prepares to host the 2020 summer Olympic games.

<sup>89</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>90</sup> Ibid.

<sup>91</sup> Reporters without Borders, <http://index.rsrf.org/#!/index-details/JPN>, accessed September 17, 2015.

<sup>92</sup> Rob Fahey, “Koike Challenges Tokyo's LDP, Creating a New Kind of Opposition Politics,” *Japan Forward*, February 3, 2017.

## Structural Rigidities in Japan's Political System

Compared to most industrialized democracies, the Japanese parliament is structurally weak, as is the office of the prime minister and his cabinet. Though former Prime Minister Koizumi and his immediate predecessors increased politicians' influence relative to bureaucrats', with important exceptions Japan's policymaking process tends to be compartmentalized and bureaucratized, making it difficult to make trade-offs among competing constituencies on divisive issues. The result is often paralysis or incremental changes at the margins of policy, particularly during periods of weak premierships such as the one Japan experienced from 2006 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>93</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.

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<sup>93</sup> Lynann Butkiewicz, "Implications of Japan's Changing Demographics," National Bureau of Asian Research, Washington, DC, October 2012.



**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.

## 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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