

# CRS Issue Brief for Congress

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## **Japan-U.S. Relations: Issues for the 107<sup>th</sup> Congress**

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### SUMMARY

The United States has long worked closely with Japan to build a strong, multifaceted relationship based on shared democratic values and mutual interest in Asian and global stability and development. The desire of the George W. Bush administration to deepen and strengthen U.S.-Japan strategic relations has caused Japanese analysts and officials to have expectations of a positive shift in the triangular U.S.-Japan-China relationship, but also concern about possibly becoming involved in a explicitly anti-China security posture.

U.S.-Japan relations are of concern to Members and Committees with responsibilities or interests in trade, U.S. foreign policy, ballistic missile defense (BMD), and regional security issues. The latter include North Korean nuclear and missile proliferation, China's emergence as a potential U.S. military adversary, and U.S. military bases in Japan, whose importance has been underscored once again in the anti-terrorist campaign in Afghanistan.

Some analysts both here and in Japan question whether the three-party coalition government in Tokyo led by Prime Minister Junichiro Koizumi is ready for a closer U.S. embrace, especially in regard to security cooperation. However, the Koizumi government succeeded in gaining parliamentary approval to send Japanese ships to the Indian Ocean to provide rear-area logistical support to U.S. forces engaged in the anti-terrorist campaign in Afghanistan. Because of a constitutional ban on offensive military action not strictly for self-defense, Japanese ships will be restricted to non-combat support.

Due to its own concerns about North Korean ballistic missiles and a rising China, Tokyo has started to bolster its self-defense capabilities even as it increases cooperation

with the United States under revised defense cooperation guidelines that were agreed to in September 1997. Japan also has committed to participate in joint research and development of a theater-range missile defense capability, but has not made a decision about acquisition or deployment.

The large and long-standing U.S. trade deficit with Japan has been a perennial source of friction. The deficit fell from a high of \$65 billion in 1993 to \$47.6 billion in 1996, but then rose sharply again, reaching a record \$73.9 billion in 1999. A major factor in the trade deficit has been the sluggish Japanese economy. As of early 2001, indications are that the Japanese economy is in a recession again after a brief period of modest growth, with unemployment rising to record levels.

In response to the rising trade deficit, the Clinton Administration repeatedly urged Japan to adopt initiatives to stimulate and deregulate its economy and threatened or imposed anti-dumping tariffs. The Bush Administration has paid somewhat less attention to the trade deficit, while encouraging Japan to follow-through on structural reforms and measures to attack Japan's enormous stock of bad loans.

Congress has reacted critically to alleged steel dumping by Japan, and the 106<sup>th</sup> Congress enacted legislation assigning countervailing duty and antidumping receipts to firms that have been injured by dumped and subsidized imports. Japan's objections to U.S. anti-dumping laws and U.S. complaints about Japanese agricultural protectionism have been key issues of contention in WTO negotiations on the issues to be included in a new round of global trade negotiations.



## MOST RECENT DEVELOPMENTS

*President Bush visited Tokyo during February 16-19, 2002, as part of an East Asian tour that also included South Korea and China. The President held extensive talks with Prime Minister Koizumi on issues such as alliance relations, cooperation against terrorism, and Japan's continuing economic slump, and addressed a joint session of the Japanese Diet (parliament). The President provided some clarification of his "Axis of Evil" reference to North Korea, Iraq, and Iran in his State of the Union Address, and praised Prime Minister Koizumi's economic reform program. Coming on the heels of Koizumi's sacking of his controversial but popular foreign minister, Makiko Tanaka, which cut 20% off his 70-80% public approval ratings, the visit appeared to have the intended goal of giving the Japanese leader a morale boost, whatever the impact on his popularity.*

*Publicly the President's tone appeared less critical of Japan than the stance adopted by U.S. Treasury Secretary O'Neill on January 23, 2002, in Tokyo, in which O'Neill warned the Koizumi government that it needed to take action to resolve its economic problems, especially non-performing bank loans. However, although he called Koizumi a "great reformer" in public, subsequent to the President's return to Washington the Japanese press obtained and published a confidential letter dated January 17, in which among other things President Bush reportedly told the prime minister of his deep concern that Japan's huge stock of nonperforming loans and assets "were not being moved quickly to the market." Koizumi himself reportedly joked to journalists about his concerns that the President might say in public what he had heard from him in private.*

*Japanese officials and the press expressed dismay at the omission of Japan from a list of 26 allied countries that had contributed to the anti-terrorist campaign, despite the fact that Japan sent military forces to the Indian Ocean region, hosted an Afghan aid conference in January, and has pledged large scale aid to the reconstruction of Afghanistan. The Defense Department subsequently apologized for the omission.*

*The Japanese government and public reacted angrily to the announcement by President Bush on March 5 that his Administration would impose "safeguard" tariffs of 30% on a range of steel imports. Tokyo has formally asked for talks—implying that it will join the EU in taking the issue to the WTO.*

## BACKGROUND AND ANALYSIS

### **U.S.-Japan Cooperation and Interdependence**

The United States and Japan have long sought to promote economic cooperation, an open global trading system, and regional stability and security. In economic terms, the two countries have become increasingly interdependent: the United States is by far Japan's most important foreign market, while Japan is one of the largest U.S. markets and sources of foreign investment in the United States (including portfolio, direct, and other investment).

The U.S.-Japan alliance and the American nuclear umbrella give Japan maneuvering room in dealing with its militarily more powerful neighbors. The alliance and access to bases in Japan also facilitates the forward deployment of U.S. military forces in the Asia-Pacific, thereby undergirding U.S. national security strategy.

Japanese leaders and press commentators generally welcomed the election of George W. Bush and indications that the new administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. Following the terrorist attacks of September 11, Japan generally disproved the concerns of some commentators that Japan might not be prepared to respond fully enough or quickly enough to the Bush Administration's bid for closer security cooperation and coordination. As evidenced by the President's March 2002 decision to impose a series of anti-dumping tariffs to protect the struggling U.S. steel industry, on the other hand, Japanese hopes for a relaxation of U.S. trade and economic policy pressure have been partially disappointed.

Relations periodically have been strained by differences over trade and economic issues, and, less often, over divergent foreign policy stances. Strains arising from trade issues peaked about 1995, after several years of conflict over the Clinton Administration's efforts – with mixed results – to negotiate trade agreements with numerical targets. Although the end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance among both the American and Japanese public, both countries have continued to view their interests as best served by maintaining and even strengthening the U.S.-Japan alliance.

President George W. Bush and Japanese Prime Minister Junichiro Koizumi set the tone for relations at a summit meeting at the Camp David presidential retreat on June 30, 2001. President Bush indicated strong support for the Japanese Prime Minister's economic and financial reform program, while Prime Minister Koizumi pledged to pursue cooperation across a broad front and couched his concerns about the Administration's abandonment of the Kyoto Treaty and its ballistic missile defense program in positive terms.

**Cooperation Against Terrorism: Response to the Attacks in New York and Washington.** The New York attacks especially shocked Japan, which had a large commercial presence in the World Trade Center and adjacent buildings and suffered the loss of more than 20 nationals. On September 12, 2001 (Japanese Time), Japanese Prime Minister Junichiro Koizumi held a post-midnight press conference in which he denounced the terrorist attacks in New York and Washington. He convened an emergency National Security Council meeting that formulated initial measures to provide support for the United States, including increased bilateral anti-terrorism cooperation. Koizumi called the attacks “cowardly, outrageous, and reckless” in a message to President Bush.

Prime Minister Koizumi had to overcome dissension within the ruling three-party coalition to gain enough political maneuver room to allow Japan to contribute militarily to the U.S.-led anti-terrorist campaign. In addition to dissent from the New Komeito, Koizumi faced opposition from Old Guard elements in his own Liberal Democratic Party (LDP) who didn't want to jeopardize the fragile ruling coalition or, it would seem, give Koizumi too much independence. Koizumi's response appeared guided both with a view towards the perceived seriousness of the threat to Japanese interests and a peaceful international order,

and in reaction to past criticism of Japan for not providing direct support to the U.S.-led coalition during the January-March 1991 Gulf War against Iraq.

On October 30, 2001, the Upper House of the Japanese Diet (parliament) cleared two bills giving unprecedented post-World War II authority to the Japanese Self-Defense Forces (SDF) to protect U.S. bases and sensitive Japanese facilities in peacetime, and enable Japan for the first time to “show the flag” in a non-combat role in support of U.S. and allied military operations in the Indian Ocean area. Legislation valid for a period of two years, and extendable, allows the SDF to provide “rear area” support consisting of intelligence sharing, medical care, fuel and water, and military supplies to U.S. forces in the Indian Ocean. In an effort to reconcile the terms of Japan’s “no-war” constitution with U.S. expectations, Maritime SDF vessels are allowed under the legislation to transport nonlethal supplies to U.S. forces, but not arms and ammunition. Despite these limits, several of the measures are seen by critics as going beyond past interpretations of the constitutional ban on “collective defense” activities.

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, to provide logistical support to U.S. forces there. The first three ships are part of a six- or seven-ship flotilla consisting of four destroyers, two fleet oilers, and a minesweeper (to ferry supplies) that the Japanese government will send to the region under a “basic plan” that has been formulated to respond to U.S. requests for anti-terrorist assistance. The plan, which is limited to a period of one year, also includes the despatch of four Air Self-Defense Forces (ASDF) C-130 transports to carry supplies from the United States as far as Singapore. Naval transport duties will likely involve transporting fuel from Bahrain to the U.S. fleet and from Australia to Diego Garcia.

Due to objections from within the ruling coalition, the Koizumi government decided not to send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States had informally requested.

On November 14 the Japanese government announced an emergency grant of \$300 million to Pakistan covering refugee relief and other needs for a period of two years – a quantum increase over the \$40 million committed in October. Japan also has announced that it will contribute \$1 billion to the IMF to fund low interest loans for regional states supporting the U.S.-led anti-terrorist campaign in Afghanistan. Japan joined the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20, and hosted a donors meeting in Tokyo that began on January 21, 2002, at which it pledged \$500 million for reconstruction aid over the next two years.

**U.S.-Japan-China Relations.** Tokyo has watched with unease the course of U.S.-China relations, but its own relations with Beijing have been anything but smooth, and at present Japan seems to view China’s rising power with deepening concern. Japanese officials grow uncomfortable when U.S.-China relations are too close, and also when they deteriorate – as at present. Japan’s own relations with China have been increasingly strained in recent years as a result of conflicting claims to disputed islands and related Chinese intrusions into what Japan considers its 200 mile economic zone and Japan’s concerns about China’s rising power and influence. For its part, China has objected to the granting of a visa for a visit to Japan by former Taiwanese president Lee Teng Hui, has complained about the treatment of

Japan's past aggression in Japanese textbooks, and bitterly opposed an August 12, 2001 visit to the Yasukuni War Shrine, in Tokyo, by Prime Minister Koizumi. The Yasukuni complex enshrines the names of Japan's war dead, including a handful of convicted war criminals. China strongly objects to the development of closer U.S.-Japan security relations, which Beijing sees as part of an informal containment strategy.

Recently, Tokyo and Beijing also have engaged in trade confrontation. In response to Tokyo's imposition of anti-dumping tariffs against certain Chinese agricultural exports, China has imposed 100% duties on Japanese exports of autos, cell phones, and air conditioners.

Sino-Japanese relations took an upturn as a result of Prime Minister Koizumi's visit to Beijing on October 8, 2001. The agenda included a visit by Koizumi to the Marco Polo Bridge, near Beijing, the site of a manufactured incident that triggered Japan's 1937 invasion of China. During the visit Koizumi conveyed the fullest apology for past wrongs ever delivered by a Japanese Prime Minister.

Relations remain strained over military issues, including Japanese concern about fast-rising Chinese defense budgets and Chinese objections to the rising profile of the Japanese Self-Defense Forces. In late December 2001, acting under revised rules of engagement, Japanese Maritime Self-Defense Forces ships chased into the East China Sea, a presumed North Korean spy boat that had penetrated into Japanese coastal waters. As the Japanese ships closed in, the crew of the mystery ship reportedly fired hand-held weapons at the Japanese before scuttling and sinking their own vessel. Reportedly, initial intelligence about the ship was provided by U.S. forces. Both China and South Korea have expressed concern about the fact that the ship was sunk in international waters, within China's 200-mile Exclusive Economic Zone (EEZ), and China opposes Japanese plans to raise the ship.

**Differing Korean Peninsula Priorities.** The United States and Japan share the same broad objectives regarding the unstable Korean Peninsula, but Japanese officials frequently have expressed a feeling of being left out of U.S. decisionmaking. Japanese policymakers appear torn between a desire to move slowly and deliberately on normalizing relations with North Korea, and worry about becoming isolated from U.S.-South Korea-North Korea diplomacy. Tokyo agreed reluctantly under pressure from the Clinton Administration to commit to pay about \$1 billion towards the construction of two light water nuclear power reactors for the North under the October 1994 U.S.-North Korea "Agreed Framework," but only agreed to provide food aid to North Korea in October 2000, after a five-year suspension.

From time to time Japanese leaders have shown anxiety over the possibility that U.S. negotiators would ignore Japanese concerns about the threat from North Korea's short-range "Nodong" missiles and the fate of some 10 Japanese citizens allegedly kidnapped by North Korean agents during the period 1977-1980. Japanese officials and commentators have welcomed indications that the Bush Administration is moving more cautiously and slowly in normalization discussions with Pyongyang, and is perceived to be paying close attention to Japanese concerns.

Japan has tried in part to compensate for sometimes feeling "left out" of U.S. policymaking towards the Korean Peninsula by itself drawing closer to the South Korean government headed by President Kim Dae Jung. The high point of this effort was South

Korean President Kim Dae Jung's state visit to Japan in October 1998, during which Tokyo issued its first ever written apology for its past treatment of Korea. Recently, however, Japan-South Korea relations have been buffeted by the same issues arising out of Japan's wartime past that have afflicted Sino-Japanese relations. A visit to Seoul by Prime Minister Koizumi in early October 2001 was marred by anti-Japanese demonstrations and failure to resolve a sensitive fishing issue. Reportedly, South Korean President Kim offered no objection to Japan's plans to provide logistical support to the U.S. military campaign against the Taliban regime in Afghanistan and the forces of Osama bin Laden, but also urged Koizumi not to alter Japan's constitution.

The incident also created controversy in Japan, both because of the aggressive response of the MSDF and also because of reported failures in communication and coordination between the MSDF, which is Japan's navy in all but name, and the Japanese Coast Guard.

**Kyoto Protocol.** Japan is the fourth leading producer of so-called greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Japan has signed but not officially ratified, Japan is obligated to reduce its emissions 6% below its 1990 levels. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of achieving these reductions by the target date of 2012, but the Japanese government, which places a high value on its support of the protocol, expressed extreme dismay over the announcement by President George W. Bush that the United States would back away from the protocol. On April 18 and 19, 2001, the upper and lower houses of the Japanese Diet adopted resolutions expressing regret at the U.S. action, and calling on Japan to ratify the protocol at an early date. Environmental minister Yoriko Kawaguchi declared on April 27, 2001, that the pact would be "meaningless" without the participation of the United States, the producer of 25% of the world's greenhouse gases.

When President Bush and Prime Minister Koizumi met at Camp David on June 30, 2001, the Japanese leader indicated that he did not intend to proceed to sign the Kyoto Treaty without the United States, but that he hoped that the two countries could cooperate to address global warming issues. During a subsequent visit to the United Kingdom Koizumi indicated that he still hoped to persuade the United States to sign the treaty, but that it was pointless for Japan to sign the treaty if the United States stayed aloof. On July 23, 2001, at a world conference on climate change in Brussels, however, Japan and the European Union reached a compromise on the final terms for implementation of the Kyoto Treaty. The Japanese-EU bargain on modifications to the treaty opened the way towards bringing the treaty into effect despite the decision of the Bush Administration not to ratify the treaty. (Such implementation would not bind the United States unless the U.S. Government ratifies the treaty as well.)

**The Whaling Issue.** Members of Congress and Executive branch officials have criticized Japan's decision to expand its whaling activities, which it justifies on grounds of scientific research and supporting the traditional livelihood of several coastal communities. In 1986, the International Whaling Commission (IWC) implemented a moratorium on the commercial killing of large whales. Under the provisions of the International Convention for the Regulation of Whaling, Japan subsequently issued permits allowing Japanese whalers to kill several hundred minke whales annually in the Antarctic and northwest Pacific for scientific research. Since the IWC dictates that research be done in a non-wasteful manner, the meat from these whales is sold for human consumption in Japan. Although the IWC has passed



several resolutions asking Japan to curtail its research whaling, in 2000 Japan announced that it was expanding its northwest Pacific hunt to also target sperm and Bryde's whales. Because these two species are on the U.S. list of endangered and threatened species, the Clinton Administration announced restrictions on Japanese fishing in U.S. waters in September 2000. In lieu of sanctions, which could have been imposed under U.S. law, the United States and Japan agreed to form a panel of experts to resolve the dispute over Japan's scientific research whaling program. This panel met initially in early November 2000, deciding to propose that the Scientific Committee of the IWC hold a workshop on scientific research on whale feeding habits. On July 26, 2001, the IWC adopted a U.S.-Japan joint proposal for a full-fledged study of what types of fish and in what quantities are eaten by different species of whales. Japan generated international criticism in late February 2002 when it notified the IWC that it planned to double the number of minke whales that it takes in North Pacific Waters, from 50 to 100, and to also take 50 sei whales, which are a listed endangered species. (Prepared by Eugene H. Buck, CRS Resources, Science, and Industry Division.)

**Claims of former World War II POWs and Civilian Internees.** Congress has also indicated interest in another issue in which the U.S. and Japanese governments have been in essential agreement. A number of surviving World War II POWs and civilian internees who were forced to work for Japanese companies during the war have filed suits in Japan and California seeking compensation of \$20,000 for each POW or internee. Former POWs and civilian internees had been paid about \$1.00-2.50 for each day out of internment from seized Japanese assets by a congressionally established War Claims Commission (WCC) in 1948. Numerous suits have been filed in California against Japanese firms with wartime or pre-war roots, including Mitsui & Co., Nippon Steel, and Mitsubishi Company and their subsidiaries. The suits allege that these companies subjected POWs and internees to forced labor, torture, and other mistreatment.

Thus far, the Japanese courts and the U.S. Court of Claims have dismissed the suits on grounds that Japan's obligations to pay compensation were eliminated by Article 14 of the 1951 Multilateral Peace Treaty with Japan. The State Department and Department of Justice support the position of the Japanese government, but a number of Members of Congress have sided with the plaintiffs. The issue has received intensified attention in the 107<sup>th</sup> Congress as a consequence of a decision in December 2000 by Kajima corporation, a giant construction company, to pay \$4.6 million into a fund for 986 mainland Chinese who had been forced to perform labor in a notorious Kajima-run camp in northern Japan.

A number of bills and amendments introduced in the 107<sup>th</sup> Congress seek to block the executive branch from upholding the supremacy of the Peace Treaty in civil suits. On July 18 and September 10, 2001, the House and Senate respectively adopted similar amendments to H.R. 2500, the Commerce, Justice, State, and the Judiciary appropriations bill for FY2001, that would prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. In a move that generated controversy, the provisions were dropped by conferees. The conference report to H.R. 2500 was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77). (See Legislation section, below.) The conference report explains that the provision was dropped because the adamant opposition of the President would have

jeopardized the bill, but some Senators expressed reservations, charging that the provision had been the victim of a questionable “parliamentary tactic.”

On September 7, 2001, senior U.S. and Japanese officials and former senior officials attended ceremonies in San Francisco marking the 50<sup>th</sup> anniversary of the U.S. Japan Peace Treaty, which ended the U.S. occupation. Foreign Minister Tanaka repeated a 1995 statement by then Prime Minister Murayama, that “We have never forgotten that Japan caused tremendous damage and suffering to the people of many countries,” and that its actions “left an incurable scar on many people, including former prisoners of war.” The statement failed to satisfy protesters who have been demanding compensation for former POWs and civilian internees who were forced into slave labor. (For further background, see 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 K. Reynolds.)

## Security Issues

(This section written by Larry Niksch)

Japan and the United States are military allies under a Security Treaty concluded in 1960. Under the treaty, the United States pledges to assist Japan if it is attacked. Japan grants the U.S. military base rights on its territory.

**Burden Sharing Issues.** The United States has pressed Japan to increase its share of the costs of American troops and bases. Under a host nation support (HNS) agreement, Japan has provided about \$2.5 billion annually in direct financial support of U.S. forces in Japan, about 77% of the total estimated cost of stationing U.S. troops. During negotiations for a new HNS agreement covering the period after March 2001, the Japanese government proposed a reduction in its contribution of about \$70 million. The Clinton Administration objected to any reduction, arguing that a substantial Japanese HNS contribution is important to the strength of the alliance. A new agreement, signed in September 2000, provides for a reduction of HNS by slightly over 1% annually through 2006.

**Issue of U.S. Bases on Okinawa.** Another issue is that of the impact of the heavy U.S. military presence on the island of Okinawa. Large-scale protests erupted in Okinawa in September 1995, following the rape of a Japanese schoolgirl by three U.S. servicemen. The 29,000 U.S. military personnel on Okinawa comprise more than half the total of 47,000 U.S. troops in Japan. In a September 1996 referendum, the Okinawan people approved a resolution calling for a reduction of U.S. troop strength on the island. The U.S. and Japanese governments concluded an agreement worked out by a Special Action Committee on Okinawa (SACO) on December 2, 1996, under which the U.S. military will relinquish some bases and land on Okinawa (21% of the total bases land) over 7 years, but U.S. troop strength will remain the same. Alternative sites are to be found for training and the stationing of U.S. forces. Japan is to pay the costs of these changes.

The SACO agreement provides for the relocation of the U.S. Marine air station (MAS) at Futenma, adjacent to a densely populated area, to another site on Okinawa. Attempts to select a site failed until late 1999, partly because of local opposition. A new site, Nago, in northern Okinawa was announced by the Japanese government in November 1999. A

complication has emerged, however, in the form of a demand by the mayor of Nago and other groups in Okinawa to put a 15-year time limit on U.S. use of the base.

The bases controversy worsened in 2001 due to allegations of sexual assaults and arson by several U.S. military personnel. The Okinawa Prefectural Assembly in February 2001 passed a resolution calling for a reduction of U.S. forces on the island. Senior Japanese officials indicated that Japan would seek changes in the implementation of the U.S.-Japan Status of Forces Agreement (SOFA), which specifies procedures for transfer of custody to Japan of U.S. military personnel and dependants accused of crimes. Okinawa's governor, elected in 1998 as a moderate on the bases issue, now endorses calls for a 15-year time limit on the replacement base for Futenma and a reduction in the number of Marines on Okinawa. The Bush Administration and Pentagon officials have said they are opposed either to changing the SOFA or to agreeing to a time limit on the basing of U.S. forces on Okinawa.

**Revised Defense Cooperation Guidelines.** President Clinton and then-Prime Minister Ryutaro Hashimoto issued a Joint U.S.-Japan Declaration on Security on April 17, 1996, affirming that the security alliance would remain relevant for the 21<sup>st</sup> Century. U.S. and Japanese defense officials agreed on a new set of defense cooperation guidelines on September 24, 1997, replacing guidelines in force since 1978. The guidelines grant the U.S. military greater use of Japanese installations in time of crisis. They also refer to a possible, limited Japanese military role in "situations in areas surrounding Japan" including minesweeping, search and rescue, and surveillance. The Japanese Diet passed initial implementing legislation in late May 1998.

The crises often mentioned are Korea and the Taiwan Strait. Japan has barred its Self-Defense Forces (SDF) from operating outside of Japanese territory in accordance with Article 9 of the 1947 constitution, the so-called no war clause. Japanese public opinion has strongly supported the limitations placed on the SDF. However, Japan has allowed the SDF since 1991 to participate in a number of United Nations peacekeeping missions. Japan's current Prime Minister, Junichiro Koizumi, has advocated that Japan be able to participate in collective self-defense, but he said he would not seek a revision of Article 9. The Bush Administration says it will seek agreements with Japan which would upgrade Japan's role in implementing the 1997 defense guidelines, including crises in "areas surrounding Japan."

**Cooperation on Missile Defense.** The Clinton Administration and the Japanese government agreed in August 1999 to begin cooperative research and development over the next 5-6 years on four components of the U.S. Navy Theater Wide (NTW) theater missile program. Proponents of missile defense justify it based on North Korea's missile program, but China has strongly opposed the program.

Japanese officials, starting with Prime Minister Koizumi, have expressed serious reservations about the May 1, 2001 announcement by the Bush Administration that the United States would proceed with the development and deployment of a national missile defense (NMD) system regardless of the consequences for the 1972 Anti-Ballistic Missile (ABM) treaty with the former Soviet Union. The Japanese government has expressed concern over Secretary of Defense Donald Rumsfeld's reported efforts to eliminate the distinction between NMD and Theater Missile Defense (TMD). The Bush Administration reportedly wants Japan to expand the scope of its research to include developing radar and weapons control

systems designed for the U.S. Navy's Aegis air defense system, which is seen by U.S. supporters as the most appropriate building-block for developing a near-term NMD system.

Notwithstanding these concerns, Japanese defense policymakers seem highly interested in acquiring a national missile defense capability. In late August 2001 the Japanese media reported that the Japan Defense Agency (JDA) had requested a doubling of its current budget for missile defense research to about \$66.5 million for FY2002. The budget request, which seeks a 1.8% increase in the face of cuts of up to 10% in other ministries, also includes funds for two new destroyers equipped with the Aegis radar and fire control system, including upgrades compatible with the later acquisition of a ballistic missile defense system. (See CRS Report RL30992. *Japan-U.S. Cooperation on Theater Missile Defense*, by Richard P. Cronin and Jane Y. Nakano.)

## **Economic Issues**

(This section written by William Cooper)

Economic ties with Japan remain critical to U.S. national interests and, therefore, to the U.S. Congress. The United States and Japan are the world's two largest economies, accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are bound by merchandise trade, trade in services, and foreign investments.

Japan is the United States's third largest merchandise export market (behind Canada and Mexico) and the second largest source for U.S. merchandise imports. Japan also is the United States's largest market for exports of services and the second largest source of services imports. The United States is Japan's most important trading partner for exports and imports of merchandise and services. Japan is the second largest source of foreign direct investment in the United States and the fifth largest target for U.S. foreign direct investment abroad; the United States is Japan's largest source of foreign direct investment and its largest target of foreign direct investment abroad.

Because of the significance of the U.S. and Japanese economies to one another, domestic economic conditions strongly affect their bilateral relationship. As a result, Japan's continuing economic problems and the recent deceleration of U.S. economic growth have become central bilateral issues. Except for some brief periods, Japan has incurred stagnant or negative economic growth since 1991. In 2000, real GDP increased 1.5%, an increase from 1999 (0.8%). However, the Japanese Government reported that real GDP in January-March 2001 increased only 0.1% (it revised its earlier estimate of a decline of 0.2%), but declined 1.2% in the April-June 2001 quarter and declined 0.5% in the July-September quarter, meaning that Japan is in recession. Reportedly, this was the steepest contraction since 1978, when the current statistical series began. Furthermore, the Japanese unemployment continues to hit record post-World War II levels. The Japanese government announced that the unemployment rate was 5.6% in December. Most mainstream economic forecasters predict the recession in Japan the current year and the follow year. The outlook is a major disappointment to Japanese economists and policymakers who had hoped that the Japanese economy would finally recover.

Another sign of a weakening Japanese economy has been the rapid depreciation of the yen. The Japanese yen has depreciated in the last year in terms of the dollar making U.S. exports to Japan more expensive and imports from Japan cheaper causing U.S. exporters and import-sensitive producers some competition concerns. On January 2, 2001, the yen/dollar exchange rate was ¥114.75=\$1.00. On February 26, 2002, the rate was ¥133.88 = \$1.00, a 14.5% yen depreciation. In a January 23, 2002 speech in Tokyo, Secretary of the Treasury O'Neill warned Japan that the United States did not support a policy of a weak yen as a way for Japan to stimulate its economy.

Economists and policymakers in Japan and in the United States have attributed Japan's difficulties to a number of factors. One factor has been the bursting of the economic "bubble" in the early 1990s, which saw the value of land and other assets collapse. The bursting of the asset bubble led to the collapse of Japan's banking sector and to persistent deflation, both of which have dampened domestic demand. Analysts have also pointed to ineffective fiscal and monetary policies and to structural economic problems as impediments to a full economic recovery in Japan.

Riding on very high popularity poll ratings, Prime Minister Koizumi's government announced a multipoint economic reform plan on June 26, 2001. The plan includes not only steps to deal with bad loans, but also with the reforming fiscal policies, restructuring Japan's social security system, and reducing the government's involvement in businesses. Koizumi warned the Japanese people that the economic reforms would require adjustments for several years that would be painful but would put Japan on course for economic growth in the long-term. President Bush endorsed Koizumi's efforts during his June 30 meeting with the prime minister at Camp David. However, the Koizumi government appears to be retrenching. For example, recent official announcements on government spending indicate that the government will likely exceed its self-imposed 30 trillion yen ceiling on new government debt. Banking reform also remains a problem.

If Japanese economic problems are occupying the center of U.S.-Japanese economic ties, some long-standing trade disputes continue to irritate the relationship. The U.S. bilateral trade deficit with Japan reached \$81.3 billion in 2000, breaking the previous record of \$73.9 billion set in 1999. (See **Table 1.**) However, in 2001, the U.S. trade deficit declined 15%, primarily because of the slowdown in the U.S. economy.

**Table 1. U.S. Trade with Japan, 1996-2001**  
(\$ billions)

Year	Exports	Imports	Balances
1996	67.5	115.2	- 47.7
1997	65.7	121.4	- 55.7
1998	57.9	122.0	- 64.1
1999	57.5	131.4	- 73.9
2000	65.3	146.6	- 81.3
2001	57.6	126.6	-69.0

**Source:** U.S. Department of Commerce, Bureau of the Census. FT900. Exports are total exports valued on a f.a.s .basis. Imports are general imports valued on a customs basis.

In addition, Japan has raised concerns over U.S. actions to restrict steel imports from Japan and other countries. U.S. steel workers and producers have cited a surge in steel imports after 1997 as a reason for financial problems they face. They have claimed that foreign dumping, government subsidies, and general overcapacity in the world steel industry have strained their ability to compete.

The 107<sup>th</sup> Congress is considering a number of proposals to impose direct quotas on steel imports and to revise U.S. trade remedy (countervailing duty, antidumping and escape clause) laws. In the meantime, the Bush Administration submitted a request to the U.S. International Trade Commission to investigate whether the surge in imports constitutes a substantial cause or threat of “serious injury” to the U.S. industry under the section 201 (escape clause) statute on June 22, 2001. On December 20, the Commission issued its determination that domestic steel producers were being seriously injured or are threatened by serious injury from imports of a number of steel products, including some from Japan. President Bush must decide by March 6 whether to take actions and, if so, what actions, to remedy the injury or threat thereof.

On December 3, 2000, a 5-year U.S.-Japan bilateral pact on trade in cars and autoparts expired. The United States pressed Japan to renew, but Japan resisted. On June 26, 2001, a bipartisan group of members of the House and Senate sent a letter to President Bush urging him to push for the pact’s renewal during his June 30 meeting with Koizumi. The two countries have agreed to discuss problems in auto trade under a new framework. The United States has also been pressuring Japan to reform government regulations of key industries, such as telecommunications, in order to stimulate long-term economic growth and increase market opportunities for U.S. exporters and investors.

At their June 30 summit at Camp David, President Bush and Prime Minister Koizumi agreed to establish a sub-cabinet level forum – the “U.S.-Japan Economic Partnership for Growth” – to discuss economic issues of mutual concern, such as overall economic policies and deregulation, and persistent sector-specific concerns including autos and autoparts, insurance, and flat-glass. The forum will include business representatives and other non-government experts as well as government officials.

The United States and Japan will remain significant economic players in the world economy and important partners for one another for the foreseeable future. The scale of that importance might change over time as other countries, especially Mexico and the Asian economies, increase their strength as trading nations. The climate in U.S.-Japan economic relations will likely be judged on how the two countries manage pending and future issues, including the following:

- Japanese challenges of U.S. AD, CVD, and other trade laws in the WTO;
- the trade imbalance — an increasing U.S. trade deficit with Japan has often led to bilateral tensions;
- surges in U.S. imports of import-sensitive products, for example steel;
- economic growth and reform in Japan and their impact on the United States;
- and

- the ability of the two countries to work together to promote a common agenda in the WTO, the Asian-Pacific Economic (APEC) forum and other organizations.

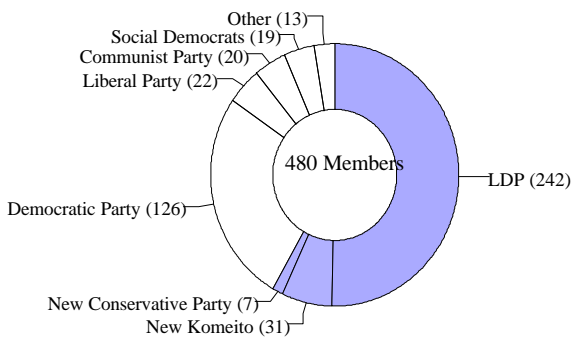
## Japanese Political Developments

(This section written by Mark Manyin)

**Summary.** In the weeks after his unconventional rise to power in April 2001, the extraordinary popularity of Prime Minister Junichiro Koizumi helped propel the ruling coalition dominated by the Liberal Democratic Party (LDP) to significant victories in two parliamentary elections. The key to his popularity was his appeal to independent voters, who constitute a majority of the Japanese electorate and tend to back reformist politicians. Koizumi’s public approval rating remained well over the 70% level despite Japan’s worsening economic situation and a growing sense that Koizumi was unlikely and/or unwilling to follow through on his promises to radically reform the economy and political system.

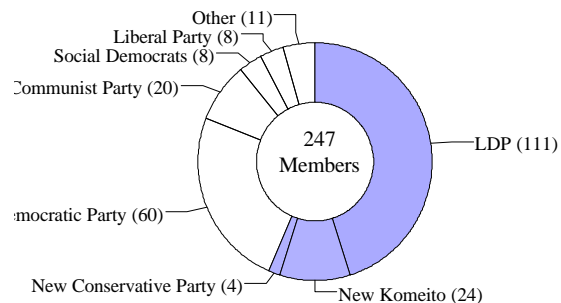
### Lower House Composition

Color Slice = Ruling Coalition Member



### Upper House Composition

Color Slice = Ruling Coalition Member



In early February, however, Koizumi’s approval ratings plummeted by more than 20% after he dismissed the much-maligned but highly popular Foreign Minister, Makiko Tanaka, over a dispute with Foreign Ministry bureaucrats and a prominent LDP politician. Although most Japanese appeared ambivalent about Tanaka’s performance as a diplomat, they had applauded her attempts to reform the scandal-plagued Foreign Ministry and her frequent criticisms of the LDP’s decision-making system. Her dismissal was taken as a sign that Koizumi had bowed to the wishes of the LDP’s powerful old guard factions that are strongholds of the “old economy” interests that are most threatened by Koizumi’s agenda. Because Koizumi’s popularity was one of the few weapons he could wield in his efforts to seize the machinery of government away from the LDP’s kingpins, the prospects for his economic reform program have become even more clouded.

**The Liberal Democratic Party.** The LDP has been the dominant political force in Japan since its formation in 1955. Its strength in the Diet (the Japanese parliament), however, has been steadily weakening for nearly a decade. Since it was briefly ousted from power in 1993 and 1994, the LDP’s lack of a majority in both houses of the Diet has forced it to retain power only by forming coalitions with smaller parties. Today, that coalition includes the Buddhist-affiliated New Komeito Party and the right-of-center New Conservative Party. In October 2001, victories in bi-elections gave the LDP its first majority in the 480-seat Lower

House in years. However, the party still lacks a majority in the less powerful Upper House. It therefore continues to depend on its two coalition partners to be assured that legislation will pass.

Long-time observers of Japanese politics often quip that the LDP is “neither liberal, nor democratic, nor a party.” It is not considered liberal because most – though by no means all – of its members hail from the conservative end of the political spectrum in Japan. It is not considered democratic because major decisions typically have been made by party elders in secretive, closed-room sessions with little input from the party’s grass-roots. Finally, the LDP is not considered a political party in the traditional sense because it has long been riven by clique-like factions that jealously compete for influence with one another. For instance, cabinet posts, including the office of prime minister, typically have been filled not on the basis of merit or policy principles but rather with a view towards achieving a proper balance among faction leaders, who act behind-the-scenes as kingpins. For over two decades, the LDP’s dominant faction has been the one founded by former Prime Minister Kakuei Tanaka in the 1970s. It is currently headed by former Prime Minister Ryutaro Hashimoto, who in April 2001 was surprisingly defeated by Koizumi in the selection for LDP President.

One result of the LDP’s opaque, top-down decision-making structure is that it has been slow to adapt to changes in Japanese society. The LDP has coddled many of Japan’s declining sectors, such as the agriculture and construction industries, which have provided the money and manpower for the party’s political activities. Corruption has thrived in this machine-politics system; over the past thirty years many of the LDP’s top leaders have been implicated in various kickback scandals. Over the past decade, a bloc of independent voters – who now constitute a majority of the voting population – has arisen opposing the LDP’s “business as usual” political system. Drawn from the younger generation and increasingly female, this pool of independents has shown itself willing to support politicians, such as Koizumi, who appear sincerely committed to reform. Thus, the LDP is under severe, perhaps unmanageable, stress: to succeed in future elections, it must become more appealing to the new generation of reform-minded voters. Yet, if it adopts political and economic reforms, it risks antagonizing its traditional power base.

**The Koizumi Cabinet.** Koizumi’s stunning victory over Hashimoto in the April 2001 selection of a new LDP President was made possible by the new openness of the LDP’s election process. In a break from the tradition of king-making by party elders in Tokyo, local party chapters successfully forced the Party to give them a major voice in selecting their party’s president, in part by allowing a prefectural primary days before the party’s national representatives were to vote. Koizumi’s unprecedented grass-roots support gave him perhaps the strongest mandate of any Japanese leader since the LDP’s formation in 1955. His electoral victories in July and October 2001 stemmed in large measure from his image as a fresh face of the LDP – from his straight-talking speaking manner down to his youthful hairstyle – that is particularly appealing to independent voters. His choice of officials for his first Cabinet was unprecedented: Five out of seventeen posts were held by women, including Makiko Tanaka, who is one of the most independent, outspoken, and popular politicians in Japan. More importantly, Koizumi bucked party tradition first by resigning from his own faction (the Mori group) and then by giving the LDP’s most powerful and conservative factions – the Hashimoto and the Eto-Kamei groups – only one Cabinet post each. Both factions have opposed Koizumi and many of his reformist proposals. Furthermore, both factions have championed the LDP’s coalition with the pacifist New Komeito party, an



alliance that has complicated Koizumi's attempts to expand the role of Japan's self-defense forces so that they could participate in the U.S.-led anti-terrorist coalition.

Shortly after becoming prime minister, Koizumi trumpeted an agenda of "reform without sacred cows," including pledges to force Japanese banks to dispose of bad loans, cap the central government's annual budget deficit at 30 trillion yen (\$250 billion), privatize public corporations, disband LDP factions, amend the constitution to allow the direct election of the prime minister, and amend Article 9 of the constitution to affirm Japan's right to maintain military forces for defensive purposes and allow collective security arrangements. In his decision-making style, Koizumi has presented himself as a new breed of Japanese politician. Not only has he taken the unusual step of holding town-hall meetings, but also he has circumvented the LDP's traditional decision-making system by publicly issuing policy initiatives directly from the Prime Minister's office, rather than by waiting for approval from faction leaders. Koizumi has also reached out to Japanese conservatives by pursuing more nationalistic policies, including calling for Japanese troops to participate in United Nations peace-keeping operations, proposing an unprecedented set of measures to support the U.S. anti-terrorist campaign, and visiting the Yasukuni Shrine (which houses the remains of several Class A war criminals) to honor Japan's war dead.

Many commentators have wondered whether Koizumi can successfully carry out his political and economic agenda, particularly since 1) his economic reforms are likely to dramatically increase unemployment; and 2) many of his proposals would debilitate the LDP's core constituents and therefore are anathema to many party elders, particularly those in the conservative Hashimoto and Eto-Kamei factions. Much hinged on whether Koizumi could sustain his high public approval ratings long enough to strengthen the LDP's reformist wing. Now that his popularity has fallen in the wake of Foreign Minister Makiko Tanaka's dismissal, he is likely to find it even more difficult to overcome resistance from within his own party. Indeed, his latest economic reform package – unveiled on February 27 – is widely considered too timid to correct the structural problems plaguing the Japanese economy successfully. From time to time, Koizumi has flirted with the idea of outflanking his LDP opponents by cooperating with elements of the main opposition party, the Democratic Party of Japan.

**The Democratic Party of Japan (DPJ).** Koizumi's declining popularity has given new life to the DPJ, which for months had been on the defensive. Until Koizumi's rise to power in April, the DPJ had been expected to do well in the July 2001 Upper House elections, in which it ultimately gained three seats. In contrast, the DPJ had scored significant gains during Lower House elections in 2000, when the party increased its strength from 95 to 127 seats, largely due to the support of independent urban voters. The DPJ, which describes itself as "centrist," is led by Yukio Hatoyama, a former LDP politician whom most analysts consider to be a standard bearer lacking the charisma and outspokenness sought by many Japanese independent voters. The DPJ was formed in April 1998 as a merger among four smaller parties. This amalgamation has led to considerable internal contradictions, primarily between the party's hawkish/conservative and passivist/liberal wings. As a result, on most issues the DPJ has not formulated coherent alternative policies to the LDP, which perhaps explains why the DPJ's approval ratings have rarely surpassed 20% and currently are hovering in the single digits. Indeed, the DPJ's few concrete economic proposals have been adopted by Prime Minister Koizumi as part of his own, as yet unfulfilled, agenda.

## U.S. Policy Approaches

(This section written by Richard Cronin)

Congress cannot itself determine the U.S. approach toward Japan, but its powers and actions in the areas of trade, technology, defense, and other policy form a backdrop against which both the Administration and the Japanese government must formulate their policies. Congress retains the ability to place additional pressures on Japan and other trade partners, and on the Administration, through the legislative process. Congress can also influence U.S.-Japan political and security relations by its decisions on the size and configuration of U.S. forces in Japan.

Members of Congress and the wider public broadly agree across party, ideological, and interest group lines on the need to reduce the U.S.-Japan trade deficit while maintaining Japanese support for U.S. international political and regional security policies, but they differ over what priorities to assign to U.S. objectives and over how best to influence Japanese policies. Currently, two schools of thought regarding U.S. approaches to Japan appear to have the most adherents. Neither of them fully approximates present U.S. policy, but elements of both can be discerned in an ongoing, low profile internal policy debate.

**1) Emphasize Alliance Cooperation.** Some, notably President George W. Bush and his Asian and economic policy advisors, favor emphasizing the overall U.S.-Japan relationship more than in the first Clinton Administration, when highly confrontational approaches to reducing Japanese trade barriers were given highest priority. Proponents of this approach tend to see threats to regional stability such as China's growing assertiveness and threats to peace and stability on the Korean peninsula as warranting special efforts to consolidate and expand the U.S.-Japan security relationship. Some also argue that little more can be expected from new market-opening initiatives, since the most serious issues have already been tackled and real future progress can only come from basic structural reforms that Japan needs to carry out anyway to resuscitate its economy.

**2) Emphasize U.S. Trade and Economic Objectives.** A second approach would place renewed emphasis on the promotion of U.S. trade and economic objectives, but most especially the goal of getting Japan to adopt policies that have the best chance of revitalizing the stagnant Japanese economy, relying on pragmatism in both capitals to sustain political and security ties. Many, especially Members of Congress from steel producing regions, would also apply the full panoply of U.S. trade law and legislate other measures to address specific problem areas. Advocates of this approach tend to assume that Japan's security policies will be governed by practical national self-interest calculations that are independent of the state of U.S.-Japan trade and economic relations. This approach is predicated on the assumption that the United States and Japan would still have many common security interests, including the goals of counterbalancing rising Chinese power and otherwise maintaining regional peace and stability, regardless of any trade friction that the approach would generate. Some academic and "think tank" proponents of this approach view Japan as a "free-rider" on U.S. security protection, and a few argue that U.S. economic and other interests would be better served by a phased military withdrawal from Japan.

The Bush Administration has indicated that it intends to firmly commit to a policy of emphasizing alliance cooperation, but some in Congress may continue to call for measures

to redress the trade imbalance and in particular to counter surges of Japanese imports that damage U.S. industries.

## LEGISLATION

### **H.Amdt. 188 (A022) (Rohrabacker)**

Amends H.R. 2500. An amendment to prohibit use of funds for filing a motion in any court opposing a civil action against any Japanese individual or corporation for compensation or reparations in which the plaintiff in the action alleges that as an American prisoner of war during WWII, he or she was used as a slave or forced labor. Agreed to by recorded vote: 395-33 (Roll no. 243), July 18, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77).

### **H.Res. 65 (King, Peter T)**

Establishing a Select Committee on POW and MIA Affairs. Introduced Feb. 27, 2001. Referred to House committee.

### **S. 1272 (Hatch)**

A bill to assist United States veterans who were treated as slave laborers while held as prisoners of war by Japan during World War II, and for other purposes. Introduced, read twice, and referred to the Committee on Veterans' Affairs on July 31, 2001.

### **S. 1302 (Bingaman)**

A bill to authorize the payment of a gratuity to members of the armed Forces and civilian employees of the United States who performed slave labor for Japan during World War II, or the surviving spouses of such members, and for other purposes. Introduced August 2, 2001. Referred to Committee on Veterans' Affairs.

### **S.Amdt. 1538 (Smith, Bob)**

Amends H.R.2500. To provide protection to American Servicemen who were used in World War II as slave labor. Motion to table, September 10, 2001, rejected in Senate by Yea-Nay Vote. 34-58. Record Vote Number: 276. Adopted by voice vote, September 10, 2001. Dropped from the conference report to H.R. 2500, which was agreed to in the House on November 14, 2001, and the Senate on November 15; and signed into law by the President on November 28 (P.L. 107-77).