

CRS Issue Brief for Congress

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Japan-U.S. Relations: Issues for the 107th Congress

Updated November 15, 2001

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Japan-U.S. Relations: Issues for Congress

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 has 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 and intelligence collection.

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 late-2001, indications are that the Japanese economy is in a recession again after a brief period of modest growth, due to lagging demand and investment.

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 106th 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

On November 5, 2001, three ships of the Japanese Maritime Self-Defense Forces (MSDF) departed Sasebo naval base destined for the Indian Ocean, where they will 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 possibly a minesweeper (to ferry supplies) that the Japanese government will send to the region under a “basic plan” that is expected to receive cabinet approval on November 16. The plan, which will be 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. The ships will not be allowed to transport weapons or ammunition. Also, due to objections from within the ruling coalition, it remains unclear whether the government will send a destroyer equipped with the U.S. Aegis air defense radar and fire control system, which reportedly the United States has informally requested.

On November 14 the Japanese government decided to send \$300 in grant emergency aid 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. Additionally, Japan will join the U.S. as co-host of an Afghan reconstruction meeting in Washington on November 20.

The ruling coalition parties agreed on November 15 to support legislation that would modify the rules of engagement for Japanese forces involved in peacekeeping missions to permit the use of arms to protect friendly forces, relief workers, refugees, civilians under their protection, and their own weapons and equipment. Current rules allow the use of weapons only in self-defense. This change is intended to allow Japanese forces to play a future peacekeeping role in Afghanistan.

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. It also supports an American strategic role in the Pacific.

Japanese leaders and press commentators generally welcomed the election of George W. Bush, with many commenting favorably on indications that the next administration would emphasize alliance relations and also be less inclined to pressure Japan on economic and trade issues. A number of commentators expressed caution, however, noting that Japan might not be prepared to respond fully enough or quickly enough to the Bush Administrations's bid for closer security cooperation and coordination.

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. The end of the Cold War and collapse of the Soviet Union called into question some of the strategic underpinnings of the alliance within both the American and Japanese publics. After a period of strategic uncertainty in both countries over how to respond to the post Cold War situation in East Asia, leaders on both sides saw their interests as best served by strengthening the U.S.-Japan alliance to support their respective strategic interests in the region.

President George W. Bush and Japanese Prime Minister Junichiro Koizumi held 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 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. Prime Minister Koizumi has carried out a generally successful struggle to gain enough political maneuver room to keep Japan relevant to the U.S.-led anti-terrorist campaign. His efforts have been partially sabotaged by the pacifist-inclined New Komeito, a coalition partner, as well as old guard elements in his own Liberal Democratic Party (LDP) who don't want to jeopardize the fragile coalition or, it would seem, give Koizumi too much independence. Japan's response appears 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.

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. Prime Minister Koizumi called the attacks "cowardly, outrageous, and reckless" in message to President Bush. The terrorist attacks also gave new urgency to an ongoing political debate about Japan's future defense posture.

On October 16, 2001, a special committee on anti-terrorism measures of the lower house of the Japanese Diet (parliament) agreed to two draft bills that would give 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 will allow 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. Notably, in light of Japan’s continuing struggle to balance the terms of its “no-war” constitution with U.S. expectations, Maritime SDF vessels will be able to transport arms and ammunition to U.S. forces by sea, but in a concession to the opposition Democratic Party, overland transport of lethal items to U.S. forces remains forbidden. 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 October 5 the Washington Post reported that the Japanese government had agreed to a U.S. request that it quadruple planned emergency aid to Pakistan, up to a total of \$160 million. Also, on October 6, Japan despatched six C-130 military transport aircraft to Pakistan carrying relief supplies for Afghan refugees, including tents and blankets, and 140 Air and Ground Self-Defense Force personnel.

The terrorist attacks dealt a further blow to hopes for reviving the Japanese economy. Mid-fiscal year reports released in early September already had contained uniformly gloomy news of an unprecedented decline in GDP, rising unemployment, still falling consumption and investment, and still rising bad loans. Stocks fell more than 6% in the wake of the terrorist attack, taking the Nikkei Index down to a level not seen since 1984.

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 Yasukyuni 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 appear to have taken an upturn as a result of Prime Minister Koizumi’s visit to Beijing on October 8, 2001. Koizumi appeared to satisfy his Chinese hosts by visiting the Marco Polo Bridge, near Beijing—the site of a manufactured incident that triggered Japan’s 1937 invasion of China—and conveying the fullest apology for past wrongs ever delivered by a Japanese Prime Minister.

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, but they also 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.

Trade, Deregulation, and Financial Issues. Japan began in late 1998 to address a number of serious financial and economic problems that have also induced strains in U.S.-Japan relations, but the overall results have been disappointing to U.S. policymakers. The Japanese Diet passed a bank reform program in October 1998. The government unveiled a series of massive fiscal stimulus packages to stimulate the economy, temporarily boosting economic growth but also causing Japan’s public debt to soar. U.S. confidence in Japan’s reform program fell markedly after Prime Minister Keizo Obuchi suffered a fatal stroke on April 2, 2000. A number of Japanese and American observers have been encouraged by moves by Prime Minister Koizumi to address Japan’s serious structural problems, but meanwhile the country continues to labor under a staggering burden of bad loans, the industrialized world’s highest fiscal deficit, and significant price deflation – which tend to depress both investment and consumption.

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 to bringing the treaty into effect despite its abandonment by the Bush Administration. (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. (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 107th 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 107th 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. (See Legislation section, below.)

On September 7, 2001, senior U.S. and Japanese officials and former senior officials attended ceremonies in San Francisco marking the 50th 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. In the post-Cold War era, a number of new issues have emerged in the security relationship.

Burden Sharing Issues. The United States has pressed Japan, including pressure from Congress, 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.

On December 24, 2000, the Mori administration approved a 2001 draft defense budget totaling about \$43.9 billion. The budget includes a reduction of \$39.5 million in Japanese contributions to the support of U.S. forces based in Japan, in line with the agreement noted above.

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. The September 1995 abduction and rape incident had complicated an initiative by the Clinton Administration to negotiate an expanded role for Japan in supporting U.S. forces in any future East Asian crises. 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 21st 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.”

Defense Technology Sharing. U.S. Defense Department officials have long promoted expanded defense technology sharing, starting in the late 1980s with a troubled and controversial program to co-develop and produce jointly a new Japanese fighter aircraft, the FSX (now entering service as the F-2). The Clinton Administration successfully pressed Japan to help develop jointly a theater missile defense system (TMD) for the defense of Japan against missile attacks.

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 newly selected 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%). According to official statistics released in early September 2001, deflation-adjusted "real" GDP declined by 0.2% for January-March 2001 and by an alarming 0.8% in the April-June quarter, which equates to a 3.2% decline on an annualized basis. Nominal GDP – unadjusted for deflation – contracted by 2.7%, equating to a 10.3% annual rate. Reportedly, this was the steepest contraction since 1978, when the current statistical series began. Economists consider two consecutive quarters of negative economic growth as indicators of recession. Furthermore, the Japanese unemployment continues to hit record post-World War II levels. The Japanese government announced that the unemployment rate was 5.3% in September. Most major economic forecasters predict recession in Japan during the current and following years. The outlook is a major disappointment to Japanese economists and policymakers who had hoped that the Japanese economy would finally recover.

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**.) The trade deficit in 2001 is running somewhat lower, 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
2000*	42.3	96.4	- 54.1
2001*	40.3	86.1	- 45.8

* First 8 months

Source: U.S. Department of Commerce, Bureau of the Census, Trade Net Data Retrieval System. 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. They pressured the Clinton Administration and are now pressing the Bush Administration as well as the Congress to take action.

The 107th 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. The investigation could lead to restraints in steel imports and could cause concern for the Japanese government and Japanese exporters.

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. Buoyed by the personal popularity of Prime Minister Junichiro Koizumi, the ruling coalition dominated by the Liberal Democratic Party (LDP) won significant election victories in recent months. First, the July 29, 2001 Upper House election. In part due to unexpectedly low turnout, the LDP reversed its recent record of losing ground in national elections by gaining 5 seats to increase its total to 111 in the 247-member body. Overall, the tripartite ruling coalition led by the LDP now controls 140 seats in the 247-member body, versus 59 for the largest opposition group, the Democratic Party. Then, in October 2001, LDP candidates won two lower house bi-elections, giving it a majority of 241 seats in the 480-seat chamber.

Many have hailed these victories as a sign that Koizumi’s economic reform programs will be set into motion. Ironically, however, the strongest opposition to Koizumi’s economic reforms is coming from the LDP’s powerful “old guard” factions, which fared well in the elections and generally are regarded as strongholds of “old economy” interests that are most threatened by Koizumi’s reforms. The key for Koizumi is likely to be whether or not he can seize the machinery of government away from the LDP’s kingpins. His chances for success may have been dimmed by the September 11, 2001 terrorist attacks. Not only have they

weakened Japan's economic prospects, but they also have led Koizumi to devote considerable time and political capital toward expanding Japan's security posture. Indeed, after nearly six months in power, the Koizumi cabinet has little to show in the way of economic reforms.

The Liberal Democratic Party. The LDP 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 from August 1993 - June 1994, the LDP's lack of a majority in both houses of the Diet has forced it 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.

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 closed-room sessions out of the view of the public and with little input from the party's grassroots. 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 are 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. Intra-party factional competition is a major reason the tenure of LDP presidents – who effectively becomes the prime minister – is only two years. 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.

LDP Factions (as of August 28, 2001)

Faction Name	Members
Hashimoto	103
Mori	56
Eto-Kamei	54
Horiuchi	42
Yamasaki	22
Kato	15
Komura	13
Kono	10
Independent	35

Source: *Yomiuri Shimbun*, August 29, 2001

One result of the LDP's opaque, top-down decision-making structure has been that young and/or reform-minded party members often find it difficult to ascend into leadership positions. Over the past decade, the frustrations of these Diet-members increasingly have spilled out into public view. The LDP's loss of power in 1993, for instance, was caused by the defection of several dozen members of the party's reformist wing, some of whom today are major figures in opposition parties. Frustration within the party also mounted in 2000, after party elders hand-picked Yoshiro Mori (Mori faction) to replace then-Prime Minister Keizo Obuchi (Hashimoto faction), who had been stricken with a fatal illness. Apparently, the Japanese public also disapproved, handing the LDP a defeat in the July 2000 Lower House elections. With Mori's public approval ratings plummeting below 10% in early 2001, the LDP's leaders decided to select a new leader. In a surprising development, protests by younger politicians and local LDP affiliates forced the leadership to make the party presidential selection process more democratic, thereby paving the way for the anti-establishment Koizumi's ascension to power in late April. (see below)

The LDP's rigidity also has caused it to be slow to adapt to changes in Japanese society. The LDP also 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 years, a bloc of independent voters has arisen opposing the "business as usual" political system. Primarily younger voters, 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 unprecedented grass-roots support has given him perhaps the strongest mandate of any Japanese leader since the LDP's formation in 1955. His victories in April, July, and October stem in large measure from his image as a fresh face of the LDP – from his straight-talking speaking manner down to his youthful hairstyle – despite the fact that he has been an LDP Dietmember since the 1970s. His Cabinet is nearly as unprecedented as the way in which he was elected: Five out of seventeen posts are held by women, including Makiko Tanaka, the embattled foreign minister, who is one of the most independent (she does not belong to any faction) and popular politicians in Japan. Perhaps more significantly, 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 had 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.

Since becoming prime minister, Koizumi has trumpeted an agenda of "reform without sacred cows," including pledges to force Japanese banks to dispose of bad loans within three years, cap the country's budgetary deficit at 30 trillion yen (\$250 billion at ¥120 = \$1), privatize public corporations, disband LDP factions, amend the constitution to allow the direct election of the prime minister, and – in the medium term – amend Article 9 of the constitution so that it would 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. He has reached out to the Japanese electorate in an unprecedented fashion, holding town-hall meetings to discuss his financial reform agenda and creating an e-mail newsletter that reportedly has over a million subscribers. Moreover, 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 wonder whether Koizumi can successfully carry out his political and economic agenda, particularly since 1) his economic reforms are likely to dramatically increase unemployment; 2) many of his proposals would debilitate the LDP's core constituents and therefore are anathema to many party elders, particularly many in the

conservative Hashimoto and Eto-Kamei factions; and 3) these factions have watered down his ambitious plans to beef up Japan's security posture due to fears of upsetting the pacifist New Komeito party. Much hinges on whether Koizumi can sustain his high public approval ratings – currently around 70% – long enough to strengthen the LDP's reformist wing. He has had some success. The number of independent LDP members (those who belong to no faction) has nearly tripled to about 10% of the party's Dietmembers. Additionally, in the July Upper House elections Koizumi helped secure the victories of several LDP candidates from urban areas, where until recently the LDP had been faring poorly. The Hashimoto faction, however, has actually gained in numerical strength since Koizumi took power. One potential weapon Koizumi can wield against the LDP conservatives is the prime ministerial prerogative of calling a Lower House election; there is speculation that if Koizumi's popularity remains high, he might call a snap election to bolster support for his programs.

The Democratic Party of Japan (DPJ). Koizumi's unprecedented popularity has thrown the main opposition party, the Democratic Party of Japan (DPJ), 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 who was elected as leader on September 25, 1999, to replace Naoto Kan, a popular politician in his own right. 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%. Indeed, the DPJ's few concrete economic proposals – such as capping the budget deficit – have been adopted by Prime Minister Koizumi.

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 took pride of place. 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.

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.

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.