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U.S.-Japan Relations

Japan is a significant partner of the United States in a number of foreign policy areas, particularly security issues, which range from hedging against Chinese military modernization to countering threats from North Korea. The U.S.-Japan military alliance, formed in 1952, grants the U.S. military the right to base U.S. troops—currently numbering around 50,000—and other military assets on Japanese territory in return for a U.S. pledge to protect Japan’s security. Japan also is the United States’ fourth largest trading partner and second largest source of foreign direct investment, and Japanese investors are the second largest foreign holder of U.S. Treasuries.

For the first year of the Trump presidency, bilateral relations remained strong, as least on the surface, throughout several visits and leaders’ meetings, cemented by a common approach to North Korea. Japanese Prime Minister Shinzo Abe and President Trump presented a united front on dealing with Pyongyang’s nuclear weapon test and multiple missile launches and Abe wholeheartedly endorsed the Trump Administration’s “maximum pressure” approach.

Bilateral tensions have arisen in 2018, however. On North Korea, Trump has pursued a rapprochement with Pyongyang and held a friendly summit with North Korean leader Kim Jong-un. Many Japanese are unconvinced that North Korea will give up its nuclear weapons or missiles and fear that Tokyo’s interests vis-à-vis Pyongyang will be marginalized if U.S.-North Korea relations continue to warm. Chief among those issues are the abduction of Japanese citizens by North Korean agents in the 1970s and 1980s. Trump’s shift on North Korea and his statements critical of the value of alliances generally and Japan specifically have prompted questions among Japanese policymakers about the depth and durability of the U.S. commitment to Japan’s security.

Trade tensions are also affecting relations. In addition to imposing tariffs on imports of steel and aluminum products from Japan and other countries, the Trump Administration is undertaking an investigation under Section 232 of the Trade Act of 1962 on motor vehicles. If imposed, the move could pose a serious threat to the Japanese economy. U.S. imports of Japanese autos and parts were nearly \$56 billion, about one-third of total U.S. imports from Japan in 2017. In September 2018, the United States and Japan announced their intent to start new formal bilateral trade negotiations. Japan was reluctant to agree to such negotiations, but likely saw the talks as a way to avoid the possible increased U.S. motor vehicle tariffs. The Trump Administration informally agreed to refrain from imposing new auto tariffs on Japanese imports while the trade talks are ongoing, as it did in a similar arrangement with the European Union.

The U.S.-Japan Military Alliance

Since the early 2000s, the United States and Japan have taken significant strides to improve the operational capability of the alliance as a combined force, despite political and legal constraints. Japan continues to pay roughly \$2 billion per year to defray the cost of stationing U.S. military personnel in Japan. In addition, Japan pays compensation to localities hosting U.S. military troops, rent for the bases, and the costs of new facilities to support the realignment of U.S. troops within Japan as well as for some troops outside of Japan.

Abe has prioritized Japan’s alliance with the United States. This has included accelerating reforms to make Japan’s military (known as the Self-Defense Forces, or SDF) more capable, flexible, and interoperable with U.S. forces. Japan’s 2014 decision to engage in limited collective self-defense and the 2015 revision of the U.S.-Japan bilateral defense guidelines are both indications of these changes, but much remains to be implemented to fully realize the stated goals of the documents. U.S. and Japan officials say the main objectives of the revision were improving bilateral responses to contingencies in the “grey zone” short of war; enhancing cooperation in cyber warfare, military uses of space, and ballistic missile defense; and outlining new areas for cooperation beyond the defense of Japan.

A prominent controversy over the relocation of a U.S. Marine Corps base in Okinawa has taken a few tentative steps toward resolution, but still faces steep challenges. The issue of relocating the Futenma airbase to a less-congested area of the prefecture has divided Japan’s central government and the Okinawan leadership for decades. Tokyo won a Japanese Supreme Court lawsuit in 2016 that restarted construction of the new facility, and in early 2018 a key locality, Nago City, elected a new mayor who is relatively supportive of the relocation plan. However, ongoing anti-base protests and the opposition of the Okinawan governor, who was elected in September 2018, suggest political difficulty in implementing the plan. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ military personnel are located in Okinawa, which comprises less than 1% of Japan’s total land area.

Regional Relations

Japan’s relations with South Korea have cooled after a brief rapprochement in 2016. Koreans hold strong grievances about Japan’s colonial rule over the peninsula (1910-1945), particularly on the issue of Korean so-called “comfort women” who were forced to provide sex to Japanese soldiers in the World War II era. South Korea is suspicious of Abe, who has been criticized for earlier statements on sensitive historical issues. Despite misgivings by South Korea’s progressive president, Moon Jae-in, Seoul has upheld a U.S.-supported 2015 agreement on how to resolve

the comfort women issue, but public mistrust suggests that it will remain a diplomatic irritant.

The warming of relations between North and South Korea since early 2018 presents additional challenges to the relationship between the two U.S. allies. The North Korean threat has traditionally driven closer U.S.-Japan-South Korea trilateral coordination, and North Korea's provocations in the past provided both the motivation and the political room for South Korea and Japan to expand security cooperation. Japan is wary of Seoul's outreach to North Korea and argues that strong pressure against Pyongyang must be maintained. Tokyo carefully monitors U.S. initiatives with North Korea, weighing Japan's need to secure the U.S. alliance and Japan's concern with being left out of any diplomatic initiative with the Korean Peninsula.

Japan-China Relations

Although China-Japan relations have improved since 2016, Tokyo is existentially concerned about Beijing's growing economic and military power. The two countries are engaged in a dispute over Japanese-administered uninhabited islets in the East China Sea known as the Senkaku Islands in Japan, Diaoyu in China, and Diaoyutai in Taiwan. China and Taiwan also claim the islets. China regularly deploys maritime law enforcement ships near the area, and near-daily encounters between the two countries' ships occasionally have escalated. Chinese ships and aircraft incursions both increased sharply in 2016 before subsiding somewhat in 2017 and early 2018. The United States does not take a position on sovereignty, but maintains that the U.S.-Japan Security Treaty covers the islets, because U.S. commitments extend to "the territories under the Administration of Japan."

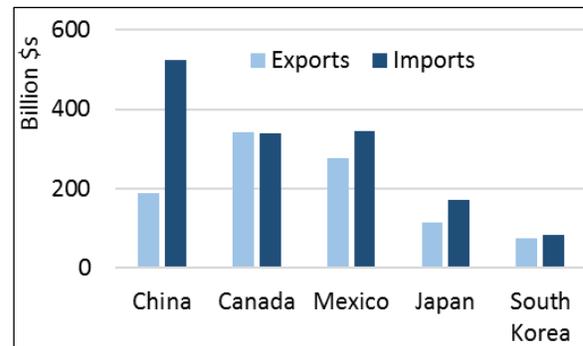
Economic and Trade Issues

The United States and Japan are the world's largest and third-largest economies, respectively, and are closely intertwined by trade and foreign investment. In 2017, Japan was the fifth-largest U.S. trading partner for goods and services exports (\$115 billion) and fourth largest for imports (\$171 billion).

In an effort to reverse nearly two decades of Japanese economic stagnation, Abe has promoted a three-pronged economic program, nicknamed "Abenomics," that includes monetary stimulus, fiscal stimulus, and structural economic reforms. Progress across the three prongs has been uneven since they were first outlined in 2013. The government's willingness to use expansionary fiscal policies has been constrained by concerns about its public debt, the largest in the world at almost 240% of GDP.

Japan's economy has been building momentum. For the first time in over 20 years, its GDP grew for eight consecutive quarters during 2016-2017 with annual GDP growth in 2017 of 1.7%. The unemployment rate of 2.9% is the lowest level in over two decades. While overall trends look positive, the economy may face some headwinds in 2019, including the government's scheduled second-phase increase in the consumption tax in October.

Figure 1. U.S. Trade with Selected Nations (2017)



Source: U.S. Census Bureau, FT-900, exhibit 20.

Trade Agreement Negotiations

On October 16, the Administration gave Congress official notification of its intent to begin bilateral trade negotiations with Japan, allowing negotiations to start under Trade Promotion Authority (TPA) procedures after 90 days. The agreement may be negotiated in stages and be less comprehensive than a typical U.S. free trade agreement (FTA), though the scope of talks is unclear. If included, negotiations on commitments regarding exchange rate policies, agriculture, and autos are likely to be among the most contentious. Instead of bilateral talks, Japan had urged the Trump Administration to return to the regional Trans-Pacific Partnership (TPP) and asserted that it will not open its agriculture market in the new talks beyond what was already agreed to in TPP. After the U.S. withdrawal from TPP in 2017, Japan took the lead in negotiating revisions to a new modified agreement among the remaining 11 members. Japan, Australia, Mexico, and Singapore have ratified the so-called TPP-11 agreement to date. Japan has also negotiated an FTA with the EU, signed on July 17. Once they go into effect, both agreements may disadvantage U.S. exporters in the Japanese market, a major concern of some U.S. sectors, such as agriculture.

Additional Information

For more, see CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*; CRS Report RL33740, *The U.S.-Japan Alliance*; and CRS Report R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*.

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