



U.S.-Japan Relations

Overview

Japan, a U.S. treaty ally since 1951, is a significant partner of the United States in several foreign policy areas, particularly security and trade issues. Shared security goals range from meeting the challenge of an increasingly powerful China to countering threats from North Korea. The mutual defense treaty 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. The two countries collaborate across multiple bilateral, regional, and multilateral institutions on issues such as science and technology, global health, energy, and agriculture. Japan also is the fifth largest U.S. trading partner (fourth largest if European Union [EU] countries are considered separately) and second largest source of foreign direct investment in the United States. Japanese investors are the largest foreign holder of U.S. Treasury securities.

Despite their shared security concerns and the personal rapport that has developed between Prime Minister Shinzo Abe and President Donald Trump, significant policy differences between Washington and Tokyo have emerged. In 2020, two sets of bilateral negotiations loom large. Observers expect the Trump Administration to demand significant concessions from Japan on both (1) the renegotiation of a burden-sharing agreement that establishes how much Japan contributes to the cost of hosting U.S. troops on its territory and (2) the “second stage” of trade talks, potentially covering contentious issues, such as auto trade, that were excluded from two recent “stage one” trade agreements.

Japan and the Coronavirus Pandemic

Japan avoided a large-scale initial outbreak of COVID-19 following the virus’s spread beyond China in January 2020, making it stand out as an apparent outlier among major industrialized countries. But a sharp jump in cases in Tokyo in late March prompted Abe to call for a nationwide state of emergency. While this declaration grants local leaders more authority, many of the measures are not mandatory, particularly for the private sector. Critics have questioned the relatively low testing rate and pointed to Japan’s risk factors of a large elderly population, densely populated cities and public transport, and high smoking rates. As of April 29, Japan’s confirmed cases neared 14,000, including the 718 positive cases aboard the Diamond Princess cruise ship that was marooned off Japan’s coast in February.

Tokyo was scheduled to host the 2020 Summer Olympic Games in July and August, and for weeks Japanese and International Olympic Committee officials insisted that the Games would go forward. On March 24, the organizers bowed to growing international pressure and agreed to postpone the Olympics, ultimately deciding to commence the Games in July 2021. Abe has been the most prominent

champion of the Olympics, and apparently has long seen the event as a key aspect of his legacy.

COVID-19 Scrambles Japan’s Politics

Abe has dominated Japan’s politics since he led the Liberal Democratic Party (LDP) back into power in 2012. Since then, the LDP-led coalition has won six successive parliamentary elections and Abe has become the longest-serving premier in modern Japan’s history. Before the COVID-19 pandemic struck, Abe seemed likely to remain in power until 2021 after hosting the Olympics, which he could have presented as the capstone to his tenure. The pandemic, however, has scrambled Japan’s political future. If Abe’s COVID-19 response is deemed insufficient, it could open the door to an earlier departure. Alternatively, the continued health emergency and the Olympics’ postponement could lead to Abe staying in power beyond 2021. A key issue will likely be whether a viable alternative to Abe emerges, either within the LDP or from Japan’s fractured and weak opposition parties, for the first time since he became prime minister in 2012.

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 their alliance as a combined force, despite political and legal constraints. Abe has prioritized Japan’s alliance with the United States, including 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—the right to defend another country that has been attacked by an aggressor—and the 2015 revision of the U.S.-Japan defense guidelines are both indications of these changes.

Japan pays 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. troops, rent for the bases, and the costs of new facilities to support the realignment of U.S. troops. Japan’s current cost-sharing agreement with the United States, known as the “Special Measures Agreement” or SMA, is due to be re-negotiated this year. With an eye on the troubled SMA negotiations with South Korea, analysts predict that the Trump Administration will demand significant increases in Japan’s contribution, and that the SMA negotiations could become entangled with the two sides’ trade talks.

A longstanding effort to relocate a U.S. Marine Corps base in Okinawa continues to face steep challenges. Relocating the Futenma airbase to a less-congested area of the prefecture has divided Japan’s central government and the Okinawan leadership for decades. The Okinawan governor, who was elected in 2018 on an anti-base platform, vows to block the plan. In February 2019, a nonbinding referendum

on the relocation showed that 72% of Okinawan voters opposed construction of the new base. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ personnel are located in Okinawa, which comprises less than 1% of Japan's total land area.

Regional Relations

Tokyo is existentially concerned about Beijing's growing economic and military power. A perpetual challenge in the relationship is a dispute between the two countries (as well as Taiwan) over a group of uninhabited Japanese-administered islets in the East China Sea (known as the Senkaku Islands in Japan, and Diaoyu in China). Despite these tensions, relations with Beijing have improved markedly since 2016, although the political impact of the coronavirus pandemic could complicate the path ahead. Before the outbreak of COVID-19, Japan was preparing to host Chinese President Xi Jinping for an official state visit, which was anticipated to further stabilize the relationship. The summit, now canceled, would have built upon Abe's 2018 visit to Beijing, the first leaders' meeting between the two countries since 2011.

The U.S. effort to engage North Korea diplomatically since 2018 is viewed with some skepticism by Japan. Many Japanese are unconvinced that North Korea will give up its nuclear weapons or missiles and fear that Tokyo's interests will be marginalized if U.S.-North Korea relations improve. Other major concerns are North Korea's abduction of Japanese citizens in the 1970s and 1980s and the threat posed by North Korean medium-range missiles, which the Trump Administration often downplays compared to North Korea's long-range missiles. Trump's shift on North Korea and his statements questioning 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.

Japan's ties with South Korea are fraught because of sensitive historical issues from Japan's colonization of the Korean Peninsula from 1910 to 1945. A series of actions and retaliatory countermeasures by both governments involving trade, security, and history-related controversies in 2018 and 2019 caused bilateral relations to plummet, eroding U.S.-South Korea-Japan policy coordination. Some analysts have criticized the Trump Administration for not doing more to improve relations between Tokyo and Seoul.

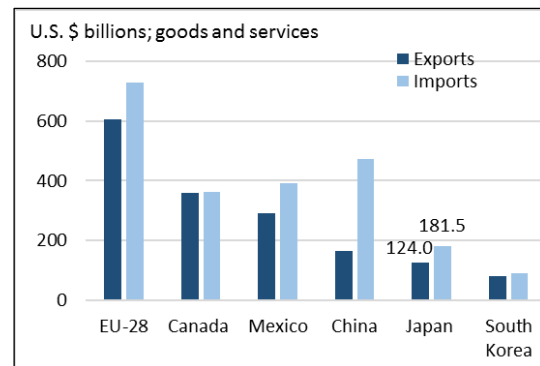
Economic and Trade Issues

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 2019, Japan was the fifth-largest U.S. trading partner for exports (\$124 billion) and imports (\$182 billion). Many economists credit Abe's economic program, outlined in 2012 and nicknamed "Abenomics," with revitalizing the Japanese economy after nearly two decades of relative stagnation. However, several long-term challenges (e.g., low inflation expectations, a declining working-age population, and limited fiscal and monetary policy space) remain a concern.

Japan's economic policy in 2020 is likely to focus on the more immediate threat of containing the economic fallout from COVID-19. The government has responded with a

roughly \$1 trillion stimulus package (20% of GDP). Supply and demand shocks resulting from COVID-19 have dented demand for Japan's exports, cratered tourism, and created supply chain bottlenecks. This hits the Japanese economy at a precarious time, with spending already hampered by an October 2019 increase in the consumption tax from 8% to 10%. Fourth quarter GDP fell by 1.8% (7.1% on annual basis). A decline in GDP again in the first quarter of 2020 would mark the start of a recession, the first since 2015.

Figure 1. Top U.S. Trade Partners, 2019



Source: Bureau of Economic Analysis.

Trade Agreement Negotiations

A trade deal has long been a U.S.-Japan priority, despite differing preferences for bilateral vs. regional approaches. In October 2019, after six months of talks, the United States and Japan signed two agreements that cover tariffs and market access in some industrial goods and agricultural trade, and rules on digital trade. The deals, which took effect in January 2020, without formal action by Congress, are considered "stage one" of a broader trade agreement, with future talks expected in 2020. Members of Congress and U.S. stakeholders generally welcomed the agreements, notably expanded market access for U.S. agriculture—U.S. agricultural exports were disadvantaged in the Japanese market in recent years as other Japanese FTAs took effect. Many observers, however, strongly advocate for a more comprehensive trade deal. They question whether next stage talks will progress expeditiously, given a number of more difficult items left on the agenda (e.g., auto trade, services, currency issues), and competing priorities, such as COVID-19. In the interim, Japan achieved its goal of avoiding U.S. national security tariffs on auto imports, which the Trump Administration had proposed.

Additional CRS products: RL33436, *Japan-U.S.*

Relations: Issues for Congress; RL33740, *The U.S.-Japan Alliance*; R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*; and IF11120, *U.S.-Japan Trade Agreement Negotiations*.

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