



## 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. Shared security goals range from meeting the challenge of an increasingly powerful China to countering threats from North Korea. The U.S.-Japan mutual defense treaty grants the United States the right to base U.S. troops—currently numbering around 54,000—and other military assets on Japanese territory in return for a U.S. pledge to protect Japan’s security. The two countries collaborate through bilateral and multilateral institutions on issues such as science and technology, global health, energy, and agriculture. Japan is the fourth-largest overall U.S. trading partner and largest source of foreign direct investment into the United States, and its investors are the largest foreign holders of U.S. Treasury securities.

The Biden Administration has emphasized the importance of restoring U.S. alliances in Asia. Former Japan Prime Minister Suga was the first in-person visitor to the White House, signaling the importance of allied cooperation. Further reinforcing Japan’s central role in the U.S. approach to the Indo-Pacific, the Biden Administration has boosted the Quadrilateral Security Dialogue—or “Quad”—convening the first-ever (virtual) leader-level meeting with Japan, Australia, and India.

Japan and the United States share a fundamental concern about China’s role in the Indo-Pacific. Both governments distrust Beijing’s intentions and see China’s rising power and influence as detrimental to their national security. This shared strategic vision was reflected in the joint statement released following the Biden-Suga meeting, which noted the “importance of peace and stability across the Taiwan Strait” and expressed concern over human rights abuses in Xinjiang and Hong Kong. Japan’s proximity to China—and the two countries’ maritime and territorial disputes—heightens its concern. Some observers question how forcefully Japan will stand up to China given Beijing’s economic and diplomatic power.

New Prime Minister Fumio Kishida has pledged continuity with his predecessor’s policies supporting the U.S.-Japan alliance, including by announcing forceful measures against Russia in response to its invasion of Ukraine. Tokyo moved quickly to ban export of some goods to Russia, restrict Russian access to Japan’s financial system, and freeze Russian assets, among other moves. This approach contrasts with Japan’s relatively mild response to the 2014 Crimean annexation and fundamentally changes Japan’s Russia policy.

### COVID-19 Pandemic Response

Japan has had moderate success in curbing the Coronavirus Disease 2019 (COVID-19) pandemic, with under 28,000 deaths and 6.45 million cases as of March 2022. Despite a slow vaccine campaign rollout, Japan overcame some

degree of vaccine hesitancy, managed to host the postponed 2020 Olympics Games in summer 2021, and had vaccinated 80% of its population by March 2022. Japan has implemented strict border closures to keep the virus at bay.

### Political Transition in Tokyo

The tightening strategic alignment between the United States and Japan over the past decade was possible because of the policy choices of Japan’s previous three prime ministers, especially Shinzo Abe, who served as premier from 2012 to 2020. Commentators question whether current Prime Minister Kishida, who became premier in September 2021, will have the determination, longevity, and political influence to continue expanding alliance cooperation at the same pace. In October, Kishida led the Liberal Democratic Party (LDP) and its small coalition partner to better-than-expected results in elections for the Lower House of Japan’s bicameral legislature (called the Diet), preserving their commanding majority. The victory is expected to provide Kishida with political momentum at least until Japan’s Upper House elections in July 2022.

Kishida and the faction he leads within the LDP historically have been associated with dovish foreign policy positions, but Kishida took more hawkish stances during his campaign. Kishida said Japan needs to consider building a missile strike capability against potential foes and said Tokyo and Washington need to run joint simulations of responses to a Taiwan crisis scenario. After Kishida became premier, the LDP said in its election platform that it would seek to significantly increase defense spending, perhaps eventually doubling it to 2% of GDP.

### The U.S.-Japan Military Alliance

Since the early 2000s, the United States and Japan have improved the operational capability of the alliance as a combined force, despite Japanese political and legal constraints. Japan has accelerated reforms to make its military (known as the Self-Defense Forces, or SDF) more capable, flexible, and interoperable with U.S. forces. In the last few years, however, Japan appears to have been hedging against its reliance on the United States and taking tentative steps toward developing more strategic autonomy. In summer 2020, Japan suspended its plan to purchase Aegis Ashore ballistic missile defense batteries from the United States, and is considering acquiring a so-called “counterattack” missile strike capability that would allow it to hit enemy bases for the first time since 1945. The capability remains controversial in light of Japan’s pacifist constitution; willingness to explore it could indicate a desire to expand its own defense and rely less on U.S. protection.

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. The two governments announced a new four-year deal in December 2021 that continues Japan's contribution at about the same level.

A long-standing effort to relocate a U.S. Marine Corps base in Okinawa to a less-congested area has divided Japan's central government and Okinawan leaders for decades. About 25% of facilities used by U.S. Forces Japan (USFJ) and over half of USFJ personnel are in Okinawa, which comprises less than 1% of Japan's total land area. Okinawans have long expressed widespread opposition to new base construction and have chafed at the U.S. military presence more broadly. However, recent elections yielded victories for LDP-backed candidates, suggesting Okinawan attitudes about the U.S. military presence may be shifting.

## Regional Relations

Tokyo is existentially concerned about Beijing's growing economic and military power. A perpetual challenge is a dispute between the two countries (as well as Taiwan) over a group of uninhabited Japan-administered islets in the East China Sea (known as the Senkaku Islands in Japan, and Diaoyu in China). Despite these tensions, Tokyo and Beijing have tried to stabilize relations. Wary of China's rising influence, Japan has cultivated warm relations with several Southeast Asian countries, launched a U.S.-Japan-Australia regional infrastructure financing initiative, and championed the Quad to improve defense coordination and buttress the region's institutions and norms.

Japanese policymakers and media have devoted increasing attention to Taiwan, with current and former leaders making heretofore rare remarks linking Taiwan's security (and ability to resist Chinese military aggression) to that of Japan. Japan's approach to supporting Taiwan's ability to defend itself—in peacetime and war—depends on several factors, including U.S. actions, legal limitations on Japan's ability to engage in military conflict, and public opinion.

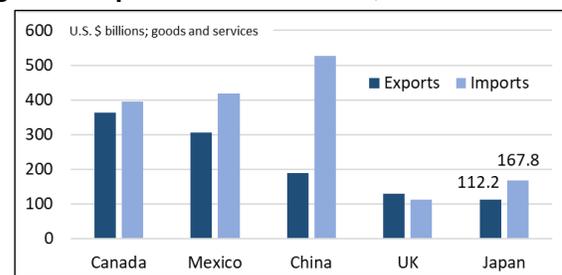
Japan's relations with South Korea are perennially fraught due to sensitive historical issues from Japan's colonization of the Korean Peninsula from 1910 to 1945. A series of actions and retaliatory countermeasures by both governments involving trade, security, and history-related controversies caused bilateral relations to plummet in the past five years. The Biden Administration has urged both sides to resolve their differences, and changes in leadership in Tokyo and Seoul may alleviate the tension.

## Economic and Trade Issues

The United States and Japan, two of the world's three largest economies, are key trade and investment partners. In 2021, Japan was the fifth-largest U.S. trading partner for exports (\$112.2 billion) and imports (\$167.8 billion), and fourth-largest overall trading partner. Several long-term challenges (e.g., declining working-age population, low productivity growth, and large government debt load) are perennial economic concerns for Japan and have been a policy focus for successive governments. Prime Minister Kishida has also identified as economic priorities supply chain security, for which he created a new ministerial economic-security post, broader income redistribution, greater use of digital technologies, and green growth. His government is maintaining a pledge for a 46% reduction in greenhouse gas emissions by 2030 (from 2013 levels).

Japan's GDP increased in 2021 by 1.7%, after decreasing by 4.5% in 2020, and the government remains focused on pandemic economic recovery with continued fiscal and monetary support. In November, Kishida's cabinet approved a \$314 billion supplementary budget for FY2021, which ended in March 2022. The FY2022 budget includes a reserve fund (~ \$40 billion), which the government may tap in the near term to provide economic relief from rising commodity prices, including food and energy, related to Russia's invasion of Ukraine. The Bank of Japan, unlike other central banks, remains committed to loose monetary policy, taking actions to prevent interest rate increases. Japan's relatively lower interest rates have in turn put downward pressure on the yen, which fell to a near seven-year low against the dollar in late March. Japanese officials have historically lauded a weak yen (which makes Japan's exports cheaper and imports more expensive), but some analysts are raising concerns over its effect on import costs.

**Figure 1. Top U.S. Trade Partners, 2021**



Source: Bureau of Economic Analysis.

## Trade Agreement Negotiations

The Trump and Abe Administrations negotiated two limited trade deals liberalizing some agricultural and industrial goods trade and establishing digital trade rules. Planned second-stage bilateral trade talks remain dormant, despite urging from some stakeholders to resume negotiation on issues left out of the initial agreements (e.g., auto trade and services). Some Members have also called for the Biden Administration to consider rejoining the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Japan helped form after U.S. withdrawal from the proposed TPP in 2017. The Administration has stated it is not interested in joining CPTPP, but has announced plans for an Indo-Pacific Economic Framework, presumably to include Japan, to address limited trade issues, such as labor, environment, and digital trade, but not market access. Japan and the United States also recently launched a cooperative Trade Partnership, and negotiated a deal to exempt a certain level of Japanese steel from the Trump-era Section 232 tariffs, though tariffs on aluminum remain.

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