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Summary

Japan is a significant partner of the United States in a number of foreign policy areas, particularly in security concerns, which range from hedging against Chinese military modernization to countering threats from North Korea. The alliance facilitates the forward deployment of about 50,000 U.S. troops and other U.S. military assets based in Japan. While core elements of the alliance may endure, the overall relationship under President Donald Trump will likely differ somewhat from relations under the Obama Administration. On January 30, 2017, the United States formally withdrew as a signatory from the Trans-Pacific Partnership (TPP) agreement. The TPP had been a centerpiece of the Obama Administration's policy of rebalancing U.S. economic and security interests to Asia and a top priority for Japanese Prime Minister Shinzo Abe's government. A positive February 2017 summit between Trump and Abe allayed some of the concerns that the alliance would suffer under the new Administration, and the personal relationship has been bolstered in dealing with North Korea's provocations in 2017. However, some contentious issues have yet to be addressed. As a candidate, Trump leveled criticism at Japan's trade practices and contributions to the security relationship.

Japan is the United States' fourth-largest overall trading partner, Japanese firms are the second-largest source of foreign direct investment in the United States, and Japanese investors are the largest foreign holders of U.S. treasuries. The U.S. withdrawal from TPP, coupled with Japan's continued pursuit of trade agreements involving several major U.S. trading partners and world economies—including the European Union (EU), Canada, Mexico, China, and South Korea—could lessen U.S. firms' competitiveness abroad and eventually spur interest in new U.S. trade negotiations with Japan and its trade agreement partners. A bilateral economic dialogue is the current focus of bilateral trade and investment discussions, but it remains unclear what commitments if any are expected from that process.

After years of turmoil, Japanese politics has been relatively stable since the December 2012 election victory of Abe and his Liberal Democratic Party (LDP), and further consolidated in the LDP's subsequent parliamentary gains. A series of scandals in 2017 revealed cracks in Abe's power, but with the major opposition parties in disarray, the LDP's dominance does not appear to be threatened. However, with reduced political capital, Abe may struggle to pursue the more controversial initiatives of his agenda, such as increasing the Japanese military's capabilities and flexibility.

Earlier in his term, Abe was hampered by comments on sensitive historical issues involving Japan's record during the first half of the 20th century. Issues include the "comfort women" who were forced to provide sex to Japanese soldiers in the World War II era, Japanese history textbooks that critics claim whitewash Japanese atrocities, and visits by Japanese leaders to the Yasukuni Shrine that honors Japan's war dead including Class A war criminals. After relations with South Korea soured, Abe was credited for tempering his comments and beginning a tentative rapprochement with Seoul. Cooperation on dealing with North Korea has aided the relationship, although differences in approach have created some tension. Elsewhere, Abe has pursued stronger relations with Australia, India, Russia, and several Southeast Asian nations.

U.S.-Japan defense cooperation has improved and evolved in response to security challenges, such as the North Korean missile threat and the confrontation between Japan and China over disputed islands. Abe accelerated the trend by passing controversial security legislation in 2015. Much of the implementation of the laws, as well as of U.S.-Japan defense guidelines updated the same year, lies ahead, and full realization of the goals to transform alliance coordination could require additional political capital and effort. Additional concerns remain about the

implementation of an agreement to relocate the controversial Futenma base on Okinawa due to opposition from the local population and the prefectural governor.

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Recent Developments

North Korean Crisis Strengthens Abe-Trump Relationship

The strong rapport developed by Prime Minister Shinzo Abe and President Trump at their initial summit in February 2017 has endured, due in part to the situation on the Korean Peninsula. Abe and Trump have reportedly spoken by phone over a dozen times about dealing with North Korea. In September 2017, Abe wrote an op-ed for the *New York Times* that wholeheartedly endorsed Trump's approach, saying that "more dialogue with North Korea would be a dead end" and that "I firmly support the United States position that all options are on the table."[1] Abe was rewarded by Trump's mention of the Japanese citizens abducted by North Korean agents in the 1970s and 1980s during his United Nations General Assembly speech later that week. Resolution of the abductees issue in the past was Tokyo's most pressing concern in multilateral negotiations with Pyongyang, and an issue that propelled Abe's political career.

The intensity of the North Korea problem appears to have shifted attention away from some of the potentially more tense areas of the relationship, at least temporarily. The U.S.-Japan Economic Dialogue, chaired by Vice President Mike Pence and Japanese Deputy Prime Minister Taro Aso, could include contentious trade issues, but has been delayed due to the tensions with North Korea. Trump has not repeated many of his campaign criticisms of the alliance as unfair in terms of burden-sharing, although during his U.N. speech he echoed this theme, saying "The United States will forever be a great friend to the world, and especially to its allies. But we can no longer be taken advantage of, or enter into a one-sided deal where the United States gets nothing in return. As long as I hold this office, I will defend America's interests above all else."[2] (For background, see the "Japan's Foreign Policy and U.S.-Japan Relations" section.)

U.S.-South Korea-Japan Trilateral Dynamics

North Korea's demonstration of its advancing capabilities through long-range missile tests and its sixth nuclear weapons test has overall driven more cooperation among Washington, Seoul, and Tokyo. At a trilateral meeting in July, the three leaders agreed to boost their defense capabilities to respond to the threat from North Korea. Again in September, Trump, Abe, and South Korean President Moon Jae-in convened a meeting and expressed solidarity against the North Korea threat. However, President Moon Jae-in, elected in May 2017, campaigned on a platform to engage North Korea in dialogue and criticized a "sanctions-only" approach. In contrast to Trump and Abe, Moon has stated that war on the Korean Peninsula must be avoided.

Abe's full embrace of Trump's approach to North Korea has created an uneasy tension in Japan's relationship with South Korea. Moon belongs to a left-of-center party that in the past has been critical of Japan's handling of sensitive historical issues and suspicious of any Japanese moves to boost its defense capabilities. Since coming into office, however, Moon has been more pragmatic toward Japan than many expected, going ahead with an information-sharing pact and

[1] "Shinzo Abe: Solidarity Against the North Korean Threat," *New York Times*, September 17, 2017.

[2] "Remarks by President Trump to the 72nd Session of the United Nations General Assembly," The White House, Office of the Press Secretary, September 19, 2017.

downplaying a controversial agreement that his predecessor signed to resolve the long-standing dispute over the so-called "comfort women" who were forced to provide sex to Japanese soldiers in the World War II era. But Japan was critical of the Moon government's decision in September to give over $8 million in humanitarian aid to the World Food Program and UNICEF for projects to provide assistance to children and pregnant women in North Korea. Some Korean commentators have speculated that Abe is using his personal ties to Trump to shape the U.S. President's views of South Korea. Trump at times has criticized Seoul's policy toward North Korea, at one time describing it as "appeasement" in a Twitter post.[3] To some analysts, the differences in tone and substance between Trump and Abe on one hand and Moon on the other have prevented the three capitals from presenting a united front to Pyongyang and could provide an opportunity for North Korea—as well as China—to create greater distance between South Korea on the one hand and the United States and Japan on the other. (For background, see the "Japan and the Korean Peninsula" section.)

October 2017 Elections a Test for Abe

In late September 2017, Prime Minister Abe dissolved Japan's Lower House of Parliament (called the Diet) and announced elections would be held on October 22, about a year earlier than required under Japan's constitution. The Lower House, the more powerful of Japan's two legislative chambers, selects the prime minister, so the election will determine Abe's immediate political future.

Since he became premier in December 2012, Abe has dominated Japanese politics, leading his Liberal Democratic Party (LDP) ruling coalition to large victories in three successive national elections, for the Lower House in December 2014 and the Upper House in July 2013 and July 2016. A key to Abe's success has been his Cabinet's high public approval ratings, which for most of his tenure have been above 50%, effectively discouraging or thwarting challenges from within the LDP.[4] In March 2017, Abe succeeded in extending the LDP's term-limit rules for party president—and prime minister—from two consecutive three-year terms to three consecutive terms. This rule change could allow Abe to extend his time as party leader through 2020, when Tokyo is scheduled to host the summer Olympics.

However, in 2017, Abe's seeming invulnerability was dented by three separate scandals, which according to some polls drove his approval ratings down to the low 30% level.[5] By late September, Abe appeared to have regained his political footing, in part due to approval over his handling of the North Korean threat. According to news reports, Abe chose to call for early elections for a number of reasons: to take advantage of disarray in Japan's largest opposition party (the Democratic Party), which struggles to break the 10% threshold in most opinion polls; to avoid additional questioning in the Diet over his recent scandals; and to deprive newly formed opposition parties of time to organize, particularly those allied with Tokyo's reformist governor, Yuriko Koike.[6] Shortly after Abe dissolved the Diet, Koike and some political allies announced the formation of a new party, the Party of Hope, that is expected to field candidates in the upcoming election. Governor Koike, a former Diet member and cabinet minister, will stay in her

[3] See https://twitter.com/realdonaldtrump/status/904309527381716992?lang=en.

[4] For an aggregator of major opinion polls, see the Sasakawa Peace Foundation USA's *Japan Political Pulse*, available at https://spfusa.org/category/japan-political-pulse/.

[5] The scandals involved allegations that Abe and his wife were separately involved in two influence-peddling scandals, and evidence that the Ministry of Defense concealed information about overseas military operations.

[6] "Abe Set to Call October Election," *Nikkei Asian Review*, September 18, 2017.

current post and will not run for a parliamentary seat. Abe has said he wants to renew his mandate to overcome Japan's two biggest problems: the North Korean threat and an aging society. He intends to campaign on the issues of raising Japan's consumption tax to ensure a more stable social security system and boost spending on schools, as well as revising Japan's constitution, which contains explicitly pacifist clauses, to explicitly recognize Japan's Self-Defense Force as a military.[7] (For more, see the "Collective Self-Defense" section. For background on Japanese politics, see the the "Japanese Politics" section.)

EU-Japan FTA Nears Conclusion

The European Union (EU) and Japan announced an agreement "in principle" on a bilateral free trade agreement (FTA) on July 6, 2017, ahead of the annual G-20 summit.[8] The two parties described the agreement as a strong statement of support for trade liberalization, which some observers have contrasted with the Trump Administration's withdrawal from the 12-country Trans-Pacific Partnership (TPP)[9] and increased focus on "unfair" trading practices.[10] While some aspects of the agreement remain under negotiation, including sensitive issues such as investment protections, the two parties aim to bring a final agreement into force by early 2019. If the FTA becomes effective it could reduce the competiveness of U.S. goods and services exports in two of the largest U.S. export markets and affect U.S. ability to shape international trade norms. In 2016, U.S. exports to the EU and Japan were $502 billion and $108 billion, respectively.[11] In 2015, the EU and Japan accounted for over 20% of all global trade.[12]

As currently proposed, the agreement would eventually remove nearly all tariffs between the parties including elimination of the EU's 10% auto tariff, and elimination or reduction of most Japanese agricultural tariffs. The agreement may differ from recent U.S. FTAs, including the concluded but not ratified TPP, in its approach to certain issues, such as its expected exclusion of substantive provisions on cross-border data flows. It may also differ due to its expected inclusion of protections for many agricultural products of specific European origin through more than 200 geographical indications (GIs), and a potential court mechanism for resolving investment disputes.[13] According to EU reports on the most recent negotiating round, Japan actively sought commitments on data flows and data localization issues similar to those in the TPP, commitments which the Trump Administration also generally supports according to the U.S. negotiating objectives for the ongoing North American Free Trade Agreement (NAFTA) talks.[14]

The United States does not have FTAs with either party, but had concluded negotiations on an FTA with Japan through the TPP, and has ongoing but currently paused negotiations with the EU

[7] "Abe Eyes Tax Revenue for Child-Rearing Support in Election Platform," *Japan Times*, September 19, 2017; Motoko Rich, "Shinzo Abe of Japan Calls Early Election, as a Rival Party Forms," *New York Times*, September 25, 2017.

[8] For more information, see CRS Insight IN10738, *The Proposed EU-Japan FTA and Implications for U.S. Trade Policy*, by Shayerah Ilias Akhtar and Brock R. Williams.

[9] For more information, see CRS In Focus IF10000, *TPP: Overview and Current Status*, by Brock R. Williams and Ian F. Fergusson. The twelve countries that signed the TPP were Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

[10] "Japan, European Union Strike New Trade Deal," *Wall Street Journal*, July 6, 2017.

[11] U.S. Bureau of Economic Analysis, International Trade in Goods and Services.

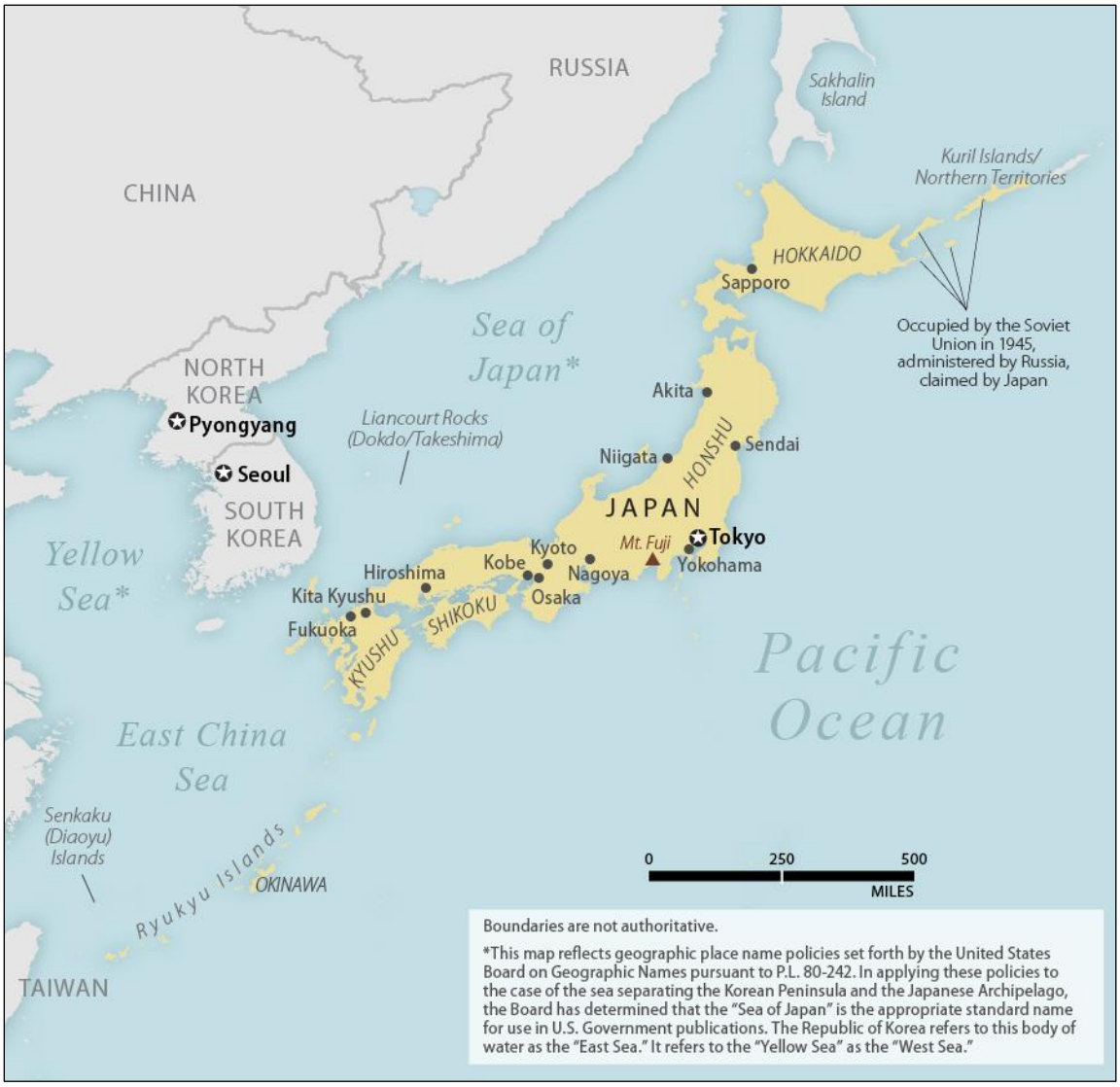
[12] World Trade Organization (WTO), World Trade Statistical Review, 2016. Excludes intra-EU trade.

[13] For more information see CRS Report R44565, *Digital Trade and U.S. Trade Policy*, coordinated by Rachel F. Fefer; CRS Report R44556, *Geographical Indications (GIs) in U.S. Food and Agricultural Trade*, by Renée Johnson; and CRS Report R43052, *U.S. International Investment Agreements: Issues for Congress*, by Shayerah Ilias Akhtar and Martin A. Weiss.

[14] European Commission, "Report of the 18th EU-Japan FTA/EPA Negotiating Round," April 2017.

on the Transatlantic Trade and Investment Partnership (T-TIP). An EU-Japan FTA could spur U.S. interest in a new bilateral trade negotiation with Japan or resumption of the T-TIP negotiations with the EU, particularly if U.S. firms feel disadvantaged in the two markets. Concerns by U.S. exporters over price disadvantages in Japan have been more pronounced since Japan's imposition in August of a beef safeguard tariff, which increases the tariff on frozen beef imports from the United States from 38.5% to 50%. Japan's FTA partners, such as Australia, are not affected by this tariff increase. Currently, the United States and Japan are engaged in an economic dialogue covering trade and investment rules, monetary and fiscal policy, and sectoral cooperation, but it is unclear what types of commitments, if any, may result. Japan is also pursuing regional FTA negotiations as part of the Regional Comprehensive Economic Partnership (RCEP) and ongoing talks on how to proceed with a "TPP-11 agreement," which would include all the TPP signatories except the United States. (For background, see the "Moving Beyond the Trans-Pacific Partnership Agreement (TPP)" section.)

Figure 1. Map of Japan



Source: Map Resources. Adapted by CRS.

Japan Country Data

Population: 126,702,133 (July 2016 est.)
Percentage of Population over 64: 27.28% (2016 est.) (U.S. = 12.4%)
Life Expectancy: 85 years
Area: 377,835 sq km (slightly smaller than California)
Per Capita GDP: $38,900 (2016 est.) purchasing power parity
Primary Export Partners: US 20.2%, China 17.5%, South Korea 7.1%, Hong Kong 5.6%, Thailand 4.5% (2015)
Primary Import Partners: China 24.8%, US 10.5%, Australia 5.4%, South Korea 4.1% (2015)

Source: CIA, *The World Factbook*, January 2017.

Japan's Foreign Policy and U.S.-Japan Relations

U.S.-Japan Relations in the Trump Presidency

Although candidate Donald Trump made statements critical of Japan during his campaign, the February 2017 leaders' summit allayed some of the concerns that the alliance would suffer under the new Administration. After Trump's victory, Abe was the first foreign leader to visit the President-Elect, and the second leader to visit the White House after the U.S. inauguration. During their three days together in Washington and at Trump's Mar-A-Lago resort in Florida, Abe and Trump displayed a strong personal rapport and issued a joint statement that echoed many of the previous tenets of the bilateral alliance. Although the issues of economic relations and of cost-sharing for defense had been expected to dominate the bilateral agenda since the summit, attention has been almost exclusively directed at the North Korean crisis, which appears to have driven closer ties between Trump and Abe.

Despite the tension that could emerge in the relationship, some analysts think that the alliance will remain on firm ground, for two main reasons. The first is that Tokyo has few palatable options but to hew to the United States given Japan's increasingly tenuous security position, with North Korean belligerency, a challenging political relationship with South Korea, and China's economic and military assertiveness. The second is that, in some ways, U.S. pressure to provide more in the security realm may boost Abe's efforts aimed at increasing the flexibility and capabilities of Japan's military. The Japanese public remains somewhat wary of moving away from a strictly self-defense armed force, as well as of altering Japan's constitution to allow for more offensive capabilities. Depending on how his party fares in upcoming October 2017 elections, Abe may be able to utilize pressure from the United States to convince a skeptical citizenry of the need to do more.[15]

As a baseline, the Trump Administration has reaffirmed several key statements seen as crucial to Japan. Tokyo was likely reassured by the joint statement from the leaders' first summit. The United States provided a three-fold affirmation on the Senkaku Islands (the small islands are also claimed by China and Taiwan, and known as Diaoyu and Diaoyutai, respectively): recognizing Japanese administration of the islands, stating that Article 5 of the mutual defense treaty applies to the islands, and stating that it opposed "any unilateral action that seeks to undermine" Japan's administration of the islands. The Secretaries of State and Defense further affirmed the United States' "steadfast commitment" to Japan, and President Trump called the alliance "the cornerstone of peace and stability in the Pacific region."

President Trump's statements during the campaign, however, suggested that he may seek fundamental changes to the alliance. As a candidate, Trump repeatedly criticized Japan for its trade policies and questioned whether Japan was paying enough for its defense. He also suggested that Japan may consider developing its own nuclear weapons to defend itself against the threat from North Korea. (See text box below.) These statements alarmed many officials in Japan, particularly given the strong state of the relationship in the previous years. Under President Obama and Prime Minister Abe, many analysts described the relationship as at a high water mark. Updated defense arrangements, regular and successful high-level visits, and broad strategic alignment solidified the two countries' military alliance. The two leaders registered several historic firsts that demonstrated the closeness of the relationship: in April 2015, Abe became the first Japanese Prime Minister to address a joint meeting of Congress; in May 2016, Obama

[15] See, for example, Andrew Oros' comments in "Trump Targeted Japan During the Campaign. Now its Prime Minister is Embracing the New President," *Washington Post*, February 9, 2017.

became the first sitting U.S. President to visit Hiroshima; and in December 2016, Abe became the first Japanese prime minister to visit the USS *Arizona* Memorial in Pearl Harbor.

Some analysts also have expressed concern about the differences in approach to global issues between the Trump Administration and Tokyo. Internationally, the two countries traditionally have cooperated on scores of multilateral issues, from nuclear nonproliferation to climate change negotiations to responding to pandemics. Japan is a firm supporter of the United Nations as a forum for dealing with international disputes and concerns. In the past Japan and the United States have worked closely in fora such as the East Asia Summit and the Association of Southeast Asian Nations (ASEAN) Regional Forum. The shared sense of working together to forge a rules- and norms-based international order has long been a key component of the bilateral relationship.

The Trump Administration, however, has expressed skepticism of multilateral organizations. To cite one example, several Japanese cabinet members expressed disappointment in the Trump Administration's decision to withdraw from the Paris climate accord.[16] Additionally, under the President's "America First" approach, a shift away from the United States' role as the guarantor of regional stability raises broader questions for Japan and other countries in the region about the durability of the alliance.[17] If Japan perceives the United States is moving away from its traditional role as guarantor of regional stability, many experts believe Japan may decide to form other partnerships with like-minded countries and adjust its foreign policy to allow more flexibility to pursue its own national interests.

[16] "Japan Disappointed by Trump's Decision to Quit Paris Agreement," *The Japan Times*, June 2, 2017.

[17] Laura Rosenberger, "Can the U.S.-Japan Alliance Survive Trump?" *Foreign Policy*, February 9, 2017.

Donald Trump Statements on Japan as a Presidential Candidate

"But right now we're protecting, we're basically protecting Japan, and we are, every time North Korea raises its head, you know, we get calls from Japan and we get calls from everybody else, and 'Do something.' And there'll be a point at which we're just not going to be able to do it anymore. Now, does that mean nuclear? It could mean nuclear.... And, would I rather have North Korea have them with Japan sitting there having them also? You may very well be better off if that's the case."

"... if we are attacked, [the Japanese] don't have to do anything. If they're attacked, we have to go out with full force.... That's a pretty one-sided agreement, right there.... And that is a, that's a real problem."

—*Statements made to the New York Times in interview on March 26, 2016*

"So, North Korea has nukes. Japan has a problem with that. I mean, they have a big problem with that. Maybe they would in fact be better off if they defend themselves from North Korea.... Including with nukes, yes, including with nukes."

—*Statement made in interview with Chris Wallace, Fox News, April 2016*

[CNN's Wolf Blitzer: "You're ready to let Japan and South Korea become nuclear powers?"]

Trump: "I am prepared to, if they're not going to take care of us properly, we cannot afford to be the military and police for the world."

—*Statement made in interview with Wolf Blitzer on CNN, May 2, 2016*

"Our allies must contribute toward the financial, political and human costs of our tremendous security burden. But many of them are simply not doing so.... We have spent trillions of dollars over time—on planes, missiles, ships, equipment—building up our military to provide a strong defense for Europe and Asia. The countries we are defending must pay for the cost of this defense—and, if not, the U.S. must be prepared to let these countries defend themselves.

—*Prepared speech remarks on April 27, 2016*

Abe's Leadership

Abe is positioned to be one of the longest-serving prime ministers in post-war Japan. After serving in 2006-2007, Abe led the conservative Liberal Democratic Party (LDP) back into power in late 2012 following a six-year period in which six different prime ministers served. Since then, he appears to have stabilized Japanese politics, although his political security appeared somewhat shaken by a series of scandals in 2017. Abe has prioritized Japan's alliance with the United States, and was widely credited for aggressively reaching out to President Trump soon after the U.S. election, despite Trump's strong criticism of Japan during the campaign. Under Abe's leadership, the defense budget has increased after a decade of decline, a set of controversial bills that reform Japanese security policies was passed, and approval from the Okinawan governor for the construction of a new U.S. Marine Corps base on Okinawa was secured. He also led Japan into the Trans-Pacific Partnership (TPP) free trade agreement (FTA) negotiations and has attempted to revitalize Japan's economy, including seeking a number of economic reforms favored by many in the United States.

Abe and Historical Issues

Historical issues have long colored Japan's relationships with its neighbors, particularly China and South Korea, which argue that the Japanese government has neither sufficiently "atoned" for nor adequately compensated them for Japan's occupation and belligerence in the first half of the 20th century. Abe's selections for his cabinet posts over the years include a number of politicians

known for advocating nationalist, and in some cases ultra-nationalist, views that many argue appear to glorify Imperial Japan's actions. Some of Abe's positions—such as changing the interpretation of Japan's constitution to allow for Japanese participation in collective self-defense—largely have been welcomed by U.S. officials eager to advance military cooperation. Other statements, however, suggest that Abe embraces a revisionist view of Japanese history that rejects the narrative of Imperial Japanese aggression and victimization of other Asians. He has been associated with groups arguing that Japan has been unjustly criticized for its behavior as a colonial and wartime power. Among the positions advocated by these groups, such as *Nippon Kaigi Kyokai*, are that Japan should be applauded for liberating much of East Asia from Western colonial powers, that the 1946-1948 Tokyo War Crimes tribunals were illegitimate, and that the killings by Imperial Japanese troops during the 1937 "Nanjing massacre" were exaggerated or fabricated.[18]

In December 2013, Abe paid a highly publicized visit to Yasukuni Shrine, a shrine that was established to house the "spirits" of Japanese soldiers who died during war, but also includes 14 individuals who were convicted as Class A war criminals after World War II.[19] Unusually, the U.S. Embassy in Tokyo directly criticized the move, releasing a statement that said, "The United States is disappointed that Japan's leadership has taken an action that will exacerbate tensions with Japan's neighbors."[20] Since then, despite the U.S. statement, sizeable numbers of LDP lawmakers, including a number of Cabinet ministers, have periodically visited the Shrine on ceremonial days, including the sensitive date of August 15, the anniversary of Japan's surrender in World War II.

Since 2013, Abe himself has largely avoided language and actions that could upset regional relations. After some waffling on key government statements made by past Japanese leaders—chief among them the 1995 "Murayama Statement" that apologized for Japan's wartime action and the 1993 "Kono Statement" that apologized to the "comfort women" (see the "Japan and the Korean Peninsula" section below)—Abe reaffirmed the official government expressions of remorse after pressure from many forces, including U.S. government officials and Members of Congress. Abe appears to have responded to criticism that his handling of these controversial issues could be damaging to Japan's and—to some extent—the United States' national interests.

Territorial Dispute with China in the East China Sea

Japan and China have engaged in a diplomatic and at times physical struggle over islets in the East China Sea known as the Senkakus in Japan, Diaoyu in China, and Diaoyutai in Taiwan. The uninhabited territory, administered by Japan but also claimed by China and Taiwan, has been a subject of contention for years, despite modest attempts by Tokyo and Beijing to jointly develop the potentially rich energy deposits nearby, most recently in 2008-2010. In August 2012, the Japanese government purchased three of the five islands from a private landowner in order to

[18] See, for instance, Asia Policy Point, *The Abe Administration Cabinet 2012-2014*, August 2, 2014.

[19] The controversial Yasukuni Shrine has been a flashpoint for regional friction over history. The origins of the shrine reveal its politically charged status. Created in 1879 as Japan's leaders codified the state-directed Shinto religion, Yasukuni was unique in its intimate relationship with the military and the emperor. The Class A war criminals were enshrined in 1978; since then, the emperor has not visited the shrine, and scholars suggest that it is precisely because of the criminals' inclusion. Adjacent to the shrine is the Yushukan, a war history museum, which to many portrays a revisionist account of Japanese history that at times glorifies its militarist past.

[20] "Statement on Prime Minister Abe's December 26 Visit to Yasukuni Shrine," U.S. Embassy in Tokyo, Japan, December 26, 2013, http://japan.usembassy.gov/e/p/tp-20131226-01.html.

preempt their sale to Tokyo's nationalist governor, Shintaro Ishihara.[21] Claiming that this act amounted to "nationalization" and thus violated the tenuous status quo, Beijing issued sharp objections. Chinese citizens held massive anti-Japan protests, and the resulting tensions led to a drop in Sino-Japanese trade. In April 2013, the Chinese Ministry of Foreign Affairs said for the first time that China considered the islands a "core interest," indicating to many analysts that Beijing was unlikely to make concessions on this sensitive sovereignty issue.

Starting in the fall of 2012, China began regularly deploying maritime law enforcement ships near the islands and stepped up what it called "routine" patrols to assert jurisdiction in "China's territorial waters."[22] In 2013, near-daily encounters occasionally escalated: both countries scrambled fighter jets, and, according to the Japanese government, a Chinese navy ship locked its fire-control radar on a Japanese destroyer and helicopter on two separate occasions. The number of Chinese vessels entering into territorial sea surrounding the islands decreased to a steady level of 7-10 vessels per month in 2014 and 2015, spiked to over 20 in August of 2016, before shifting to the 8-12 vessels per month range for most of the January-August 2017 period.[23] Chinese aircraft activity around the East China Sea has also increased markedly every year, prompting an increase in the number of scramble takeoffs by Japan Air Self Defense Forces. In November 2014, Japan and China agreed to restart talks on establishing a maritime communication mechanism to prevent unexpected military encounters, but as of September 2017 have not established this link, raising fears of an inadvertent escalation.

In November 2013, China abruptly announced that it would establish an air defense identification zone (ADIZ) in the East China Sea, covering the disputed islets as well as airspace that overlaps with the existing ADIZs of Japan, South Korea, and Taiwan. China's announcement produced indignation and anxiety in the region and in Washington for several reasons: the ADIZ represented a new step to pressure—to coerce, some experts argue—Japan's conciliation in the territorial dispute over the islets; the requirements for flight notification in China's proclaimed ADIZ go beyond international norms and impinge on the freedom of navigation; and the overlap of ADIZs could lead to accidents or unintended clashes, thus raising the risk of conflict in the East China Sea.

Some analysts argue that China's ADIZ as well as its increase in patrols represents a challenge to Japanese *administration* of the Senkaku/Diaoyu islets, which is the basis of the U.S. treaty commitment to defend that territory. U.S. administrations going back at least to the Nixon Administration have stated that the United States takes no position on the territorial disputes. However, it also has been U.S. policy since 1972 that the 1960 U.S.-Japan Security Treaty covers the islets, because Article 5 of the treaty stipulates that the United States is bound to protect "the territories under the Administration of Japan," and Japan administers the islets.[24] In its own attempt to address this perceived gap, Congress inserted in the FY2013 National Defense

[21] In April 2012, Tokyo governor Shintaro Ishihara announced in Washington, DC, that he intended to purchase three of the five islets from their private Japanese owner. Ishihara, who is known for expressing nationalist views, called for demonstrating Japan's control over the islets by building installations on the island and raised nearly $20 million in private donations for the purchase. In September, the central government purchased the three islets for ¥2.05 billion (about $26 million at an exchange rate of ¥78:$1) to block Ishihara's move and reduce tension with China.

[22] "Chinese Ships Continue Patrol Around Diaoyu Island," *China Daily*, October 28, 2012.

[23] Statistics provided by the Japanese Ministry of Foreign Affairs, http://www.mofa.go.jp/files/000170838.pdf.

[24] Speaking in Japan in April 2014, President Obama stated that "Article 5 covers all territories under Japan's administration, including the Senkaku Islands," in what is believed to be the first time a U.S. President publically has stated the United States' position. The White House, "Joint Press Conference with President Obama and Prime Minister Abe of Japan," Akasaka Palace, Tokyo, Japan, April 24, 2014.

Authorization Act (H.R. 4310, P.L. 112-239) a resolution stating, among other items, that "the unilateral action of a third party will not affect the United States' acknowledgment of the administration of Japan over the Senkaku Islands."[25]

The Senkaku/Diaoyu conflict embodies Japan's security challenges. The maritime confrontation with Beijing is a concrete manifestation of the threat Japan has faced for years from China's rising regional power. It also brings into relief Japan's dependence on the U.S. security guarantee and its anxiety that Washington will not defend Japanese territory if Japan goes to war with China, particularly over a group of uninhabited land features.

Japan and the Korean Peninsula

Japan's Ties with South Korea

In the 21st century, Japan's relationship with South Korea has fluctuated between troubled and tentatively cooperative, depending on external circumstances and the leaders in power. Washington has generally encouraged closer ties between Tokyo and Seoul as two of its most important alliance partners; the two countries have shared security concerns, developed economies, and a commitment to free trade, international rules and norms, and regional stability. A poor relationship between Seoul and Tokyo jeopardizes U.S. interests by complicating trilateral cooperation on North Korea policy and on responding to China's rise. Tense relations also complicate Japan's desire to expand its military and diplomatic influence as well as the potential creation of an integrated U.S.-Japan-South Korea ballistic missile defense system.

The North Korean threat has traditionally driven closer trilateral coordination, even when Tokyo and Seoul have faced political tension. Under North Korea's leader Kim Jong-un, North Korea's consistent provocations have provided both the motivation and the political room for South Korea and Japan to forge more cooperative stances, despite lingering mutual distrust. For example, in late June 2016, the three countries held their first joint military training exercise with Aegis ships that focused on tracking North Korean missile launches by sharing intelligence.

The persistent Japan-Korea discord centers on historical issues. Officials in Japan have referred to rising "Korea fatigue" among their public and expressed frustration that for years South Korean leaders have not recognized and in some cases rejected the efforts Japan has made to acknowledge and apologize for Imperial Japan's actions for the 35 years following its annexation of the Korean Peninsula in 1910. In addition to the comfort women issue (see below), the perennial issues of how Japan's behavior before and during World War II is depicted in Japanese school textbooks and a territorial dispute between Japan and South Korea continue to periodically rile relations. A group of small islands in the Sea of Japan, known as Dokdo in Korean and Takeshima in Japanese (the U.S. government refers to them as the Liancourt Rocks), are administered by South Korea but claimed by Japan. Japanese statements about the claim in defense documents or by local prefectures routinely spark official criticism and public outcry in South Korea. Similarly, Seoul expresses disapproval of some of the history textbooks approved by Japan's Ministry of Education that South Koreans claim diminish or whitewash Japan's colonial-era atrocities.

[25] For more information, see CRS Report R42761, *The Senkakus (Diaoyu/Diaoyutai) Dispute: U.S. Treaty Obligations*, by Mark E. Manyin, and CRS Report R42930, *Maritime Territorial Disputes in East Asia: Issues for Congress*, by Ben Dolven, Mark E. Manyin, and Shirley A. Kan.

Comfort Women Issue

The most prominent stumbling block to better Japan-South Korean relations involves the so-called "comfort women," women who were forced to provide sexual services for Japanese soldiers during the imperial military's conquest and colonization of several Asian countries in the 1930s and 1940s. The long-standing controversy became more heated under Abe's leadership. In the past, Abe supported the claims made by many conservatives in Japan that the women were not directly coerced into service by the Japanese military.

In 2015, Abe and then-President Park Geun-hye of South Korea concluded an agreement that included a new apology from Abe and the provision of 1 billion yen (about $8.3 million) from the Japanese government to a new Korean foundation that supports surviving victims.[26] The two governments' foreign ministers agreed that this long-standing bilateral rift would be "finally and irreversibly resolved" pending the Japanese government's implementation of the agreement.[27] Although the main elements of the agreement appeared to be implemented in 2016, the deal remains deeply unpopular with the South Korea public. The issue continues to be an irritant in bilateral relations: Japan objects to a comfort woman statue that stands in front of the Japanese Embassy in Seoul, and President Moon has insisted that Japan must take "legal responsibility."

The issue of the so-called comfort women has gained visibility in the United States, due in part to Korean-American activist groups. These groups have pressed successfully for the erection of monuments in California and New Jersey commemorating the victims, passage of a resolution on the issue by the New York State Senate, the naming of a city street in the New York City borough of Queens in honor of the victims, and approval to erect a memorial to the comfort women in San Francisco. In 2007, U.S. House of Representatives endorsed H.Res. 121 (110th Congress), calling on the Japanese government to "formally acknowledge, apologize, and accept historical responsibility in ... an unequivocal manner" for forcing young women into military prostitution.

Japan's North Korea Policy

Since 2009, Washington and Tokyo have been largely united in their approach to North Korea, driven by Pyongyang's string of missile launches and nuclear tests. In February 2017, North Korea launched its first of many missiles of the year during Abe's summit with Trump, setting the stage for the two leaders to bond over the North Korean threat. Japan has employed a hardline policy toward North Korea, including a virtual embargo on all bilateral trade and vocal leadership at the United Nations to punish the Pyongyang regime for its human rights abuses and military provocations. When the Six-Party Talks were active, Japan was considered a key actor in a possible resolution of problems on the Korean peninsula, but the multilateral format has been dormant since 2009 and appears to be all but abandoned.

Japan is directly threatened by North Korea given the demonstrated capability of its medium-range missiles; in 2017, the North Koreans twice tested missiles that flew over Japanese territory. North Korea has long-standing animosity toward Japan for their colonialism of the Korean peninsula in the early 20th century. In addition, U.S. bases in Japan could be targeted by the North Koreans in any military contingency. Aside from these direct security concerns, Japan has prioritized the long-standing issue of Japanese citizens kidnapped by North Korean agents decades ago. In 2002, then-North Korean leader Kim Jong-il admitted to the abductions and returned five survivors, claiming the others had perished from natural causes. Abe, then serving

[26] In contrast to past apologies from Japanese Prime Ministers that were made in their personal capacities, then Foreign Minister Fumio Kishida stated that Abe's apology was issued in his capacity "as Prime Minister of Japan."

[27] South Korean and Japanese Foreign Ministries' translations of the December 28, 2015, joint announcement.

as Chief Cabinet Secretary to then-Prime Minister Junichiro Koizumi, has since been a passionate champion for the abductees' families and pledged as a leader to bring home all surviving Japanese. In an indication of their united approach to North Korea, President Trump mentioned the abductee issue during his 2017 U.N. General Assembly address.

Renewed Relations with India, Australia, and ASEAN

The Abe Administration's foreign policy has displayed elements of both power politics and an emphasis on democratic values, international laws, and norms. Shortly after returning to office in 2012, Abe released an article outlining his foreign and security policy strategy titled "Asia's Democratic Security Diamond," which described how the democracies of Japan, Australia, India, and the United States could cooperate to deter Chinese aggression on its maritime periphery.[28] In Abe's first year in office, Japan held numerous high-level meetings with Asian countries to bolster relations and, in many cases, to enhance security ties. Abe had summit meetings in India, Russia, Great Britain, all 10 countries in the Association of Southeast Asian Nations (ASEAN), and several countries in the Middle East and Africa. Japan has particularly focused on issues of freedom of navigation in the South China Sea, in part because of the implications for Japan's trade flows and for the Senkakus/Diaoyu dispute. Since 2012, even before Abe came into office, Japan had been working to strengthen the maritime capabilities of Southeast Asian countries such as Vietnam and the Philippines, and Abe has accelerated these efforts, which the Obama Administration supported as part of its "Asia Rebalance" strategy.[29] This energetic diplomacy indicates a desire to balance China's growing influence with a loose coalition of Asia-Pacific powers, but this strategy of realpolitik is couched in the rhetoric of international laws and democratic values.

Abe's international outreach has yielded positive results, according to many observers. Despite a failed submarine deal, bilateral ties with Australia are robust. Abe's highly publicized July 2014 visit to Canberra yielded new economic and security arrangements, including an agreement to transfer defense equipment and technology. Japan-Indian ties have blossomed under Abe and Prime Minister Narendra Modi, including expanded military exercises and negotiations on defense export agreements. Even as cracks have appeared in the U.S.-Philippines alliance, Abe has made efforts to maintain Japan-Philippines defense relations.

Japan-Russia Relations

Part of Abe's international diplomacy push has been to reach out to Russia. Japan and the Soviet Union never signed a peace treaty following World War II due to a territorial dispute over four islands north of Hokkaido in the Kuril Chain. The islands are known in Japan as the Northern Territories and were seized by the Soviets in the waning days of the war. Both Japan and Russia face security challenges from China and may be seeking a partnership to counter Beijing's growing economic and military power. Ambitious plans to revitalize relations with Moscow, including resolution of the disputed islands, however, do not appear to have made progress. Russia's aggression in the Ukraine in 2014 disrupted the improving relationship. Tokyo signed on to the G7 statement condemning Russia's action and implemented sanctions and asset freezes.

[28] Shinzo Abe, "Asia's Democratic Security Diamond," *Project Syndicate*, December 27, 2012.

[29] Testifying before the Senate Armed Services Committee on September 17, 2015, Assistant Secretary of Defense for Asian and Pacific Security Affairs David Shear said, "We strongly support Japanese efforts to coordinate with us in building partner capacity, particularly with countries like Vietnam, the Philippines, and probably in the future, Malaysia."

Japan attempted to salvage the potential breakthrough by imposing only relatively mild sanctions despite pressure from the United States and other Western powers. With many countries in the West isolating Moscow, Russia and China appear to have grown closer.[30]

U.S. World-War II-Era Prisoners of War (POWs)

For decades, U.S. soldiers who were held captive by Imperial Japan during World War II have sought official apologies from the Japanese government for their treatment. A number of Members of Congress have supported these campaigns. The brutal conditions of Japanese POW camps have been widely documented.[31] In May 2009, the Japanese Ambassador to the United States attended the last convention of the American Defenders of Bataan and Corregidor to deliver a cabinet-approved apology for their suffering and abuse. In 2010, with the support and encouragement of the Obama Administration, the Japanese government financed a Japanese/American POW Friendship Program for former American POWs and their immediate family members to visit Japan, receive an apology from the sitting Foreign Minister and other Japanese Cabinet members, and travel to the sites of their POW camps. Annual trips were held from 2010 to 2017.[32]

In the 112th Congress, three resolutions—S.Res. 333, H.Res. 324, and H.Res. 333—were introduced thanking the government of Japan for its apology and for arranging the visitation program.[33] The resolutions also encouraged the Japanese to do more for the U.S. POWs, including by continuing and expanding the visitation programs as well as its World War II education efforts. They also called for Japanese companies to apologize for their or their predecessor firms' use of un- or inadequately compensated forced laborers during the war. In July 2015, Mitsubishi Materials Corporation (a member of the Mitsubishi Group) became the first major Japanese company to apologize to U.S. POWs on behalf of its predecessor firm, which ran several POW camps that included over 1,000 Americans.[34] In addition, they made a one-time grant of $50,000 to a library in West Virginia to maintain a collection of POW materials.

Energy and Environmental Issues

Under the Obama Administration, Japan and the United States cooperated on a wide range of environmental initiatives both bilaterally through multiple agencies and through multilateral organizations such as the International Energy Agency (IEA), the Asia-Pacific Economic Cooperation (APEC), the Clean Energy Ministerial (CEM), the International Energy Forum

[30] For more on Russia's relations with Northeast Asia, see CRS Report R44613, *Northeast Asia and Russia's "Turn to the East": Implications for U.S. Interests*, by Emma Chanlett-Avery.

[31] By various estimates, approximately 40% held in the Japanese camps died in captivity, compared to 1%-3% of the U.S. prisoners in Nazi Germany's POW camps. Thousands more died in transit to the camps, most notoriously in the 1942 "Bataan Death March," in which the Imperial Japanese military force-marched almost 80,000 starving, sick, and injured Filipino and U.S. troops over 60 miles to prison camps in the Philippines. For more, see out-of-print 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 Reynolds (available from the coauthors of this report to congressional clients upon request).

[32] For more on the program, see http://www.us-japandialogueonpows.org/. Since the mid-1990s, Japan has run similar programs for the POWs of other Allied countries.

[33] S.Res. 333 (Feinstein) was introduced and passed by unanimous consent on November 17, 2011. H.Res. 324 (Honda) and H.Res. 333 (Honda) were introduced on June 22, 2011, and June 24, 2011, respectively, and referred to the House Foreign Affairs Subcommittee on Asia and the Pacific.

[34] "Mitsubishi Materials Apologizes for Using US Prisoners of War as Slave Labor," *The Guardian*. July 19, 2015.

(IEF), and the East Asian Summit (EAS). Japan was generally regarded by U.S. officials as closely aligned with the Obama Administration in international climate negotiations in its position that any international climate agreement must be legally binding in a symmetrical way, with all major economies agreeing to the same elements. However, because of the shutdown of Japan's nuclear reactors (see below), international observers raised concerns about losing Japan as a global partner in promoting nuclear safety and nonproliferation measures and in reducing greenhouse gas emissions.[35] President Trump's decision to withdraw the United States from the Paris Agreement, an international climate accord designed to reduce global emissions, removed one channel through which the United States and Japan cooperated closely. As a result, it is unclear what shape U.S.-Japan environmental policies will take, although Trump's rhetorical support for the coal industry may be welcome to Japanese companies eager to export "clean-coal" technology to other countries.

March 2011 "Triple Disaster"

On March 11, 2011, a magnitude 9.0 earthquake jolted a wide swath of Honshu, Japan's largest island. The quake, with an epicenter located about 230 miles northeast of Tokyo, generated a tsunami that pounded Honshu's northeastern coast, causing widespread destruction in Miyagi, Iwate, Ibaraki, and Fukushima prefectures. Some 20,000 lives were lost, and entire towns were washed away; over 500,000 homes and other buildings and around 3,600 roads were damaged or destroyed. Up to half a million Japanese were displaced. Damage to several reactors at the Fukushima Dai-ichi nuclear power plant complex led the government to declare a state of emergency and evacuate nearly 80,000 residents within a 20-kilometer radius due to dangerous radiation levels.

In many respects, Japan's response to the multifaceted disaster was remarkable. Over 100,000 troops from the Self Defense Forces (SDF), Japan's military, were deployed quickly to the region. After rescuing nearly 20,000 individuals in the first week, the troops turned to a humanitarian relief mission in the displaced communities. Construction of temporary housing began a week after the quake. Foreign commentators marveled at Japanese citizens' calm resilience, the lack of looting, and the orderly response to the strongest earthquake in the nation's modern history. Japan's preparedness—strict building codes, a tsunami warning system that alerted many to seek higher ground, and years of public drills—likely saved tens of thousands of lives.

Appreciation for the U.S.-Japan alliance surged after the two militaries worked effectively together to respond to the 2011 earthquake and tsunami. Years of joint training and many interoperable assets facilitated the integrated alliance effort. "Operation Tomodachi," using the Japanese word for "friend," was the first time that SDF helicopters used U.S. aircraft carriers to respond to a crisis. The USS *Ronald Reagan* aircraft carrier provided a platform for air operations as well as a refueling base for Japanese SDF and Coast Guard helicopters. Other U.S. vessels transported SDF troops and equipment to the disaster-stricken areas. For the first time, U.S. military units operated under Japanese command in actual operations.

Despite this response to the initial event, the uncertainty surrounding the nuclear reactor meltdowns and the failure to present longer-term reconstruction plans led many to question the government's handling of the disasters. As reports mounted about heightened levels of radiation in the air, tap water, and produce, criticism emerged regarding the lack of clear guidance from political leadership. Concerns about the government's excessive dependence on information from Tokyo Electric Power Company (TEPCO), the firm that owns and operates the power plant, amplified public skepticism and elevated criticism about conflicts of interest between regulators and utilities.

Nuclear Energy Policy

Japan is undergoing a national debate on the future of nuclear power, with major implications for businesses operating in Japan, U.S.-Japan nuclear energy cooperation, and nuclear safety and nonproliferation measures worldwide. Prior to 2011, nuclear power was providing roughly 30% of Japan's power generation capacity, and the 2006 "New National Energy Strategy" had set out a goal of significantly increasing Japan's nuclear power generating capacity. However, the policy of expanding nuclear power was abruptly reversed in the aftermath of the March 11, 2011, natural

[35] Hideshi Futori, "Japan's Role in Asia's Nuclear Security," Woodrow Wilson Center, February 10, 2014.

disasters and meltdowns at the Fukushima Daiichi nuclear power plant. Public trust in the safety of nuclear power collapsed, and a vocal antinuclear political movement emerged. This movement tapped into an undercurrent of antinuclear sentiment in modern Japanese society based on its legacy as the victim of atomic bombing in 1945. As the nation's 52 nuclear reactors were shut down one by one for their annual safety inspections in the months after March 2011, the Japanese government did not restart them for several years (except a temporary reactivation for two reactors at one site in central Japan). No reactors were operating from September 2013 until August 2015. As of September 2017, only five reactors were in operation.

The drawdown of nuclear power generation resulted in many short- and long-term consequences for Japan: rising electricity costs for residences and businesses; heightened risk of blackouts in the summer, especially in the Kansai region; widespread energy conservation efforts by businesses, government agencies, and ordinary citizens; the possible bankruptcy of major utility companies; and increased fossil fuel imports (see next section). The Institute of Energy Economics, Japan, calculated that the nuclear shutdowns led to the loss of 420,000 jobs and $25 billion in corporate revenue in 2012 alone.[36]

The LDP has promoted a relatively pronuclear policy, despite persistent antinuclear sentiment among the public. The Abe Administration released a Strategic Energy Plan in April 2014 that identifies nuclear power as an "important base-load power source," although the plan does not provide target percentages for Japan's ideal mix of different energy sources. In the coming years, the government likely will approve the restart of many of Japan's existing 48 nuclear reactors, but as many as half, or even more, may never operate again. Approximately 60% of the Japanese public opposes the restart of nuclear reactors, compared to approximately 30% in favor.[37] The Abe Cabinet faces a complex challenge: how to balance concerns about energy security, promotion of renewable energy sources, the viability of electric utility companies, the health of the overall economy, and public concerns about safety. And if Japan closes down its nuclear power industry, some analysts wonder whether it will continue to play a lead role in promoting nuclear safety and nonproliferation around the world.

Alliance Issues

The U.S.-Japan alliance has long been an anchor of the U.S. security role in Asia. Forged in the U.S. occupation of Japan after its defeat in World War II, the alliance provides a platform for U.S. military readiness in the Pacific. About 50,000 U.S. troops are stationed in Japan and have the exclusive use of approximately 90 facilities (see **Figure 2**). In exchange, the United States guarantees Japan's security, including through extended deterrence, known colloquially as the U.S. "nuclear umbrella." The U.S.-Japan alliance, which many believe was missing a strategic rationale after the end of the Cold War, may have found a new guiding rationale in shaping the environment for China's rise. In addition to serving as a hub for forward-deployed U.S. forces, Japan provides its own advanced military assets, many of which complement U.S. assets.[38]

During the 2016 presidential campaign, candidate Trump repeatedly asserted that Tokyo did not pay enough to ease the U.S. cost of providing security for Japan. In response, Japanese and U.S. officials have defended the system of host nation support that has been negotiated and

[36] Masakazu Toyoda, "Energy Policy in Japan: Challenges After Fukushima," Institute of Energy Economics, Japan, presentation prepared for delivery on January 24, 2013.

[37] "Over Half Oppose Japan Engaging in Collective Self-Defense: Survey," Kyodo News Agency, January 26, 2014. "30% Approve of Raising Sales Tax to 10% as Scheduled; Cabinet Support Flat," Nikkei, August 25, 2014.

[38] For more information and analysis, see CRS Report RL33740, *The U.S.-Japan Alliance*, by Emma Chanlett-Avery and Ian E. Rinehart.

renegotiated over the years. Defenders of the alliance point to the strategic benefits as well as the cost saving of basing some of the most advanced capabilities of the U.S. military in Japan, including a forward-deployed aircraft carrier. The question of how much Japan spends, particularly when including the Japanese government's payments to compensate base-hosting communities and to shoulder the costs of U.S. troop relocation in the region, remains a thorny area with few easily quantifiable answers. Japan appears to anticipate new demands from the United States, and Abe has already stated that Japan will no longer cap its defense spending at the customary 1% of GDP.

Since the early 2000s, the United States and Japan have taken strides to improve the operational capability of the alliance as a combined force, despite political and legal constraints. Japan's own defense policy has continued to evolve, and its major strategic documents reflect a new attention to operational readiness and flexibility. The original, asymmetric arrangement of the alliance has moved toward a more balanced security partnership in the 21st century, and Japan's 2014 decision to engage in collective self-defense may accelerate that trend. Unlike 25 years ago, the Japan Self-Defense Forces (SDF) are now active in overseas missions, including efforts in the 2000s to support U.S.-led coalition operations in Afghanistan and the reconstruction of Iraq. Japanese military contributions to global operations like counter-piracy patrols relieve some of the burden on the U.S. military to manage security challenges. Due to the colocation of U.S. and Japanese command facilities in recent years, coordination and communication have become more integrated. The joint response to a 2011 tsunami and earthquake in Japan demonstrated the interoperability of the two militaries. The United States and Japan have been steadily enhancing bilateral cooperation in many other aspects of the alliance, such as ballistic missile defense, cybersecurity, and military use of space. Alongside these improvements, Japan continues to pay nearly $2 billion per year to defray the cost of stationing U.S. forces in Japan. (See "Burden-Sharing Issues" section below.)

Figure 2. Map of U.S. Military Facilities in Japan

Source: Map Resources. Adapted by CRS.

Notes: MCAS is the abbreviation for Marine Corps Air Station. NAF is Naval Air Facility.

Revised Mutual Defense Guidelines

In late April 2015, the United States and Japan announced the completion of the revision of their bilateral defense guidelines, a process that began in late 2013. First codified in 1978 and later updated in 1997, the guidelines outline how the U.S. and Japanese militaries will interact in peacetime and in war as the basic framework for defense cooperation based on a division of labor. The new guidelines account for developments in military technology, improvements in interoperability of the U.S. and Japanese militaries, and the complex nature of security threats in the 21st century. For example, the revision addresses bilateral cooperation on cybersecurity, the use of space for defense purposes, and ballistic missile defense, none of which were mentioned in the 1997 guidelines. The new guidelines lay out a framework for bilateral, whole-of-government cooperation in defending Japan's outlying islands. They also significantly expand the scope of U.S.-Japan security cooperation to include defense of sea lanes and, potentially, Japanese contributions to U.S. military operations outside East Asia. The Abe Administration pushed through controversial legislation in fall 2015 to provide a legal basis for these far-reaching defense reforms, despite vocal opposition from the opposition parties and the Japanese public. Japan's implementation of the new guidelines and related defense reforms has been slow and incremental, perhaps because of the controversy that surrounded passage of the new security legislation.

The new bilateral defense guidelines also seek to improve alliance coordination. The guidelines establish a standing Alliance Coordination Mechanism (ACM), which will involve participants from all the relevant agencies in the U.S. and Japanese governments, as the main body for coordinating a bilateral response to any contingency. This new mechanism removes obstacles that had inhibited alliance coordination in the past. The previous ACM only would have assembled if there was a state of war, meaning that there was no formal organization to coordinate military activities in peacetime, such as during the disaster relief response to the March 2011 disasters in northeast Japan. The U.S. and Japanese governments have convened the ACM to coordinate responses to North Korea's January 2016 nuclear weapon test, the earthquakes near Kumamoto, Japan, in April 2016, and other episodes impacting East Asian regional security.

Collective Self-Defense

Perhaps the most symbolically significant—and controversial—security reform of the Abe Administration has been Japan's potential participation in collective self-defense. Dating back to his first term in 2006-2007, Abe has shown a determination to adjust this highly asymmetric aspect of the alliance: the inability of Japan to defend U.S. forces or territory under attack. According to the traditional Japanese government interpretation, Japan possesses the right of collective self-defense, which is the right to defend another country that has been attacked by an aggressor,[39] but under Article 9 of the Japanese constitution, Japan has given up that right.[40] However, Japan has interpreted Article 9 to mean that it can maintain a military for national defense purposes and, since 1991, has allowed the SDF to participate in noncombat roles overseas in a number of United Nations (U.N.) peacekeeping missions and in the U.S.-led coalition in Iraq.

In July 2014, the Abe Cabinet announced a new interpretation, under which collective self-defense would be constitutional as long as it met certain conditions. These conditions, developed

[39] Article 51 of the U.N. Charter provides that member nations may exercise the rights of both individual and collective self-defense if an armed attack occurs.

[40] Article 9 of the Japanese constitution, drafted by American officials during the post-war occupation, outlaws war as a "sovereign right" of Japan and prohibits "the right of belligerency," stipulating that "land, sea, and air forces, as well as other war potential, will never be maintained."

in consultation with the LDP's dovish coalition partner Komeito and in response to cautious public sentiment, are rather restrictive and could limit significantly the latitude for Japan to craft a military response to crises outside its borders. The security legislation package that the Diet passed in September 2015 provides a legal framework for new SDF missions, but institutional obstacles in Japan may inhibit full implementation in the near term. However, the removal of the blanket prohibition on collective self-defense will enable Japan to engage in more cooperative security activities, like noncombat logistical operations and defense of distant sea lanes, and to be more effective in other areas, like U.N. peacekeeping operations. For the U.S.-Japan alliance, this shift could mark a step toward a more equal and more capable defense partnership. Chinese and South Korean media, as well as some Japanese civic groups and media outlets, have been critical, implying that collective self-defense represents an aggressive, belligerent security policy for Japan.

Realignment of the U.S. Military Presence on Okinawa

Due to the legacy of the U.S. occupation and the island's key strategic location, Okinawa hosts a disproportionate share of the U.S. military presence in Japan. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ military personnel are located in the prefecture, which comprises less than 1% of Japan's total land area. The attitudes of native Okinawans toward U.S. military bases are generally characterized as negative, reflecting a tumultuous history and complex relationships with both "mainland" Japan and with the United States. Because of these widespread concerns among Okinawans, the sustainability of the U.S. military presence in Okinawa remains a critical challenge for the alliance.[41]

The United States and Japan have faced decades of delay in an agreement to relocate a Marine Air Base. The new facility, slated to be built on the existing Camp Schwab in the sparsely populated Henoko area of Nago City, would replace the functions of Marine Corps Air Station (MCAS) Futenma, located in the center of a crowded town in southern Okinawa. The encroachment of residential areas around the Futenma base over decades has raised the risks of a fatal aircraft accident, which could create a backlash on Okinawa and threaten to disrupt the alliance. Most Okinawans oppose the construction of a new U.S. base for a mix of political, environmental, and quality-of-life reasons. A U.S. military official testified to Congress in 2016 that the expected completion of the new base at Henoko had been delayed from 2022 to 2025.

The two sides agreed in March 2016 to a court-recommended mediation process, suspending construction of the Futenma replacement facility while Tokyo and Okinawa resumed ultimately fruitless negotiations. A December 2016 Supreme Court decision ruled that Okinawa Governor Takeshi Onaga could not revoke the previous governor's landfill permit needed to build the offshore runways at Camp Schwab. Governor Onaga has vowed to pursue further obstruction tactics to prevent the construction. Also in December, the United States returned nearly 10,000 acres of land in the northern part of the island to Japan.[42] Then-U.S. Ambassador to Japan Caroline Kennedy described the move as a step toward shrinking the U.S. military presence on Okinawa. Governor Onaga, however, boycotted the ceremony, and instead joined a gathering to protest against the MV-22 Osprey crash that took place about a week before.

Failure to implement the Futenma relocation could solidify an impression among some American observers that the Japanese political system struggles to follow through with difficult tasks. On

[41] For more information and analysis, see CRS Report R42645, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy*, by Emma Chanlett-Avery and Ian E. Rinehart.

[42] Motoko Rich, "U.S. Returns Some Okinawa Land to Japan, but Unease Endures," *New York Times*, December 22, 2016, https://www.nytimes.com/2016/12/22/world/asia/us-japan-okinawa.html?_r=0.

the other hand, the risk remains that heavy-handed actions by Tokyo or Washington could lead to more intense antibase protests. Okinawan antibase civic groups have ramped up their protest activities since 2015, and some groups may take extreme measures to prevent construction of the facility at Henoko.

Marine Corps Realignment to Guam

The pace of the Futenma relocation efforts affects broader U.S. efforts to realign its military forces in the region, particularly the plans to transfer some marines to Guam, an "unincorporated territory" about 1,200 nautical miles southeast of Okinawa whose people maintain U.S. citizenship status and limited rights to self-government. The realignment of marines from Okinawa to Guam and elsewhere is now proceeding on its own timeline, separate from the issue of the Futenma replacement facility. The FY2015 National Defense Authorization Act (NDAA, P.L. 113-291) removed prior restrictions on military construction for the Guam realignment, the Department of Defense (DOD) may only spend funds on prescribed components of Guam's civilian infrastructure. DOD is now able to spend Japanese government funds allocated for the realignment. Japan has agreed to pay $3.1 billion of the estimated $8.7 billion total cost and will have preferential access to some of the new training facilities. In the FY2013 and FY2014 NDAAs, Congress had imposed several requirements on DOD before it could begin military construction for the Marine Corps realignment. DOD was able to fulfill most of those requirements, culminating in its submission of the Guam Master Plan to Congress in August 2014. The U.S. Navy announced a Record of Decision (a key planning milestone) for the Guam realignment in August 2015. DOD still faces a number of challenges on Guam, particularly regarding civilian infrastructure and public services, but provisions in the FY2015 and FY2016 NDAAs have given momentum to this massive project.

Burden-Sharing Issues

Calculating how much Tokyo pays to defray the cost of hosting the U.S. military presence in Japan is difficult and depends heavily on how the contributions are counted. Further, the two governments present estimations based on different data depending on the political aims of the exercise; because of the skepticism among some Japanese about paying the U.S. military, for example, the Japanese government may use different baselines in justifying its contributions to the alliance when arguing for its budget in the Diet (Japan's Parliament). Other questions make it challenging to assess the value and costs of the U.S. military presence in Japan. Is the U.S. cost determined based strictly on activities that provide for the defense of Japan, in a narrow sense? Or is the system of American bases in Japan valuable because it affords the ability to disperse U.S. power in the Western Pacific? U.S. defense officials often cite the strategic advantage of forward-deploying the most advanced American military capabilities in the Asia-Pacific at a far lower cost than stationing troops on American soil.

Determining the percentage of overall U.S. costs that Japan pays is even more complicated. According to DOD's 2004 Statistical Compendium on Allied Contributions to the Common Defense (the last year for which the report was required), Japan provided 74.5% of the U.S. stationing cost.[43] In January 2017, Japan's Defense Minister provided data that set the Japanese portion of the total cost for U.S. forces stationed in Japan at over 86%.[44] Other estimates from

[43] "2004 Statistical Compendium on Allied Contributions to the Common Defense." See http://archive.defense.gov/pubs/allied_contrib2004/allied2004.pdf.

[44] "How Much Does Japan Pay to Host U.S. Forces? Depends on Who You Ask," *Japan Times*. January 31, 2017.

various media reports are in the 40-50% range. Most analysts concur that there is no authoritative, widely shared view on an accurate figure that captures the percentage that Japan shoulders.

Host Nation Support

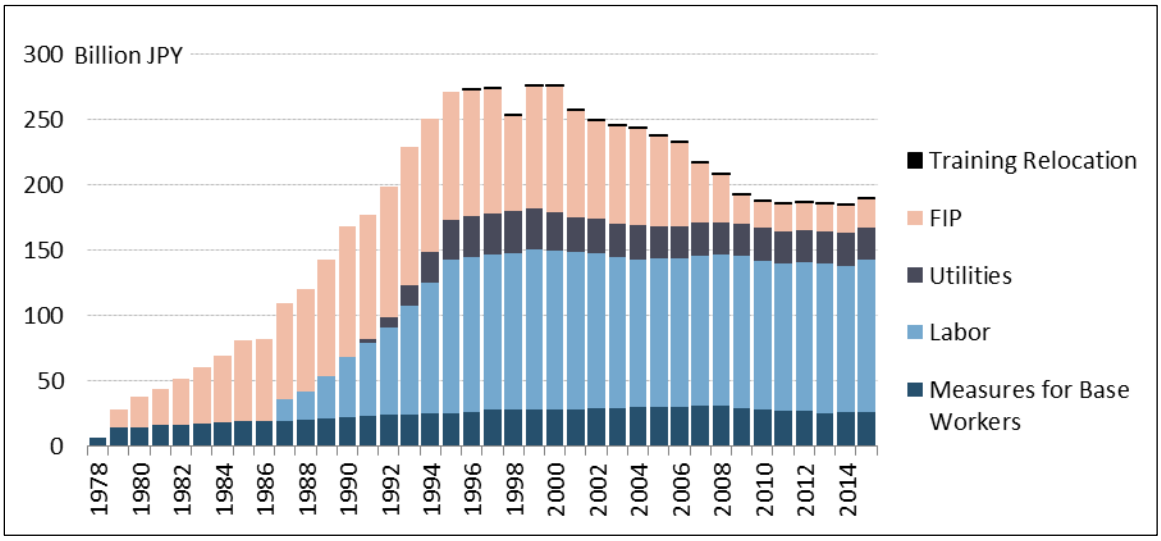
One component of the Japanese contribution is the Japanese government's payment of nearly $2 billion per year to offset the cost of stationing U.S. forces in Japan (see **Figure 3**). All Japanese contributions are provided in-kind. The United States spends an additional $2.7 billion per year (on top of the Japanese contribution) on nonpersonnel costs for troops stationed in Japan.[45]

Japanese host nation support is composed of two funding sources: Special Measures Agreements (SMAs) and the Facilities Improvement Program (FIP). Each SMA is a bilateral agreement, generally covering five years, which obligates Japan to pay a certain amount for utility and labor costs of U.S. bases and for relocating training exercises away from populated areas. Under the current SMA, covering 2016-2020, the United States and Japan agreed to keep Japan's host nation support at roughly the same level as it had been paying in the past. Japan will contribute ¥189 billion ($1.6 billion) per year under the SMA and contribute at least ¥20.6 billion ($175 million) per year for the FIP. Depending on the yen-to-dollar exchange rate, Japan's host nation support likely will be in the range of $1.7-2.1 billion per year.

The amount of FIP funding is not strictly defined, other than the agreed minimum, and thus the Japanese government adjusts the total at its discretion. Tokyo also decides which projects receive FIP funding, taking into account, but not necessarily deferring to, U.S. priorities.

Figure 3. Host Nation Support for U.S. Forces Japan (USFJ)

(in billions of Japanese yen)



Source: Japanese Ministry of Defense, http://www.mod.go.jp/j/approach/zaibeigun/us_keihi/suii_img.pdf.

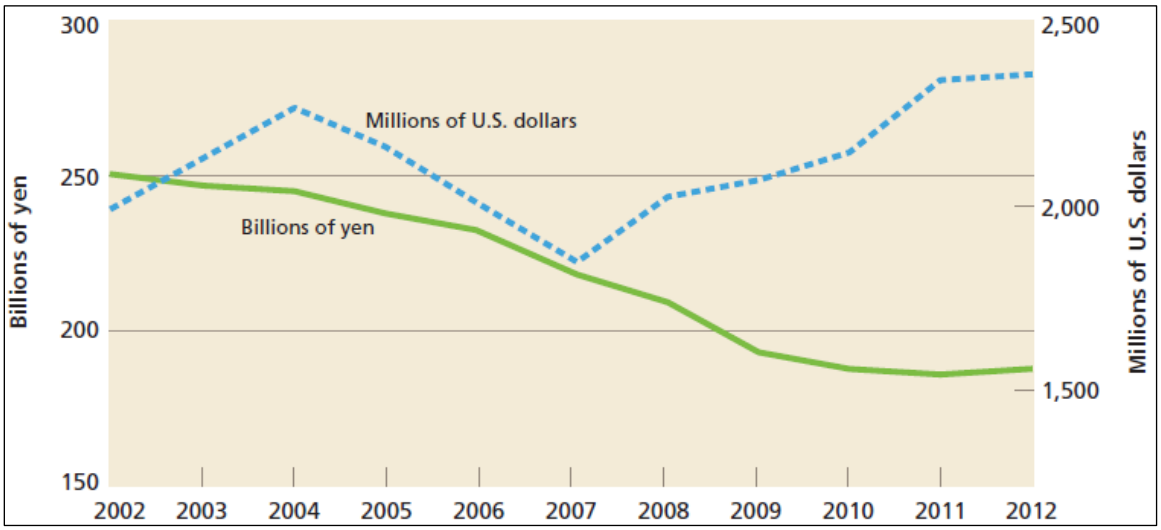
Notes: This graph uses data for expenditures, not contracts. Training relocation contributions are less than JPY 1 billion per year, much smaller than other categories. "Measures for Base Workers" encompasses welfare costs, benefits, and other expenses not included in the base salary of Japanese employees on U.S. bases.

[45] Office of the Under Secretary of Defense, Comptroller, *Operation and Maintenance Overview: Fiscal Year 2017 Budget Estimates*, Washington, DC, February 2016, pp. 225-228.

The value of Japan's host nation support in dollar terms fluctuates based on the dollar-to-yen exchange rate. As **Figure 4** demonstrates, the value in U.S. dollars of Japan's contributions was lower in 2005 (when the average exchange rate was around ¥110:$1US) than in 2012 (when the yen had appreciated to an average exchange rate of around ¥80:$1US), despite a notable drop in the yen-denominated contributions.[46]

Figure 4. Exchange Rate Comparison for Host Nation Support

(based on Japanese fiscal year estimates in nominal currency values)



Source: Michael Lostumbo, Michael McNerney, and Eric Peltz et al., *Overseas Basing of U.S. Military Forces: An Assessment of Relative Costs and Strategic Benefits*, RAND Corporation, Santa Monica, CA, 2013, p. 150.

Additional Japanese Contributions

In addition to host nation support, which offsets costs that the U.S. government would otherwise have to pay, Japan spends approximately ¥128 billion ($1.2 billion) annually on measures to subsidize or compensate base-hosting communities.[47] These are not costs that would be necessarily passed on to the United States, but alliance managers may argue that the U.S. bases would not be sustainable without these payments to areas affected by the U.S. military presence.

Based on its obligations defined in the U.S.-Japan Mutual Security Treaty, Japan also pays the cost of relocating U.S. bases within Japan and rent to any landowners of U.S. military facilities in Japan. Japan pays for the majority of the costs associated with three of the largest international military base construction projects since World War II: the Futenma Replacement Facility in Okinawa (Japan provides $12.1 billion), construction at the Marine Corps Air Station Iwakuni (Japan pays 94% of the $4.8 billion), and facilities on Guam to support the move of 4,800 marines from Okinawa (Japan pays $3.1 billion, about a third of the cost of construction).[48]

Japan also procures over 90% of their defense acquisitions from U.S. companies. Japan's annual Foreign Military Sales are valued at about $11 billion. Recent major acquisitions include

[46] Exchange rates are central rate average of interbank spot rates, Bank of Japan, as published in *Japan Statistical Yearbook 2017*, Table 6-10, "Foreign Exchange Rates (1995 to 2015)," http://www.stat.go.jp/english/data/nenkan/66nenkan/1431-06.htm.

[47] Japanese Ministry of Foreign Affairs, "U.S. Forces in Japan-Related Costs borne by Japan (JFY2015)," http://www.mofa.go.jp/mofaj/files/000098651.pdf.

[48] Figures provided by U.S. officials at the Office of the Secretary of Defense, January 2017.

Lockheed Martin F-35 Joint Strike Fighters, Boeing KC-46 Tankers, Northrup Grumman E2D Hawkeye airborne early warning aircraft, General Dynamics Advanced Amphibious Assault Vehicles, and Boeing/Bell MV-22 Ospreys.

Extended Deterrence

The growing concerns in Tokyo about North Korean nuclear weapons development and China's modernization of its nuclear arsenal in the 2000s garnered renewed attention to the U.S. policy of extended deterrence, commonly known as the "nuclear umbrella." The United States and Japan initiated the bilateral Extended Deterrence Dialogue in 2010, recognizing that Japanese perceptions of the credibility of U.S. extended deterrence were critical to its effectiveness.[49] The dialogue is a forum for the United States to assure its ally and for both sides to exchange assessments of the strategic environment. The views of Japanese policymakers (among others) influenced the development of the 2010 U.S. Nuclear Posture Review.[50] Reportedly, Tokyo discouraged a proposal to declare that the "sole purpose" of U.S. nuclear weapons is to deter nuclear attack. Tokyo also reportedly discouraged the Obama Administration from declaring a "no first use" policy on the rationale that it would weaken deterrence against North Korea.

A lack of confidence in the U.S. security guarantee could lead Tokyo to reconsider its own status as a non-nuclear weapons state. As discussed above, as a presidential candidate Donald Trump in spring 2016 stated that he was open to Japan developing its own nuclear arsenal to counter the North Korean nuclear threat.[51] Japanese leaders, however, have repeatedly rejected developing their own nuclear weapon arsenal. Analysts point to the potentially negative consequences for Japan if it were to develop its own nuclear weapons, including significant costs; reduced international standing in the campaign to denuclearize North Korea; the possible imposition of economic sanctions that would be triggered by leaving the global nonproliferation regime; and potentially encouraging South Korea to develop nuclear weapons capability. For the United States, analysts note that encouraging Japan to develop nuclear weapons could mean diminished U.S. influence in Asia, the unraveling of the U.S. alliance system, and the possibility of creating a destabilizing nuclear arms race in Asia.[52]

Japan also plays an active role in extended deterrence through its ballistic missile defense (BMD) capabilities. The United States and Japan have cooperated closely on BMD technology development since the earliest programs, conducting joint research projects as far back as the 1980s. Japan's purchases of U.S.-developed technologies and interceptors after 2003 give it the second-most potent BMD capability in the world. The U.S. and Japanese militaries both have ground-based BMD units deployed on Japanese territory and BMD-capable vessels operating in the waters near Japan.[53] In February 2017, the joint program achieved a significant milestone in a test off of Hawaii, when a new interceptor from a guided-missile destroyer hit a medium-range missile for the first time.[54]

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[49] Brad Roberts, "Extended Deterrence and Strategic Stability in Northeast Asia," National Institute of Defense Studies (Japan), Visiting Scholar Paper Series, No. 1, August 9, 2013.

[50] Roberts (2013).

[51] "Transcript: Donald Trump Expounds on His Foreign Policy Views," *New York Times*, March 26, 2016.

[52] See, for example, Robert Manning, "Trump's 'Sopranos' Worldview Would Undo Asian Alliances," *New Atlanticist* blog post, March 29, 2016.

[53] For more information, see CRS Report R43116, *Ballistic Missile Defense in the Asia-Pacific Region: Cooperation and Opposition*, by Ian E. Rinehart, Steven A. Hildreth, and Susan V. Lawrence.

[54] "New SM-3 Block IIA Intercepts Ballistic Missile in Space for the First Time," *U.S. Naval Institute*. February 6,

Economic Issues

U.S. trade and broader economic ties with Japan remain highly important to U.S. national interest. By the most conventional method of measurement, the United States and Japan are the world's largest and third-largest economies (China is number two), accounting for nearly 30% of the world's gross domestic product (GDP) in 2016. Furthermore, their economies are intertwined by trade in goods and services and by foreign investment.[55]

Overview of the Bilateral Economic Relationship

Japan remains an important economic partner of the United States, but its importance arguably has been eclipsed by other partners, notably China. Including both goods and services trade, Japan was the United States' fifth-largest export market (behind Canada, Mexico, China, and the United Kingdom) and the fourth-largest source of U.S. imports (behind China, Canada, and Mexico) in 2016. These numbers probably underestimate the importance of Japan in U.S. trade since Japanese firms export intermediate goods to China that are then used to manufacture finished goods that Chinese enterprises export to the United States. The United States was Japan's largest goods export market and second-largest source of goods imports (after China) in 2016. The global economic downturn stemming from the 2008 financial crisis had a significant impact on U.S.-Japan trade: both U.S. exports and imports declined in 2009 from 2008. Trade with Japan has again declined since 2012, though the large change in valuation of the *yen* has likely affected both the quantity and value of trade—valued in *yen*, U.S. trade with Japan, both imports and exports, increased from 2012 to 2015. (See **Table 1**.)

Table 1. U.S. Trade with Japan, Goods and Services

(in billions of dollars)

Year	Goods Exports	Goods Imports	Goods Balance	Services Exports	Services Imports	Services Balance
2005	54.8	140.4	-85.6	39.5	20.6	19.0
2006	59.3	150.9	-91.6	39.2	23.9	15.3
2007	62.8	148.3	-85.5	37.9	24.4	13.6
2008	67.1	142.4	-75.3	39.8	24.6	15.1
2009	52.9	97.8	-44.9	38.0	21.4	16.7
2010	61.4	122.9	-61.5	43.3	24.6	18.7
2011	67.3	131.8	-64.6	43.8	24.7	19.1
2012	71.6	149.2	-77.6	46.7	27.3	19.4

2017.

[55] For background, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

Year	Goods Exports	Goods Imports	Goods Balance	Services Exports	Services Imports	Services Balance
2013	66.6	141.3	-74.8	45.7	30.2	15.5
2014	68.1	137.3	-69.3	46.8	31.2	15.7
2015	63.9	134.3	-70.4	44.7	29.5	15.2
2016	64.0	134.2	-70.2	44.2	31.0	13.2

Source: U.S. Bureau of Economic Analysis (BEA), International Transactions Tables. Balance of payment basis.

Despite some outstanding issues, the easing of tension in the U.S.-Japan bilateral economic relationship in the past two decades contrasts with the contentious and frequent trade frictions at the fore of bilateral relations in the 1980s and early 1990s. A number of factors may have contributed to this trend:

- Japan's slow, if not stagnant, economic growth—beginning with the burst of the asset bubble in the 1990s, continuing as a result of the 2008-2009 financial crisis and the 2011 disasters, and remaining sluggish despite Prime Minister Abe's progrowth agenda—has changed the general U.S. perception of Japan from one as an economic competitor to one as a "humbled" economic power;
- the rise of China as an economic power and trade partner has caused U.S. policymakers to shift attention from Japan to China as a primary source of concern;
- the increased use by both Japan and the United States of the World Trade Organization (WTO) as a forum to resolve trade disputes has depoliticized disputes and helped to reduce friction;
- the growth in the complexity and number of countries involved in international supply chains has likely diffused or shifted concerns over import competition as many Japanese products are now imported into the United States as components in finished products from other countries, reducing the bilateral trade deficit;
- significant Japanese investment in the United States including in automotive manufacturing facilities has linked production of some Japanese branded products with U.S. employment; and
- shifts in U.S. and Japanese trade policies that have expanded the formation of bilateral and regional trade agreements with other countries have lessened the focus on U.S.-Japan economic ties.

Nevertheless, strains in the current economic relationship remain. Issues of ongoing attention include the persistent bilateral U.S. trade deficit with Japan, concerns over market access for U.S. products such as autos and agricultural goods, and various nontariff barriers, which U.S. companies argue favor domestic Japanese products over U.S. goods and services.[56] These issues may again come to the forefront, as the Trump Administration has expressed concerns broadly about "unfair" trading practices, U.S. import competition, and bilateral trade deficits.

[56] For more information on Japanese trade barriers, see USTR, *2017 National Trade Estimate on Foreign Trade Barriers*, March 2017, pp. 243-258.

Abenomics

Between the end of World War II and 1980s, Japan experienced high levels of economic growth. It was dubbed an "economic miracle" until the collapse of an economic bubble in Japan in the early 1990s brought an end to rapid economic growth. Many economists have argued that, despite the government's efforts, Japan has never fully recovered from the 1990s crisis. Japan's economy has suffered from chronic deflation (falling prices) and low growth over the past two decades. In the past several years, Japan's economy was hit by two economic crises: the global financial crisis in 2008 and 2009, and the March 2011 earthquake, tsunami, and nuclear reactor meltdowns in northeast Japan (see box on the March 2011 "Triple Disaster").

Prime Minister Abe has made it a priority of his administration to boost economic growth and to eliminate deflation. Abe has promoted a three-pronged, or "three arrow," economic program, nicknamed "Abenomics." The three arrows include monetary stimulus, fiscal stimulus, and structural reforms to improve the competitiveness of Japan's economy. Most economists agree that progress across the three arrows has been uneven.

- The first arrow of Abenomics, monetary stimulus to reverse deflation, has been implemented most aggressively. In the spring of 2013, Japan's central bank (Bank of Japan, or BOJ) announced a continued loose monetary policy with interest rates of 0%, quantitative easing measures, and a target inflation rate of 2%. The BOJ began a second round of quantitative easing in October 2014, after the economy slipped back into recession. The BOJ continued adopting new expansionary monetary policies in 2016, including negative interest rates for a portion of bank reserves in and targeting 0% interest rates on 10-year government bonds, and has continued these policies through 2017.[57] These measures have helped push up inflation in Japan to an estimated 1.0% in 2017, although it remains below the BOJ's target of 2%.[58]
- The Japanese government has taken some steps to use fiscal policy to stimulate the economy (the second arrow), initially implementing fiscal stimulus packages worth about $145 billion, aimed at spending on infrastructure, particularly in the areas affected by the March 2011 disaster. The government's willingness to use expansionary fiscal policies has been constrained by concerns about its public debt, the largest in the world at nearly 240% of GDP. To address fiscal pressures, the government raised the sales tax from 5% to 8% in April 2014, however, many economists argued that the sales tax increase was responsible for pushing Japan into recession in 2014. The government twice has postponed a planned second sales tax increase, to 10%, which now is scheduled to occur in October 2019, four years later than originally planned. Additionally, the Abe government has approved multiple supplementary stimulus budgets. For example, in October 2016, the Parliament passed a $32 billion supplementary budget package, including support for low-income families, efforts to cushion the economic impact of Britain's departure from the European Union, and partial costs for the construction of a magnetic-levitation train line.[59] Some Japanese policymakers

[57] Robin Harding, "Bank of Japan Keeps Monetary Policy on Hold," *Financial Times*, June 16, 2017.

[58] IMF, *World Economic Outlook Database*, April 2017.

[59] Takashi Nakamichi, "Japan Passes $32 Billion In Extra Economic Stimulus, but Some Seek More." *Wall Street Journal*, October 11, 2016. According to the World Bank, Japan's GDP in 2015 was around $4.4 trillion. http://data.worldbank.org/country/Japan.

are urging for additional stimulus measures, but concerns about Japan's high debt levels complicate these discussions.[60]

- Progress on the third arrow, structural reforms, has been more uneven.[61] The government has advanced reforms to liberalize energy and agriculture, promote trade and investment, and reform corporate governance. The International Monetary Fund (IMF) argues that more reforms are needed, particularly: (1) labor market reforms to increase productivity and boost wages (such as reforming Japan's two-tier labor market system); (2) reforms to increase private investment and long-term growth (such as deregulation and encouraging business investment), and (3) measures to diversify and enhance the labor supply (such as encouraging more female participation in the work force and increased use of foreign labor).

Abenomics had a difficult start, when Japan's economy slipped back into recession in 2014. This was Japan's fourth recession since 2008, and was largely attributed to the April 2014 sales tax increase. The lackluster performance of Japan's economy in 2015 and the first half of 2016 led some analysts to question whether Abenomics had run its course.[62] More recently, Japan's economy has been building momentum. The IMF estimates that Japan's economy has been expanding at a faster rate than originally expected over the past five consecutive quarters, with growth for 2017 projected to be 1.2%. Unemployment has fallen to record lows (forecast to be 3.1% in 2017). The IMF has recommended that the economic headwinds could be used to push through reforms, while cautioning that the economy remains vulnerable to external shocks and that more could be done to boost wages and inflation.[63]

Emphasis on "Womenomics"

A key component of the third arrow focuses on "womenomics," or boosting economic growth through reforms and policies to encourage the participation and advancement of women in the workforce.[64] Japan lags behind many other high-income countries in terms of gender equality, with one of the lowest rates of female participation in the workforce among Organization for Economic Cooperation and Development (OECD) countries.[65] In 2014, a strategist with Goldman Sachs in Japan estimated that closing the gender employment gap could boost Japan's GDP by nearly 13%.[66] To advance its "womenomics" initiative, the government has proposed, and is in various stages of implementing, a number of policies, such as expanding the availability of day care, increasing parental leave benefits, and allowing foreign housekeepers in special economic zones, among other measures. Japan's female participation rate in the labor force has increased

[60] Robin Harding, Japan's Abenomics Mastermide Calls for Aggressive Fiscal Policy," *Financial Times*, January 30, 2017.

[61] Robin Harding and Leo Lewis, "The Third Arrow of Abenomics: A Scorecard," *Financial Times*, September 9, 2015.

[62] "A State of Paralysis in Japan," *Stratfor.com Analysis*, June 6, 2016.

[63] IMF, "Japan: Staff Concluding Statement of the 2017 Article IV Mission," June 19, 2017.

[64] For further information, see CRS Report R43668, *"Womenomics" in Japan: In Brief*, by Emma Chanlett-Avery and Rebecca M. Nelson.

[65] "Women and Work in Japan," *Economist*, September 5, 2015.

[66] Kathy Matsui et al., "Womenomics 4.0: Time to Walk the Talk," Goldman Sachs, May 30, 2014, http://www.goldmansachs.com/our-thinking/investing-in-women/womenomics4-folder/womenomics4-time-to-talk-the-talk.pdf.

sharply, to a record high of 66% in 2016, surpassing the United States (64%).[67] The uptick is attributed to high demand for workers in Japan, as well as specific "womenomics" initiatives, including expanded day care capacity and more generous parental leave. However, progress toward other targets, including women in management positions, has stalled, and in 2016, Japan ranked 111th out of 144 countries according to the World Economic Forum's national rankings of gender equality.[68] Analysts note that additional policy reforms could continue to encourage women to join and remain in the workforce, including reforms to Japan's tax and social security programs that discourage married women from working outside the home. Japan's work culture, which demands long hours, also makes it difficult for women and men to balance work and family.

Moving Beyond the Trans-Pacific Partnership Agreement (TPP)

On January 30, 2017, the United States gave notice that it did not intend to become party to the Trans-Pacific Partnership (TPP), effectively ending TPP's ratification process in the United States and possible entry into force.[69] TPP was a proposed regional free trade agreement (FTA) signed by the United States, Japan, and 10 other Asia-Pacific countries on February 4, 2016, after more than seven years of negotiations. Originally formed as an FTA among Singapore, New Zealand, Chile, and Brunei, the TPP negotiations gradually expanded to include the United States, Australia, Canada, Mexico, Peru, Malaysia, Vietnam, and finally, Japan.

Japan and New Zealand are the only countries to have ratified the agreement to date. To become effective, TPP required ratification by countries representing at least 85% of the original signatories' gross domestic product (GDP). Hence, the agreement as signed cannot proceed without the United States, which alone accounts for nearly 65% of the group's GDP. The 11 remaining TPP signatories are now exploring ways to move forward without the United States. Although Japan initially appeared hesitant to this approach, with one of Abe's spokesmen calling the TPP "meaningless" without U.S. involvement, it is now taking a leading role in these efforts.[70]

The TPP-11 countries aim to have a path forward by the November 2017 APEC ministerial meeting. This may prove challenging, however, as there are reportedly differing views on the extent to which the current agreement text should be open for negotiation.[71] Countries that agreed to significant reforms largely in exchange for expanded access to the United States, such as Malaysia and Vietnam, may wish to revisit the balance of concessions. Press reports suggest that some provisions pushed by the United States, including intellectual property rights protections on biologic drugs, may be excluded from a TPP-11 agreement.[72] Japan, on the other hand, has repeatedly pressed the regional and strategic importance of TPP to the Trump Administration and reportedly has hopes of the United States eventually rejoining TPP.[73] Japan may resist changes to

[67] Kathy Matsui, "'Womenomics' Continues as a Work in Progress," *Japan Times*, May 25, 2016.

[68] Leo Lewis, "Japan's Womenomics Resists the Sceptics," *Financial Times*, March 7, 2017; World Economic Forum, The Global Gender Gap Report 2016, http://reports.weforum.org/global-gender-gap-report-2016/.

[69] Letter from Maria L. Pagan, Acting USTR, to TPP Depositary, January 30, 2017, https://ustr.gov/sites/default/files/files/Press/Releases/1-30-17%20USTR%20Letter%20to%20TPP%20Depositary.pdf

[70] "Japan Looks to Revive Moribund TPP, sans US," *Nikkei Asian Review*, April 15, 2017.

[71] "TPP, the Trade Deal Trump Killed, Is Back in Talks Without the U.S.," *New York Times*, July 14, 2017.

[72] "Revised TPP May Exclude Trade Concessions Sought by U.S.," *Nikkei Asian Review*, August 24, 2017.

[73] "Japanese PM Abe Says It Is His 'Strong Wish' That the US Returns to the TPP," CNBC, May 17, 2017.

the current TPP text, which shares many common elements with other existing U.S. FTAs, in order to facilitate the possibility of future U.S. accession.

The Trump Administration has stated its policy on TPP will not be reversed and has made concerns over the negative impact of existing U.S. trade agreements a primary focus to date.[74] In addition to the U.S. withdrawal from the proposed TPP, the Administration initiated an examination of the 14 U.S. FTAs currently in effect. It has begun the process of renegotiating the North American Free Trade Agreement (NAFTA) with Canada and Mexico and has called for a bilateral discussion with South Korea over potential modifications and amendments to the U.S.-Korea (KORUS) FTA. The NAFTA negotiating objectives draw heavily from U.S. negotiating positions in TPP, but also emphasize the Administration's focus on bilateral trade deficits as a key concern in U.S. trading relations.[75] In addition, they press for strong currency commitments in NAFTA and a stricter rule of origin on auto trade. Similar concerns would likely be discussed in any future trade negotiations with Japan, with whom the United States has its fourth-largest trade deficit ($57.1 billion in 2016) and historic tensions regarding auto trade and currency policies.[76] Showing sensitivity to these concerns, the Japanese government has been eager to highlight job-creating investments in the United States. During his February visit, Prime Minister Abe noted the $150 billion of Japanese investment in the U.S. economy last year.[77]

As part of its evaluation of U.S. trade policy, the Trump Administration has also announced its intention to shift from regional trade agreements to bilateral negotiations moving forward. The President views bilateral trade negotiations as providing greater leverage to the United States in achieving its objectives. Many analysts and former U.S. negotiators have argued, conversely, that, especially in the context of TPP, the multiparty approach made concessions by other countries more politically feasible, in part, by lessening the appearance of submitting solely to U.S. interests, and have highlighted their benefit in establishing uniform regional trade rules and disciplines.[78] Observers have also suggested that bilateral negotiations could be politically challenging for Japan and the United States as they would likely revisit TPP provisions on sensitive areas like autos, agriculture, and currency policies.[79]

In joining TPP and during the domestic ratification process, Abe confronted influential interests that argued against the trade liberalization, including many Japanese agriculture groups. Despite these sensitivities to participation in TPP, he insisted that Japan needed to be part of the agreement to support economic growth. Underlying his decision was a growing view among many Japanese that, after two decades of relatively sluggish growth, Japan's economic and political influence was waning in comparison to China and middle powers, such as South Korea. The rapid aging and gradual shrinking of Japan's population have also added to a sense among many in Japan that the country needs to develop new sources of growth to maintain, if not increase, the country's living standards. With the U.S. withdrawal from TPP, Japan's recent focus on concluding and implementing its proposed FTA with the European Union (EU) may reflect its

[74] White House, "Remarks by the Vice President and Japanese Deputy Prime Minister Aso," April 18, 2017.

[75] USTR, *Summary of Objectives for NAFTA Renegotiation*, July 17, 2017.

[76] The four countries with whom the United States had the largest bilateral goods and services trade deficits in 2016 were China ($309.3 billion), Germany ($67.0 billion), Mexico ($63.1 billion), and Japan ($57.1 billion). In goods trade only, the U.S. bilateral trade deficit with Japan was $70.2 billion, the United States' third-largest goods trade deficit.

[77] White House, "Remarks by President Trump and Prime Minister Abe of Japan in Joint Press Conference," press release, February 10, 2017.

[78] Wendy Cutler, "TPP, Multi-Party Deals, Best Match for Complex Global Economy," *The Hill*, January 6, 2017.

[79] "Abe, Trump Take Baby Steps on Trade," *Japan Times*, February 11, 2017.

search for growth-generating agreements, especially given the similar industrial structure of the EU and United States.

Japan's continued focus on existing regional initiatives and the U.S. shift to bilateral trade negotiations creates some uncertainty as to possible next steps to further the bilateral trade and economic relationship. Currently, the two countries are engaged in a bilateral economic dialogue led by Vice President Pence and Deputy Prime Minister Aso, but it is unclear what, if any, commitments are expected from those discussions. The talks are to cover trade and investment issues, macroeconomic policies, and sector-specific issues. The Trump Administration has suggested this dialogue could lead to a bilateral FTA negotiation in the future, but Japan has not expressed interest in pursuing an FTA at this time. Some observers argue that Japan may be hesitant to engage in potentially contentious FTA negotiations with the United States due to concerns over how this could effect U.S. engagement on broader regional trade issues.[80]

Japan is also participating in several bilateral and regional trade negotiations in the Asia-Pacific that do not involve the United States. The most significant of these in terms of membership is the Regional Comprehensive Economic Partnership (RCEP), which would join Japan with the 10 members of the Association of Southeast Asian Nations (ASEAN), China, South Korea, Australia, New Zealand, and India in a regional trade agreement. Japan also recently announced reaching an "agreement in principle" on its FTA with the EU.[81] It began negotiations with the EU in 2013, along with a trilateral FTA negotiation with China and South Korea. Japan also has existing trade agreements with many TPP countries, including Singapore (2002), Mexico (2005), Malaysia (2006), Chile (2007), Brunei (2008), Vietnam (2009), Peru (2012), and Australia (2015), and as noted above is pursuing a TPP-11 agreement without the United States.

Agreements that do not include the United States have the potential to disadvantage U.S. exporters to Japan and may increase pressure on the Trump Administration to proceed with some type of U.S.-Japan trade negotiation. The Australia-Japan FTA already gives Australian exporters a price advantage over U.S. exporters in the Japanese market through lowered tariffs on certain goods, such as beef. Australia, like Japan's other FTA partners, is also exempt from Japan's recent imposition of a safeguard tariff on beef imports, which raises tariffs on Japanese imports of U.S. frozen beef from 38.5% to 50%. TPP would have eliminated these tariff advantages over time through similar concessions by the Japanese to U.S. producers, and agriculture groups have urged the Trump Administration to move ahead with bilateral negotiations.[82] If the EU-Japan FTA becomes effective it would also give EU exporters an advantage over U.S. exporters to the Japanese market on a range of products including key agricultural exports.

If the United States and Japan initiate bilateral FTA negotiations, the provisions of the TPP could be an obvious starting point. Key outcomes in TPP included (1) eventual elimination of duties on 99% of U.S. tariff lines, including the 2.5% auto and 25% light truck tariffs, over 25 and 30 years, respectively; (2) eventual elimination of duties on 95% of Japanese tariff lines, as well the expansion of quotas and reduction of duties on major U.S. agricultural exports, particularly beef, pork, and certain dairy products; and (3) new rules and disciplines on services, digital trade, and state-owned enterprises among other areas. The two countries also negotiated bilateral side letters

[80] Tobias Harris, "After TPP: The Future of U.S.-Japan Trade Relations," *The Diplomat*, Issue 31, June 2017.

[81] CRS Insight IN10738, *The Proposed EU-Japan FTA and Implications for U.S. Trade Policy*, by Shayerah Ilias Akhtar and Brock R. Williams.

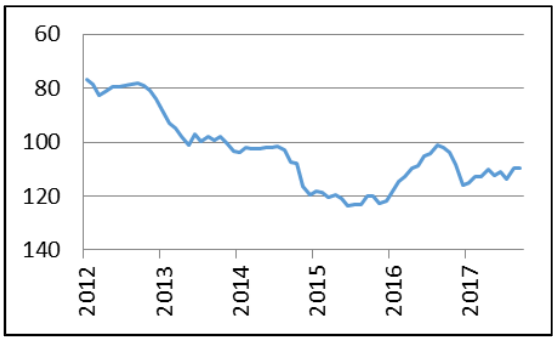
[82] Letter from John Weber, President National Pork Producers Council, and Craig Uden, President National Cattlemen's Beef Association, to President Donald J. Trump, February 7, 2017, http://www.beefusa.org/CMDocs/BeefUSA/JapanFTALetter02-07-17.pdf.

to TPP that included additional commitments beyond the TPP text related to nontariff barriers in insurance, express delivery, and auto trade.

Debates About Exchange Rates and "Currency Manipulation"

The first "arrow" of Abenomics, expansionary monetary policies, contributed to a depreciation of the yen against the U.S. dollar. In mid-2012, the yen was valued at about 80 yen (¥) per dollar. Over the next three years, the yen depreciated by about 50% against the dollar, at one point in June 2015 hitting a trough of around 124 yen (¥) per dollar (**Figure 5**).[83] Although the value of the yen fluctuated during 2016, it stabilized around 112 yen (¥) per dollar during the first three quarters of 2017. All else equal, a weak yen relative to the U.S. dollar makes it more difficult for U.S. products to compete with Japanese imports, and can exacerbate the U.S. trade deficit with Japan.

Figure 5. Yen-Dollar Exchange Rate



Source: Created by CRS from Federal Reserve data.

Note: The Y-axis is reversed to convey the fact that a decrease (increase) in the line on the chart represents a depreciation (appreciation) of the yen relative to the dollar.

Some U.S. policymakers and stakeholders, particularly in the auto sector, allege that Japan has manipulated its exchange rate to drive down the value of the yen. Japanese officials have denied any manipulation of the yen. According to the Treasury Department and to Japan's Ministry of Finance, Japan has not intervened in the foreign exchange market since late 2011.[84] Some analysts argue that Japan's monetary policies, similar to the Fed's quantitative easing programs, are aimed at boosting economic growth and that any impact on the value of the yen is a side effect, rather than the goal, of the policies.[85] Although President Trump criticized Japan's (and China's) exchange rate policies at the end of January 2017, he softened his language on Japan's policies during the February summit with Prime Minister Abe.[86]

Concerns about Japan's currency policies led some Members of Congress to push for "currency manipulation" to be addressed in the TPP. Monetary authorities of the 12 TPP countries negotiated a side agreement on currency, which was to take effect once the TPP entered into force. With the U.S. withdrawal from the TPP, the current status of the joint declaration is unclear.

Provisions in the Trade Facilitation and Trade Enforcement Act (H.R. 644/P.L. 114-125), signed into law in February 2016, provide for enhanced surveillance and engagement on exchange rate issues by the U.S. Treasury Department. In responding to the new reporting requirements, the

[83] Federal Reserve.

[84] U.S. Department of the Treasury, *Foreign Exchange Policies of Major Trading Partners of the United States*, October 14, 2016; Japanese Ministry of Finance, "Foreign Exchange Intervention Operations, Historical Data," available at http://www.mof.go.jp/english/international_policy/reference/feio/index.htm.

[85] For more information about exchange rates and "currency manipulation," see CRS In Focus IF10049, *Debates over "Currency Manipulation"*, by Rebecca M. Nelson, and CRS Report R43242, *Current Debates over Exchange Rates: Overview and Issues for Congress*, by Rebecca M. Nelson.

[86] Sinead Carew and Jamie McGeever, "Trump, Trade Advisor Signal Displeasure with U.S. 'Strong Dollar' Policy," Reuters, January 31, 2017; Stanley White and Leika Kihara, "Japan's Abe: Trump Shares View that Monetary Policy Not Forex Manipulation," *Reuters*, February 14, 2017.

Treasury Department has developed a new currency "monitoring list." Japan has been listed in the three reports issued to date, most recently in April 2017. Japan is listed because it has a bilateral trade surplus with the United States and a current account surplus, but the report stops short of labeling Japan as a currency manipulator, noting that Japan has not intervened in foreign exchange markets in over five years.[87] The report reiterates Japan's G-7 and G-20 commitments to limit interventions to exceptional circumstances with appropriate prior consultations.

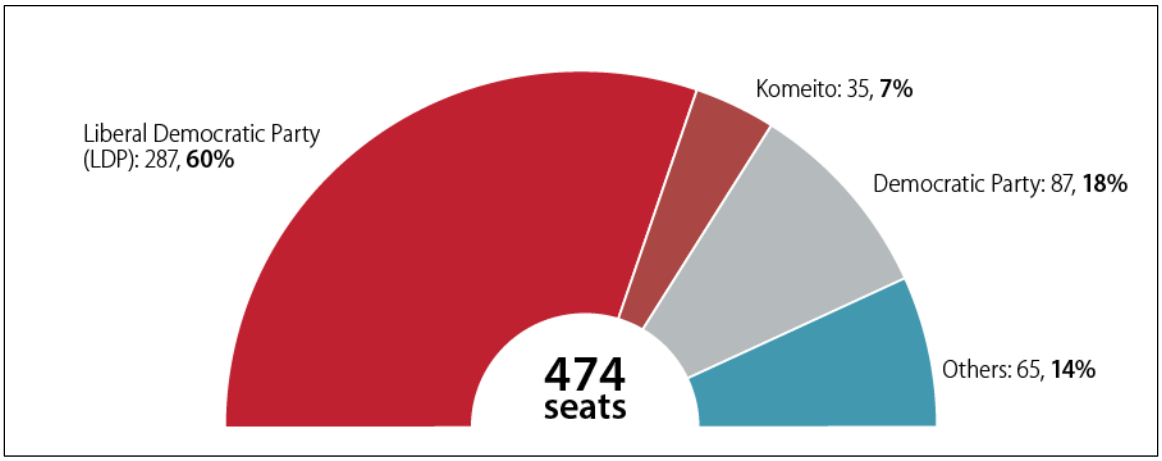
Japanese Politics

The LDP Coalition's Control over the Diet

Prime Minister Abe's LDP enjoys a dominant position in the Japanese political world. With its coalition partner, the smaller party Komeito, it holds two-thirds of the seats in the Lower House of Japan's Diet, and nearly that proportion of the Upper House. (See **Figure 6** and **Figure 7** for a display of major parties' strength in Japan's parliament.) These margins, if they are sustained in the October 2017 Lower House elections, theoretically would give Abe's coalition the votes to amend Japan's Constitution, including the war-renouncing clauses that Abe has said he would like to change eventually. Any attempt to change the constitution would have to surmount formidable political and procedural hurdles. Abe likely would have to overcome support from Komeito, which is torn between its pacifist leanings and its desire to support the coalition whenever it is forced to make decisions on whether to relax restrictions on Japan's use of military force. Decisions about priorities also will take time because there are calls to amend a number of other provisions of the constitution, which was written by the United States during the U.S. occupation of Japan in 1946 and has never been changed. Furthermore, any constitutional changes passed by the Diet also must be approved by a majority in a nationwide referendum, and many opinion polls show the Japanese public to be skeptical about the need for a revision.

Figure 6. Party Affiliation in Japan's Lower House of Parliament

(The LDP and its partner, Komeito, control the Lower House, which elects the prime minister.)



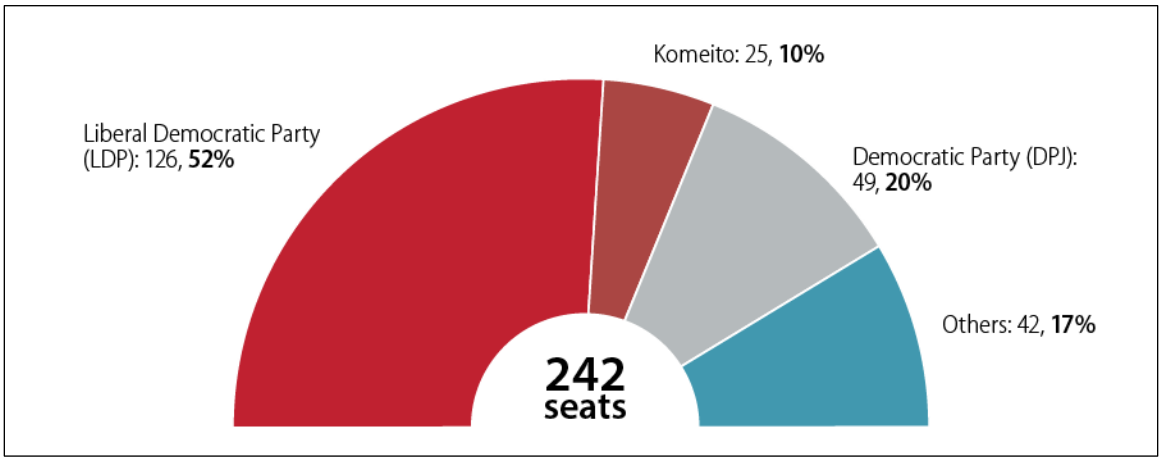
Source: Japan's Lower House of Parliament, September 25, 2017.

[87] U.S. Department of the Treasury, *Foreign Exchange Policies of Major Trading Partners of the United States*, April 14, 2017.

Notes: The Lower House's official name is the "House of Representatives." The Lower House must be dissolved, and elections held for all Members' seats, at least once every four years. The last such elections were held in December 2014.

Figure 7. Party Affiliation in Japan's Upper House of Parliament

(The LDP-Komeito coalition controls the Upper House.)



Source: Japan's Upper House of Parliament, September 25, 2017.

Notes: The Upper House's official name is the "House of Councillors." Upper House members serve for six-year terms, with elections for half the Members occurring every three years. The last Upper House elections were held in July 2016.

The Stabilization of Japanese Politics Around the LDP

From 2007 to 2012, Japanese politics was plagued by instability. The premiership changed hands six times in those six years, and no party controlled both the Lower and Upper Houses of the parliament for more than a few months. The Abe-led LDP coalition's dominant victories in four parliamentary elections, in December 2012, July 2013, December 2014, and July 2016 have ended this period of turmoil. The first event, the 2012 elections for Japan's Lower House, returned the LDP and its coalition partner, the Komeito party, into power after three years in the minority. Since 1955, the LDP has ruled Japan for all but about four years.

In September 2015, Abe won overwhelming support from his LDP colleagues for a second three-year term as party president. Abe ran for the party presidency unopposed. Abe's victory meant that he continued as prime minister; the Japanese Diet's (Parliament's) Lower House of Parliament chooses the prime minister, and the LDP-Komeito coalition controls more than two-thirds of the seats in the Lower House. Assuming he continues in office through the fall of 2017, Abe is to become Japan's longest-serving prime minister since the 1960s.[88]

Some Japanese and Western analysts argue that one factor contributing to Abe's strength in his current stint in office is his government's and the LDP's success in managing the Japanese media. According to these sources, the government and the LDP have attempted to cow Japanese news outlets through measures such as hinting at revoking licenses of broadcasters, pressuring business groups not to purchase advertisements in certain media outlets, and shunning reporters from critical broadcasters and print publications.[89] In 2013, Abe appointed a new head of Japan's

[88] This calculation does not include the one year of Abe's first stint as Prime Minister in 2006 and 2007.

[89] Aurelia George Mulgan, "Shinzo Abe's 'Glass Jaw' and Media Muzzling in Japan," *The Diplomat*, May 08, 2015;

public broadcaster, NHK, who said that the network should not deviate too far from the government's views. Criticism from a number of media sources, particularly the left-of-center newspaper *Asahi Shimbun*, played a role in curtailing Abe's first term in office (2006-2007). Many accuse the Abe government of launching a campaign to discredit the *Asahi*.[90] Since Abe came to power in December 2012, the nongovernmental organization Reporters without Borders has moved Japan down eight places, to 61st place, in its rankings of global freedom of the press.[91] Abe government officials deny that they have attempted to unduly influence the press or restrict press freedoms.

Alternative Political Forces

The Democratic Party

The December 2012 parliamentary elections drastically reduced the size of Japan's largest opposition party, the Democratic Party of Japan (DPJ), which was the ruling party from 2009 to 2012. In March 2016, the DPJ merged with a smaller opposition group to form the Democratic Party (DP). Since 2012, the DP/DPJ's public approval ratings have rarely broken out of the single digit level, and the DP holds less than a third of the 230 seats the DPJ held when it was the ruling party from 2009 to 2012. The DP is riven by divisions among its more hawkish and dovish factions, as well as among its market-oriented and socialist factions. In the spring of 2016, the DP and some other opposition parties, including the Japanese Communist Party, reached an agreement on electoral coordination in single-member districts, which elect only one representative to the Diet (as in the U.S. system). This agreement was not enough to prevent a smashing defeat in the July 2016 Upper House election, after which the DP elected a new party president, Ms. Renho Murata. Renho resigned after a year, however, following the DP's losses in Tokyo Metropolitan Assembly elections in July 2017. She was succeeded by former Foreign Minister Seiji Maehara.

Tokyo Governor Yuriko Koike and the Party of Hope

In the early fall of 2017, the DP appeared to be in danger of being eclipsed by a rising political actor on the national stage, Tokyo's governor, Yuriko Koike. (Administratively, Tokyo is a prefecture—the Japanese equivalent of a U.S. state—rather than a city.) In the summer of 2016, although Koike was an LDP member at the time, she defied her party's leadership by running against and defeating the candidate backed by the LDP/Komeito coalition in that year's gubernatorial election. Koike campaigned on a platform of reform, including increasing the participation of women and the disabled in the workforce, promoting the environment, carrying out financial reform, and criticizing "the old party politics" that she said were stifling Japan's capital. In early 2017, Koike created a new party, *Tomin First* (Tokyo Citizens First), to contest the July 2017 elections for Tokyo's assembly. The new group and its allies won an historic victory, together capturing 79 of the assembly's 129 seats. The LDP won 23 seats, its worst-ever result. The DP won only 5 seats. The victory positioned Koike to make her September 2017 announcement that she was forming a new national party, *Kibo no To* (the Party of Hope), to field

Martin Fackler, "Effort by Japan to Stifle News Media Is Working," *New York Times,* April 26, 2015; Robin Harding, "Shinzo Abe Accused of 'Emasculating Japanese Media,'" *Financial Times*, June 29, 2015; "German Journalist's Parting Shot to Abe over Press Freedom Causes Stir," *Asahi Shimbun,* April 28, 2015.

[90] Ibid.

[91] Reporters without Borders, http://index.rsf.org/#!/index-details/JPN, accessed September 17, 2015.

candidates in the following month's Lower House national elections. Koike says her party will focus on reform issues, including releasing government information into the public domain, reducing the number and remunerations of legislators, and phasing out nuclear energy. She reportedly has questioned the wisdom of Abe's plans to raise the consumption tax, and has said she favors revising the constitution, but not just Article 9.[92]

Japan's Demographic Challenge

Japan's combination of a low birth rate, strict immigration practices, and a shrinking and rapidly aging population presents policymakers with a significant challenge. Polls suggest that Japanese women are avoiding marriage and child-bearing because of the difficulty of combining career and family in Japan; the fertility rate has fallen to 1.25, far below the 2.1 rate necessary to sustain population size. Japan's population growth rate is -0.2%, according to the World Bank, and its current population of 127 million is projected to fall to about 95 million by midcentury. Concerns about a huge shortfall in the labor force have grown, particularly as the elderly demand more care. The ratio of working age persons to retirees is projected to fall from 5:2 around 2010 to 3:2 in 2040, reducing the resources available to pay for the government social safety net.[93] Japan's immigration policies have traditionally been strictly limited, closing one potential source of new workers.

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[92] "Koike Says Party Aimed at Voters Disgruntled by Abe Government," *The Asahi Shimbun*, September 26, 2017.

[93] Lynann Butkiewicz, "Implications of Japan's Changing Demographics," National Bureau of Asian Research, Washington, DC, October 2012.

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