



U.S.-Japan Relations

Overview

Japan, a U.S. treaty ally since 1951, is a significant partner of the United States in several foreign policy areas, particularly security and trade. Shared security goals range from meeting the challenge of an increasingly powerful China to countering threats from North Korea. The U.S.-Japan mutual defense treaty grants the United States the right to base U.S. troops—currently numbering around 50,000—and other military assets on Japanese territory in return for a U.S. pledge to protect Japan’s security. The two countries collaborate through bilateral and multilateral institutions on issues such as science and technology, global health, energy, and agriculture. Japan is the fourth largest U.S. trading partner and largest source of foreign direct investment into the United States, and its investors are the largest foreign holders of U.S. Treasury securities.

The Biden Administration has emphasized the importance of restoring U.S. alliances in Asia. Japan Prime Minister Suga was the first in-person visitor to the White House and Secretary of State Anthony Blinken and Secretary of Defense Lloyd Austin made their first trip overseas together in March to Tokyo and Seoul to signal the importance of allied cooperation. In Tokyo they held “2+2” meetings with their counterparts. Further reinforcing Japan’s central role in the U.S. approach to the Indo-Pacific, the Biden Administration has boosted the Quadrilateral Security Dialogue—or “Quad”—initiative, convening the first-ever (virtual) leader-level meeting with Japan, Australia, and India in March. The four leaders announced a plan to jointly expand availability of Coronavirus Disease 2019 (COVID-19) vaccines for Southeast Asia and the broader Indo-Pacific by the end of 2022. They also launched working groups on climate change and critical technologies.

Japan and the United States share a fundamental concern about China’s role in the Indo-Pacific. Both governments distrust Beijing’s intentions and see China’s rising power and influence as detrimental to their national security. This shared strategic vision was reflected in the joint statement released following the Biden-Suga meeting, which noted the “importance of the peace and stability of the Taiwan Straits” and serious concern over human rights abuses in Xinjiang and Hong Kong. Japan’s proximity to China heightens its concern, particularly because of China’s expansive maritime claims. Questions remain, however, about how forcefully Japan will stand up to China given Beijing’s economic and diplomatic power.

The COVID Pandemic and the Olympics

The 2020 Tokyo Olympic Games were postponed as the pandemic accelerated, a significant disappointment and major economic hit for Japan. The Games are scheduled to begin in July 2021 and organizers have introduced mitigating measures to try to avoid an outbreak by banning international fans, isolating national delegations, and

providing vaccinations for some athletes. Although Japan has had moderate success in curbing the pandemic, with under 12,000 deaths and 700,000 cases, it experienced a fourth wave of cases in May 2021. Emergency measures were imposed in Tokyo, Osaka, and other urban areas to attempt to contain the virus. Japanese public opinion has largely turned on holding the Games and a national vaccination campaign has sputtered in its initial rollout. Japan has the largest percentage of people over 65 years old in the world, making its citizens particularly vulnerable.

Political Transition in Tokyo

From 2012 to 2020, Shinzo Abe served as prime minister, becoming Japan’s longest-serving premier. Abe dominated Japan’s politics, steering his Liberal Democratic Party (LDP)-led coalition to six successive parliamentary election victories. Following Abe’s September 2020 resignation, his ruling LDP overwhelmingly elected Suga to replace him. Japan’s parliament, the Diet, which is dominated by the LDP coalition, then elected him to serve as prime minister. Suga (born in 1948) has pledged to advance Abe’s initiatives, including revitalizing Japan’s economy and supporting the U.S.-Japan alliance. Aside from combating COVID-19, he has identified his priorities as administrative and structural reforms such as creating a digitization agency. Since becoming premier, criticism of his handling of the pandemic dropped his approval rating numbers below 40% in several polls, but his ratings rose modestly in the following months. Elections for the Diet’s Lower House, which selects the prime minister, must be held by October 2021. If Suga’s poll numbers sag, the LDP may replace him when his term as party president ends in September.

The U.S.-Japan Military Alliance

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

Japan pays roughly \$2 billion per year to defray the cost of stationing U.S. military personnel in Japan. In addition, Japan pays compensation to localities hosting U.S. troops,

rent for the bases, and the costs of new facilities to support the realignment of U.S. troops. Japan's 2016-2021 cost-sharing agreement with the United States, known as the "Special Measures Agreement" or SMA, was extended for an additional year after Biden took office, and negotiations are underway for a new agreement.

A long-standing effort to relocate a U.S. Marine Corps base in Okinawa continues to face challenges. Relocating the Futenma airbase to a less-congested area of the prefecture has divided Japan's central government and the Okinawan leadership for decades. Okinawan governor Denny Tamaki has vowed to block the plan even as construction efforts continue at the new site. A 2019 nonbinding referendum showed that 72% of Okinawan voters opposed the new base. About 25% of all facilities used by U.S. Forces Japan (USFJ) and over half of USFJ personnel are in Okinawa, which comprises less than 1% of Japan's total land area.

Regional Relations

Tokyo is existentially concerned about Beijing's growing economic and military power. A perpetual challenge is a dispute between the two countries (as well as Taiwan) over a group of uninhabited Japanese-administered islets in the East China Sea (known as the Senkaku Islands in Japan, and Diaoyu in China). Despite these tensions, Tokyo has tried to stabilize relations with Beijing and had planned to host Chinese President Xi Jinping for an official visit in 2020, but the visit was cancelled due to the pandemic. Wary of China's rising influence, Japan has deepened ties with other countries in the region. Japan has cultivated warm relations with several Southeast Asian countries, launched a U.S.-Japan-Australia regional infrastructure financing initiative, and championed the Quad with the United States, India, and Australia to improve defense coordination.

Japan's relations with South Korea are perennially fraught due to sensitive historical issues from Japan's colonization of the Korean Peninsula from 1910 to 1945. Since 2018, these relations marked their lowest levels in decades. A series of actions and retaliatory countermeasures by both governments involving trade, security, and history-related controversies in 2018 and 2019 caused bilateral relations to plummet, eroding U.S.-South Korea-Japan policy coordination. The Biden Administration has urged both sides to resolve their differences.

President Trump's 2018-2020 attempt at diplomacy with North Korea unnerved Tokyo, as many Japanese are unconvinced that North Korea will give up its nuclear weapons or missiles. Given Japan's proximity to North Korea, Japanese observers worry Pyongyang could target their homeland. Japanese officials also prioritize accounting for North Korea's abduction of Japanese citizens in the 1970s and 1980s, and hope the Biden Administration will include the issue in future negotiations with Pyongyang.

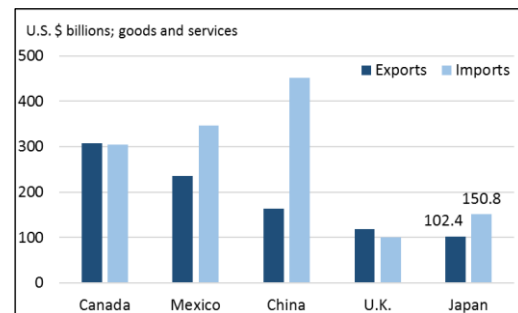
Economic and Trade Issues

The United States and Japan, two of the world's three largest economies, are key trade and investment partners. In 2020, Japan was the fifth-largest U.S. trading partner for exports (\$102.4 billion) and fourth-largest for imports (\$150.8 billion). Several long-term challenges (e.g., declining working-age population, low productivity growth, low inflation, and large government debt load) are perennial

economic concerns for Japan. Suga has maintained his predecessor's expansionary fiscal economic policies in conjunction with continued loose monetary policy from the Bank of Japan (BOJ). Suga also announced new reform priorities focused on digitalization and green growth, but some in the business community question the economic feasibility of his 46% reduction target for greenhouse gas emissions by 2030 (from 2013 levels).

The FY2021 budget signals Japan's continued focus on reinvigorating the economy from the pandemic and global recession. Its \$45 billion in pandemic-related emergency spending follows three supplementary budgets in FY2020, with roughly \$3 trillion of total stimulus (over 60% of GDP). Even with the stimulus, the BOJ reports that GDP fell in 2020 by 4.8%. Resurgent infections and shutdowns in the Tokyo area in early 2021 highlight the fragility of the economic outlook. Japan's exports are a recent bright spot, but tourism remains heavily depressed, and concerns over spillover effects from U.S.-China trade tensions persist.

Figure 1. Top U.S. Trade Partners, 2020



Source: Bureau of Economic Analysis.

Trade Agreement Negotiations

The Trump and Abe Administrations negotiated two limited trade deals, which took effect in early 2020 without action by Congress, liberalizing some agricultural and industrial goods trade and establishing rules on digital trade. By expanding market access for U.S. agricultural exports to Japan and eliminating the threat of proposed new U.S. tariffs on Japan's autos, the deals addressed key concerns in both countries and received broad stakeholder support. The Trump Administration did not pursue a comprehensive second-stage trade deal, despite urging from many in Congress. President Biden's near-term focus on domestic economic policies suggests it may be some time before the two countries potentially address significant issues left out of the initial agreements (e.g., auto trade, services, currency). Some Members have called for an Asia trade strategy from the Biden Administration, including consideration of rejoining the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which Japan helped form after the Trump Administration withdrew from the TPP in 2017.

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