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A U.S.-Japan Economic Partnership: Beyond Economics, Geopolitical Insurance

Robert C. Fauver and Devin T. Stewart

The idea of formally integrating the world's two largest economies—Japan and the United States—has been floated every two years or so, since the 1980s. But every time the idea has been proposed, it has been rejected by a combination of trade protectionists, lobbyists and other groups representing narrow self-interests. As a consequence of this historical experience, American and Japanese policymakers tend to instinctively dismiss the idea whenever it is proposed. To date, the rationale for a comprehensive trade agreement between the United States and Japan has been to maximize complementarities of the two economies and reduce barriers to trade and investment. In other words, the argument has been economic: increased economic integration would generate stronger growth, more jobs, and more wealth for the people in both the United States and Japan.

The fundamental economic argument still applies. But a new set of circumstances makes a broad reaching Japanese-American trade agreement both more feasible and more necessary now than ever before. In order to successfully steer the Japanese economy toward sustained recovery, the prime minister needs a policy roadmap that boosts the confidence of businesses and individual consumers. Japan's recent economic partnership with Singapore shows that Japan can muster the domestic support for change; and it may have provided the political momentum for subsequent, more significant trade agreements. The American president now has, for the first time since 1994, Congressional authority to negotiate trade deals. (Lack of this authority, known as trade promotion authority, forestalled efforts by the Bush Administration to seek new economic relationships during the first part of its term.)

Moreover, the geopolitical landscape is changing in Asia. As the Pentagon recently acknowledged in a July 12, 2002 report to Congress, China is seeking to "diminish U.S. regional influence." The report went on to note that China views the United States as a "significant long-term challenge." Complementing these aims, China continues to pursue a policy of increasing significantly military expenditures and procurements. China has aimed 350 Dong Feng-11 ballistic missiles at Taiwan, purchased Kilo-class submarines and other weapons from Russia at an amount totaling approximately \$1 billion a year, and may be spending \$65 billion a year on its military, which is more than three times what it claims it spends. Another report, by the U.S.-China Security Review Commission, agrees with the Defense Department's basic premise and suggests that the United States proceed with "far more prudence" in formulating its policy toward China.

These reports confirm what most China watchers believe: China would like to be an equal to the United States on the world stage. The recommendations contained in these reports are right to advocate the U.S. engage and monitor China. Yet they miss the bigger strategic picture. Japan and the U.S. can build on common interests to balance China's economic and military ascent. While American and Japanese combined military expenditure – at approximately \$300 trillion – dwarfs China's spending, China does have the largest army in the world (1.7 million people) and China's rapid economic growth means spending can continue growing significantly for years. China's influence in the region is already conspicuous, as Japanese policymakers take into account China's tastes for policy made in Tokyo.

Additionally, a unified Korea could become formidable Chinese ally, given that a unified Korea would tilt toward China as a way to gain influence vis-à-vis Japan. The removal of American troops from the Korean Peninsula after unification would make the United States-Japan alliance even more vital. (1) The U.S. and Japan may not be able to stop these developments, but the two countries can deal with these changes from a position of economic strength. Rather than defer to China, Japan must be cognizant of its own national interests and the stability it can contribute.

A shift in the balance of power in Asia will require both the United States and Japan to adjust to new realities. One course of action would be for Japan to accept China as the new regional power. Under this scenario, Japan would decrease its ties with the United States and forge a closer relationship with China. The second option would be for Japan to leave the alliance with the United States, become neutral, and act as an interlocutor between Asia, the United States, and the Middle East. The final option is for Japan and the United States to balance China's power in Asia. Over the long term, the goal would be to push China into joining the U.S.-Japan relationship and adopting its values, rather than vice versa. This option is a win-win situation for the U.S. and Japan because it ensures a role for both in shaping Asia's political landscape into the near future. For this reason, a stronger U.S.-Japan relationship is more desirable and more likely than the other options.

How does a United States-Japan economic zone balance China's power? First, nearly all countries in Asia will be economic competitors to the rising Chinese economy, as most are still highly dependent on low-cost labor. Countries that tilt toward the proposed U.S.-Japan economic zone could benefit from economic complementarities, receive foreign investment flows and technology, and tap into supplying what would be a huge, rich consumer market. Second, sustainable military spending and influence is based on government revenue and therefore on economic growth. The positive shock effects of the free trade agreement would give a new lease to the growth prospects of the Japanese economy.

Third, Japan and the United States can cooperate at the WTO to secure intellectual property rights, an ongoing point of contention with the Chinese. Fourth, one way to signal to China and the rest of Asia that United States presence in Asia is still strong is to formally link the world's largest and second largest economies, and, by doing so, convey that American and Japanese interests are contiguous. Finally, Japan and the United States have a chance to dictate the terms of a regional trade bloc, something that China is pursuing in the form of ASEAN plus three.

In the Bush Administration, foreign and security policy advisors view Japan as the keystone to American policy

toward Asia. And U.S.-Japan bilateral ties have not been calmer in recent history. Now is the time to consider upgrading the relationship between Washington and Tokyo.

Robert C. Fauver co-chaired negotiations with Japan on structural reforms for the first Bush Administration and was the United States representative to the 1993 Tokyo Economic Summit for President Bill Clinton. Devin T. Stewart is research associate at the Research Institute of Economy, Trade and Industry (RIETI) in Tokyo.

The views expressed in this essay are the personal views of the authors and do not reflect the official policy or position of RIETI.

(1) A scenario discussed by Nicholas Eberstadt in the Fall 2002 issue of *The National Interest*.

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