

The Executive Memorandum

The Heritage Foundation

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3/6/89

Number

228

RUSH!

A CAUTIOUS GREEN LIGHT FOR THE U.S.-JAPAN FIGHTER DEAL

The United States and Japan agreed last June to join in developing Japan's next-generation attack aircraft, called the Fighter Support Experimental (FS-X). Last minute opposition in the U.S., however, has forced the Bush Administration to delay a final decision on the matter until March 10. This is causing problems that are threatening to unravel the agreement. For one thing, Tokyo needs to begin awarding FS-X contracts by the end of March, when Japan's fiscal year ends. For another, the issue is straining U.S.-Japan relations.

At the heart of the matter is a conflict within the U.S. government. Both the State and Defense Departments support the agreement because it strengthens the U.S.-Japan alliance. By contrast, the Commerce Department and the office of the U.S. Trade Representative want the U.S. to reconsider the deal. George Bush should review the U.S.-Japan FS-X agreement and the report on it that the Defense and Commerce Departments should issue within the next week. Unless there are unforeseen problems with the deal, he should not delay a decision to proceed with the agreement beyond the end of this month.

The debate over FS-X has been triggered by concerns about U.S. economic competitiveness and the continuing U.S. trade deficit with Japan, which last year totalled \$55 billion. The debate tests whether the Bush Administration will seek confrontation or cooperation with Japan, America's most powerful economic competitor and its most important military ally in Asia, whose growing strength is a cause for anxiety in Washington and Asian capitals.

Working Out a Compromise. At Washington's insistence, for the past eight years Japan has been building up its naval and air forces to fulfill a 1981 pledge to defend its sea lanes out to 1,000 miles. The Japanese Air Self Defense Force, for example, is now upgrading its 129 U.S.-designed F-4 *Phantom* fighter aircraft, built in Japan under license, and Japan is now producing 200 U.S.-designed F-15 *Eagles* — currently the best U.S. jet fighter. Japan originally wanted to build the FS-X by itself, as a replacement for its 80 F-1 fighter-bombers, developed and built by Mitsubishi Heavy Industries. Washington was opposed to this and, in the mid-1980s, urged Japan to buy a U.S. aircraft. Tokyo refused, claiming that existing U.S. designs did not meet its requirements.

Following intense criticism of its massive trade surplus with the U.S., Tokyo last June agreed to a compromise that would give part of the FS-X project to U.S. firms: Japan would co-develop FS-X with America's Texas-based General Dynamics Corporation, using General Dynamics' F-16 *Falcon* as the basis for design of the Japanese aircraft. The final agreement worked out last December calls for an estimated \$1.2 billion development program to be shared, 60 percent by Japan's Mitsubishi, and 40 percent by General Dynamics. But by late January, opponents in the Commerce Department and the U.S. Trade Representative's Office began urging Bush to review the deal and delay his final decision until March 10.

The main argument raised by opponents of the FS-X deal is that the U.S. will be giving Japan advanced technology that Tokyo will use to develop a civil aerospace industry that eventually will compete with U.S. firms. This argument makes little sense, however, because the F-16 represents 1970s technology that is not relevant to developing civilian jet transports. Furthermore, Japan will not be getting any more technology than the eight other countries (including Denmark, Israel, and The Netherlands) that already co-produce the F-16.

Critics also say Japan gets a better deal than the U.S. from the FS-X agreement. The reasons: Japan will get F-16 technology that cost the U.S. \$7 billion and the deal is vague on how much General Dynamics will share in a \$7 billion to \$8 billion production run for the planned 130 fighters. It seems, however, that General Dynamics understands that its production share will be comparable to its development contribution.

Gaining Advanced Japanese Technology. A major benefit to the U.S. of the FS-X agreement is that the U.S. will receive any new technology developed by the Japanese. This is unprecedented in U.S.-Japanese agreements. Indeed, U.S.-Japan defense technology cooperation has been slow, despite a 1983 agreement which committed Japan to export defense-related technology to the U.S. The technology-sharing aspect of the agreement, in fact, has been controversial in Japan because of Tokyo's self-imposed ban on weapons exports. As such, the FS-X deal is a major advance on the 1983 agreement. Japan will make a significant investment in developing advanced composite material wings and phased radars; this technology the U.S. could receive at no cost. Some American critics of the FS-X deal want Japan to buy an existing U.S. design "off the shelf." This would yield the greatest trade revenues to the U.S. and would not risk transferring any American technology to Japan. Yet this never has been an option. Japan has not purchased fighters off the shelf since 1955.

While the FS-X deal makes good sense from an American perspective, Congress should scrutinize it carefully. Congress has 30 days in which it can veto the agreement after the Administration notifies Congress of the sale. Congress should use this period to make clear that the U.S. expects a substantial share of co-production and wants guarantees that U.S. technology will not be sold to enemies. The Administration can also press Japan to buy from the U.S. in-flight tanker refueling aircraft and AWACS aircraft that Japan needs.

Allaying Fears. The FS-X agreement increases U.S. and Japanese military interdependence. Already, Japan is cooperating with the U.S. Strategic Defense Initiative, purchasing advanced *Aegis* radars for new destroyers, and increasing joint defense planning and military exercises. This U.S.-Japanese cooperation is needed to deter Soviet military threat in Asia. But a growing Japanese military, coinciding with increased Japanese political assertiveness, increases the anxiety of U.S. friends and allies who remember Japan's imperialist aggression. Japan building its own jet fighter may only confirm these fears. The FS-X deal helps allay these fears by increasing the closeness of the U.S. and Japanese military alliance. On balance, therefore, the FS-X deal makes sense for Japan and the United States.

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For further information:

Paul A. Gigot, "Japan-Anxiety Causes a Dogfight Over F-16 Accord," *The Wall Street Journal*, February 24, 1989, p. A 16.