



Japan's Defense Exports: "Three Years of Sitting on a Stone"

By
Michael Hadlow
Crystal Pryor

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Executive Summary

The Japanese proverb, *ishi no ue san nen* (石の上三年) translates literally as “three years on a stone.” It conveys a lesson in patience: three years sitting on a cold stone will eventually make it warm. It has been more than three years since the Abe government lifted restrictions on Japan’s defense exports, but sales of defense products overseas have yet to heat up. This paper focuses on the contradiction created by Japan’s overall stance as a pacifist country that does not, and likely will not, possess an offensive military force and the change in direction Tokyo recently made to allow overseas military sales. In particular, the bureaucracy in Japan has acted as gatekeeper, policing export opportunities while allocating insufficient resources to promoting the defense industry. For Japan to achieve its stated goal of increased defense exports, officials across the defense export–related ministries must contribute to warming the stone.

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By Michael Hadlow and Crystal Pryor

Japan's Oct. 2017 Snap Election

Abe's Liberal Democratic Party (LDP), along with its junior coalition partner, the New Komeito, retained two-thirds of the seats in Japan's Lower House in the snap election last October. For a brief moment, the opposition seemed to have a chance at unseating the coalition, but the opposition's disarray, coupled with the increasingly tense North Korean situation, led to another win by what some have called the "no-alternative party," the LDP. After initially failing to ignite public support, Abe focused his campaign on his economic policies and hardline stance against North Korea and won a renewed mandate.

During his last visit to Japan, President Donald Trump said that in defending against North Korea, "the prime minister of Japan is going to be purchasing massive amounts of military equipment, as he should." Yet Japan already buys a great deal of military equipment from the United States – which Abe duly noted. The real work in upgrading Japan's defense capabilities is not on the import side of the equation, but in sorting out Japan's export regime.

In Japan, much of the post-election media attention focused on the question of whether Abe would attempt to revise the constitution. As it stands, Japan has had an unrevised constitution for a longer period than any other country in the world, in part because amendments require a two-thirds vote of support in both houses of the Diet as well as a majority in a public referendum. The constitution, and in particular Article 9, prohibits Japan from maintaining "land, sea and air military forces, as well as other war potential," or projecting power overseas.¹ This prohibition is increasingly at odds with the current state of Japan's defense forces and its recent attempts at military equipment exports.

In part for practical reasons, but probably more for nationalistic ones, Abe has long been interested in revising the constitution to achieve a more "normal" Japan – which entails having an officially sanctioned military force.² It should be noted, however, that a majority of the Japanese public and the new leading opposition party (the Constitutional Democratic Party of Japan, CDPJ) oppose amending Article 9, while both China and South Korea negatively view any such revision.³ Although Abe's coalition now comprises more than two-thirds of the Lower House, without Komeito support (which has 29 seats to LDP's 284, with 310 seats constituting a two-thirds majority), Abe's party will not be able to enact

¹ Article 9 reads: "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

"In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized."

² See Michael Green and Zack Cooper, "Shinzo Abe won big on Sunday. This is what it means for Japan's national security policy," *Monkey Cage*, *The Washington Post* (October 25, 2017).

<https://www.washingtonpost.com/news/monkey-cage/wp/2017/10/25/shinzo-abes-supermajority-leaves-3-big-questions-about-japans-security-policy/>

³ More members of the Diet support constitutional amendments on emergency powers in the event of natural catastrophes and environmental rights than amending Article 9.

constitutional revision. But Komeito is backed by a strongly anti-militarist Buddhist organization, and the CDPJ is opposed to an amendment, reducing the chance that the LDP will be able to revise Article 9 in time to meet Abe's stated goal of amendment by 2020.⁴

However, the security challenges that China and North Korea present – the same challenges that allowed Tokyo to debate and reinterpret its constitution to allow it to exercise its right of collective self-defense⁵ – have opened up space for public debate over constitutional revision. Yet, notably, the issue of Japan's defense exports has largely remained out of the public discourse, and the country has yet to embark on a full-fledged arms export program despite the lifting of the ban on such exports in 2014.⁶

While Abe pursues his contentious goal of constitutional amendment, outright promotion by the government of Japan's indigenous defense industry and arms exports will likely remain an unpopular business because the defense industry remains stigmatized in Japanese society. Arms exports attract negative attention, and bureaucrats feel the need to apologize for allowing military matters to upset the public's pacifist image of Japan.

The following analysis explains the barriers to change in Japan's defense export industry that must be overcome if Japan is to fully engage in the international defense market. It discusses challenges unique to Japan from both internal and external perspectives and addresses the most likely ways forward for the Japanese government and defense industry. While revision of Article 9 by 2020 is unlikely, there will likely be more movement on revision than on Japan's defense exports. Current questions about the constitution, however, are grounded in doubts among many Japanese people over the legitimacy of the Self-Defense Forces (SDF) and of Japan's role in regional military affairs. Abe will continue seeking to legitimize the SDF, which will, in turn, make the industry that supplies the SDF more confident in its ability to act like its foreign counterparts in exporting its products.

⁴ An important caveat is that the second main opposition party, the newly formed Party of Hope, has 50 seats and supports revision of Article 9.

⁵ The right of "collective self-defense" refers to Article 51 of the 1945 United Nations Charter and is the right of all UN countries to use military force to defend other member nations from attack. Japan did not exercise its right to self-defense due to its interpretation of Article 9, but last year, changed its legal position to allow for collective self-defense. This change was highly contentious and sparked many public protests. For more, see Adam P. Liff, "Policy by Other Means: Collective Self-Defense and the Politics of Japan's Postwar Constitutional Reinterpretations," *Asia Policy*, No. 24 (July 2017), 139–72.

http://nbr.org/publications/asia_policy/free/ap24/AsiaPolicy24_Liff_July2017.pdf

⁶ In 1967, Prime Minister Eisaku Sato established the "Three Principles on Arms Export and Their Related Policy Guidelines," which prohibited arms exports to Communist countries, countries subject to arms embargoes under UN Security Council resolutions, and countries involved in or likely to be involved in international conflicts. In 1976, Prime Minister Takeo Miki strengthened these regulations to say that Japan shall not promote "arms" exports, regardless of the destination – creating an effective blanket ban on arms exports. These rules held for the four next decades, with the major exception of exports to the United States from the 1980s. In April 2014, Abe's Cabinet revised the Three Principles on Arms Export, renaming them the "Three Principles on Defense Equipment Transfers." The new rules allow exports in cases that will contribute to global peace and serve Japan's security interests. For more, see Crystal Pryor, "Japan's New Approach to Defense Technology," *The Diplomat* (Nov. 24, 2015). <https://thediplomat.com/2015/11/japans-new-approach-to-defense-technology/>

Internal Challenges for Japan's Defense Exports

Although expectations among defense contractors, politicians, and bureaucrats were high when the arms export ban was lifted in 2014, in the ensuing years, Japan has seen little movement in actually exporting such items. Three main reasons internal to Japan have contributed to the lack of forward progress. First, Japanese companies are reluctant to push openly for defense exports or overseas contracts. Arms exports are viewed as a risk to a company's reputation, and even for the largest defense contractors, defense production makes up only a small portion of their overall business. In the case of Mitsubishi Heavy Industries, Japan's largest defense contractor, arms production accounts for only about 10% of the company's total revenues. Firms are not willing to risk their profits in non-military sectors for increased defense exports. The situation in Japan contrasts sharply with that in other industrialized countries, where defense contractors focus almost exclusively on defense products. The defense sections of some Japanese heavy industry companies have stated it is better to wait for the government to identify opportunities for exports and establish the necessary diplomatic structures before they invest any time or effort.

The second internal challenge for Japanese defense exporters is that the key Japanese government ministries – the Ministry of Economy, Trade and Industry and the Ministry of Defense – tend to see their roles as regulators focused on controlling sensitive exports rather than promoting them. Only at the highest levels in the Diet do we see a firm commitment to promoting Japan's arms exports. Yet as Japan's failed bid to sell its submarines to Australia in 2016 showed, having only buy-in at the political level without the ministries and companies on the same page gets Japan nowhere.⁷ Of course, within each ministry are proponents of greater Japanese defense sales overseas, but given how recently Japan lifted restrictions on arms exports, they still represent minority voices.

Finally and perhaps the most importantly, Japanese defense exports have not taken off because of the status of all things military in Japan. The SDF are almost invisible in Japanese society, except in times of crisis (their stature has increased since their disaster relief work after the March 11, 2011 earthquake and tsunami).⁸ Uniforms are not worn in public and there are no events to commemorate the sacrifices that service people make on behalf of the nation. The average Japanese person is loath to bring up Japan's security needs in polite conversation. Any talk about Japan becoming a regional military power produces concerns about a return to the period when nationalism and militarism dominated Japanese political discussion. Of course, some experts talk openly about Japan's defense needs and capabilities, but the topic of Japan engaging in the business of military exports tends to elicit negative responses from the average person.

⁷ In late 2015, Japan was seen as likely to win the bid to sell its Soryu-class submarine to Australia to replace the latter's aging Collins-class fleet, but in spring 2016, French company DCNS instead prevailed. See Franz-Stefan Gady, "Why Japan Lost the Bid to Build Australia's New Subs," *The Diplomat* (April 27, 2016). <https://thediplomat.com/2016/04/why-japan-lost-the-bid-to-build-australias-new-subs/>

⁸ Chisa Fujioka, "Tsunami puts rare spotlight on Japan soldiers," *Reuters* (March 22, 2011). <https://www.reuters.com/article/us-japan-soldiers/tsunami-puts-rare-spotlight-on-japan-soldiers-idUSTRE72L0FJ20110322>

External Challenges for Japan's Defense Exports

In addition to internal challenges to arms exports, as Japan has attempted to re-engage the global military ecosystem beyond its one ally, the United States, it is facing external challenges. First, counterparts seek relationships based on equality. Japan has taken steps to establish military links to other countries that appear to approach the norm. Cross-servicing agreements, information-sharing pacts, and joint defense research projects Japan has launched with other countries all give the impression that Tokyo seeks to become an equal player in regional and global military affairs. Yet this is not the case. All agreements that other countries have made with Japan are strictly limited in scope due to Article 9 of the Constitution.

Another external challenge relates to the high cost of production of Japanese weapons. The existence of the defense forces necessitates a strong domestic defense industry to support them. The defense industry also contributes to technology advancements and job creation. For example, the battery technology and high-grade steel in the Soryu submarines are considered to be best in class. Since the establishment of the SDF, Japan's defense contractors have enjoyed a symbiotic relationship with the Ministry of Defense and its predecessor, the Defense Agency. Without exports, Japan's defense industry has consisted of small-run production of military equipment, which is costly and has placed enormous pressure on the defense budget. Domestic production of the Boeing AH-64D Apache attack helicopter in Japan resulted in a cost blowout that led to the program's cancellation in 2007, after only 13 aircraft were built.⁹ This failure occurred under Shinzo Abe's first administration and likely contributes to his desire to develop a more competitive Japanese defense industry.

A final major external obstacle to Japan's attempts at military sales since 2014 is the extent to which Japan remains a nation pulled in different and contradictory directions on defense – on the one hand, abhorring military power; and on the other, needing to possess such power to address increasing threats in Northeast Asia. This contradiction raises some immediate concerns for potential consumers of Japanese military wares. In the competitive military business world, hesitation or delays in responding to questions about technology transfer or co-development erode the likelihood of success. For Japan, there are no precedents to follow in terms of arms sales, and Japanese companies have exhibited a lack of understanding of the needs of buyers and the role of sellers. Those characteristics were on vivid display in Japan's failed bid to sell submarines to Australia. Foreign governments may accept vague or watered-down agreements with Japan's Ministry of Defense related to cross-servicing of military forces. For example, the first Japan-Australia Acquisition and Cross Servicing Agreement (ACSA) signed in 2010 excluded ammunition (which was added in the revised 2016 ACSA). Japan's new defense partners may become familiar with the unique vocabulary used by the SDF, which avoids standard military terms, as ties increase. But foreign governments are less likely to accept anything short of clear, binding agreements, using precise and familiar terms when it comes to military equipment acquisition.

⁹ Seiji Hirokawa, "Japan to halt AH-64D Apache orders after 13th airframe," *Flight International* (September 10, 2007). <https://www.flightglobal.com/news/articles/japan-to-halt-ah-64d-apache-orders-after-13th-airframe-216559/>

Faced with so many internal and external challenges, Japan's defense industry has begun to voice dissatisfaction. In June 2017, an executive of one of Japan's defense equipment manufacturers was quoted in international media as saying it is "impossible for us to just go out and sell things."¹⁰ The industry feels it must wait for the Government of Japan to identify opportunities rather than take the initiative itself. But such an approach is akin to being carefully guided to the edge of a minefield, then being left to find your way through with only minimal support.

Prime Minister Abe has established good relationships with his counterparts in many countries in the region and attempted to use those relationships to develop arms export opportunities. While his relationships have opened doors, they have not been sufficient to lead companies to close successful sales, even with large expenditures of time and money. The protracted, and so far unsuccessful, campaign by ShinMaywa to sell US2 amphibious aircraft to India stands as a warning that Abe alone cannot deliver success.¹¹

Ways Forward?

Given the present challenges Japan faces in exporting defense equipment, Tokyo would do well to focus on dual-use and component exports. While Japan has not exported arms for decades, it is one of the world's largest dual-use technology exporters – a known and recognized player in this field. Its peer countries are making the slow and sometimes painful shift from "spin-off" (transferring defense technology to the civilian field) to "spin on" (when militaries adapt civilian technology for their own purposes). Japan now has the opportunity to provide others with advanced technologies ready to spin-on.¹² Also, with its proficiency in fields such as carbon fiber and optics, Japan could become an essential component supplier in the international supply-chains for and co-development of major defense equipment.

Another solution the government is examining is the resale of retired equipment – in particular, items designed outside Japan but built under license. A current frontrunner in that respect is the P3C Orion maritime surveillance aircraft Kawasaki Heavy Industry produces but Lockheed Martin designed. The SDF will buy Kawasaki's new P1 aircraft to replace the P3Cs, and as many as 30 P3Cs could undergo a life-extension program and then be given or sold to other countries. This plan overcomes some of the challenges associated with exporting Japanese arms, especially domestic companies' reputational concerns, because the P3C is imported rather than Japanese military technology. No officials have made public statements about a P3C resale, but both Vietnam and Malaysia have expressed interest, and

¹⁰ Isabel Reynolds, "Japan's Kawasaki Bemoans Government Barriers to Weapons Exports," Bloomberg.com (June 13, 2017). <https://www.bloomberg.com/politics/articles/2017-06-13/japan-s-kawasaki-bemoans-government-barriers-to-weapons-exports>

¹¹ Negotiations for Japan's sale of its ShinMaywa US2 aircraft to India have been underway since 2011. The sale has been seen as a way to enhance strategic ties between the two countries. The two countries seemed close to inking a deal in 2014 and then in late 2017, but nothing has been concluded to date. See Ankit Panda, "Will India and Japan Finally Conclude a Long-Pending US-2 Amphibious Aircraft Defense Deal?" *The Diplomat* (September 13, 2017). <https://thediplomat.com/2017/09/will-india-and-japan-finally-conclude-a-long-pending-us-2-amphibious-aircraft-defense-deal/>

¹² Crystal Pryor, "Japan's New Approach to Defense Technology," *The Diplomat* (November 24, 2015). <https://thediplomat.com/2015/11/japans-new-approach-to-defense-technology/>

we may see movement on this issue in 2018. Successful resale of the P3Cs would help Japan demonstrate its ability to deliver military equipment in support of regional partners.

Giving or selling used equipment entails its own challenges, however. It requires developing a plan both for the integration of the system with the rest of the receiving country's military as well as supporting the equipment throughout its life. Such commitments demand an enduring and deep relationship with the producer country's military, something Japan has had difficulty contemplating. Resales would also require the Japanese government to shoulder some of the costs as the purchasers are unlikely to agree to terms that are commercially viable for the exporters.

There are also challenges associated with the slow rate of production of the P1, which is resulting in delayed replacement of the existing P3C fleet. The Maritime SDF will continue to operate the P3C for some time and will be reluctant to hand over any working airframes for export. Maintenance and repair in Southeast Asia will also be an issue due to the complexities involved, and a fully-formed plan will need to be in place before the delivery of aircraft. Finally, the global supply chain of spare parts for the P3C is shrinking as many of the countries that operate the plane are retiring it. The life extension Japan plans for the planes is an additional 15 years of service, but during that time, repair and maintenance may become an expensive and difficult ordeal. Despite these various hurdles, transferring the P3C to Southeast Asian countries may provide the best chance for Japan to prove itself in international military equipment transfers.

Conclusion

Japan must achieve success with military exports if it wants to move beyond small-run production of military equipment and thereby keep a lid on defense expenditures. Replacement rates for aging equipment are going to expose capability gaps in Japan's defense, and Japan risks being left behind in Asia as North Korean developments and China's growing military prowess provide the impetus for the greatest regional arms race since the end of the Cold War.

Prime Minister Abe has a mandate to lead Japan and has put military matters high on his list of priorities. Yet bureaucrats and business people lack confidence in pushing arms exports due to persistent concerns of a predominantly pacifist country. To make progress, industry needs support from the government and bureaucracy, as well as greater understanding by the general public.

Major Japanese companies that have failed in their attempts to export military equipment in recent years are becoming cynical about the viability of such exports. Jump-starting the defense export industry in Japan is going to require more than the prime minister shaking hands with world leaders and opening doors for Japanese industry. Abe needs to encourage the bureaucracy to create an "export promotion mindset." Only then will Japanese firms be ready to walk through those doors and succeed in making sales.

Nevertheless, Abe appears more interested in constitutional revision that removes some of the ambiguity over Japan's status as a military power than in taking major steps to

promote defense sales overseas. His continued survival through recent elections – despite his controversial, hawkish approach to strengthening Japan’s place in the regional balance of power – sends a powerful message. But potential purchasers of Japanese military equipment are not interested in Japan’s constitutional dilemma. Instead, they are focused on acquiring the capabilities they need.

Japanese defense exporters must concentrate on the needs of the buyer and acknowledge that their business is about military power. Abe’s re-election did not solve the problem of buyers’ low confidence in Japan’s ability to meet expectations as a military technology exporter, but it did create an opportunity for Japan to increase foreign confidence in its ability to achieve success in the arms export market. If the Government of Japan truly wants to export military items, more decision makers in government and industry in Japan will need to take their place on the cold, uncomfortable stone that represents the defense export industry, and patiently work together to warm it up.

About the Authors

Michael Hadlow is an Australian former Defense Attaché (Tokyo) who retired from full-time Army service in 2013. He now works in the private sector in Tokyo as a consultant covering the aerospace and defense industry. He has experience in government-to-government negotiations related to logistics cross-servicing, information sharing, and cooperation on international peace operations. He is a graduate of the Japan Ground Self Defence Force Staff College. The opinions expressed in this article are his own.

Crystal Pryor, Ph.D., is program director and research fellow at Pacific Forum. She received her doctorate in political science from the University of Washington. Crystal has researched U.S.-Japan outer space security cooperation, strategic trade control implementation in advanced countries, and Japan's defense industry and arms exports.