

AJISS-Commentary

The Association of Japanese Institutes of Strategic Studies

IIPS

Institute for International
Policy Studies

JIIA

The Japan Institute of
International Affairs
(Secretariat)

RIPS

Research Institute for
Peace and Security

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No.90. 10 March 2010

JAPAN'S DEFENSE INDUSTRIAL BASE IN DANGER OF COLLAPSE

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Structural Change in the Defense Industry

The Japanese defense industry is undergoing structural change. First of all, in an unprecedented development, a defense business between the government and its main contractor has gone into litigation. In 2001, the Defense Ministry decided to introduce 62 AH-64D attack helicopters (Apache Longbow). Fuji Heavy Industries (FHI) and its related subcontractors acquired a license from Boeing and prepared for domestic production by

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investing a total of 50 billion yen, including the license fee. FHI intended to recoup the cost by spreading it out over the sales prices of each of the 62 AH-64Ds. However, the Defense Ministry cancelled the procurement after ordering just 10 units through fiscal year 2007, citing the high cost of 8 billion yen necessary for the production of each AH-64D. FHI decided to bring a civil case against the government in December 2009, claiming that the initial production cost should have been borne by the Japanese government.

Secondly, some subcontractors are withdrawing from the defense industry. Since 2003, about 20 companies have already left or decided to leave the fighter jet manufacturing business. Among them is Sumitomo Electric, the sole domestic manufacturer of radomes, protective cone-shaped covers for nose radar systems in aircraft. Also the manufacturer of fuel tanks for F-15 fighters, Sumitomo Electric has decided to leave the defense aircraft businesses with the end of the production of F-2 fighter planes, stating that “given that defense-related businesses have little promise of future growth while requiring highly advanced technology, limited human resources and production facilities should be allocated to civilian purposes.”

Stable Defense Procurement System Reaching its Limit

The structure of the Japanese defense industry is characterized by the close-knit relationship between the government as the sole buyer and a limited number of defense companies, and this is rooted in the country’s defense procurement system. Under the Security Treaty with the United States, the Japanese defense posture is to maintain basic capability for defensive defense. The Japanese government has allocated each year nearly the same portion of the gross domestic product for the defense budget, thus allowing the government to replace the obsolete systems with new ones within the expected budget. In other words, the defense procurement practice has provided stable prospects for the seller and the buyer in terms of demand and supply.

The defense industries in general are vulnerable to changes in the international situation, as was observed in the merger and acquisition (M&A) and


restructuring of the European and US defense industries after the end of the Cold War. In contrast, the structure of the Japanese defense industry has remained unchanged thanks to the country's self-imposed ban on arms export, or the Three Principles on Arms Exports. However, as the recent move by FHI to sue the government and the exits of Sumitomo Electric and others from the defense market indicates, the traditionally stable structure is beginning to collapse from the inside.

The Crisis of the Defense Industrial Base

The structural change in the defense industry is a warning that the Japanese defense industrial base is heading toward collapse. FHI's case suggests that the traditional defense business model, in which the government relies on a contractor for R&D and production while the contractor recovers its prior investment through mass production in the close public-private relationship, is no longer functioning well. Without stable procurement, it cannot be denied that defense suppliers providing indispensable technological support to the defense industry will decrease further in number, which may cause Japan to lose a domestic source of important technologies.

Problems surrounding the defense industry seldom come to light, with a few exceptions such as the overcharges by several defense corporations in 1997. Meanwhile the Japanese defense industrial base has been weakening. Once it collapses, a lot of time and money will be required to restore the technological base of the defense industry where barriers of entry, including technological competency, are high.

In October 2009, the Japanese government decided to put off the update of the National Defense Program Guidelines and the Mid-term Defense Program by one year, stating that it would draw conclusions from advisory panel meetings. It is widely believed that the true reason was that the ruling Democratic Party of Japan (DPJ) wanted time to put together various opinions on national security policy. Whatever the reason, policymakers should also face up to the issue of the defense industry, which directly relates to Japan's national security, when

debating the country's defense policy in the year to come. 

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