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**Japan's New Arms Export Principles: Strengthening U.S.-Japan Relations**

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In December 2013, the cabinet of Japan adopted a new National Security Strategy (NSS) aimed at protecting the national interest, strengthening deterrence, and improving the Asia-Pacific and global security environment under the concept “Proactive Contribution to Peace.” Two important elements of the NSS are strengthening Japan’s defense capabilities and the U.S.-Japan Alliance. The NSS states that defense equipment and technology (DE&T) cooperation is one way to achieve both objectives and that Japan will maintain and strengthen its defense industrial base to bolster the domestic foundation that supports national security.<sup>1</sup>

However, even after the NSS was adopted, there remained an obstacle to achieving those objectives: “the Three Principles on Arms Export and Their Related Policy Guidelines” (hereinafter referred to as “the Old Principles”). The Old Principles were first established in 1967 and 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 deference to the pacifist constitution. In 1976, Japan added other restrictions that virtually prohibited arms exports for 40 years. This meant that the government of Japan was left with no choice but to develop defense capabilities indigenously. The Japanese defense market depended on the defense budget allocated by the government and was often less cost effective absent access to advanced foreign defense technology. As a result, many Japanese companies left the defense industry,<sup>2</sup> especially as the defense budget shrank beginning in the 1990s.<sup>3</sup>

The strict principles often prevented DE&T cooperation, and Japan missed the opportunity to develop future-generation weapons and enhance interoperability with the United States. In one recent example, Japan was unable to participate in a joint development project for a naval weapons system in 2010.<sup>4</sup> As a result, Japan could not develop its own defense technology for a vital weapons system that supports ballistic missile defense and anti-air warfare operations, two key priorities for Japan’s Self-Defense Forces.

In the face of security challenges such as China’s military expansion and North Korea’s attempts to enhance its nuclear weapon and ballistic missile programs, Japan needs to strengthen its defense capabilities and ties with friends and allies. The cabinet of Prime Minister Shinzo Abe adopted new arms export principles in April 2014 specifying when overseas transfers of DE&T are permitted and virtually lifted the ban on arms exports to the United States. Within these new principles, the government of Japan established “Implementation Guidelines for the Three Principles on Transfer of Defense Equipment and Technology,”<sup>5</sup> which include 11 cases where arms exports are allowed.

Among the 11 export cases that are indicated in the guidelines, the following two cases appear most feasible. The first case relates to overseas transfers that are based on “joint development and production.”<sup>6</sup> This case has to meet the following two conditions: first, Japanese firms should take a key role in development or production and not simply rely on U.S. companies; second, there should be a sufficient market for equipment that allows for use by Japan, the United States, and security partners of both countries. One example is the SM-3BlockIIA, a next-generation antiballistic missile, which will be deployed in 2018. Next-generation assault amphibious vehicles, batteries for unmanned vehicles, and anti-air and surface radars for ship and land may also fall under DE&T cooperation. Due to the small Japanese market and sensitive nature of some U.S.

<sup>1</sup> Cabinet Secretariat, “National Security Strategy,” December 17, 2013, <http://www.cas.go.jp/jp/siryou/131217anzenhoshou/nss-e.pdf>.

<sup>2</sup> A Ministry of Defense survey published in June 2012 found that 102 companies had withdrawn from the defense business or gone bankrupt since 2003.

<sup>3</sup> A Mizuho Bank survey published on November 25, 2013, found that the budget of acquisition for defense equipment decreased by 38 percent, approximately \$4 billion, from 1990 to 2013.

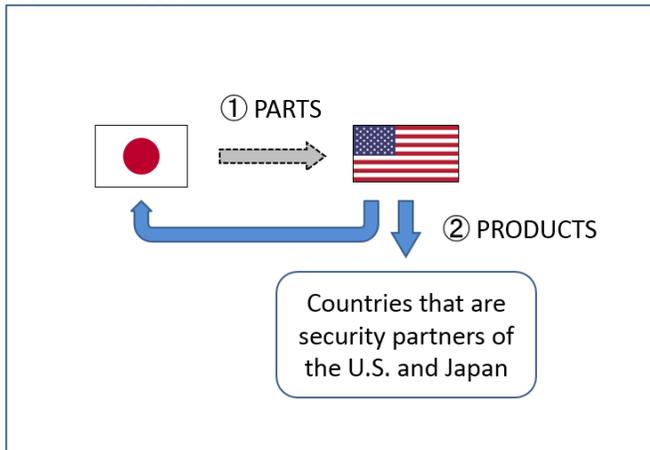
<sup>4</sup> Kyodo News, “Japan, U.S. mulled joint upgrade of Aegis system in 2010,” *The Japan Times*, March 9, 2014, <http://www.japantimes.co.jp/news/2014/03/09/national/japan-u-s-mulled-joint-upgrade-of-aegis-system-in-2010/#.U9w1uZUg85s>.

<sup>5</sup> National Security Council of Japan (NSC-J), “Implementation Guidelines for the Three Principles on Transfer of Defense Equipment and Technology,” April 1, 2014, <http://www.mofa.go.jp/files/000034954.pdf>.

<sup>6</sup> *Ibid.*, 1.

products, it is unlikely that Japanese firms would obtain licenses from U.S. companies for domestic assembly. Therefore, Japanese companies would supply components or parts to U.S. companies, and they in turn would assemble and export them to Japan and the security partners of both countries. (See Figure 1.)

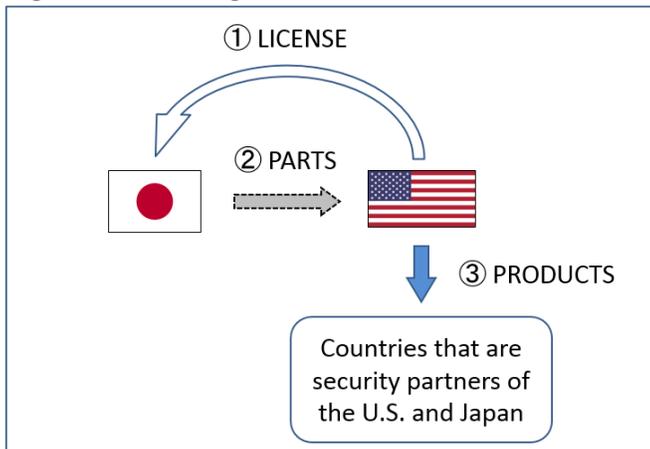
**Figure 1. Supply**



The second case relates to overseas transfers that are based on the “provision of parts or services related to a licensed product of the United States.”<sup>7</sup> This case should meet the following two conditions; first, to ensure a sufficient market, the equipment should be used by Japan, the United States, and security partners of both countries; second, U.S. production of the equipment should have already been stopped or reduced, so that the transfer is beneficial to both U.S. and Japanese defense industries. One example is the July 2014 approval by the National Security Council of Japan (NSC-J) for Mitsubishi Heavy Industries, the largest Japanese arms manufacturer, to supply high-performance sensors for PAC-2 surface-to-air missiles to Raytheon.<sup>8</sup> Raytheon will provide PAC-2 to Qatar, a security partner of the United States and Japan. Japanese companies already have many licenses

from U.S. companies, including components of fighter jets and helicopters, parts of surface-to-air missiles, missile launchers for ships, and engines for aircrafts and ships. Japanese companies are ready to supply components or parts to U.S. firms, which in turn could assemble and export equipment to security partners of both countries. (See Figure 2.)

**Figure 2. Licensing**



The new arms export principles clarify the areas for potential defense industrial cooperation between the United States and Japan, but there are many conditions that must be met before realizing that potential. In addition, there remain many issues that Japan needs to overcome. The Japanese people still hesitate to embrace the notion of arms sales, as shown by a Kyodo News survey published in March 2014, which found that 66 percent of respondents opposed the relaxation of the old arms export principles. Further, Japanese government agencies do not yet have a mechanism to coordinate with one another in this new field.<sup>9</sup>

Boosting bilateral DE&T cooperation would allow the United States and Japan to enhance interoperability and economic efficiency between the two militaries, both of which serve to

strengthen the alliance. Moreover, military cooperation would tighten industrial cooperation and lead to further economic collaboration and exchanges of people and information. The new arms export principles can serve as a favorable wind for strengthening U.S.-Japan relations.

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<sup>7</sup> Ibid.

<sup>8</sup> NHK WORLD, “Japan to export missile parts to US firm,” July 17, 2014, [http://www3.nhk.or.jp/nhkworld/english/news/201407137\\_44.html](http://www3.nhk.or.jp/nhkworld/english/news/201407137_44.html).

<sup>9</sup> For example, the Ministry of Foreign Affairs (MOFA) does not have specific sections that handle arms export, unlike the U.S. Department of State and its Bureau of Political-Military Affairs. Further, there are no official and sustainable frameworks that discuss arms export among MOFA, the Ministry of Economy, Trade and Industry, and the Ministry of Defense.