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Japan

Defense Market Overview



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I. Japan Defense Market Overview

a. Country Economic Snapshot

Japan boasts the world's third-largest economy. In the early 2000s, it grew at half the pace of the US economy, yet Japan's growth in GDP per capita outpaced that of both the US and the EU. This growth rate reflected Japan's global leadership role in manufacturing, but its growth has been held back by lack of diversification. Japan's export-driven economic model has proved extremely robust. Its economy relies on the export of motor vehicles, electrical machinery, and industrial equipment, and its service sector holds the Tokyo stock exchange, one of the major stock exchanges in the world. With little arable land natural resources, Japan's economy relies heavily on imports of food, raw materials, minerals, and fuels, as well as certain machinery and equipment.

Japan's rapid growth rate has been slowing since the 1990s, and despite modest growth after 2000, the country has had four recessions since 2008. The global recession brought a decrease in demand for the country's industrial exports, and real GDP growth plummeted. The 2011 earthquake caused further damage to the economy by setting back the electronics, automobile, and steel-making industries. Long-term challenges to the economy include persistent deflation, reliance on exports to sustain growth, and a huge government debt, which exceeds 200% of GDP.

Japan has enjoyed an uptick in growth since 2013, supported by Prime Minister Shinzo Abe's Three Arrows economic revitalization agenda of monetary easing, "flexible" fiscal policy, and structural reform. Led by the Bank of Japan's aggressive monetary easing, Japan is making modest progress in ending deflation, while the government currently faces the issues of growing public debt and a declining population. Under the Abe Administration, Japan's government sought to open the country's economy to greater foreign competition and create new export opportunities for Japanese businesses, including joining 11 trading partners in the Trans-Pacific Partnership (TPP), and the subsequent Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) formed after the United States' withdrawal from the TPP. Japan also reached agreement with the European Union on an Economic Partnership Agreement in July 2017, and is likely seek to ratify both agreements in the Diet this year.

Source: [World Trade Reference](#), [The World Factbook](#)

b. Japan Defense Market Summary

Driven by the threat from North Korea's ballistic missiles and Chinese maritime expansion, Japan's 2017 defense budget was the sixth largest in the world, with annual expenditures having increased slightly for the last five consecutive years. Reaching approximately \$47.2 billion US (almost 1% of Japan's GDP), the Japanese Ministry of Defense (JMOD) spends most of its budget on salaries, operational expenses, training, and development, while capital expenditure (including military equipment, shipbuilding, and aerospace acquisition) is the second largest share. The Ministry of Defense's defense contracts for 2013 amounted to \$11.54 billion US with 6,901 items, and for 2014 amounted to \$15.19 billion US with 6,925 items. The Acquisition Technology and Logistics Agency, established in October 2015, is currently responsible for defense equipment policy and logistics planning, procurement, defense industrial policy, R&D policy, and the current defense posture of Japan and procurement policies are grounded in the National Defense Program and the Mid-Term Defense Program.

This report was created under contract with the Maine Department of Economic and Community Development, with financial support from the Office of Economic Adjustment, Department of Defense. The content reflects the views of the Maine Department of Economic and Community Development and does not necessarily reflect the views of the Office of Economic Adjustment or the Department of Defense.



All Foreign Military sales by U.S. companies to Japan are administered by the Defense Security Cooperation Agency (DSCA), a part of the U.S. Department of Defense administered through the U.S. Embassy in Tokyo. All transactions are initiated by requests from the Government of Japan, and all direct sales are handled by Japanese distributors and defense trading firms. Major U.S. defense contractors have established long years of working relationships with domestic manufacturers for license production of U.S. military technology and equipment. New-to-entry U.S. suppliers of defense products in the areas of Japanese defense programs are encouraged to seek local partnership with specialized trading firms capable of representing the U.S. firms as registered vendors to the Ministry of Defense.

The Japan Self-Defense Forces (SDF) are the unified military forces of Japan and are controlled by the Ministry of Defense (MOD). The SDF has more equipment in common with the United States military than any other ally and has recently purchased 42 F-35s. Other U.S. military aircraft in Japan’s fleet include 12 AH-64D attack helicopters, 47 UH-60J utility helicopters and 32 CH-47J transport helicopters, providing opportunity again for producers of aircraft parts as a way to break into this market.

Military Expenditure of Japan in Millions of US\$, Past 5 Years¹

2013	2014	2015	2016	2017
45459	45944	46754	46471	46556

Source: Export.gov, 2016 Defense Top Markets Report

c. U.S. Defense Exports to Japan

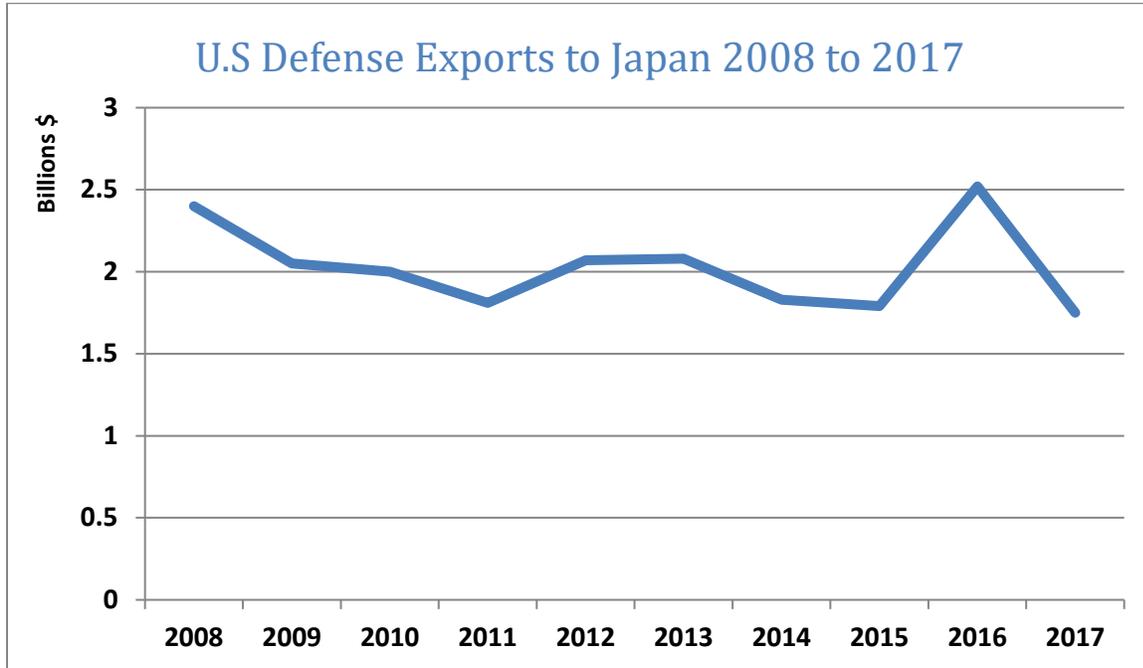
Top 10 U.S. Defense Exports to Japan

Codes	Description	ANNUAL 2015	ANNUAL 2016	ANNUAL 2017
	TOTAL ALL COMMODITIES	1,791,025,666	2,515,662,754	1,747,333,255
880330	Parts Of Airplanes Or Helicopters, Nesoi	528,809,085	653,991,462	621,708,523
841199	Gas Turbine Parts Nesoi	343,870,738	450,951,730	317,049,027
930690	Bomb, Mines & Other Ammunition and	178,132,696	274,586,396	180,134,565
841191	Turbojet & Turboproller Parts	102,313,065	104,595,844	120,036,576
841182	Gas Turbines Of A Power Exceeding 5,000 Kw	181,144,187	324,801,918	109,199,060
841112	Turbojets Of A Thrust Exceeding 25 Km	358,703	54,521,575	92,381,752
880260	Spacecraft & Suborbital And Space Launch Vehicles	4,082,800	317,446,000	86,533,000
930591	Parts & Accessories Of Military Weapons	15,359,917	65,348,096	48,232,880
880390	Parts Of Non-Powered & Powered Aircraft Nesoi	63,362,629	34,544,711	30,595,116

¹https://www.sipri.org/sites/default/files/1_Data%20for%20all%20countries%20from%201988%E2%80%932017%20in%20constant%20282016%29%20USD.pdf



880521	Air Combat Simulators & Parts Thereof	1,101,142	1,321,746	22,285,208
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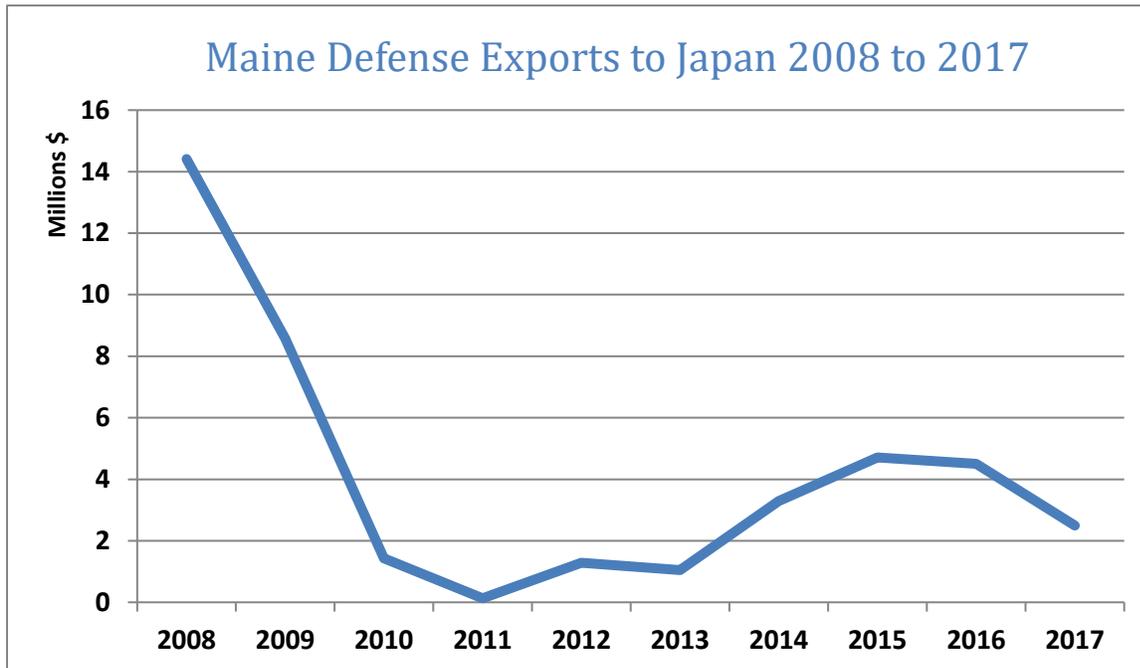


Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.

d. Maine Defense Exports to Japan

Top 5 Maine Defense Exports to Japan

Codes	Description	ANNUAL 2015	ANNUAL 2016	ANNUAL 2017
	TOTAL ALL COMMODITIES	4,706,942	4,502,003	2,504,641
841191	Turbojet And Turboproller Parts	4,433,226	4,413,635	2,495,356
980320	Exports Of Military Equipment, Not Identified	0	0	9,285
930591	Parts & Accessories Of Military Weapons	273,716	35,509	0
841199	Gas Turbine Parts Nesoi	0	26,679	0
880330	Parts Of Airplanes Or Helicopters, Nesoi	0	26,180	0



Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.

II. Opportunities for Defense Trade in Japan

a. Major Defense Sectors in Japan

For its future defense buildup, Japan envisions enhancing its deterrence and response capability by pursuing further joint operations, improving the mission-capable rate of its equipment, and strengthening the logistical support foundations of the Self-Defense Forces (SDF) such as training and exercise, operational infrastructure, defense production, efficiency in equipment procurement, research and development, and collaboration with local communities.

The [2018 Defense Budget](#) specifies major plans related to Self-Defense Forces' capabilities and the best prospects for major military procurement:

- Maritime Security
 - The Japanese Navy currently possesses a Maritime Self-Defense force of approximately 54 destroyers, 22 submarines, and 170 combat aircraft, as well as a flotilla of minesweeping craft, spread throughout 20 divisions and 9 squadrons. The Navy plans to improve airborne warning control systems, expand naval defense arsenals, and increase both combat and patrol fleets.
- Aerospace Security
 - The Air Self-Defense Force consists of 49 squadrons of fighter, refueling, and transport units, totaling approximately 280 fighters, as well as 6 groups of surface-to-air missiles. The Air Force plans to improve air warning and control systems, upgrade current fighter squadron capabilities, and procure more logistic and combat aircraft. They also plan to shift



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the positions and training of current and new squadrons to better maintain readiness and air superiority, which will require training and logistics services.

- Response to Attacks on Remote Islands
 - The ability to respond to a security issue from anywhere across Japan's atolls requires surveillance and rapid response capabilities, and relies on the maintained security and patrolling of maritime and air force security efforts. The Japan Ministry of Defense plans to develop its surveillance capabilities by improving intelligence infrastructure such as radar installations and mobile warning and control facilities. In addition to maintaining and improving air and maritime supremacy, the Japanese military plans on expanding its rapid deployment and response capacity.
- Response to ballistic missile attacks
 - General threats and belligerence from North Korea has led to enhanced security concerns and defense buildup against the threat of ballistic missile attacks. The Japanese Ministry of Defense plans on acquiring modern interceptor missiles, expanding fixed warning and radar functions, and building the facilities and infrastructure necessary to introduce the Aegis Combat system to Japan's shore in response to serious tensions and threats from North Korea. The military also plans on expanding capabilities to respond to guerilla and special operations forces, which have been acknowledged as generally tied to ballistic missile attacks, and plan to procure special reconnaissance equipment and develop biological, chemical, and nuclear contamination response capabilities.
- Response to Large-Scale Disasters
 - Japanese Defense forces are very involved in both military and natural disasters, and military camps generally serve as hubs for disaster response. The Japanese government plans to further develop disaster response hubs, expand deployment footholds to better respond to disasters across regions, and enhance earthquake detection and tsunami defense measures, as well as provisions for other natural disasters. Procurement requests include transport vehicles, biohazard decontamination units, support machinery, and other general rescue equipment, as well as the need to develop new large-scale disaster exercises means demand for training and logistical services.
- Response in Outer Space and Cyberspace and Intelligence Gathering
 - Concerns for the security of infrastructure and data-dependent structures are mounting, and estimates show that the domestic information security market will increase to an estimated 321.7 billion yen by 2019. The Japanese government plans to greatly improve the capabilities of cyber security and information analysis, enhance network and security infrastructure, and increase research on technology to deal with cyber attacks and cyber security related AI applications. Intelligence gathering procurement requests involve acquisitions for reconnaissance UAVs and optical satellites. The government also plans to develop satellite communications systems for space-borne intelligence and communications.

With the exception of helicopters and aircraft engines, the need for interoperability of military technology and equipment has historically strongly favored U.S. defense suppliers against European and



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other national suppliers, and therefore gives American industries an advantage in shaping the future of Japanese defense. Japan also continues to offer a lucrative market for imported aircraft, engines, and parts, and decades-long standing relationships give U.S. firms an overwhelming presence in the market. Overall, Japanese development of civil aviation, defense patrols, and international transport provides growing opportunities, with commercial aircraft, helicopters, and parts as the leading sub-sectors.

Source: [Export.gov](#), [U.S. Commercial Service](#), [JMOD 2018 Defense Budget](#)

b. Opportunities for Maine Defense Exporters

The 2018 Japanese Ministry of Defense [Budget](#) defines a broad summary of the various procurement lists and services requested by the Japanese Military. According to U.S. Commercial Service [Market data](#), currently highlighted opportunities for Maine defense firms include:

- Maritime Security
 - Upgrading armor and systems of current naval destroyers, submarines, and patrol craft
 - Providing patrol aircraft and aircraft parts for carriers and naval bases
 - Building surface-to-ship guided missiles
 - Providing requested submarines, destroyers, patrol craft, or parts thereof
 - Developing plans or parts for a new class ship with multiple capabilities
- Aerospace Security
 - Developing advanced warning and control radar systems
 - Providing refueling and transport aircraft, aircraft parts, and the facilities to support them
 - Constructing UAVs for surveillance and combat purposes
 - Building surface-to-air guided missiles
 - Developing fighter craft and parts
- Response to Attacks on Remote Islands
 - Developing Amphibious armored vehicles and parts
 - Refitting landing ships and other transport seacraft/aircraft
 - Enhancing rapid deployment capabilities of combat vehicles and units
 - Providing personal equipment for ground forces, rescue teams, and disaster relief teams
 - Expanding intelligence and communications infrastructure, facilities, and even satellites

Source: [U.S. Commercial Service](#), [JMOD 2018 Defense Budget](#)



III. Regulatory Environment

a. U.S. Controls on Defense Exports to Japan

There are two primary regulatory bodies that administer US export control laws for defense or military-related products and services.

1. The Department of State Directorate of Defense Trade Controls (DDTC) administers the **International Traffic in Arms Regulations (ITAR)** 22 C.F.R. §§ 120-130, which controls items considered defense articles and services.
2. The Bureau of Industry and Security (BIS) in the Department of Commerce administers **the Export Administration Regulations (EAR)** 15 C.F.R. §§ 730-774, which controls purely civilian items, items with both civil and military, terrorism or potential WMD-related applications, and items that are exclusively used for military applications but that do not warrant control under the ITAR.

Licensing and other export certification requirements for exporting a military-related product (or service), are dependent upon the item's technical characteristics, the destination, the end-user, and the end-use. You, as the exporter, must determine whether your export requires a license. When making that determination, consider:

What are you exporting? Where are you exporting? Who will receive your item? What will your item be used for?

You must first determine which regulatory jurisdiction your product or service falls under before you can export. To do this, follow these steps:

1. Use the [U.S. Munitions List](#) (USML) to identify products or services that fall under ITAR jurisdiction.
2. Use the [Commerce Control List \(CCL\)](#) to identify products or services that fall under EAR jurisdiction and require a license. If the item is not on the CCL it still may fall under EAR jurisdiction; please consult [§ 734.2 Scope of the EAR](#) for further guidance.
3. If you are unsure if the desired export falls under the USML or CCL you can file a [Commodity Jurisdiction](#) request through the DDTC or you can file a [Commodity Classification](#) request through the BIS using SNAP-R.

Failure to comply with ITAR can result in civil fines as high as \$500,000 per violation, while criminal penalties include fines of up to \$1,000,000 and 10 years imprisonment per violation. Under EAR, maximum civil fines can reach \$250,000 per violation. Criminal penalties can be as high as \$1,000,000 and 20 years imprisonment per violation. Additionally, the United States has limited or banned the export of some defense products and services to specific countries. It is important to know whether the export of the product or service to a specific country is legal.

b. Japanese Controls on Defense Imports



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The Japanese Government's [Customs](#) website handles the clearance and declaration of all imported goods. Companies should begin looking at the [procedures](#) involved with exporting defense industry products. To begin with trade compliance or make any general inquiries, contact the [Customs Counselors Office](#) of any involved city ports.

IV. Business Etiquette

Japanese society and Japanese workplaces focus on the concept of harmonious relationships. Foreign visitors must pay close attention to delicate nuances and quantities of nonverbal communication in order to avoid cross-cultural misunderstandings. One of the most important things to understand about the Japanese business experience is the value of hierarchical structure and formality in the workplace, as well as saving face, or building and defending a respected professional reputation. Status in the Japanese workplace is determined by age and position, and the most senior person is revered in all business meetings and communications.

Greetings are formal and ritualistic in the Japanese workplace. Bowing, limited eye contact, and avoiding using the word "no" in conversation are all key parts of Japanese business culture, although foreigners aren't necessarily expected to understand all the delicate nuances of each show of respect. Deals in Japan tend to move more slowly than in western business environments, as there will be typically many rounds of visits to each party's workplace, as well as long e-mail exchanges, teleconferences, and business entertaining occasions designed to build personal and professional relationships.

In Japan, formal introductions from an inside contact are usually required to begin a working relationship, and the internal approval process can be very long, as any proposal must be approved by many representatives within the company. The business environment revolves around personal relationships that feature compatibility, sincerity, and trust. Compatibility can be established when your contact sees that you are concerned about the relationship and the well-being of the company, rather than only financial or personal gain. Your contact may give you a trial piece of the business to see how it goes, and if you provide excellent service in a timely manner, you will be rewarded the entire contract.

Source: [World Trade Reference](#)

V. Conclusion and Recommendations

Given current policy directives and security concerns, the Japanese defense industry is projected to offer plenty of opportunities for both advanced and general manufacturing firms, and the relationship the United States has with the Japanese Military gives American defense firms an advantage and easier access to points of contact. Aerospace and aircraft parts is currently the highest market for demand, as well as the largest portion of current Maine exports to Japan, meaning there is high opportunity to both establish new trade relationships and expand current exports of parts. The need for machine parts and maritime development will provide further trade opportunities for Maine companies, and Maine's low-population coastal environment and tradition of maritime manufacturing can be leveraged to show



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Japanese contacts of Maine's expertise in patrolling and responding to remote islands and coastal locations. Contacting the DCSA will help provide further information on how to begin a defense trade relationship with Japan, but contacts can also be made through attending events and trade shows and keeping up with current defense events to learn of future opportunities as Japan's defense plan further develops.

Biggest avenue is probably aerospace. Our firms which produce and already export plane parts should try to focus on expanding relations with Japan, and aerospace companies which have not already should look towards Japan for further trade. The need for the Japanese military to maintain maritime supremacy and enhance coastal responsiveness also plays well into Maine's shipbuilding defense industries well.

VI. Additional Resources

a. Key Contacts

Acquisition, Technology and Logistics Agency Public Contact:

Info-soumu@atla.mod.go.jp

Phone: 03-3268-3111

DCSA Public Contact:

Phone: (703) 697-9709

Japan Ministry of Defense Public Contact:

infomod@mod.go.jp

Phone: 03-5366-3111

National Defense Academy of Japan Contact:

ndainfo@nda.mod.go.jp

Phone: +81-468-41-3810 ext. 2019

U.S. Commercial Service Japan Contacts:

Koji Sudo, Senior Commercial Specialist

Koji.Sudo@trade.gov

Sayoko Koto, Commercial Specialist

Sayoko.Koto@trade.gov

b. Defense Trade Shows

RISCON

October 10-12, 2018

Tokyo, Japan

<http://kikikanri.biz/english/>



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SEECAT

October 10-12, 2018

Tokyo, Japan

<http://www.seecat.biz/english/>

CEATEC

October 16-19, 2018

Tokyo, Japan

<http://www.ceatec.com/en/application/>

Japan International Aerospace Exhibition 2018

November 28-30, 2018

Tokyo, Japan

<http://www.japanaerospace.jp/en/>

SEMICON

December 12-14, 2018

Tokyo, Japan

<http://www.semiconjapan.org/en/>

Aeromart

September 24-26, 2019

Nagoya, Japan

<http://nagoya.bciaerospace.com/en/>

c. Sources for Additional Information

Useful Links:

The Society of Japanese Aerospace Companies (SJAC)

http://www.sjac.or.jp/en_index.html

The Ministry of Economy, Trade and Industry (METI)

<http://www.meti.go.jp/english/index.html>

Defense Security Cooperation

<http://www.dsca.mil/>

For more information about Maine's Defense Industry, see the "Maine Defense Industry Report" in the Trade Resources page of the Defense Industry Maine Website.