



Domestic interests and “strategic benefits” in Australia-Japan submarine deal by Crystal Pryor and Llewelyn Hughes

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Prime Minister Abe Shinzo continues to lead Japan’s effort to sell subs to Australia, pushing the *Soryu*-class submarines in his Dec. 18, 2015 meeting with Australian Prime Minister Malcolm Turnbull. Securing the contract to supply Australia with replacements for its submarine fleet would be a stunning victory for Japan, advancing the Japanese defense industry’s international competitiveness after decades of isolation under an arms export ban, and deepening Japan and Australia’s defense links.

While a Japanese win is by no means assured – the competitive evaluation process will conclude in mid-2016 – Tokyo could prevail despite its inexperience in international defense sales and the attractive bids from France and Germany, countries with far more experience with and integration into the international defense industry. In addition to any strategic dividends, an important reason for this is that domestic interests are aligned with a Japanese victory. These benefits are an important factor in Japan’s competitiveness, despite its inexperience in international arms markets.

Strategic benefits

Australia’s 2009 Defense White Paper outlines a strategic environment that features US primacy globally, but which is complicated regionally by China’s rise as an economic and military power. Within the ANZUS alliance, Australia is committed to the principle of self-reliance in the defense of the Australian land-mass, including by retaining the ability to deter and disrupt the ability of adversaries to operate in its near neighborhood. Replacement of its six *Collins*-class diesel-electric submarine fleet is a crucial element of defense planning. The deal, valued at A\$50 billion (\$35.5 billion), will be one of Australia’s largest peacetime defense acquisitions.

An oft-cited reason for a Japanese win is its potential to strengthen Japan-Australia bilateral relations and the trilateral relationship with the United States. Two US companies, Raytheon and Lockheed Martin, are competing for the \$4 billion contract to supply Australia’s future submarines with on-board combat systems. The Japanese and US Navies have worked together, especially on submarine technologies like stealth technology. The trilateral relationship thus may help to build seafaring capabilities in a time of growing territorial

disputes in the South China Sea. It also fits nicely into Abe’s doctrine of a “proactive contribution to peace” – which calls for Japan to be a more active and cooperative participant in efforts to maintain international security.

Domestic enablers for Japan

A win for Tokyo has benefits for bilateral Japanese-Australian defense cooperation, and for both countries’ relationships with the United States. But it is an alignment of domestic interests that make a deal possible.

For Japan’s defense industry, the commercial gain of the submarine sale is significant – billions of dollars from the contract, which includes joint development of 8 to 12 submarines and their construction, maintenance, and upgrades. Yet it is not clear that Japan’s top concern is the economic benefit. Japan has never before revealed its proprietary submarine technology. With its offer late last year to build the subs in Australia and transfer advanced proprietary technologies, Japan appears willing to forgo significant economic gains to increase its chances of winning the bid. Why?

For decades, Japanese policymakers and industry representatives wanted Japan to participate in arms exports and overseas development projects. This goal was hindered by the 1967 “Three Principles on Arms Exports,” which curtailed Japan’s ability to export or co-develop defense articles overseas. The Three Principles banned the transfer of weapons to countries that were communist, subject to embargoes under UN resolutions, or involved in international conflicts. In 1976, Prime Minister Takeo Miki expanded these principles into a comprehensive arms ban.

In April 2014, the Abe Cabinet revised the principles to allow exports in cases that will contribute to global peace and serve Japan’s security interests. The National Security Council, also established in 2014, must clear all major arms exports in light of these interests. In October 2015, Japan’s Ministry of Defense (MOD) established the Acquisition Technology and Logistics Agency (ATLA) to rationalize defense-related R&D, procurement, and exports.

This submarine deal would be Japan’s first major defense export to a third party (i.e., not the United States) since revision of the Three Principles. It is a complex, multi-year venture with a forecasted 40-year lifespan that includes advanced technology-sharing. In addition to the MOD, industry heavyweights Mitsubishi Heavy Industry and Kawasaki Heavy Industry are on the Japanese tender – although the companies have been less energetic than the government in their sales efforts. While Japanese companies are interested in the economic opportunities created by defense exports, they are wary of the reputational costs among a pacifist public of being an arms exporter. The tender reflects

government efforts to prod Japan's defense industry to get more engaged in the international arms market.

Success would also be an important signal to domestic and overseas defense industries that Japan can compete in third markets, and perhaps help surmount the remaining reluctance on the industry side. Other countries in the Asia-Pacific – including Indonesia, Malaysia, Vietnam, and Singapore – are looking to modernize their submarine fleets. These are countries with which Japan is trying to build stronger strategic ties. A successful Australian venture increases the credibility of bids from Japanese industry for future defense contracts. Thus, the potential economic and defense industry – and ultimately strategic – benefits to Japan extend beyond sales revenue.

Exporting defense technologies helps develop Japanese firms' ability to integrate into the global defense production chain, a step the Japanese government and industry both realize is necessary. Japanese companies have globalized commercial production – since 2007, Toyota has produced more vehicles overseas than domestically. International defense collaboration has been the norm since the end of the Cold War, but Japan's arms export restrictions have blocked its participation in the international co-development of defense items. The revised arms export principles and establishment of ATLA open the door to Japanese defense industry participation.

This is likely why in September 2015, Japan officially made it known that it was ready to build the submarines completely in Australia, which it had been reluctant to do. To further sweeten the deal, MOD spokesman Masaki Ishikawa announced in October that Japan is ready to share all its expertise – including advanced lithium-ion battery technology. The batteries allow the submarines to travel great distances (a necessity given Australian mission requirements) without nuclear or diesel power. Japanese submarines also have advanced stealth capability, among other militarily-significant features. Ishikawa underscored that Japan has never revealed its submarine technology even to its closest ally and security partner, the United States.

Domestic enablers for Australia

Japan's interests in the submarine sale dovetail with Australia's local concerns. Australia needs to replace and augment its existing submarine capabilities. Japan's willingness to forego a local build and Australia's strong interest in a local build mean their interests intersect beyond the headline confluence of strategic interests.

The benefits to the South Australian economy have been noted by the state government. A report commissioned by the South Australian Economic Development Board (EDB) found that a local build of 12 submarines would create almost 4,000 more jobs annually for 40 years relative to a substantial overseas build, with the national economy better off to the tune of A\$525 million a year. Former Prime Minister Tony Abbott consistently spoke of the benefits of a local submarine build to the South Australian economy. Both independent Sen. Nick Xenophon, a key player on the cross-bench in Australia's Upper House, and Minister for Innovation Christopher Pyne

are from South Australia, and have spoken of the importance of ensuring the submarines are built in-state.

Two additional issues heighten Australia's desire for a local build. First, in keeping with its conservative economic thinking, the Liberal-National government decided in 2013 to drastically cut subsidies for Australia's auto manufacturing, much of which is located in South Australia. The decision is projected to lead to substantial losses in manufacturing – a wound that multi-year submarine construction can help to salve. Second, South Australia is important to the electoral fortunes of the current government, and a ballot is expected in late 2016. Both are important pieces of the puzzle.

Implications of the deal

A successful bid by Japan would not herald a deluge of Japanese arms into the international market. It will be years before Japan's government and industry identify its best role in the global defense supply chain, and there are likely to be few cases where Japan can compete head-to-head with established industry players for a complete defense export package. Japan will thus likely be looking for ways to plug in to existing supply chains (e.g., by making advanced components). Japan has a competitive advantage in specialized dual-use technologies and niche defense components – one result of the arms export ban. Moreover, development of a full-service arms industry like those of advanced countries during the Cold War would buck the trend of defense industry globalization that increasingly looks to share risks and costs, as well as benefits, across multiple partners.

Nevertheless, the submarine contract would be a big step forward for Japan's defense contractors, and Tokyo's bid matches Australian domestic interests. It will be months until the Australian government makes the final decision, but the alignment of domestic and strategic interests makes Japan a powerful competitor and the likely winner.

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