

Evaluating the Economic Benefits of Foreign Military Sales on Japan’s Defense Industry

Abstract

- Despite continuous increases in Japan’s defense budget, the economic viability of its defense industry has continued to decline.
- This research explored the viability of adopting the Foreign Military Sales (FMS) model to enhance Japan’s defense industrial base.
- Through qualitative and quantitative analysis—including structural comparisons and cost recovery estimates using the F-35 case—The analysis indicates that FMS is economically more suitable than DCS for Japan's defense exports.

Methods

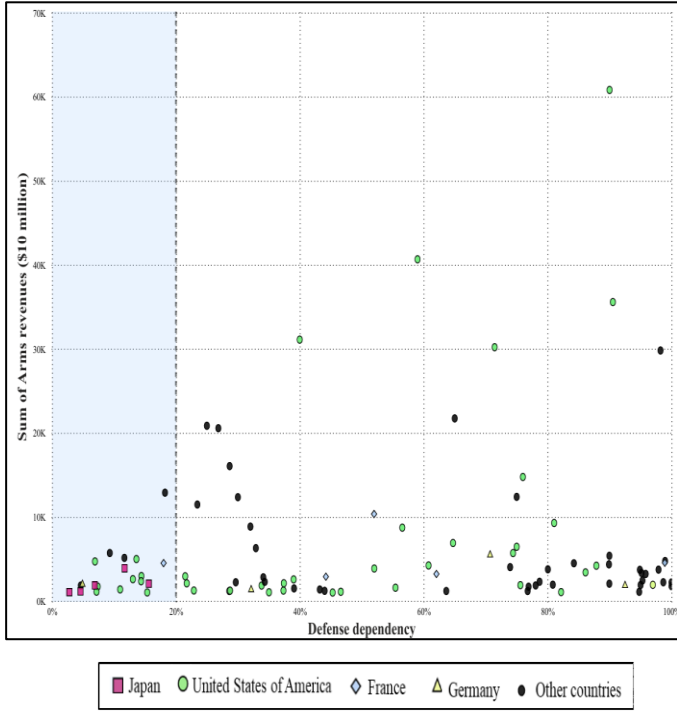
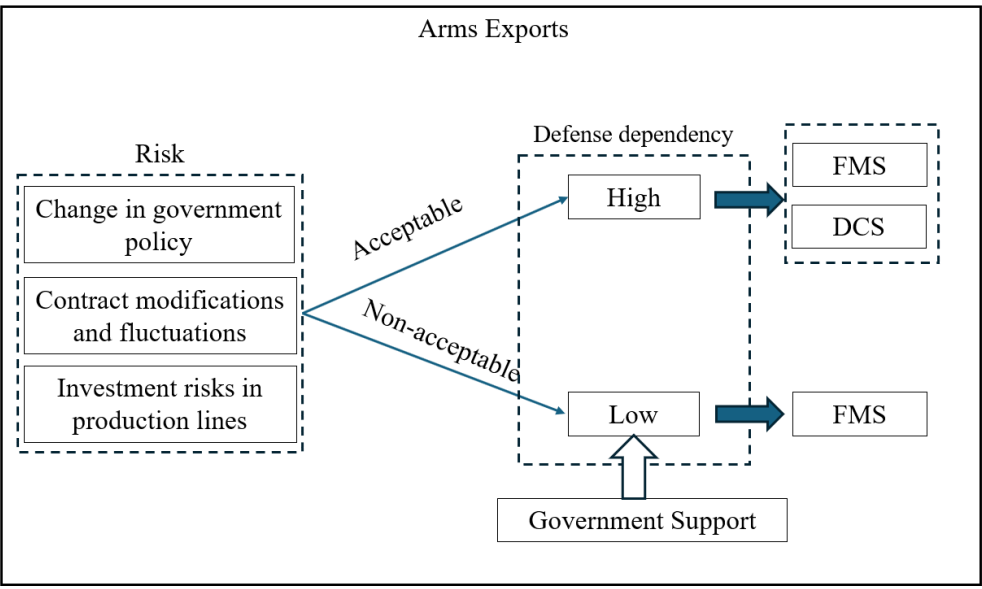
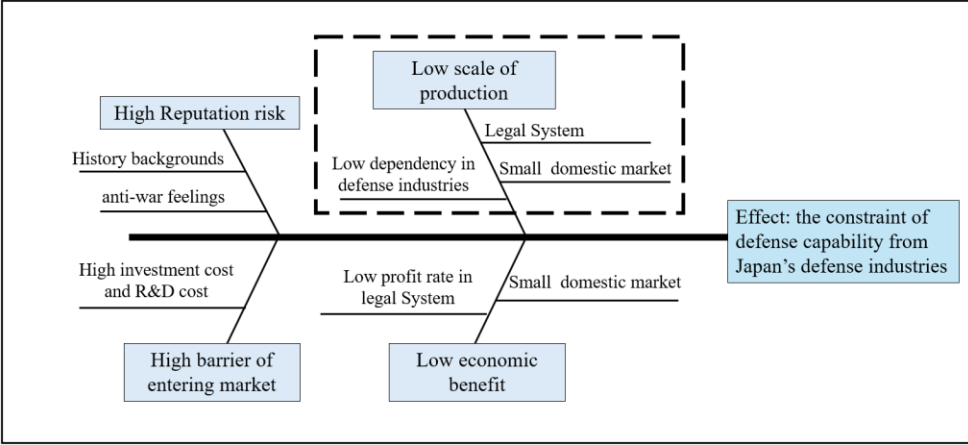
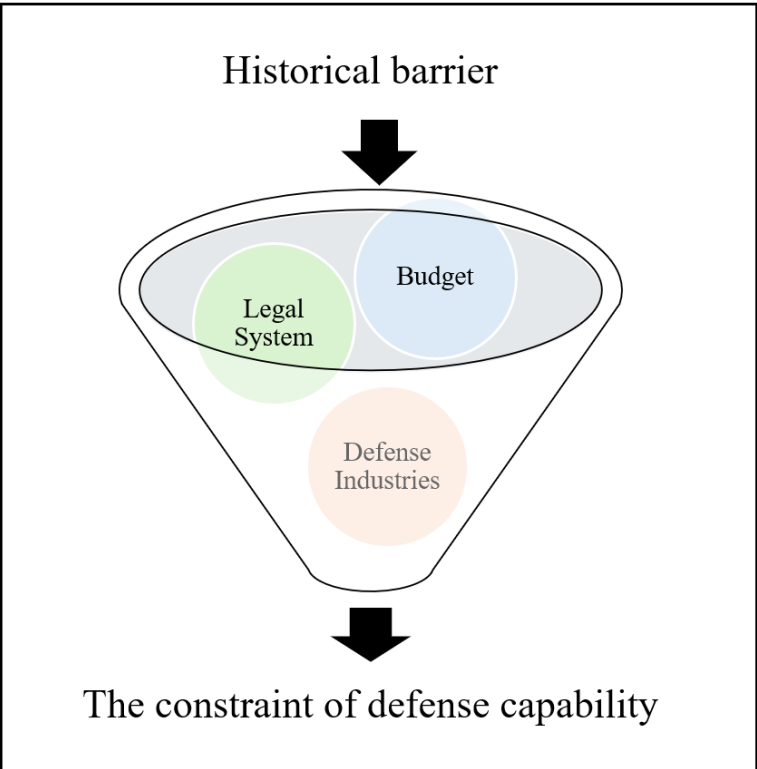
- Literature Review
- Qualitative analysis; Comparative study (U.S., France, Germany)
- Quantitative analysis; Case study (F-35, FFM, SS)

The unit cost of F-35s in foreign countries

Country	Partner Status	Quantity	Fundings(Million)	Average Unit cost
United Kingdom	Level 1	138	\$3,425.3	\$24.8
Italy	Level 2	90	\$2,233.7	\$24.8
Netherlands	Level 2	52	\$1,141.8	\$22.0
Australia	Level 3	100	\$2,482.1	\$24.8
Canada	Level 3	88	\$2,183.9	\$24.8
Denmark	Level 3	27	\$670.2	\$24.8
Norway	Level 3	52	\$1,290.5	\$24.8
Belgium	FMS	34	\$5,100.0	\$150.0
Czech Republic	FMS	24	\$4,580.0	\$190.8
Finland	FMS	64	\$10,790.0	\$168.6
Germany	FMS	35	\$6,476.0	\$185.0
Greece	FMS	40	\$8,600.0	\$215.0
Israel	FMS	75	\$8,966.0	\$119.5
Japan	FMS	67	\$11,270.0	\$168.2
Poland	FMS	32	\$4,590.0	\$143.4
Romania	FMS	32	\$7,200.0	\$225.0
Singapore	FMS	12	\$2,750.0	\$229.2
South Korea	FMS	60	\$10,340.0	\$172.3
Switzerland	FMS	36	\$5,569.0	\$154.7

Results & Impact

- This study clarifies how the structural and institutional constraints of Japan’s defense industry influence the suitability of FMS versus DCS in different export scenarios
- To strengthen competitiveness and ensure the industry's economic health, Japan should prioritize the adaptation of the FMS over reliance on DCS. Sustained growth and resilience must be supported through an active government framework centered on FMS.
- A 23.8% markup applied to non-partner countries—based on the F-35 case—suggests strong potential for recovering R&D costs.
- Simulations with FFM and Soryu submarines indicate even limited exports could offset development expenses.



Recommendation

Term	Policy Recommendation
Short-Term	<ul style="list-style-type: none">- Establish a government-supported arms export system modeled on the U.S. FMS, adapted to Japan’s legal and defense system.- Establish an inter-ministerial organization (MOD, MOFA, METI) under the NSC to ensure swift coordination.- Implement a transparent R&D cost recoupment.- Initiate exports with strategic partners focusing on components.- Integrate arms exports with international security cooperation.
Medium-Term	<ul style="list-style-type: none">- Develop legal and institutional frameworks to support Japan’s FMS.- Actively promote defense equipment through overseas diplomatic missions.- Institutionalize intelligence-gathering and promotional roles in diplomatic posts, aligned with MOFA’s legal mandate (Articles 3 and 4).
Long-Term	<ul style="list-style-type: none">- Mitigate reputational risks through long-term public engagement.- Communicate that the defense industry growth supports national defense.

Future Research

- A comprehensive policy framework should integrate both economic and security perspectives to justify FMS adaptation and build public support. Government-led efforts and public communication strategies will be essential.
- Future research should explore additional FMS cases across different equipment categories and examine the institutional and political constraints limiting Japan's defense exports.

