

Mitsubishi Heavy Industries Ltd

MHI plans global defence sales push after Japan expands military budget

Military contractor says industry has failed to make inroads abroad to compete with US and Europe



Mitsubishi Heavy Industries is one of three industrial partners in the Global Combat Air Programme, under which Japan, the UK and Italy will jointly develop next-generation fighter aircraft © BAE Systems

Kana Inagaki in Tokyo YESTERDAY

Japan's defence industry needs to step up its sales effort and reduce costs to become a global player in the fiercely competitive arms exports market, according to an executive at the country's biggest military contractor.

Masayuki Eguchi, head of Mitsubishi Heavy Industries' defence and space business, said in an interview with the Financial Times that the group plans to double hiring of defence-related staff to expand weapons production in the wake of Tokyo's move to [increase military spending](#).

[Japan](#) overturned its longstanding ban on arms exports in 2014, but the country has struggled to establish a meaningful global weapons business after being left out of the global procurement process for decades under its pacifist postwar constitution.

Industry executives are hopeful that a new fighter jet partnership among Japan, the UK and Italy will provide a significant opportunity for Tokyo to further ease limits and give [MHI](#) and its peers more access to foreign markets.

But relaxing export restrictions might not be enough, said Eguchi, echoing the warning by Japan's biggest business lobby Keidanren last year that razor-thin profit margins [threatened to trigger "a crisis"](#) in the domestic defence supply chain.

“We need to sell harder and increase our cost competitiveness,” he said, adding that the efforts by MHI and other Japanese companies would be in line with the arms exports policy set out by the government.

Compared with international defence contractors, Eguchi said, Japanese companies had not been able to establish a presence in foreign markets to the extent where they could identify and establish relations with local stakeholders to win defence contracts.

Other defence industry executives have pointed out that Japan lacks local offices and staff in foreign markets as well as core services such as maintenance and repair needed to pose a credible alternative to major US and European defence contractors.

Japan’s effort to resurrect its defence industry is closely linked to the government’s five-year, ¥43tn (\$286bn) plan to bring military spending to roughly 2 per cent of current gross domestic product to meet rising military threats from China and North Korea.

In April, Japan’s defence ministry awarded MHI contracts worth about ¥378bn to develop submarine-launched stand-off missiles and surface-to-ship missiles. As a result, the company’s defence orders hit a record ¥687bn for the April-June quarter. Analysts expect the group to upgrade its annual defence orders target when it releases its results in November.

Eguchi said that in addition to the hiring spree, MHI planned to internally reallocate personnel and other resources to bulk up its defence business.

“The most advanced technologies are used for the defence business, and that has a spillover effect for other commercial products,” Eguchi said. “The business itself is stable, and there is a huge benefit to maintaining personnel and equipment. With an increase in defence spending, we are looking to gradually expand the scale of our business.”

MHI — alongside BAE Systems of the UK and Italy’s Leonardo — is also one of the three leading industrial partners for the Global Combat Air Programme, which aims to merge national programmes to develop a supersonic jet more quickly and at lower cost.

The project marks the first time Japan has worked with non-US partners on a major military project. The partners have yet to work out the division of the workload. One determining factor is expected to be the cost of developing various technologies.

But Eguchi said MHI needed to expand its production capacity if it was to meet a target of [delivering the next-generation jet by 2035](#). He also said the company needed to lower manufacturing costs, which are higher than global rivals’.

Earlier this month, Mitsubishi Electric separately agreed to develop laser technology with the Australian government, in the first defence deal between a Japanese company and a foreign government.

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