AEROSPACE INDUSTRIES

Japan's aerospace industry dates from the 1950s, when the remnants of the pre-war industry were resurrected to provide a domestic capability to supply Japan's military. Despite occasional forays into commercial aviation, the focus of Japan's aerospace industry has remained the military, to the extent that it constitutes 70 to 80 per cent of production. Consequently, Japan's capability to supply the commercial aviation market is weak compared to its strength in other fields of advanced technology. Secondly, Japan's reliance upon the military market and its inability, for political and constitutional reasons, to amortize through export sales the cost of products for this market, have made Japan a high-cost producer of a limited range of aerospace products. As a result, extensive linkages have been established with the U.S. aerospace industry, which is now a major source of the basic technology being used in Japan.

I. Market Opportunities

As noted above, although Japanese industry is generally perceived as being large, powerful, and highly competitive, the aerospace component is relatively small. Despite its size, the industry's advanced manufacturing skills, as well as its reputation as an excellent subcontractor and supplier, have resulted in exceptional growth in output climbing from less than $1 billion in 1979 to nearly $8 billion in 1992. This phenomenal growth rate is not expected to continue at the same pace throughout the second half of the decade. Some indicators point to an overall decline in the growth rate as the market restructures.

The extensive airport development and expansion that is scheduled throughout Japan over the next few years, including the new 24-hour-per-day Chubu International Airport in the Nagoya region and the massive Kitakyushu project in the Fukuoka region, will create numerous opportunities in the Japanese marketplace. For example, the additional traffic load will generate greater demand for air traffic control systems. To date, Canadian firms have generally not taken full advantage of the developing potential.

While the capabilities of Japan's aerospace industry are far from those of the European or U.S. industries, it does possess leading technologies in selected areas. In the long run, the demonstrated Japanese ability to direct co-operative R&D in its industry, combined with technology acquisition and strategic partnering, could potentially produce more efficient technology to manufacture aircraft. However, the direction that the Japanese aerospace industry is likely to follow is