

Abenomics and Japan's Defense Priorities

by Tiago Mauricio

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“Japan is back!” Prime Minister Abe Shinzo confidently announced during his visit to the United States in February 2013. In a widely publicized speech at the Center for Strategic and International Studies, Abe repeated his administration's promises to revamp Japanese society and its standing among nations. While the economy is his top priority, his vision for Japan also rests upon a strong national defense (*kuni no mamori*). As a result, recent increases in the defense budget – the first in a decade – have led to speculation that a sustained economic recovery could drive further, more dramatic increases in spending. Nevertheless, there remains little evidence that this will actually take place.

Upping the ante

The 1 Percent Budget Cap. So far, the main evidence for the argument that Abenomics will result in substantial changes in defense policy is the recent increase in military expenditure, the first since 2003. For the current fiscal year, the Abe Cabinet has approved a plan to boost defense spending by 0.8 percent, or an extra 35.1 billion yen, to a total of 4.68 trillion yen. This increase was warmly received by most political constituencies as a necessary step to cope with rising tensions in Northeast Asia, particularly North Korea's nuclear and ballistic missile programs, as well as China's maritime assertiveness. The stimulus package for FY2013, part of Abe's shock therapy, provides further support for the argument, as approximately one-fifth will be invested in the military.

Whether one sees this budgetary increase as part of the Three Arrows Plan, or as a means of internal balancing against perceived threats, the argument linking Abenomics to changes in defense policy is over determined. In light of the decade-long stagnation in military expenditures, with increasing threats to Japan's security (see the National Defense Program Guidelines FY2011 and Beyond), and mounting problems in its domestic military structure, the budget needed to be increased for existing policy objectives to be achieved and existing military capabilities to be sustained. Furthermore, the announcement of this budget increase came only weeks after the election, when the results of Abenomics were still unclear. This suggests that the increase in military spending was something Abe and the LDP had planned before returning to power.

One should also remember that Japan has politically capped its defense budget at 1 percent of GDP. While this cap

imposes substantial strategic constraints on policymakers, it is perceived as a powerful bulwark against both militarization and fiscal slippage. This means that growing economic prosperity is unlikely to override it.

Unbalanced defense costs. The defense budget cap is not the only problem with the connection between Abenomics and future increases in defense spending. As demonstrated in a recent study by the CSIS on Asian defense expenditures, Japan is also having severe problems balancing its military posture. With the highest per-soldier defense spending in Asia, personnel costs have accounted for around 45 percent of Japan's total defense expenditures since 2000, which has translated into a lack of funds for research and development (R&D) and procurement. If previous levels of overall spending had been maintained, this would have resulted in defense atrophy and a decline in overall capabilities. To correct this, Abe has made cuts in salaries of approximately 4.5 percent and achieved an increase of over 4 percent for procurement. If the country is to move toward a more balanced defense allocation, however, much still needs to be done to reduce the burden of personnel costs relative to procurement and R&D.

While there has been much discussion of Japan's need to grow economically to compete with Chinese defense spending, the numbers tell a different story. For more than two decades, China has sustained double-digit budget increases, overtaking Japan as Asia's top spender in 2005. By contrast, Japan's recent budget increase was a modest one in what is clearly a downward trend in spending. Japan cannot afford to compete with Chinese spending and Japanese leaders know it.

Investments in the Coast Guard, operating under the Ministry of Land, Infrastructure, Transportation and Tourism, provide a clearer picture of Japanese concerns. With a budget increase of nearly 40 percent since last year, these investments overshadow changes in defense policy proper, and, as Richard Samuels has argued, the Coast Guard is now a fighting force to be reckoned with. Many of the funds were earmarked to create a new task force within the 11th Regional Coast Guard Headquarters, based in Naha, Okinawa, with 12 cutters (many over 1,000 ton displacement) and 600 men, in response to Chinese maritime assertiveness around the Senkaku/Diaoyu Islands. Spending on the Coast Guard has proven to be a convenient way for Japan to cope with its vulnerabilities without addressing the underlying problems of defense policy.

Furthermore, a Sino-Japanese military standoff over offshore islands would necessarily take into account other nonbudgetary factors, such as the quality of communications, command and control, troop qualifications, training, morale, and other intangibles that often determine actual military success. In this dimension, Japan is believed to have the

advantage, despite its smaller force levels compared to other countries in mainland Asia.

Economic pressure toward arms exports. A third argument for a connection between Abenomics and further increases in defense spending concerns Abe's attempts to expand defense cooperation while boosting Japan's economic base. In the first week of June, French President François Hollande visited Japan to discuss, among other things, joint cooperation in nuclear technology and military equipment. While many alluded to Hollande's (and Europe's) need for some lessons in Abenomics, the opportunity for Abe to engage in defense development with other countries besides the United States is not a departure from previous policies. Abe's predecessor, Prime Minister Noda Yoshihiko from the Democratic Party of Japan (DPJ), signed a similar agreement with British Prime Minister David Cameron in April 2012, following an assessment of mutual interests to promote greater cooperation in defense and economic ties. What is more, both Anglo-Japanese and Franco-Japanese agreements were made possible by the same Noda administration, as it relaxed the country's ban on arms exports in December 2011.

Motivating these attempts to forge new defense ties is the desire to expand Japan's military-industrial base. Indeed, the Keidanren (Japan's Business Federation), arguably the most influential business lobby, has been an adamant supporter of further relaxation of the ban on arms exports, claiming it deprives the sector of the volume of contracts and profits necessary to sustain its technological base and attract the attention of large investors. As a result, unlike other arms-producing companies in the West and elsewhere, Japan's top manufacturers only register 2-10 percent of their profits from arms sales. Given these constraints, servicing the most advanced conventional forces in Asia is no small achievement. Companies such as Mitsubishi Heavy Industries, Mitsubishi Electric, NEC, Kawasaki Heavy Industries, among others, can still boast a superior (if threatened) technological base and first-hand experience working with US defense contractors.

The recent controversy over the US Congress' decision to veto the sale of F-22 fighters to Japan is a case in point. It was a double blow for Japan. First, the JSDF could not guarantee air superiority over its neighbors. Second, Japanese defense contractors were left without the access they have traditionally enjoyed to licensed production of the world's most advanced fighter. Considering the problems the F-35 program is facing, this controversy has revived debates over the need to overhaul Japan's indigenous military-industrial base to give policymakers more options in terms of procurement and acquisition, while boosting the sector's profitability and reach. Without legal and political constraints on weapons sales, and with support from active defense diplomacy, it is fair to assume that Japanese companies would get many more contracts in the international defense market.

But these debates over defense cooperation and weapons sales are not new. While Abe has taken a step forward by extending defense ties to France, the economic rationale behind this move is not new. Indeed, there seems to be little connection between Abenomics and Japan's defense policy. Abe thus appears to be one in a long line of reformists for

whom political and security priorities have been secondary to economic ones.

Constitutional revision: a wild card

There is, however, one scenario in which Abe's leadership and the success of Abenomics could result in the transformation of Japan's defense policy: constitutional revision. Opinion polls by leading newspapers indicate that the public is divided on the three fundamental questions related to constitutional revision and reshaping the national defense architecture. While the LDP, in coalition with the New Komeito, won a landslide victory in the recent House of Councilors election, it didn't obtain a two-thirds majority which would make it easier to bring about constitutional revision. Moreover, there is even greater public reluctance to revise Article 96, which requires all constitutional amendments to achieve a two-thirds majority in the Diet and a majority in a subsequent national referendum. Given these obstacles and the high threshold for revision, Abe and Abenomics have to continue demonstrating good results and projecting an image of stability and prosperity to garner the support of the large number of undecided votes.

Should Abe succeed, however, all bets are off. While hopes remain that Abe's rhetoric is a daring bluff to attract the support of the right, and of those fed up with the ineptitude of previous administrations, his commitment to a conservative revival of Japan should not be downplayed.

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