Section 5. Defense-Related Expenditures

1. Defense-Related Expenditures and Changes
Defense-related expenditures include spending for maintaining and managing the SDF, improving living conditions in the neighborhoods of defense facilities, and supporting U.S. forces stationed in Japan.

The defense-related budget on an expenditure basis for FY 2008 decreased by ¥38.9 billion or 0.8% from the preceding fiscal year for the sixth consecutive year, under the Government’s policy to firmly implement the Integrated Reform of Expenditures and Revenues as stipulated in “Basic Policy 2006.” (The budget shown in above excludes costs related to the Special Action Committee on Okinawa (SACO) and the U.S. forces realignment-related expenses (portion meant to reduce burden on local communities)).

Including ¥18 billion in SACO-related expenses and ¥19.1 billion in expenses related to realignment of U.S. forces (portion meant to reduce burden on local communities), Japan’s total defense-related expenditures for FY 2008 amount to ¥4,779.6 billion, representing a decrease of 0.5% or ¥21.7 billion from the preceding fiscal year. (See Fig. II-2-5-1 & 2) (See Reference 18-19)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2008 Defense-Related Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defense-Related Expenses (Including SACO-related expenses and U.S. forces realignment-related expenses (portion for reduction of burden on local communities))</td>
<td>¥4,742.6 billion (¥4,779.6 billion)</td>
</tr>
<tr>
<td>Fiscal YOY growth</td>
<td>+0.8% (+0.5%)</td>
</tr>
<tr>
<td>% of GDP</td>
<td>0.900% (0.907%)</td>
</tr>
<tr>
<td>% of govt. gen. acct. budget</td>
<td>5.7% (5.8%)</td>
</tr>
<tr>
<td>Future Obligation</td>
<td>¥3,035.5 billion</td>
</tr>
<tr>
<td>New contracts</td>
<td>¥1,797.2 billion</td>
</tr>
<tr>
<td>Previous contracts</td>
<td>¥1,238.3 billion</td>
</tr>
</tbody>
</table>

Note: Does not include SACO-related expenses, nor U.S. forces realignment-related expenses (portion for reduction of burden on local communities)
2. Breakdown of Defense-Related Expenditures

Defense-related expenditures are broadly classified into “personnel and food provisions expenses,” which cover such items as pay and meals for SDF personnel, and “material expenses,” which finance the repair and maintenance of equipment, purchase of fuel, the education and training of SDF personnel, and the procurement of equipment and others. Material expenses are further classified into “obligatory outlay expenses,” which are paid under contracts concluded in previous fiscal years, and “general material expenses,” which are paid under current-year contracts. (See Fig. II-2-5-3)

The Ministry of Defense terms this classification method as “classification by expenses.” Personnel and food provisions expenses and obligatory outlay expenses, both of which are mandatory expenses, account for 80% or more of the total defense-related budget. A breakdown of general material expenses shows that ongoing or mandatory costs account for a significant portion of the total, including the repair of equipment, education and training of SDF personnel, cost-sharing for the stationing of USFJ, and expenses related to measures to alleviate the burden on local communities hosting U.S. bases in Japan.

Personnel and food provisions expenses decreased by ¥7.5 billion (0.4%) from the previous fiscal year. Obligatory outlay expenses for the year decreased by ¥43.8 billion or 2.5% from the previous year while general material expenses rose by ¥12.3 billion or 1.3% from the previous year.

The breakdown of FY 2008 defense-related expenditures classified by organization, such as the GSDF, MSDF, and ASDF, and also by use, such as personnel and food provisions expenses, and equipment and material purchase expenses is shown in Fig. II-2-5-4. (See Reference 20)

Thus, although Fig. II-2-5-5 displays the defense expenditures of each country shown in dollar terms using the purchasing power parity of each country as published by the Organization for Economic Cooperation and Development (OECD), there are limits to make a simple comparison between Japan’s defense-related expenditures and those of other countries.
3. Comparison with Other Countries

Understanding the defense expenditures of each country using a single standard is not possible in view of differences in the socioeconomic and budgetary systems of each country. There is not an internationally unified definition of defense expenditures, and breakdowns of defense expenditures are often unclear even in many countries where such data is publicly disclosed. (See Reference 21)

Furthermore, though defense expenditures are generally converted into a dollar-termed value for the comparison, defense spending based on this method does not necessarily reflect the precise value resulted from counting each country’s price levels.
Notes:
4) Defined in the Cabinet decision referenced in Note 3) as “Increased proliferation of weapons of mass destruction and ballistic missiles, new threats including activities by international terrorist organizations and others, and diverse situations in which peace and security are affected.”
5) (1) Not designed to directly counter military threats  (2) The portion of the concept stating that Japan will maintain defense capabilities based on strategic environments and geographical characteristics in order to prevent invasion is deemed to remain effective and thus will be sustained under the new security environment.
6) Regarding the contents of talks Japan held with the United States based on ideas shown in the National Defense Program Guidelines, see Part III, Chapter 2, Section 2.
7) The Mid-Term Defense Program stipulates that the Government of Japan will improve the research and education function of the National Institute for Defense, a think tank-like institute of the Japanese Defense Ministry, regarding security policy.
8) Major equipment of the MSDF (Aegis-equipped destroyers: four vessels) and major units of the ASDF (Air-warning control units: seven warning groups and four warning squadrons; surface-to-air guided missile units: three groups). For development of the BMD system, see Part III, Chapter 1, Section 2.
9) Total costs of defense equipment that becomes necessary throughout the full lifecycle of brainstorming sessions, the development process, mass production, operations (including maintenance and repair costs) and equipment scrapping.
10) Based on this statement, it was decided on December 24, 2005 by the Security Council and the Cabinet that the joint Japan-U.S. technical research on a sea-based midcourse system of the BMD would be succeeded by joint Japan-U.S. development in FY 2006. In a statement issued by the Chief Cabinet Secretary on the same day, it was stated that “weapons required by the United States for the purpose of joint Japan-U.S. development shall be provided under strict control and also upon coordination with the United States regarding a framework for provision of weapons.” Following this statement, the Exchange of Notes concerning the Transfer of Arms and Military Technologies was concluded by the Japanese and U.S. Governments in June of 2006. The exchange provides a framework for enabling the transfer of weapons and weapons technologies designed for the joint Japan-U.S. BMD development, as well as weapon technologies that were subject to transfer under the previous Exchange of Notes concerning the Transfer of Military Technologies. (See Part III, Chapter 1, Section 2-1 and Part III, Chapter 2, Section 3-5)
11) In June 2006, Japan decided to provide patrol vessels, which fall under the category of weapons and others under the Three Principles on Arms Export, to Indonesia as grant aid meant to support the country in its efforts to control and prevent terrorism and piracy. A statement issued at that time by the Chief Cabinet Secretary stated that the transfer of the patrol vessels was exempted from the Three Principles on Arms Export on the condition that an international agreement is concluded with the recipient country to ensure that the vessels are not used for purposes other than controlling and preventing terrorism and piracy and that the country does not transfer the vessels to a third party without Japan’s prior consent.
12) As a part of their efforts to restore sound fiscal standing, the Government and ruling coalition parties conducted discussions and studies on the proposed unified reform of the nation’s spending and revenue
structures. As a result, specific measures to reform defense-related expenditures were laid out in the Basic Policies for Economic and Fiscal Management and Structural Reform (Cabinet endorsement on July 7, 2006).

13) In the budget for FY 2008, a change in recording method was enacted from the viewpoint of clarifying the overall debt burden and payment amount for first-time expenses (expenditures for production facilities that must be prepared for creation of necessary equipment, etc.), so that first-time expenses related to equipment of which procurements start from FY 2008 and equipment of which procurements have started in FY 2007 and earlier are conducted in FY 2008 are bracketed together and recorded as act of bearing liabilities with national treasury funds.

14) Procurement of some main front-line defense equipment, such as vessels and aircraft, and construction of accommodations for SDF personnel, take several years. Budgeting for such activities is made to allow execution of contracts basically within five years. Based on such budgeting, MOD and contractors conclude a contract which allows MOD to pay contractors at a specified time in the future. The total budget amount for the contract will then be split into several portions over the years, and expenses for payment will be budgeted in each year. Expenses budgeted in the fiscal year when their payment to the contractor becomes necessary several years after the conclusion of the contract are called “obligatory outlay expenses,” while expenses for which the payment period has yet to come are termed “expenses carried over to following fiscal years.”

15) A typical cost under this category is expenses for installation of a sound-proof system in residences located near U.S. bases.

16) A gauge that measures each country’s ability to purchase assets or services by taking into account their respective price levels.

17) The table excludes Russia and China, for which no OECD data on purchasing power parity exist. For changes in defense-related expenditures for each country in its local currency, see Part I, Chapter 2 and Reference 21.