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CEO Insight: Japan executes its "Zeitenwende" with action, not words

Japan proves to be a reliable partner of the "de-risking of China" coalition. The defense budget is doubled, and economic security is prioritized.

Japan's biggest daily traffic jam is on the little-known Route 30 in the southern main island of Kyushu. Thousands of construction workers and engineers and countless trucks and delivery vehicles clog the multi-lane road to Kikuyo in Kumamoto Prefecture in the morning and evening. There, the world's largest contract manufacturer for processors, Taiwan Semiconductor Manufacturing Company (TSMC), is building a factory together with the electronics group Sony and the automotive supplier Denso, which is set to produce chips as early as 2024.

The government in Tokyo provided 476 billion yen (3 billion euros) in funding to bring this factory to Japan. In total, 2 trillion yen (12.7 billion euros) in subsidies flowed in the past two years in state aid to the semiconductor industry. Now the Industry Ministry METI is putting together an even larger support package. The supplementary budget, due at the end of October, includes [new assistance](#) of 3.35 trillion yen (21.2 billion euros) for this industry.

The massive subsidies are part of Prime Minister Fumio Kishida's strategy to lead his own semiconductor industry back to the top of the world on the one hand and to strengthen Japan's economic security on the other. Critical supply chains for chips and other high technologies are being restructured to make Japan economically less dependent on China and less susceptible to blackmail in a Taiwan conflict.

Japan is carrying out its "Zeitenwende" without big slogans and catchphrases and is consistently pursuing a de-risking course. This means that China remains an enormously important giant market on its own doorstep, which Japan needs for its own economic well-being. The textile giant Fast Retailing, for example, operates more Uniqlo stores in China than in Japan. But China should no longer be the main supplier of goods and raw materials essential to Japan's economic security.

The German political scientist and historian Herfried Münkler, referring to Germany, [answered the question](#) whether the phase of "geoeconomics" since 1989 is now over and geopolitics is back: "That's how it is. That means, first, that we have to invest much more in the military area again. And second, that economic policy has to identify strategic dependencies and vulnerabilities and develop more resilience. Companies have to deal with political imperatives and requirements. Or, to put it in a nutshell: The reign of business economists is over; economic dependencies must be geopolitically defensible."

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Japan is already acting according to these postulated maxims for Germany. The government in Tokyo drew quicker conclusions from China's threatening military gestures against Taiwan, the new China-Russia-North Korea axis, and Russia's war against Ukraine than many Western countries because Japan's political and economic elites never harbored any illusions about China's hegemonic claims. Already in 2012, the anti-Japanese protests in China, with a boycott of Japanese businesses and goods and a blockade of rare earth exports in 2012, made Japan aware of the dangers of dependence.

Japan therefore responded to the new world situation as early as the end of 2022 by amending its defense and security doctrines. It defined seven military areas that need to be addressed, including air and missile defense, cyberspace and unmanned weapons systems. Japan plans to double its defense budget from 1% to 2% of gross domestic product within five years until 2027. The defense budget will be increased by about a quarter as early as 2024.

The days of Japan rarely flying the flag in global political crises already ended with longtime head of government Shinzo Abe, who was in office from late 2012 until summer 2020. "[Japan is not, and will never be, a Tier-two country](#)," Abe declared. His longtime foreign minister Kishida is consistently pursuing this path as prime minister.

The West and the U.S. need Japan as a "safe haven" in Asia with a strong economy and potent armed forces. Kishida's clear actions for defense and economic security prove that Japan wants to assume this role in the long term.

With its commitment to security, Japan is also becoming the most important pacesetter for democracy, freedom, capitalism and free trade in Asia. For foreign investors, for example in residential real estate, this means: Their capital is well and safely invested in Japan - and also brings them positive returns in real terms.

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