

# Japan's break from pacifism spurs industrial renewal

Heather Ng

14 hours ago

The country's decision to double defence spending to 2% of GDP reflects both a recalibration of Tokyo's security posture in the Indo-Pacific and a broader industrial revival.



Japan's move to double defence spending to 2% of GDP marks the most profound shift in its security posture and industrial ambitions since the end of World War II, reshaping Tokyo's role in the Indo-Pacific.

"Tokyo is transitioning from a reactive security actor to a proactive regional stabiliser, counterbalancing China and North Korea while strengthening its role as a democratic anchor in Asia," Steve Alain Lawrence, CIO at Balfour Capital Group, told *AsianInvestor*.



Steve Alain Lawrence  
Balfour Capital Group

Lawrence added that the narrative around defence has shifted.

"Defence is no longer viewed as anti-ESG but reframed as essential to national resilience and sustainable growth, driving re-ratings across the sector."

## INDO-PACIFIC REALIGNMENT

Japan's reorientation enhances deterrence and positions it as a cornerstone of regional security. At the heart of this transformation lies

the US–Japan alliance, which remains the foundation of Tokyo’s defence doctrine.

Washington’s Indo-Pacific strategy increasingly depends on Japan’s expanded capabilities in missile defence, maritime security, and space-based intelligence.

“The relationship is evolving from coordination to co-development, with both nations collaborating on next-generation fighter systems, naval platforms, and AI-enabled command technologies,” Lawrence said.

Yoel Sano, head of political and security risk at Business Monitor International, stressed that Japan’s geopolitical posture is driving its defence spending rather than the reverse.



*Yoel Sano*

*Business Monitor International*

He pointed to the assertive stance Japan has steadily adopted, particularly under Shinzo Abe’s premiership between 2012 and 2020.

“This has been a response to perceived security challenges from China and missile threats from North Korea,” Sano said.

Abe had unsuccessfully sought to change the status of Japan’s Self-Defense Forces (SDF) in the country’s pacifist constitution, which was imposed by the US after World War II.

Japan is now deepening military cooperation not only with the US but also with South Korea, the Philippines, Australia, and India, through both bilateral agreements and multilateral frameworks such as the Quad and AUKUS. Ties with European partners, including the UK and France, are also strengthening.

While Tokyo has condemned Russia’s invasion of Ukraine and provided financial support to Kyiv, its strategic focus remains firmly on East Asia.

Security planners are prioritising potential conflicts on the Korean Peninsula and in the Taiwan Strait, while the East China Sea and South China Sea remain areas of concern, particularly given China’s claims over the Japanese-administered Senkaku Islands.

Japan also continues to monitor Russia closely, owing to their territorial dispute over the Kuril Islands and Moscow’s closer military ties with North Korea since 2023.

Shifts in US policy have further shaped Japan’s trajectory.

“Things began to change in Donald Trump’s first term (2017–2021), when Trump openly questioned US security commitments to its allies, including Japan, and demanded that Tokyo dramatically increase its financial contributions to the costs of hosting 50,000 US troops,” Sano said.

Even before Trump’s return to power in 2025, Japan had already announced plans to double defence spending by 2027, driven by the unstable geopolitical environment following Russia’s invasion of Ukraine.

“Following Trump’s return to power, his administration has pressed Japan to raise defence spending to 3.0–3.5% of GDP, but we consider this an unrealistic target, in light of Japan’s colossal public debt burden of 235% of GDP and its rapidly ageing population,” Sano added.

## **RESHAPED INDUSTRIAL LANDSCAPE**

Domestic champions such as Mitsubishi Heavy Industries, Kawasaki Heavy Industries, IHI, NEC, Fujitsu, and Mitsubishi Electric stand to benefit, alongside global partners like Lockheed Martin, BAE Systems, Airbus Defence, and Thales, according to Lawrence.

“As procurement expands, Japan is set to become a global manufacturing and R&D hub for next-generation defence technology, with the sector emerging as a new engine of industrial growth,” Lawrence said.

Investor sentiment is shifting in tandem.

Global funds including BlackRock, Fidelity, Baillie Gifford, and Capital Group have quietly increased allocations to Japanese defence-linked firms, while European asset managers such as Amundi and Schroders are following suit. Banks including Goldman Sachs, UBS, and Nomura now identify defence and security technology as structural investment themes.

Japan’s new defence strategy prioritises cutting-edge technologies such as AI-driven command systems, autonomous drones, quantum communications, and cyber defence.

Firms like NEC, Fujitsu, Sony Semiconductors, and Rakuten Symphony are leading the charge, joined by startups such as SkyDrive and ispace, Lawrence said.

The Global Combat Air Programme (GCAP) with the UK and Italy exemplifies this innovation drive, developing AI-enhanced fighter jets

and autonomous systems.

“These initiatives reflect Japan’s ambition to lead in defence technology and define the next phase of its industrial competitiveness,” Lawrence said.

## REGIONAL RIPPLE EFFECTS

The impact of Japan’s rearmament is being felt across Southeast Asia.

ASEAN nations including the Philippines, Vietnam, Indonesia, and Malaysia are accelerating defence modernisation, with joint training, technology cooperation, and financing partnerships with Tokyo expanding rapidly, Lawrence said.

Several countries are targeting defence spending of up to 2% of GDP by 2030, supported by Japan’s new Official Security Assistance program, which fosters collaboration in shipbuilding, cybersecurity, and unmanned systems.

“Collectively, these trends are reshaping Asia’s defence ecosystem and creating new investment opportunities in regional supply chains and infrastructure,” Lawrence observed.

– Haymarket Media Limited. All rights reserved.

## FUND MANAGERS

#defense investments   #japan

## RELATED ARTICLES

### Market Views: Will China’s battered property market recover in 2026?

Heather Ng  
5 days ago



### KWAP's \$500m push to build Malaysia's net zero economy

Heather Ng  
Nov 20, 2025

