How Tokyo buys deterrence without buying defence parity

Japan's record defence budget masks a currency-eroded reality, where shrewd partnerships matter more than raw spending power, writes Stephen Nagy.

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On August 31, Tokyo unveiled another "record-breaking" defence budget—FY2027 budget request of ¥8.9 trillion—that took Japan a rung closer to the two percent of GDP target enshrined in its 2022 National Security Strategy. Yet as I have argued repeatedly to colleagues and policymakers here, we must resist the seductive simplicity of a nominal figure for defence spending. The story of Japanese rearmament is far more complicated and far more revealing about the constraints under which this adaptive middle power operates than the topline number suggests.

First, we need to consider the currency problem, which is too often ignored in Western commentary related to Japan's "record defence spending increases". Japan's FY2027 request converts to roughly $A 80.6 billion . That is almost identical, in dollar terms, to the figure SIPRI recorded for 2024, despite Japanese spending rising by a striking 21 percent in yen terms that year. How can a double-digit yen increase produce near-stagnation in dollar purchasing power? The answer lies in the collapse of the yen, which has weakened from roughly ¥75–80 to the US dollar in 2011–2012 to near ¥159 in 2026. Because Japan procures F-35s, Tomahawks, and E-2D aircraft in dollars, much of the headline increase is simply running to stand still. Tokyo is not so much expanding its arsenal as defending its declining purchasing power against a depreciating currency. The "record budget" is, in real acquisition terms, considerably more modest than the rhetoric implies.

Second, Japanese defence spending has proven remarkably resistant to dramatic, sustained expansion. For decades Tokyo held the line at roughly ¥4.7–5 trillion, or about one percent of GDP, and even the post-2022 surge, once filtered through currency effects, has kept Japan hovering in a relatively narrow dollar band. The SIPRI 2024 rankings place Japan **tenth** globally, well behind its ally the United States ($997 billion), China ($314 billion), Russia ($149 billion), and a cluster of European states. This is instructive. In 2004–05 Japan ranked as high as fourth; its slide to tenth reflects not retrenchment but the *relative* decline of an economy that has grown more slowly than some of its peers. But at 1.4% of GDP, Japan is the lowest defence spender in the G7. A structural difficulty in dramatically increasing defence outlays remains stubbornly in place: external debt exceeding 250% of GDP, exacerbated by the insatiable social-security demands of an aging society and a weak currency. The result is a Japanese defence posture that is trending water.

This does not diminish the genuine drivers behind Tokyo's reorientation. The 2026 Defense White Paper describes a security environment representing Japan's "greatest trial since World War II," citing deepening China-Russia-North Korea alignment, the lessons of Ukraine, and the proliferation of low-cost, high-lethality drones. The acquisition priorities reflect this. To illustrate: the SHIELD programme, *Synchronized, Hybrid, Integrated and Enhanced Littoral Defense*, allocates approximately ¥100.1 billion to networks of unmanned aerial, surface and underwater systems. These include,tiered attack UAVs and USVs,

upgraded Type-12 stand-off missiles, hypersonic development, and the establishment of a Space Operations Command. These are the "new ways of war" that Defence Minister Koizumi insists Japan must master.

Japan is not pursuing a purely internal military buildup; it is executing a sophisticated strategy of *internal and external balancing* that reflects its enduring identity as a comprehensive-security state with a pacifist constitution. Internally, Tokyo is strengthening the sinews of national power beyond hardware such as economic security legislation, semiconductor and critical-technology resilience, and a deliberate loosening of the arms-export restrictions first eased in 2014 to build a sustainable defence-industrial base. The FY2026 documentation's emphasis on production-capacity expansion and munitions stockpiling shows a state absorbing Ukraine's central lesson, that industrial depth, not just platforms, wins protracted wars.

Externally, Japan is weaving a lattice of minilateral partnerships that multiply its weight without requiring it to match great-power budgets. The most striking example is the Global Combat Air Programme, the sixth-generation fighter co-developed with the United Kingdom and Italy through the Edgewing joint venture and which in July 2026 welcomed Canada as its first Observer Nation. This is significant. Unlike the F-35, GCAP grants Japan genuine industrial and technological autonomy alongside equal partners. Simultaneously, Tokyo has deepened ties with Australia through reciprocal access arrangements, expanded security cooperation with the Philippines amid shared concerns over the South China Sea, and extended Official Security Assistance across the Indo-Pacific. These moves hedge against precisely the risk now openly contemplated by analysts at the Ministry of Defence's National Institute of Defense Studies (NIDS)—an increasingly "transactional and inward-looking United States."

Japan cannot buy its way to parity with China, and it knows this. What it can do, and is doing, is leverage technology, industrial partnership, export markets, and regional coalition-building to generate a deterrent effect disproportionate to its raw expenditure. Prime Minister Takaichi's ambitions, including a renewed push to amend the constitution's Article 9, will test how far this posture can evolve, particularly as a force structure now incorporating long-range strike sits awkwardly with the Article's requirement Japan maintain an exclusively defensive capability.

For international stakeholders eyeing Japan's "expanding" defence equipment market, the lesson is one of tempered expectation. The market is genuinely opening but the "record" budget is smaller in real terms than it appears, and Japan will spend it shrewdly, favouring partnerships that build sovereign capacity and autonomy over dependency. It is the calculated strategy of a nation determined to remain an equal peer, not merely a client.