

Guns, Debt and Aging: Japan's Security Strategy under Fiscal Constraint

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Abstract

*Japan is attempting a major defense buildup at the very moment when its public finances and demographics are least suited to sustain it. The paper examines how record public debt, structural aging, and labor scarcity constrain Japan's security strategy and make every additional yen of defense spending more fiscally and politically costly. It argues that Prime Minister Sanae Takaichi's election slogan "Stronger, Wealthier Japan" is best read as a repackaged echo of the Meiji-era formula *Fukoku Kyōhei* – "Rich Country, Strong Army"—and that this formula must be reinterpreted for an era of high debt, weak currency, and demographic contraction. The analysis highlights the fiscal trilemma of weak currency, wage-led inflation, and record debt, traces demographic "amorphization," and assesses the limits of Japan's technological offset strategy. It concludes by interpreting Japan as an early case of "rearmament under structural ageing," whose ongoing experiment offers lessons for other advanced, aging democracies, including in Europe.*

Introduction: Guns, Debt, and Aging

Japan's current security debate is increasingly defined by three forces: guns, debt, and aging. The 2026 snap election, which returned Prime Minister Sanae Takaichi to power with a mandate to accelerate defense spending, coincided with a spike in Japanese Government Bond (JGB) yields and a renewed weakening of the yen. Together with rapid population aging, these developments frame a central question: how far can Japan expand its military capabilities under mounting fiscal and demographic constraints?

Takaichi's campaign slogan "Stronger, Wealthier Japan" was crafted for a twenty-first-century audience, but it consciously resonates with the Meiji-era ambition of *Fukoku Kyōhei* – a rich country sustaining a strong army. In this paper, that resonance is treated as deliberate: a repackaged echo of a historical formula whose structural preconditions no longer hold.

The Takaichi administration has pledged to bring defense outlays to 2 percent of GDP by the mid-2020s, ahead of the originally planned 2027 timetable, just as markets and international institutions signal unease about Japan's debt trajectory. Japan's security strategy now sits at the intersection of a fiscal trilemma—weak currency, wage-driven inflation, and high public debt—an ongoing demographic shock, and an ambitious but fragile technological offset.

To structure the argument, the paper proceeds in five steps: it first outlines the macro-fiscal constraints on rearmament; then analyzes demographic decline and labor-market dynamics;

examines human-capital and recruitment problems in the Self-Defense Forces (SDF); assesses the logic and limits of the technological offset; and historicizes Fukoku Kyōhei under contemporary conditions, before concluding with reflections on Japan as an early case of rearmament under structural ageing.

I. The Fiscal Trilemma

1. The Weak-Yen Trap

Japan's latest defense buildup depends heavily on imported U.S. and European weapon systems—Tomahawk cruise missiles, F-35 fighters, and missile-defense components—priced predominantly in U.S. dollars. When procurement plans were drafted around 2022,¹ Tokyo assumed an exchange rate near ¥108 per dollar; by early 2026, the yen was trading in the range of ¥157 ~ ¥159 to the dollar, implying that the same dollar-denominated systems now cost roughly 45–47 percent more in yen terms. This “imported inflation” in national security has already forced the Ministry of Defense (MOD) to scale back some planned aircraft and missile purchases.² A weak yen can support export competitiveness in civilian sectors, but for a defense buildup heavily dependent on imported platforms and components it erodes real purchasing power. The more Japan spends on dollar-priced systems under these conditions, the less capability it acquires per yen.

2. Structural Wages and Endogenous Inflation

Bank of Japan Governor Kazuo Ueda has stressed that Japan's labor shortage is structural, not cyclical, and that wage and price dynamics increasingly reflect demographic realities rather than short-term demand fluctuations. With the working-age population shrinking, firms must raise wages to attract and retain staff, especially in services and construction, contributing to broader inflationary pressure.³

For the MOD, this creates a “double squeeze.” On the import side, the weak yen makes dollar-priced systems more expensive; on the domestic side, higher wages increase the cost of personnel, base construction, maintenance, and local procurement. The ministry must compete with private employers—including retail and logistics—for a shrinking pool of young workers, often by raising pay and benefits. Each additional yen of defense spending therefore buys less hardware and fewer labor hours than when the 2022 security plans were drafted.

3. Debt and the Bond-Market Constraint

With gross public debt near 240 percent of GDP, Japan faces limited fiscal space to accommodate new, large-scale spending commitments. For years, extremely low interest rates and strong domestic demand for JGBs muted concerns about debt sustainability. However, investors' reaction in early 2026 to hints of new “defense construction bonds”—a rise in yields and sell-offs of certain maturities—suggests that markets are increasingly sensitive to additional borrowing.

¹ Ministry of Defense, Japan. Defense Buildup Program. Tokyo: Ministry of Defense, December 2022. https://www.mod.go.jp/j/policy/agenda/guideline/plan/pdf/program_en.pdf.

² Kubo, Nobuhiro, Takaya Yamaguchi, and Tim Kelly. “Weak Yen Forces Japan to Shrink Historic Military Spending Plan.” Reuters, November 3, 2023. <https://www.reuters.com/markets/currencies/weak-yen-forces-japan-shrink-historic-military-spending-plan-2023-11-03/>.

³ Bank of Japan (BOJ). “Japan's Economy and Monetary Policy.” Speech by Governor UEDA Kazuo at a Meeting with Business Leaders in Osaka, September 24, 2024. https://www.boj.or.jp/en/about/press/koen_2024/ko240924a.htm.

The IMF’s 2024 Article IV consultation urged Japan to prioritize fiscal consolidation—raising revenues and rationalizing expenditures—over further net borrowing, warning that higher interest rates or weaker growth would quickly put debt dynamics on an unsustainable path. For defense planners, this means that solving budgetary pressures simply by “issuing more bonds” risks provoking market pushback and undermining the very stability that security spending is meant to reinforce.⁴

Box 1- Japan’s Fiscal and Demographic Constraint – Key Numbers

Indicator	Value
Gross public debt	≈ 240% of GDP (2024)
Defense buildup plan 2023–2027	≈ ¥43 trillion (USD 275–300 bn)
Draft defense budget FY 2026	Just over ¥9 trillion (≈ USD 58 bn)
Population 65+ share	Nearly 30%
Working-age (15–64) share	≈ 60%
Births vs. deaths in 2024	≈ 686,000 vs ≈ 1.6 million
SDF recruitment FY 2023	9,959 personnel (≈ 51% of target)
SDF Fixed-term personnel recruitment	≈ 30% of target

II. Demographic Decline as Strategic Constraint

1. The Quiet Emergency

Japan’s demographic profile has shifted from gradual aging to what former Prime Minister Shigeru Ishiba has called a “quiet emergency.” In 2024, births fell to around 686,000 while deaths reached roughly 1.6 million, marking the steepest natural population decline since records began. People aged 65 and over now constitute nearly 30 percent of the population, and the working-age share has dropped to around 60 percent. Projections indicate that Japan’s population could fall below 100 million by 2050 and shrink by roughly half by 2100 if current trends continue.⁵

The implications for national security are direct. A shrinking, aging society means a smaller tax base, fewer potential recruits and engineers, and greater pressure on social-security budgets—exactly as defense demands rise.

2. Societal “Amorphization”

Beyond headline figures, sociologist Yoshio Sugimoto describes Japan’s long-term social transformation as a process of “amorphization”: the fragmentation and partial dissolution of

⁴ International Monetary Fund (IMF). Japan: 2024 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Japan. IMF Country Report No. 24/118. Washington, DC: International Monetary Fund, 2024. <https://www.imf.org/en/-/media/files/publications/cr/2024/english/1jonea2024010.pdf>.

⁵ BBC News. “Japan’s Population Sees Biggest Ever Natural Decline in 2024.” January 2025. <https://www.bbc.com/news/articles/c74dnzr4jdvo>. NHK World-Japan. “Japan’s Population Decline Accelerates.” Backstories, 2025. <https://www3.nhk.or.jp/nhkworld/en/news/backstories/4199/>.

previously cohesive institutions such as lifetime employment systems, stable corporate hierarchies, and traditional family structures. Since the 1990s, this has produced a more fluid but also more unequal and insecure society.⁶

For security policy, amorphization weakens the social infrastructure that once supported national mobilization. The erosion of shared corporate and community identities makes it harder to legitimate large, long-term defense commitments, especially when they compete with welfare spending for elderly populations.

3. The Labor Market at Full Stretch

Japan has tried to offset demographic decline by mobilizing three groups: women, foreign workers, and older people. Female labor-force participation rose from around 60 percent in the early 2000s to about 78 percent by mid-2025, bringing Japan close to some Northern European economies on this metric. For those aged 65 and over, participation surpassed 25 percent in 2024, the second-highest level in the OECD after South Korea. Foreign workers now represent roughly 3-4 percent of the labor force, but they accounted for more than half of net labor-force growth between 2023 and 2024.⁷

These impressive adjustments mean that Japan is already “pushing” its existing population hard into the labor market. Further increases in effective labor supply will be difficult without deeper changes in work organization, childcare, migration policy, and gender norms.

4. The SDF Recruitment Crisis

The SDF crystallizes these pressures. In fiscal 2023 it recruited just 9,959 personnel—around 51 percent of its overall target of 19,598—with fixed-term rank-and-file positions reaching only about 30 percent of their intake goal. These shortfalls persist despite heightened regional tensions and an explicit government commitment to strengthen defense.⁸

To mitigate the shortage of young recruits, the MOD has raised the upper age limit for entry and extended retirement ages, effectively aging the forces along with society. Meanwhile, scandals—most notably the high-profile case of former Ground SDF member Rina Gonoj, whose harassment complaints led to criminal convictions and institutional apologies—have damaged the SDF’s reputation, especially among women and their families.⁹

Japan has not embraced the option, common in other advanced militaries, of recruiting non-citizens even for technical roles, reflecting deep-seated norms about sovereignty and the use of force. The result is a force structure attempting to expand in capability while its human resource base contracts in size and social appeal

⁶ Sugimoto, Yoshio. “Amorphization amid Fragmentation: Japanese Society 1990–2020.” *Historická sociologie* 13, no. 2 (2021): 17–35. <https://doi.org/10.14712/23363525.2021.15>. https://karolinum.cz/data/clanek/9702/HS_13_2_0017.pdf.

⁷ Ueda, Kazuo. “Japan’s Labor Market under Demographic Decline: Evolving Dynamics and Macroeconomic Implications.” Remarks at the panel “The Policy Implications of Labor Market Transition,” Jackson Hole Economic Policy Symposium, Federal Reserve Bank of Kansas City, August 24, 2025. https://www.boj.or.jp/en/about/press/koen_2025/data/ko250824a1.pdf.

⁸ Rich, Motoko, and Hikari Hida. “Japan Wants a Stronger Military. Can It Find Enough Troops?” *New York Times*, December 13, 2023.

<https://www.nytimes.com/2023/12/13/world/asia/japan-military.html>.

Nippon.com. “Japan SDF Hiring Falls Far Short of Target in FY 2023.” August 22, 2024. <https://www.nippon.com/en/japan-data/h02075/>.

⁹ Japan Times. “Rina Gonoj Reaches Settlement with Government in SDF Sexual Assault Case.” January 27, 2026.

<https://www.japantimes.co.jp/news/2026/01/27/japan/crime-legal/rina-gonoj-sdf-assault-settlement/>.

III. “Ghost in the Shell” Technological Offset—and Its Limits

1. The Semiconductor “Shield”

In response, Tokyo has turned to industrial policy and technology as substitutes for manpower. The state-backed Rapidus Corporation in Hokkaido aims to mass-produce 2-nanometer chips by around 2027, supported by substantial public subsidies, while TSMC’s fabrication plant in Kumamoto anchors foreign investment in Japan’s semiconductor ecosystem. Policymakers increasingly frame semiconductors as “security infrastructure”: controlling advanced chip production is meant to secure Japan’s defense-industrial base and deepen interdependence with allies whose systems depend on Japanese-made components.¹⁰

2. The Unmanned Dream

A second pillar is the rapid development of unmanned and autonomous platforms—drones, unmanned maritime systems, and AI-enabled sensor networks—to create what officials describe as “networked deterrence.” The goal is to compensate for personnel shortages by extending surveillance and strike capabilities through machines, thus lowering the human cost of sustaining a credible presence in contested spaces.¹¹

3. Resources and Deep-Sea Mining

A third, more speculative strand seeks to reduce Japan’s dependence on imported critical minerals by exploiting deep-sea deposits within its exclusive economic zone. Surveys near Minamitorishima suggest the presence of large polymetallic nodule fields rich in cobalt and nickel, and the drillship Chikyū has demonstrated continuous lifting of rare-earth-bearing mud from depths of around 5,700-6,000 meters. While promising in principle, the economic and environmental viability of large-scale extraction remains uncertain.¹²

4. Talent Cannibalization

All three pillars—chips, unmanned systems, and resource extraction—depend on one scarce input: high-skilled human capital. Running advanced fabrication plants, designing and integrating autonomous platforms, and managing complex supply chains requires large cadres of top-tier engineers and IT specialists. These are the same workers courted by Japan’s private technology firms and global corporations; defense companies report persistent difficulties attracting such talent due to lower pay, slower promotion, and less appealing brand images.

In practice, Rapidus, TSMC-Japan, major tech firms, and the SDF are “fishing in the same shallow talent pool.” Public subsidies for cutting-edge fabs and defense technology increase demand for engineers but do not automatically expand supply, producing what might be called talent cannibalization within Japan’s political economy of security.

¹⁰ RIETI (Research Institute of Economy, Trade and Industry). “Chips in Japan: Industrial Policy, Decline and Renewal.” Discussion Paper 25-E-116, 2025. <https://www.rieti.go.jp/publications/dp/25e116.pdf>.

¹¹ Indo-Pacific Defense FORUM. “Samurai Initiative Launches New Era of Japan-U.S. AI Defense Integration.” October 2025. <https://ipdefenseforum.com/2025/10/samurai-initiative-launches-new-era-of-japan-u-s-ai-defense-integration/>.

¹² gCaptain. “Japan Makes Breakthrough in Deep-Sea Rare Earth Mining, Reducing Dependence on China.” February 2026. <https://gcaptain.com/japan-deep-sea-rare-earth-mining-china-independence/>.

IV. Is Japan Really Fiscally Constrained? The Counter-Argument

A reasonable counter-argument questions whether Japan is as fiscally constrained as this narrative suggests. Proponents of a more relaxed view emphasize that Japan has financed high debt levels for decades without a crisis; that most JGBs are held domestically, including on the Bank of Japan's balance sheet; and that as long as nominal growth and inflation exceed effective funding costs ($r < g$), debt ratios can stabilize or even fall despite primary deficits.

Such observations matter. They imply that Japan may retain more room for maneuver than conventional debt-to-GDP figures suggest, especially if moderate inflation erodes the real value of outstanding liabilities while wages and profits rise. However, even under this more optimistic scenario, perceptions of fiscal risk still shape policy. Rising yields—even from very low starting points—signal to politicians and bureaucrats that there are limits to investor tolerance. The IMF's shift from polite recommendations to more explicit warnings has domestic political effects, empowering fiscal hawks in ministries and parties. Moreover, the BOJ's balance-sheet capacity is finite in political, if not mechanical, terms: expanding bond purchases indefinitely to cap yields would invite concerns about monetary financing and currency stability.

In short, Japan's "technical" fiscal space may be larger than headline debt ratios imply, but defense planners cannot ignore market reactions, alliance expectations, or domestic political constraints. For them, fiscal prudence is not just an economic preference but part of maintaining strategic credibility.

V. Historicizing Fukoku Kyōhei

Takaichi's "Stronger, Wealthier Japan" slogan echoes, without repeating, the Meiji-era formula Fukoku Kyōhei, which emerged in a context of rapid population growth, late but intensive industrialization, and a relatively low initial debt burden. Under those conditions, mobilizing human and financial resources to expand both economic and military power was plausible: a "rich country" could be deliberately transformed into a "strong army."

In 2026, Japan faces almost the inverse conditions. Its population is aging and shrinking; its debt burden is among the highest in the world; and its economy is deeply integrated into global trade and financial networks. Building "strength" now means something different: ensuring resilience in alliance networks, securing technological niches, and maintaining domestic legitimacy for prolonged security commitments.

Thus, rather than simply reviving Fukoku Kyōhei, Japan must reinterpret it. In place of linear wealth-into-power conversion, the country must pursue a more complex strategy: using targeted industrial policy to secure critical technologies; aligning defense posture with realistic demographic and fiscal trajectories; and leveraging alliances to compensate for national limitations.

Conclusion: Rearmament under Structural Aging

Japan is attempting a historic defense buildup in the least favorable structural conditions: record public debt, a rapidly shrinking and ageing population, and wage-driven inflation in a weak-yen environment. These constraints make each additional yen of defense spending buy less capability in both hardware and human capital, even as strategy documents call for counter-strike forces and expanded deterrence. Demography and fiscal arithmetic thus enter directly into strategy, narrowing the range of sustainable force-posture choices.

The recruitment crisis in the Self-Defense Forces and the scramble for engineers in both defense firms and semiconductor projects show that the core dilemma is not only "guns versus butter" but

“guns versus workers.” Industrial-policy bets on chips, unmanned systems and deep-sea resources promise technological offsets, yet they also intensify competition for a shallow pool of highly skilled labour. In this sense, the twenty-first-century reworking of Fukoku Kyōhei is less about converting wealth straightforwardly into power than about managing scarcity across fiscal, demographic and technological domains at the same time.

Seen this way, Japan is not just an outlier but an early case of “rearmament under structural ageing” that other advanced democracies—including in Europe—are slowly approaching. For EU policymakers, Japan’s ongoing experiment in reconciling alliance commitments, welfare states and tight labour markets offers a preview of the constraints under which European security policy will increasingly have to operate. How Japan adjusts its ambitions to these limits—through technological substitution, institutional reform or quiet retrenchment—will therefore carry lessons well beyond the Indo-Pacific.

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