

# JAPAN



## A decisive moment in a challenging environment



### **STRATEGIC ANALYSIS REPORT**

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***Japan. A decisive moment in a challenging environment***

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## **EXECUTIVE SUMMARY**

Amid rising regional tensions and shifting power dynamics, Japan's strategic path hinges on fortifying alliances and adapting its economy to counter growing security threats, particularly from China.

The Japanese country will continue to face economic stagnation but will overcome deflation by fostering corporate dynamism, social reforms, and inflation management. Public debt will continue to increase and will remain a challenge, though Japan will boost industrial output and exports will be favored through economic measures. In the microchip industry, Japan is partnering with the U.S. and Taiwanese companies to strengthen its competitive position in the midst of China's rise in the sector, which will consolidate its position through the "Chip 4 Alliance."

The demographic landscape presents significant obstacles to future economic and social stability. Japan's low fertility rate and high life expectancy are reducing its working-age population, with retirees expected to account for more than 40% of all citizens by 2070. This shift will further reduce the working-age population, which will decline from 60% today to less than 50% in 2100, placing a heavy burden on the social safety net. This will exercise increased pressure on public spending in areas such as pensions and healthcare, while Japan's restrictive immigration policies do little to offset the decline in the labor force. Without major changes in immigration and labor reform policies, Japan risks increased fiscal pressure, which will affect social services and income stability.

Japan is expanding its military capabilities in response to regional threats, particularly from China, but Article 9 of its Constitution limits the building of a conventional military force; Japan has reinterpreted the meaning to allow self-defense. Japan's security relations with the United States are marked by the reliance on its nuclear arsenal for deterrence and military support, especially given rising tensions with China, North Korea and Russia. This alliance will grow stronger, with continued U.S. military presence and deeper defense cooperation, even as Japan enhances its own military capabilities. Japan is also advancing its defense industry, and it will export arms and build a stronger industrial base, though recruitment challenges persist due to a delicate defense culture and an aging population.

China's rise is perceived as a strategic threat and Japan has consolidated alliances, particularly through its Free and Open Indo-Pacific strategy to counter Chinese influence. A cornerstone of this effort is the Quadrilateral Security Dialogue, or QUAD, with the U.S., Australia, and India, in which Japan will strengthen collaboration in defense, economy and technology. Economically, Japan is working to adapt to reduce dependency on China, strengthening ties with ASEAN countries and promoting itself as a regional leader. In the same way, it is an alternative to China's Belt and Road Initiative by funding regional projects and supporting allies through aid and loans.

Japan perceives North Korea missile tests and nuclear threats as critical security concerns, with its 2022 National Security Strategy designating Pyongyang as an immediate military threat. In response, Japan has strengthened missile defenses and engaged in closer security cooperation with the U.S. and South Korea, most notably through the Camp David Summit, which emphasized a united front against regional provocations. Should North Korea launch an attack on South Korea, Japan would likely offer defense and logistical support within its alliance framework, though its response would be limited by constitutional constraints. Despite historical grievances and territorial disputes over the Takeshima/Dokdo Islands, Japan and South Korea are moving toward a pragmatic partnership, recognizing the necessity of cooperation to counter both North Korea aggression and China's growing influence. In the medium and long term, Japan's and South Korea's alliance is expected to deepen as both nations prioritize security and stability in the Indo-Pacific.

## INTRODUCTION

Japan is at the center of a decisive international arena and it will influence the future of the Indo-Pacific. Reaching the end of the first quarter of the 21<sup>st</sup> century this region has become the center of geopolitics in terms of security, economy and diplomacy. As Japan faces internal struggles with an aging population and a chronic economic recession, it is still a crucial ally for the United States (U.S.) and has a unique role to play in the region. With the rise of China and the growing tensions in the Strait of Taiwan, the Indo-Pacific has become increasingly complex, forcing Japan to balance its commercial interests with security priorities. In addition, threats from the Democratic People's Republic of Korea, commonly North Korea, and diplomatic clashes with Russia showcase the need for a firm foreign policy that combines both strategic autonomy and reliance on alliances and partnerships. Japan is at the epicenter of a boilerplate of tension and will be a defining actor in future events.

In the 19<sup>th</sup> century, after its transformation from a feudal isolated society into an open nation with a professional military, Japan emerged as an important actor of the Asia-Pacific region. However, its role in international relations during recent decades has been characterized by its quest for autonomy on issues like economy, foreign policy and defense, as well as its dependence on other regional or global powers for security. This dual nature has been especially present after World War II, when Japan was reconstructed under the supervision of the United States. Since then, a security relation was established that guaranteed Japan's safety but limited its sovereignty on certain issues. During the next decades, Japan experienced decades of economic growth and, driven by an industrial and technological *boom*, positioned itself as a leading global economy. At the same time, it promoted deep commercial relations with its Asian partners, including China and the Republic of Korea, which generated interdependencies that have been beneficial and problematic in diplomatic and political terms.

Nevertheless, the Lost Decades of the 1990s and 2000s posed significant challenges to Japan's economic resilience as these years were marked by prolonged stagnation and persistent deflation. Japan now faces the difficult task of overcoming the deflationary trend and reducing its public debt, one of the highest among developed economies. The evolution of its industrial production is also pivotal, as a revitalization of this sector would support gross domestic product (GDP) growth and improve competitiveness in strategic industries.

In order to ensure the long-term sustainability of its economy, Japan faces the challenge of coping growth with an extreme demographic situation. With an aging population and a shrinking taxpayer base, social spending on healthcare and pensions is increasing. Although the government has maintained a restrictive stance toward immigration, programs aimed at attracting Japanese emigrants and their descendants have been implemented to bolster the labor force. However, the impact of these initiatives has been limited in terms of numbers, and the expansion of the labor force through these programs may not be sufficient. Against this backdrop of demographic and economic challenges, the strategic policies adopted over the last decade have sought to revitalize the Japanese economy through comprehensive measures. The economic reform program known as “Abenomics”, implemented by former Prime Minister (PM) Shinzo Abe, focused on three main pillars: expansionary monetary policy, fiscal easing and structural reforms. Although they initially helped to boost GDP growth and contain deflation, its long-term effects have been narrow, especially in the face of structural problems with low productivity and a record-high public debt. The continuity of Abenomics remains a matter of debate, as the economic recovery has been uneven and progress in structural transformation has yet to fully materialize.

A main focus of Japan is centered on its ability to maintain its strategic position in sectors such as technology and microchip manufacturing, where competition is brutal, especially in the region. With the restructuring of supply chains and increased demand for advanced technological components, Japan is looking to strengthen its leadership through investments in innovation and advanced manufacturing. Emerging sectors such as robotics, artificial intelligence (AI) and semiconductor production are foundations for growth and will be crucial to consolidate Japan’s position as a leading nation, even in a context of demographic winter and reduced capacity for workforce expansion.

Regarding the geopolitics of Japan, security and defense is at the core of the issues. In terms of security, the current context is marked by the end of World War II and its consequences. The security umbrella of the United States has continued throughout decades, and it would be impossible to understand the current regional balance without this element. The 1951 Treaty of Mutual Cooperation between Japan and the United States established a framework that defined diplomatic relations and affected economic and socio-political aspects. The treaty provides the U.S. the legal authorization to “use facilities and land in Japan” for the purpose of contributing to the security of the country. Such provision is responsible for the establishment of military bases around Japan, with the most notorious case being Okinawa. This is a matter

of controversy and is at the center of Japanese debate, with a variety of positions that could strengthen or weaken relations. Another crucial role of the United States in post-war Japan was its protagonism in the rewriting of the constitution. Article 9 has vital importance as it is the only clause in a chapter that is devoted to the “renunciation of war.” Japan renounces war and the use of threats or force to engage in international affairs. Furthermore, it prohibits the maintenance of land, sea and air forces. Now, in 2024, with the article still in force, it is subject to a public debate that continues to grow as the region becomes more complex.

Although the Constitution is clear about the maintenance of armed forces, Japan created the Japanese Self Defense Forces (JSDF) in order to address security concerns. The 2022 National Security Strategy (NSS) states that by fiscal year (FY) 2027, 2% of the GDP will be devoted to the reinforcement of defense capabilities and other initiatives. However, with the current economic constraints, Japan faces difficulties in these types of investments. Another issue which is deeply rooted in sociology is recruitment, which has a clear connection with low fertility rates and an aging population. In 2023, only half of the recruitment objective was reached, which proves to be a point of extreme concern for the security of the country.

In addition to national defense capacities, Japan faces external issues that are evermore present in the region. China is crucial to understand the regional dynamics, and there is a strong concern about military spending, the pressures and aggressive behaviors in South and East China, the human rights situations, the Senkaku/Diaoyu Islands dispute, and joint drills in the Sea of Japan with Russia. Faced with this scenario, the Japanese government is cautious about what may happen with Taiwan and the territorial waters in dispute with the Philippines. Despite these tensions, Japan keeps an interest in a “constructive and stable relationship” with China, as it is factually the strongest economic partner.

North Korea and Russia, which both pose nuclear threats, are contributing to the destabilization of the region. North Korea holds numerous missile launch tests over Japanese air territory, which has led to increased destabilization in the region, heightened by the meeting between Kim Jong-un and Vladimir Putin in June 2024 which ended with a “defense pact” and exchange of military technology. Regarding Russia, Japan has condemned the invasion in Ukraine and has imposed sanctions, to which Russia has classified Japan as an “unfriendly country.” Japan follows Russia's movements with caution, not only in Eastern Europe but also in the Pacific, which has led to an increase in territorial tensions with the dispute in the Northern Territories.



*Prima facie*, these are the main destabilizers of the region, yet Japan counts on the United States and other partners to face these issues.

Japan has secured strategic alliances which prove to be worthy in light of the regional challenges. The Republic of Korea, also known as South Korea, is an essential actor, especially when analyzing the North Korean threat. Relations have gradually improved with Japan, but historical grievances are still present in society. In addition, there is an open-ended dispute over the Takeshima/Dokdo islets. Other important actors include Australia, India, and Association of Southeast Asian Nations (ASEAN) members, especially since Japan pushes its agenda for a Free and Open Indo-Pacific (FOIP). Certainly the United States is the fundamental actor, but Japan's strategic alliances and its own increasing military capabilities can aid in the current pursuit of stability and security.

Regionally, Japan is placing much importance on its plan for a FOIP. Japan already proposed a similar plan in the 1980s within the Asia-Pacific Economic Cooperation, but the reality is that it was not until the last decade that the countries recognized how China was gaining ground and therefore, the possibility of further destabilization. This concept developed by PM Abe is palpable in some agreements such as the Quadrilateral Security Dialogue between Australia, Japan, India and the United States (QUAD) or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which integrates eleven country members from Asia and some American countries. A greater integration of Japan into these agreements and others such as Australia, the United Kingdom, the United States alliance (AUKUS) or ASEAN Plus Three (ASEAN members and China, Japan, South Korea) would enable Japan to dominate the region even more.

All things considered, Japan's trajectory over the past century reveals its persistent efforts to balance autonomy and dependence across economic, demographic, and security spheres. As a global power and key actor in the Asia-Pacific, Japan is faced with both internal and external challenges that will define its future role in regional and international affairs. This report will analyze all the dynamic elements mentioned above and analyze Japan's policy prospects for the major themes concerning the region. First, in Chapter 1, this paper will explore Japan's economy and how it is impacting its internal policies as well as its external output, while contrasting both the struggles and the opportunities in its finances. In Chapter 2 the report explores Japan's national security policies in detail and how it is restructuring its defense culture and industry in order to be a competitive regional player. Finally, in Chapter 3, all the

analysis from the previous sections boils down into the security issues and how Japan reacts to China as well as other challenges.

In order to look towards the future, this report has formulated five different scenarios that concern the region in a 2025-2030 timeframe and the possible implications as a result of the events. Considering the possibility of a Chinese invasion on the island of Taiwan, three possible futures were envisioned: a Chinese victory, a protracted conflict, and a peaceful diplomatic resolution of the dispute. The construction of scenarios and the prospective analysis goes to show how the region is essential for global security and economic stability.

Japan's ability to address economic stagnation, an aging population, and mounting security threats, particularly from China, North Korea, and Russia, will be pivotal. By strengthening its alliances, investing in technological leadership, and reinforcing its defense capabilities, Japan has the potential to solidify its position as a regional leader. However, failure to manage these complexities could lead to a shift in power dynamics, with China poised to capitalize on any weaknesses. Through this strategic analysis, it is shown that the coming years will be critical as Japan seeks to maintain its influence while navigating an increasingly unstable geopolitical landscape.

# 1. ECONOMY AND SOCIETY AT THE CORE OF SECURITY

*Japan, a nation renowned for its technological prowess and economic might, finds itself at a critical juncture. As a mature economy, it faces a complex interplay of challenges, including a rapidly aging population, economic stagnation, and a need for sustained innovation. To ensure its continued prosperity and global influence, Japan must navigate these challenges while building a resilient economy capable of withstanding future shocks. By fostering innovation, addressing demographic issues, and implementing sound economic policies, Japan aims to secure its position as a leading economic power. However, the interplay between economic resilience and societal well-being will be crucial in shaping Japan's future trajectory.*

## 1.1 Building a resilient economy

According to the World Economic Forum, Asia is rising at strong rates and at the center of this growth is the economy.<sup>1</sup> In the mid-20<sup>th</sup> century, Japan embarked on a path of demilitarization, democratization and decentralization. This is seen with the socio-economic changes which included agrarian, industrial, and legal reforms to the system. There was a distribution of lands, traditional rural rent systems were suppressed, regulation in industry was modified, and social participation of unions was regulated, among others. In the 1970s, Japan was already an economic power with a strong labor supply and an ample population growth, a strong market, a dual mercantile system and a society with an impressive ability to save. Essentially, Japan's economy converged with the United States' economy as it imported technology from the West and transformed its industry to be able to export manufactured goods. From 1955 to 1990, Japan's economy sustained an average growth of 6.8% annually.<sup>2</sup> Thus, the decades after World War II were a golden era for Japan as its economy matured and grew into one of the strongest in the world, until the "Lost Decade" of the 1990s, a stagnation which has carried on ever since.<sup>3</sup>

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<sup>1</sup> Neeraj Aggarwal and Aparna Bharadwaj, "Connecting the Dots Behind Current and Future Asian Growth," World Economic Forum, September 10, 2024, <https://www.weforum.org/agenda/2024/06/why-asia-s-time-is-now-whats-fueling-asian-growth-and-what-does-it-mean-for-the-rest-of-the-world/>.

<sup>2</sup> Bennett Stancil, "Japan's Past and the U.S. Future," Carnegie Endowment for International Peace, March 18, 2010, <https://carnegieendowment.org/research/2010/03/japans-past-and-the-us-future?lang=en&er=middle-east>.

<sup>3</sup> William G. Beasley, *The Rise of Modern Japan*, 1990, <http://ci.nii.ac.jp/ncid/BA51737240>, 244-253.

With the 1990s succession of bubble bursts, residential house prices fell, commercial property prices shrunk and the Nikkei 225, the most recognized Japanese stock market, collapsed. This was due to a conglomeration of factors, such as banking behavior with bonds and loans, the futile fiscal policies and the diminishing labor force. By the same token, central government transfers were inefficient and the yen appreciated exponentially.<sup>4</sup> Japan also experienced a balance sheet recession, in which companies and individuals focused their financial activity to paying down debts. This affected spending and created a deflation that exercised downward pressure on growth rate. Apart from this, Japan faced productivity issues and the ever-present issue of an aging population. The Bank of Japan reacted by implementing a series of measures over the years that span from implementing negative interest rates to buying stock, corporate debt or bonds. Nonetheless, the reduction of interest rates did not have the desired effects and the Quantitative Easing measures were short-lived.

Deflation is a key feature of Japan's economy. In order to boost demand in the market, prices of goods and services decline. It is a situation opposite to inflation that usually produces a decrease in production and investments.<sup>5</sup> In the 1990s, Japan experienced a liquidity trap, where there is no decline in interest rates or an increase in spending. From 1998 to 2013, a deflation caused general price levels to decline 3.6% over the fifteen-year period. Currently, deflation still contributes to a low-spending economy with gloomy prospects for growth unless reforms are enacted. After former PM Shinzo Abe's victory in the 2012 elections, a series of measures were implemented to stabilize the economy and sustain a certain growth. The executive government implemented the "three arrows" focused on reducing stagnation. Also known as "Abenomics", the plan was to invest in public projects, execute monetary reform by weakening the yen to boost exports and compel banks to lend with negative interest rates, all while enacting structural reform fixated on employment and corporate governance. In other words, the plan highlighted massive public spending initiatives, the central role of the Bank of Japan (BOJ), and measures for sustainable growth. It had mild results as structural reforms disappeared shortly after announcing the measures, which in turn left Abenomics to depend exclusively on monetary policies from the BOJ. The plan however created more vertical and horizontal mobility performance and broke some of the traditional models of lifetime

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<sup>4</sup> Naoyuki Yoshino and Farhad Taghizadeh-Hesary, "Causes and Remedies for Japan's Long-Lasting Recession: Lessons for the People's Republic of China" (Asian Development Bank Institute, December 2015), <https://www.adb.org/publications/causes-and-remedies-japan-long-lasting-recession-lessons-china>, 4-9.

<sup>5</sup> Hamdamova Zukhra, "Key Directions of Japan's Economic Development (1950 – Present)," *Journal of Macroeconomics and Social Development* 1, no. 4 (May 22, 2024): 1–10, <https://doi.org/10.47134/jmsd.v1i4.228>.



employment. After Abe stepped down, PM Suga sought to continue these efforts but shortly after resigned due to his administration's management of COVID-19. With PM Kishida, a plan under the banner of "new capitalism" was implemented to favor wage increases, the stability of middle class families, and the distribution of profits to aid ordinary citizens. Then Russia's invasion of Ukraine in February 2022 spiked fuel prices and increased inflation, which seemed to break an optimistic trend, but now the situation could actually work in favor of Japan.

Inflation rose above 2% in April 2022, which is a moderate but desirable target for many economists. A higher inflation could result in higher wages and in turn more spending; it could mitigate Japan's deflation. In addition, since the yen is weak, tourism is favored and exports are expedited. Morgan Stanley believes the time of deflation is at its end and Berkshire Hathaway has bought shares in trading houses.<sup>6</sup> The security challenges posed by the invasion of Ukraine boost investment in defense joint technological developments which evidently favors the industry.

Japan is undergoing an economic transformation that is instigating its fastest price growth in the last thirty years. Wages are slowly rising and institutional changes are contributing to an economic shift that is driven largely by supply shocks.<sup>7</sup> In March 2024, the BOJ historically ended the negative interest rates and put Japan back in line with other world economies. Regardless, the BOJ is reluctant to further raise interest rates although the average wage growth is 5%, the highest since 1991.<sup>8</sup> Since it is expected that mortgages will become more expensive, the yen could be strengthened and investments in Japan could be more lucrative. Nevertheless, Japan will not inherit a better economy if it does not enact firm measures and some remedies have been proposed to tackle the issues caused by stagnation. These include social reforms to increase labor or incorporate females, aiding small and medium-sized enterprises (SMEs), reviewing the irregular monetary policy measures or diversifying the market.<sup>9</sup> Stagnation is likely to continue and in terms of deflation, there are reasons to believe that Japan is overcoming this trend, but it really depends on the decisions of policymakers. Japan is engaged in steady economic growth met with a strong industry led by its high-tech and banking sectors.

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<sup>6</sup> Morgan Stanley, "Positive Outlook for Japan Stocks," June 25, 2024, <https://www.morganstanley.com/ideas/japan-economic-outlook-2024-end-of-deflation>.

<sup>7</sup> The Economist, "Is Japan's Economy at a Turning Point?," *The Economist*, November 16, 2023, <https://www.economist.com/asia/2023/11/16/is-japan-economy-at-a-turning-point?>

<sup>8</sup> Nippon, "Average Japanese Wage Hikes Reach 33-Year High of 5.1% in 2024," July 16, 2024, <https://www.nippon.com/en/japan-data/h02044/>.

<sup>9</sup> Naoyuki Yoshino and Farhad Taghizadeh-Hesary, "Causes and Remedies for Japan's Long-Lasting Recession: Lessons for the People's Republic of China" (Asian Development Bank Institute, December 2015), <https://www.adb.org/publications/causes-and-remedies-japan-long-lasting-recession-lessons-china>, 14-19.

At the highest levels, “policymakers are combining monetary, fiscal, trade and industrial policy to lift economic productivity and enhance sustainability.”<sup>10</sup> Combined with the recession, the nucleus of solutions would have to weigh productivity levels, corporate dynamism and social reforms.

In a quarterly report of June 2024, Japan’s government debt accounted for 218.7% of the GDP. This data reached a historic record in March 2021, with a debt-to-GDP ratio of 225.8%, in contrast to the record low of 55.9% in December 1994.<sup>11</sup> To put it graphically, it is the highest general government debt amongst the data of the International Monetary Fund.<sup>12</sup> It must be noted that the COVID-19 pandemic was a strain on public debt because of stimulus packages, and Japan’s government has not eased spending since the crisis. In fact, deterioration continues in this field and it can be projected that debt will continue to rise, which increases vulnerability to external risks.<sup>13</sup> Fundamentally, the debt-to-GDP ratio rises when the debt is growing faster than the economy. Since Japan has spent more than it gains, the debt has gotten very large and any funds devoted to paying interest on this accumulated debt cannot be spent on government programs nor are funds available for cutting taxes. Normally, when countries have such high debts, markets are skeptical about devolution of payments, but markets show little concern that Japan might not repay. In Japan, 70% of the debt is owned by the BOJ and the rest mainly by Japanese banks and trust funds, so this allows the country to be more independent from external stakeholders and attractive to creditors.<sup>14</sup>

The government of Japan has devalued the yen with the spirit of lowering the cost of Japanese exports to other countries, which would stimulate aggregate demand. In turn, this improved balance of trade can help to repay external debt. Inflation could help to reduce public debt if it causes an increase in the nominal growth rate and interest rates stay below. Ultimately, it will depend on how Japan copes with global inflation and enacts measures to create inflation, all the while attempting to reduce deflation and minimize the effects of stagnation.

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<sup>10</sup> Morgan Stanley, “Positive Outlook for Japan Stocks,” June 25, 2024, <https://www.morganstanley.com/ideas/japan-economic-outlook-2024-end-of-deflation>.

<sup>11</sup> CEIC, “Japan Government Debt: % of GDP,” CEIC Data, June 2024, <https://www.ceicdata.com/en/indicator/japan/government-debt--of-nominal-gdp#:~:text=What%20was%20Japan's%20Government%20Debt,217.5%20%25%20in%20the%20previous%20quarter>.

<sup>12</sup> IMF, “General Government Debt Database,” International Monetary Fund, 2022, [https://www.imf.org/external/datamapper/GG\\_DEBT\\_GDP@GDD/CAN/FRA/DEU/ITA/JPN/GBR/USA?year=2022](https://www.imf.org/external/datamapper/GG_DEBT_GDP@GDD/CAN/FRA/DEU/ITA/JPN/GBR/USA?year=2022).

<sup>13</sup> Jae Young Lee and Paolo Hernando, “Rising Rates: Narrowing Window for Japan’s Fiscal Consolidation - ASEAN+3 Macroeconomic Research Office - AMRO ASIA,” ASEAN+3 Macroeconomic Research Office - AMRO ASIA, May 21, 2024, <https://amro-asia.org/rising-rates-narrowing-window-for-japans-fiscal-consolidation>.

<sup>14</sup> Mariia Mygal, “Public Debt Management Model in Japan,” Institute of Analytics and Advocacy, November 3, 2022, <https://iaa.org.ua/en/articles/public-debt-management-model-in-japan/>.

Evidently, a prospect on the evolution of industrial output is intrinsically linked to economic growth and investments. Japan's main exports are cars, machinery with individual functions, integrated circuits, parts and accessories of motor vehicles, and refined petroleum.<sup>15</sup> In 2023, the output for all industries, except machinery (including semiconductors and flat panel display manufacturing devices), fell short of 2019 results.<sup>16</sup> In October 2024, Japan's Ministry of Economy, Trade and Industry (METI) published a report that showed that production decreased 3.3% from the previous month, and 4.9% from the previous year, in August 2024.<sup>17</sup> Although METI forecasts that industrial output will increase, uncertainty of demand from both the U.S. and China and global manufacturing trends make this outlook unforeseeable. Nationally, when the shipments-inventory balance is positive, production increases.<sup>18</sup> This means that shipments exceed inventory, which requires an expansion in production and in turn favors the industrial output. In Japan's case, investments depend negatively on the real interest rate. In other words, if the real interest falls, then investments rise. Because of its low nominal interest rates and saving culture, Japan tries to push the aggregate demand so that prices rise, along with inflation. The objective is that the real interest rate decreases as inflation rises. With this, investments are boosted and an expansionary fiscal policy is facilitated. That is why Japan has been trying to create inflation through its public debt, fiscal policies and the devaluation of the yen. And this is the main connector with exportations, because by devaluing the yen, exportations are lifted, aggregate demand rises and inflation surges. Thus, Japan's industrial output relies on the monetary measures that the Japanese government will enact and how its society reacts to the policies.

## 1.2 Sustaining growth amid demographic challenges

The demographic crisis that Japan has been experiencing since the last decades of the 20<sup>th</sup> century poses serious challenges to the country's economy, welfare system and labor market. A declining birth rate, an aging population and a shrinking labor force are some of the factors that, together with high life expectancy, have resulted in a serious structural problem. For a population to remain stable, it needs a fertility rate of 2.1, defined as the total number of births

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<sup>15</sup> OEC, "Japan," The Observatory of Economic Complexity, July 2024, <https://oec.world/en/profile/country/jpn>.

<sup>16</sup> Iizuka, "When Will Japan's Industrial Production Fully Recover?," *The Tokyo Foundation for Policy Research*, n.d., [https://www.jef.or.jp/journal/pdf/257th\\_Economic\\_Indicators.pdf](https://www.jef.or.jp/journal/pdf/257th_Economic_Indicators.pdf).

<sup>17</sup> Economic Analysis Office, "Indices of Industrial Production, Revised Report for August 2024," *Ministry of Economy, Trade and Industry* (Research and Statistics Department, October 15, 2024), <https://www.meti.go.jp/english/statistics/tyo/iip/index.html#cont4>.

<sup>18</sup> Nobuo Iizuka, "When Will Japan's Industrial Production Fully Recover?," *The Tokyo Foundation for Policy Research*, September-October 2024, [https://www.jef.or.jp/journal/pdf/257th\\_Economic\\_Indicators.pdf](https://www.jef.or.jp/journal/pdf/257th_Economic_Indicators.pdf).

a woman has during her lifetime.<sup>19</sup> In Japan, the fertility rate has been below 2.1 for fifty years, ever since the 1973 oil crisis sparked an economic downturn. Since then, it has failed to rebound. In 2023, the Japanese fertility rate stood at 1.3, well below replacement level.<sup>20</sup> The real problem is that the rate has been consistently low for too long. Even if its fertility rate is raised dramatically and immediately, its population will continue to decline for at least several more decades, until the skewed rate evens out and the babies born now reach childbearing age on their own.

This demographic catastrophe is caused by several factors. The first is the change in the mentality and traditional conception of the Japanese family. The lifestyle that prioritized marriage and childbearing before the age of thirty is long gone. The traditional prototypical roles reflected a social model in which the man provided the income and the woman prioritized childcare. However, the women's entry into the workforce has moved them away from their exclusive role in childcare, opening up possibilities beyond the sole choice of raising a family and completely changing the pattern.<sup>21</sup> One of the reflections of this change in mentality is that the number of marriages per-thousand people decreased from 10 in 1970 to 6.4 in 2000 and to 4.1 in 2022. In 2023, the number of marriages fell by almost 6% from the previous year, dropping below 500,000 for the first time in ninety years.<sup>22</sup> Adding to all these challenges is the high economic cost of starting a family, especially for low-income households.<sup>23</sup>

At the same time, the aging problem is also present. More than 29% of the Japanese population is sixty-five years of age or older, making it one of the world's most aged societies. The proportion of the population over sixty-five increased from 17.4% in 2000 to 29% in 2022 and is projected to rise to 41.2% in 2100. In contrast, the working-age population (between fifteen and sixty-four years of age) declined from 68.1% of the population in 2000 to 59.4% in 2022, and is projected to fall to 51.1% in 2100.<sup>24</sup> If these trends persist, Japan's total population,

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<sup>19</sup> OECD, "Fertility rates," Organization for Economic Cooperation and Economic Development, 2022, <https://www.oecd.org/en/data/indicators/fertility-rates.html>.

<sup>20</sup> Nippon, "Japan's Fertility Rate Drops to New Record Low," June 12, 2024, <https://www.nippon.com/en/japan-data/h02015/>.

<sup>21</sup> Martin Piotrowski, Ronald R. Rindfuss, Emi Tamaki, Minja Kim Chloe, Noriko O. Tsuya and Larry Bumpass, "Social Networks and Family Change in Japan Revisited," 2022, 609-634 <https://shs.cairn.info/journal-population-2022-4-page-609?lang=en>.

<sup>22</sup> Shujiro Urata, "Combating depopulation in Japan," *East Asia Forum*, March 5, 2024, <https://eastasiaforum.org/2024/03/05/combating-depopulation-in-japan/#:~:text=This%20pattern%20changed%20as%20people,and%20aging%20population%20are%20substantial.>

<sup>23</sup> *Ibid.*

<sup>24</sup> National Institute of Population and Social Security Research, "Popular Projections for Japan (2023 revision): 2021 to 2070, 2023," [https://www.ipss.go.jp/pp-zenkoku/e/zenkoku\\_e2023/pp2023e\\_Summary.pdf](https://www.ipss.go.jp/pp-zenkoku/e/zenkoku_e2023/pp2023e_Summary.pdf).



which peaked at 128 million in 2008, could fall to less than 100 million by 2050. Official forecasts agree with this prediction. According to models from the National Institute for Population and Social Security Research, the population will fall by 30% by 2070. By then, the number of people over the age of 65 will account for 40% of the population, according to their forecasts.<sup>25</sup>

The consequences of population decline and aging are significant. Japan's GDP is bound to decline further with the diminish in the working-age population unless there is a large increase in productivity. This decline can be slowed by extending the retirement age to increase the number of older workers and by increasing female participation in the labor force. But even these strategies will not solve the fundamental problem of the declining working-age population. Currently, labor shortages have already begun to affect various sectors and professions. A growing number of SMEs have closed due to a lack of successors.<sup>26</sup> Professions providing social and public services, such as teachers, doctors and caregivers, are facing severe labor shortages. The negative economic effects of depopulation are also being felt strongly in rural areas and will inevitably lead to a decline in the country's standard of living.

The Japanese government has implemented various measures to address depopulation, but so far they have not been effective. Recognizing the seriousness of the problem, PM Kishida's administration formulated the “Direction on the Strategy for the Future of Children” in June 2023 with the aim of halting the decline in the number of births.<sup>27</sup> The accelerated plan offers young couples financial support for raising children, as the high financial cost of raising children is one of the main obstacles for prospective parents. The proposed measures include an increase in the child allowance and the expansion of financial support for childbirth and higher education. The income ceiling for the child allowance program, which covers children up to secondary school, has been abolished. The plan also includes measures such as improving the work environment to reduce the burden of raising children and increasing the quality of childcare.

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<sup>25</sup> Editorial Board, The Sankei Shimbun, “Japan Must Respond to Population Decline with Urgency,” May 3, 2023, <https://japan-forward.com/editorial-japan-must-respond-to-population-decline-with-urgency/>.

<sup>26</sup> Charlotte Edmond and Madeleine North, “More than 1 in 10 people in Japan are aged 80 or over. Here’s how its ageing population is reshaping the country,” *World Economic Forum*, September 28, 2023 <https://www.weforum.org/stories/2023/09/elderly-oldest-population-world-japan/>.

<sup>27</sup> Yohei Kobayashi, “Can Japan’s ‘New Dimension’ Measure Reverse its Low Fertility Rate?,” *Center for Strategic and International Studies*, November 9, 2023, <https://www.csis.org/analysis/can-japans-new-dimension-measure-reverse-its-low-fertility-rate>.

In parallel, the Demographic Strategy Panel, a private group consisting of twenty-eight members from business, academia and other sectors, submitted a proposal entitled “Demographic Vision 2100” to PM Kishida in January 2024. The proposal argues that the government should try to keep the population above 80 million in 2100 by increasing the total fertility rate, proposing the creation of a new committee under the PM to oversee the implementation of the demographic strategy. The proposal includes two plans: stabilizing the population and strengthening the economy. The population stabilization strategy aims to halt the downward trend of the population and, over time, to reach a balanced level by improving conditions for child rearing. The second strategy aims to increase productivity by developing human resources accepting foreign workers, especially highly skilled foreign workers, to address depopulation and improve productivity.<sup>28</sup> Many of these measures are not new, rather, the Kishida government could implement comprehensive policies and measures taking the framework presented by Population Vision 2100 as a reference.

Theoretically, immigration could help alleviate some of these pressures by supplementing the labor force and supporting demographic renewal. However, Japan has one of the most restrictive immigration policies among developed countries. Historically, Japan has emphasized ethnic homogeneity and social cohesion, making it averse to large-scale immigration. The current immigration laws originated in 1951, when the United States pushed for regulations that influenced social reforms. Although there have been some innovations, many of the technicalities and restrictions of the system remain in place, even in the mentality of some sectors of Japanese society.<sup>29</sup> Faced with growing demographic challenges, Japan has made some efforts, mainly through special programs targeting Nikkei, descendants of Japanese emigrants mainly in Latin America. However, these programs are relatively limited and have not resulted in a significant influx of immigrants. Policies targeting the Nikkei community have been criticized as insufficient to address the magnitude of Japan's demographic and economic needs.<sup>30</sup>

Recently, Japan's Ministry of Health, Labor, and Welfare reported a record-breaking statistic: in 2023, the number of foreign workers in Japan surpassed 2 million, marking the highest level

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<sup>28</sup> Shujiro Urata, “Combating depopulation in Japan,” *East Asia Forum*, March 5, 2024,

<https://eastasiaforum.org/2024/03/05/combating-depopulation-in-japan/#:~:text=This%20pattern%20changed%20as%20people.and%20aging%20population%20are%20substantial.>

<sup>29</sup> Jun Saito, “Historical Background of the Japanese Restrictive Immigration Policy,” *Japan Center for Economic Research*, July 15, 2022, <https://www.jcer.or.jp/english/historical-background-of-the-japanese-restrictive-immigration-policy>.

<sup>30</sup> Bifue Ushijima, “Japan Opens a Door to Fourth-Generation Japanese Abroad,” *Public Relations Office Government of Japan*, September 2018, [https://www.gov-online.go.jp/eng/publicity/book/hlj/html/201809/201809\\_09\\_en.html](https://www.gov-online.go.jp/eng/publicity/book/hlj/html/201809/201809_09_en.html).

in history. In Tokyo alone, foreign nationals make up 12% of the city's residents. This figure represents a 12.4% increase compared to the previous year, underscoring a rapidly growing trend.<sup>31</sup> Japan's visa regulations categorize foreign workers in specific ways, and of these 2 million, over a quarter (595,904) are registered as skilled workers, meaning they are filling specific roles for which there is demand and which the local workforce often cannot meet. This situation reflects Japan's increasing reliance on foreign professionals due to challenges in recruiting domestically, rooted in broader societal issues. The majority of these workers come from Vietnam, China, and the Philippines. Japan's approach aligns with a global trend toward circular migration, where migrants periodically return to their home countries or move to third countries rather than settling permanently. This model benefits receiving countries by filling labor gaps, while also reducing "brain drain" and contributing to social and economic growth in migrants' countries of origin. Japan's engagement with "U-turn migration", particularly the return of Japanese descendants from Latin America, not only addresses workforce needs in the industry but also helps to alleviate the challenges posed by an aging population.<sup>32</sup>

### 1.3 Economic policies and innovation

Strategic manufacturing and technology are two elements that give international actors the edge over competitive industries. Specifically, the production of semiconductors and microchips are in the center of a commercial competition that will define the game-changing actors in the future. The top five producers of semiconductors are Taiwan, South Korea, Japan, the United States and China.<sup>33</sup> Thus, the strategic importance of this industry is visible as it boils down to the Indo-Pacific. During most of the second half of the 20<sup>th</sup> century, Japan dominated this market until it lost ground to major companies in Taiwan and South Korea. In July 2024, METI published an "Outline of Semiconductor Revitalization Strategy in Japan," with the goals of increasing the budget dedicated to the production of this technology.<sup>34</sup> In it there is an overview of the planning, as well as the manufacturing and partnerships to boost the semiconductor industry and dampen China's rise in this sector. Japan will be able to maintain its position in strategic manufacturing and technology if it collaborates strongly with the U.S., continues to

<sup>31</sup> Nippon, "The Changing Face of Tokyo: One in Eight Shinjuku Residents are Foreign Nationals," February 27, 2019, <https://www.nippon.com/en/japan-data/h00398/the-changing-face-of-tokyo-one-in-eight-shinjuku-residents-are-foreign-nationals.html>

<sup>32</sup> Yoko Sellek, "The U-turn phenomenon among South American-Japanese descendants: from emigrants to migrants," *Immigrants & minorities*, 15(3), 246-269, June 21, 2010, <https://www.tandfonline.com/doi/abs/10.1080/02619288.1996.9974895>.

<sup>33</sup> Shiphub, "World's Top Semiconductor Producers," <https://www.shiphub.co/worlds-top-semiconductors-producers/>.

<sup>34</sup> Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry, "Outline of Semiconductor Revitalization Strategy in Japan," July 2024, [https://www.meti.go.jp/english/policy/0704\\_001.pdf](https://www.meti.go.jp/english/policy/0704_001.pdf).

develop last generation technologies, constructs manufacturing bases and counts on the financial support of the national government.

Japan and the United States are partnering up in multiple projects to consolidate positions in the semiconductor market. A perfect example is the Rapidus-IBM-IMEC collaboration, which “is arguably one of the most ambitious in the history of the global semiconductor industry.”<sup>35</sup>

Rapidus is a company that was founded in order to give Japan a boost in its semiconductor industry and compete against TSMC from Taiwan, Samsung from South Korea or even Intel from the United States. It teamed up with US-based IBM and Belgium-based IMEC in a joint enterprise in which Rapidus will be responsible for the production and the other firms will manage the research and development. It is ambitious because it truly provides an opportunity to lead in the industry as “having a leading-edge process manufacturer on Japanese soil will improve logistics for Japanese OEMs and provide additional supply chain security for Japan.”<sup>36</sup>

In this escalating technological competition, Japan cannot challenge China alone, and the United States relies on Japan as one of its strongest allies in Eastern Asia. This mutually beneficial relationship is symbolized through the signings of multiple documents to consolidate cooperation and secure positions on the market. These agreements include the 2022 Basic Principles on Semiconductor Cooperation, the 2022 Japan-US Joint Leaders’ Statement: Strengthening the Free and Open International Order, the 2022 Announcement Regarding Efforts Toward the Establishment of Design and Manufacturing Bases for Next-Generation Semiconductors, or the 2023 Joint Statement for the Second Ministerial Meeting of the Japan-US Commercial and Industrial Partnership.

The semiconductor industry is an opportunity to strengthen regional ties. There is a group called “US-East Asia Semiconductor Supply Chain Resilience Working Group” or “Fab 4,” which counts on the participation of the U.S., Japan, Taiwan and South Korea. Essentially, discussions focus around maintaining supply chain resilience and initiating talks on further cooperation.<sup>37</sup> Specifically, between Taiwan and Japan there are news that point towards a

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<sup>35</sup> Sujai Shivakumar, Charles Wessner, and Thomas Howell, “Japan Seeks to Revitalize its Semiconductor Industry: Aggressive Technological Goals,” *Center for Strategic and International Studies*, August 25, 2023, <https://www.csis.org/analysis/japan-seeks-revitalize-its-semiconductor-industry#:~:text=The%20Rapidus%20IBM%20IMEC%20collaboration.constitute%20an%20unparalleled%20technological%20feat.>

<sup>36</sup> Kevin Krewell, and Tirias Research, “Japan’s New Semiconductor Foundry Rapidus Taps IBM for 2nm Process,” *Forbes*, December 12, 2022, <https://www.forbes.com/sites/tiriasresearch/2022/12/12/japans-new-semiconductor-foundry-rapidus-taps-ibm-for-2nm-process/>.

<sup>37</sup> Reuters, “Tech war: Taiwan says US-led Chip 4 alliance held first senior officials meeting,” February 26, 2023, <https://www.scmp.com/tech/war/article/3211594/tech-war-taiwan-says-us-led-chip-4-alliance-held-first-senior-officials-meeting>.



strengthening of assistance in this field. In March 2024, the Taiwan Semiconductor Manufacturing Company (TSMC), the most prestigious enterprise in the sector, announced that it opened its first production facility in Kumamoto, Japan.<sup>38</sup> It is important to understand that since Japan's government is open to further foreign investments in this sector, TSMC could continue to open plants and promote joint projects. Along with Taiwan, Japan's "goal is to build a global supply chain in collaboration with the United States and Europe, one which is less vulnerable to shocks such as those which occurred during the pandemic and less dependent on an increasingly assertive China."<sup>39</sup>

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<sup>38</sup> Sujai Shivakumar, Charles Wessner, and Thomas Howell, "Japan Seeks to Revitalize its Semiconductor Industry: Aggressive Technological Goals," *Center for Strategic and International Studies*, August 25, 2023, <https://www.csis.org/analysis/japan-seeks-revitalize-its-semiconductor-industry#:~:text=The%20Rapidus%20IBM%20IMEC%20collaboration,constitute%20an%20unparalleled%20technological%20feat.>

<sup>39</sup> *Ibid.*

## 2. THE IMPORTANCE OF A STRONG DEFENSE STRATEGY

*The nation's post-World War II pacifist stance, enshrined in its constitution, is increasingly challenged by the evolving security landscape. To address these challenges, Japan has embarked on a significant military modernization program, strengthening its alliance with the United States and expanding its defense industrial base. This strategic shift aims to ensure Japan's security, protect its economic interests, and contribute to regional stability. By examining Japan's national defense policy and constraints, the strengthening of the U.S.-Japan alliance, and the nation's defense budget and military industrial capabilities, one can gain a deeper understanding of Japan's evolving role in the global security architecture.*

### 2.1 Japan's national Defense policy and constitutional constraints

In the last decade, the Japanese government has moved away from its pacifist stance and has begun to take a more significant role, both internally and externally. The escalation of tensions in the Indo-Pacific region has led the Japanese government to advocate for a revision of Article 9 of its constitution. This article must be interpreted in accordance with Article 13 of the same constitution: “their [all the people’s] right to life, liberty, and the pursuit of happiness” because in order to guarantee the freedoms of Japanese citizens, a military must be developed to protect them in case of an imminent attack.<sup>40</sup>

In 2014, the cabinet of PM Abe reinterpreted this article, allowing Japan the right to collective self-defense. This means that Japan can provide military support if any of its allies comes under attack, as long as it is necessary for the survival of Japan and its citizens. Evidently, this must be understood as an extension of the rights and freedoms of the Japanese people under Article 13, provided there are no other more diplomatic means to address the situations. This move was criticized by both China and South Korea.<sup>41</sup> In 2015, the Japanese government developed two other documents: The Development of Seamless Security Legislation to Ensure Japan's Survival and Protect Its People, and Japan's Legislation for Peace and Security which outline

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<sup>40</sup> Prime Minister of Japan and His Cabinet, “The Constitution of Japan: Chapter II, Article 9,” November 3, 1947, [https://japan.kantei.go.jp/constitution\\_and\\_government\\_of\\_japan/constitution\\_e.html#:~:text=Article%209..means%20of%20settling%20international%20disputes](https://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html#:~:text=Article%209..means%20of%20settling%20international%20disputes).

<sup>41</sup> Sean Mirski, “A primer on Japan's Constitutional Reinterpretation and Right to Collective Self-Defense,” Lawfare, November 7, 2014, <https://www.lawfaremedia.org/article/primer-japans-constitutional-reinterpretation-and-right-collective-self-defense>.

the growing instability in the region and Japan's need to develop militarily for self-defense and to take on a more active role in the Indo-Pacific.<sup>42</sup> Some years later, Prime Minister Kishida's government issued the most important document in Japan's military defense system: the 2022 NSS, which proposes abandoning the "historic basic defense force concept" by reinforcing its defense capabilities.<sup>43</sup> That same year, Japan deployed its newly built aircraft carrier to the Indo-Pacific for joint military exercises with the United States, Australia, and South Korea, demonstrating the readiness for conflict and the urgency for Japan to lead in addressing the regional problem in the Indo-Pacific.<sup>44</sup>

Among the objectives of the 2022 NSS, it is emphasized that "if by any chance a threat should reach Japan, Japan will disrupt and defeat the threat and minimize the damage caused, and bring it to an end in a manner favorable to protecting its national interests."<sup>45</sup> On the other hand, the text highlights the military and strategic progress alongside its ally, the United States. In the next decade, nothing seems to indicate that the U.S. will abandon the military bases it has in Japanese territory, especially in Okinawa.<sup>46</sup> In fact, relations between the two countries have improved, and a United States intervention in the event of a conflict in the Indo-Pacific is likely, ensuring the protection of Japan and its regional allies.

Recent political changes within Japan's ruling Liberal Democratic Party (LDP) have introduced substantial challenges to advancing the country's defense policy, especially given its constitutional constraints. Prime Minister Shigeru Ishiba's administration efforts to bolster Japan's defense, may face significant obstacles following the LDP's poor performance in recent elections. The LDP, in coalition with Komeito, failed to secure a simple majority, complicating efforts to enact key policies. Without a clear majority, the LDP-Komeito coalition is expected to struggle in passing legislation (amending the constitution requires a two-thirds majority<sup>47</sup>), needing to rely on alliances and negotiations with other parties to maintain

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<sup>42</sup> Cabinet of the Prime Minister, "Cabinet Decision on Development of Seamless Security Legislation to Ensure Japan's Survival and Protect its People," July 1, 2014, [https://www.cas.go.jp/jp/gaiyou/jimu/pdf/anpohosei\\_eng.pdf](https://www.cas.go.jp/jp/gaiyou/jimu/pdf/anpohosei_eng.pdf); Government of Japan, "Japan's Legislation for Peace and Security: Seamless Responses for Peace and Security of Japan and the International Community," March 2016, <https://www.mofa.go.jp/files/000143304.pdf>.

<sup>43</sup> Ministry of Foreign Affairs of Japan, "National Security Strategy of Japan," December 16, 2022, <https://www.cas.go.jp/jp/siryou/221216anzenhoshou/nss-e.pdf>.

<sup>44</sup> Mike Yeo, "Japan's converted aircraft carrier to undertake Indo-Pacific Deployment," *DefenseNews*, June 2, 2022, <https://www.defensenews.com/naval/2022/06/02/japans-converted-aircraft-carrier-to-undertake-indo-pacific-deployment/>.

<sup>45</sup> Ministry of Foreign Affairs of Japan, "National Security Strategy of Japan," December 16, 2022, <https://www.cas.go.jp/jp/siryou/221216anzenhoshou/nss-e.pdf>.

<sup>46</sup> Hope O'Dell, "The US is sending more troops to the Middle East. Where in the world are US military deployed?," *bluemarble*, April 5, 2024, <https://globalaffairs.org/bluemarble/us-sending-more-troops-middle-east-where-world-are-us-military-deployed>.

<sup>47</sup> "Prime Minister of Japan and His Cabinet, "The Constitution of Japan: Chapter IX, Article 96," November 3, 1947,

effective control in the Diet.<sup>48</sup> This loss further diminishes the LDP's authority within the coalition, intensifying challenges for a cohesive policy-making process.

Ishiba's leadership, while committed to raising Japan's defense budget to 2% of GDP by 2027, may be constrained by these new political realities. His administration's goal to expand Japan's military capabilities, as outlined in the 2022 National Security Strategy, rests heavily on advancing legislative support, especially for measures that reinterpret or amend Article 9's restrictions on military force. Yet with a fragmented Diet and a diminished coalition influence, passing such transformative legislation has become a much more daunting task.

The election outcomes also reflect a growing debate within Japan over the balance between traditional pacifism and the need for increased security capabilities. While there is support among some LDP members and the public for a stronger military presence, including increased cooperation with allies like the United States, factions within the LDP remain wary of altering Japan's postwar pacifist identity.<sup>49</sup> This divide could lead to a more cautious approach, slowing the pace of defense reforms and affecting critical initiatives within the 2022 NSS.

The Russian military intervention in Ukraine in February 2022 has increased the possibility of a conflict in the Far East with other geopolitical actors, primarily China and North Korea. For this reason, the Japanese government has the priority of preparing new defense capabilities to ensure the safety of its citizens. This includes strengthening its capacities in the cyberspace, electromagnetic domain, and the air, maritime, and ground forces. These improvements would allow for a swift and proportional response in case of armed conflict. In September 2024 PM Kishida's government announced a defense investment of more than \$57 billion, a 7.4% increase from the previous year pending approval in the legislature.<sup>50</sup> This investment, under the framework document Progress and Budget in Fundamental Reinforcement of Defense Capabilities, not only allows for increased spending on military capabilities but also calls for early deployment by 2025, such as the purchase of Upgrade Type-12 SSM and Tomahawk missiles, which were initially expected to arrive in 2026. Additionally, the government plans

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[https://japan.kantei.go.jp/constitution\\_and\\_government\\_of\\_japan/constitution\\_e.html#:~:text=Amendments%20to%20this%20Constitution%20shall,at%20a%20special%20referendum%20or](https://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html#:~:text=Amendments%20to%20this%20Constitution%20shall,at%20a%20special%20referendum%20or).

<sup>48</sup> Robert Ward, "The aftermath of Japan's general election - uncertainty ahead," *The International Institute for Strategic Studies*, October 29, 2024, <https://www.iiss.org/online-analysis/online-analysis/2024/10/the-aftermath-of-japans-general-election--uncertainty-ahead/>.

<sup>49</sup> Jio Kamata, "Is Japan Leaving Pacifism Behind?," *The Diplomat*, March 28, 2024, <https://thediplomat.com/2024/03/is-japan-leaving-pacifism-behind/>.

<sup>50</sup> Colin Clark, "'New era of crisis' prompts Japan's biggest defense budget ever: \$59B for 2025," *Breaking Defense: Indo-Pacific*, September 5, 2024, <https://breakingdefense.com/2024/09/new-era-of-crisis-prompts-japan-biggest-defense-budget-ever-59b-for-2025/>.



to acquire RC-2 signals intelligence aircraft, maneuvering and deployment capabilities, and purchase eight Lockheed Martin F-35As. However, the most ambitious plan of Japan's defense system is the development of the next-generation fighter aircraft under the umbrella of the Global Combat Air Program (GCAP).<sup>51</sup> Nevertheless, the greatest military efforts have been and will continue to be made in the U.S.-Japan alliance. In October 2024, the Japanese defense minister and the U.S. defense secretary met and reached an agreement to improve their command and control frameworks for better coordination in case of regional escalation, which will be developed later in the document.

Regarding the nuclear issue, since 1971 Japan has adhered to the "Three Non-Nuclear Principles": non-production, non-possession, and non-introduction; a stance deeply rooted in Japan's firsthand experience of the consequences of the two atomic bombs dropped on its territory. Additionally, Japan maintains an international position of advocating for "a world without nuclear weapons," a position it promoted when joining the Treaty on the Non-Proliferation of Nuclear Weapons in 1976. When Japan ratified the document, the government said that "Japan, as the only nation to have suffered atomic bombings, declares anew to the world its fundamental policy of forsaking nuclear armament."<sup>52</sup> Although Japan has reinterpreted the constitution to possess military forces and the region's instability may require it, it does not seem that the country will change its stance on nuclear weapons. Moreover, the strong understanding with the United States and the QUAD alliance, two of whose members possess nuclear weapons, ensures that in the event of a conflict in the Indo-Pacific, a United States intervention is likely, as long as it serves to deter the adversary. Despite not having a nuclear program planned for the future, Japan has been improving its military capabilities, and the concept of exclusive self-defense forces has been losing strength.

## 2.2 Strengthening the regional Japan-United States alliance

The United States and Japan have had a very stable and friendly relationship since World War II.<sup>53</sup> Both have an interest in the region: Japan could not develop its FOIP policy without the U.S. and, on the other hand, the United States needs to maintain its regional power through

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<sup>51</sup> Greg Waldron, "GCAP nations, industrial partners work to form joint organisations," *Flight Global*, October 21, 2024, <https://www.flightglobal.com/defence/gcap-nations-industrial-partners-work-to-form-joint-organisations/160362.article>.

<sup>52</sup> Directorate General, Arms Control and Scientific Affairs, Ministry of Foreign Affairs, "Japan Disarmament Policy," *The Center for the Promotion of Disarmament and Non-Proliferation, Japan Institute of International Affairs*, March 2003, <https://www.mofa.go.jp/policy/un/disarmament/policy.pdf>, 24-32.

<sup>53</sup> Council on Foreign Relations, "The U.S.-Japan Alliance," May 3, 2024, <https://www.cfr.org/backgrounder/us-japan-alliance>.

alliances with AUKUS or QUAD and serve as containment to the threats posed by China and North Korea. This understanding is materialized in the presence of United States military bases in the region, and mainly on the Japanese islands of Okinawa, although it has been a subject of dispute by the citizens of the island.<sup>54</sup> Currently, the commitment of the U.S. to relocate bases, such as the relocation of the Marine Corps Air Station Futenma, reflect the good understanding between the two governments. In 2015, during PM Abe's tenure, Japan and United States authorities reviewed the different cooperation and defense agreements and among them, both governments carried out a review of the Japan-U.S. Defense Guidelines and agreed on close collaboration with other allies, especially with the Philippines, as well as greater cooperation in cybersecurity, space policy and ballistic missile defense. Likewise, the United States' commitment to Japan's defense experienced a turning point during President Obama's administration. Although the U.S. maintained a neutral position on the Senkaku/Diaoyu Islands, it changed its policy and upheld Japanese sovereignty. In Japan, these islands are given the name of Senkaku, Diaoyu is used in China. President Obama affirmed that the United States' "treaty commitment to Japan's security is absolute, and Article 5 covers all territories under Japan's administration, including the Senkaku islands."<sup>55</sup>

However, different scholars advocate for a more cautious stance from the United States in the event that China decides to invade the Senkaku Islands. The danger of an open war with China would gravely destabilize the region. Some of these academics agree that even Japan's desire "for a rules-based international order is in conflict with America's growing reluctance to serve as the steward of a liberal world order as opposed to a U.S.-dominated world order."<sup>56</sup> This has generated a debate about whether to include China in the FOIP framework. From Japan's perspective, integrating China into this policy would be viewed positively, as it could facilitate dealing with regional challenges such as Taiwan, the Senkaku Islands, North Korea, and the Philippines. However, Japan's primary regional ally, the United States, aims to exclude China from the equation. The steps that Japan and the United States have taken recently do not indicate a shift in strategy that would lead Japan to look more favorably at its Chinese trading partner or for the United States to adopt a more passive role in the region. In fact, the 2022

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<sup>54</sup> Céline Pajon, "Understanding the Issue of U.S. Military Bases in Okinawa," *Institut français des relations internationales*, June 21, 2010, <https://www.ifri.org/en/papers/understanding-issue-us-military-bases-okinawa>.

<sup>55</sup> Nick Simeone American Forces Press Service, "Obama: U.S. Treaty Commitment to Japan is "Absolute"," *U.S. Indo-Pacific Command*, April 24, 2014, <https://www.pacom.mil/Media/News/Article/564126/obama-us-treaty-commitment-to-japan-is-absolute/>.

<sup>56</sup> Peter Harris, and Meriel Hahn, "Chapter 5: The Japan-US Relationship: Imagining its Future in the Indo-Pacific Era," *Japan and its Partners in the Indo-Pacific: Engagements and Alignments* (2023).

NSS emphasized the importance of the United States in “detering contingencies and attempts to unilaterally change the status quo in Japan and its vicinity.”<sup>57</sup> Furthermore, it also places the Japan-U.S. alliance at the center of the promotion of Japan's FOIP initiative, something that has materialized following the joint military and naval exercises between the two countries and other actors in the region, Australia and the Philippines, in the previous two years.

The great understanding between Japan and the United States has not only improved their relationship, but has also involved other regional actors in order to preserve peace in the Indo-Pacific in the face of the growing threat from China. However, Japan's main merit has been on how it has influenced United States policy in the Far East, something that the United States itself has also been able to see: the FOIP policy has made it the focus much more of its efforts in the South China Sea and the Pacific, instead of focusing more of its resources in the northern part of the continent. In other words that is to say, there has been a shift from the Russia-North Korea paradigm to China. This shift is visible in the latest bilateral and multilateral alliances that have been strengthening the United States' role in the region, such as QUAD, ASEAN or AUKUS.

### **2.3 Defense budget and military industrial capabilities**

The October 2024 elections in Japan have made it clear that the continuity of the LDP is not certain, but until new governments are formed, the country will continue to be ruled by this historic political formation. PM Shigeru Ishiba, former Defense Minister, will continue the foreign policy objectives in terms of security of former PM Kishida and emphasized the importance of regional and collective security in Eastern Asia. In addition, he is committed to having a 2% GDP defense spending and additional spending categories by 2027, which would be the main enabler for strengthening its defense industry and boosting capabilities.<sup>58</sup> In such a dynamic region such as Eastern Asia, a strong military is absolutely necessary to face distinct challenges and threats. In current times, military strength is measured primarily by the quality of its technology and its capabilities. Following the traditional structure of land, sea and forces, professional militaries have incorporated the use of cyber and the latest high-tech instruments. Japan knows that if it is to be a serious player, it needs to upgrade its current stock. As a main

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<sup>57</sup> Ministry of Foreign Affairs of Japan, “National Security Objectives of Japan,” *National Security Strategy of Japan*, December 16, 2022, <https://www.cas.go.jp/siryoku/221216anzenhoshou/nss-e.pdf>, 10-11.

<sup>58</sup> Adam P. Liff, “No, Japan is not planning to “double its defense budget”,” *Brookings*, May 22, 2023, <https://www.brookings.edu/articles/no-japan-is-not-planning-to-double-its-defense-budget/>.

element of its national security, the 2022 NSS states that “Japan will actively capitalize on its advanced technological capabilities, developed over the years in the public and private sectors in the field of national security, without being bound by its conventional way of thinking.”<sup>59</sup> This entails the investment, creation and transfer of technology. Japan has the capacity to manufacture specialized technology, but it needs further expansion of its export policies and focusing on its national defense industry.

In 2023, the Japanese government amended its Three Principles on Transfer of Defense Equipment and Technology and Implementation Guidelines based on the 2022 NSS.<sup>60</sup> This is a clear demonstration that Japan is not only desiring to improve its military capabilities but also to strengthen its defense industry, two elements that go hand-in-hand. For example, the amendments allow Japan to export equipment, including lethal weapons, to any licensed country. This is a step-up for the industry as exports are now further unblocked. A graphic illustration of this provision is the Japanese agreement to supply domestically produced missiles for the Patriot missile systems to restock the United States arsenal, which has been strained due to the war in Ukraine.<sup>61</sup> Another illustration is the GCAP, mentioned before, in which an international platform format has been established to export fighter jets to third nations under certain conditions.<sup>62</sup> Besides the amendment of the “3Ps,” the Defense Production Base Reinforcement Act went into effect in October 2023 in order to strengthen the industrial and technological capacities of Japan. The Defense Build-up Plan by 2027 contemplates that “Japan will strengthen its defense capabilities to the point at which Japan is able to take the primary responsibility for dealing with invasions against its nation, and disrupt and defeat such threats while gaining support of its ally and others.”<sup>63</sup> In other words, at the heart of a strong security is a strong defense industry.

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<sup>59</sup> Ministry of Foreign Affairs of Japan, “National Security Objectives of Japan,” *National Security Strategy of Japan*, December 16, 2022, <https://www.cas.go.jp/jp/siryou/221216anzenhoshou/nss-e.pdf>, 12-15.

<sup>60</sup> ATLA, “Overview of the Revision of the Three Principles on Transfer of Defense Equipment and Technology and Implementation Guidelines”, *Acquisition, Technology and & Logistics Agency*, December 2023, [https://www.mod.go.jp/atla/en/policy/pdf/detc\\_01\\_03\\_overview\\_of\\_the\\_revision.pdf](https://www.mod.go.jp/atla/en/policy/pdf/detc_01_03_overview_of_the_revision.pdf).

<sup>61</sup> Jumpei Ishimaru, “New opportunities and old constraints for Japan’s defence industry,” *The International Institute for Strategic Studies*, August 19, 2024, [https://www.iiss.org/online-analysis/online-analysis/2024/08/new-opportunities-and-old-constraints-for-japans-defence-industry/#:~:text=In%20March%202024%2C%20the%20Japanese,Combat%20Air%20Programme%20\(GCAP\).](https://www.iiss.org/online-analysis/online-analysis/2024/08/new-opportunities-and-old-constraints-for-japans-defence-industry/#:~:text=In%20March%202024%2C%20the%20Japanese,Combat%20Air%20Programme%20(GCAP).)

<sup>62</sup> Ministry of Foreign Affairs of Japan, “Convention on the Establishment of the “Global Combat Air Programme - GCAP International Government Organisation”,” December 14, 2023, <https://www.mofa.go.jp/files/100595078.pdf>.

<sup>63</sup> Ministry of Defense, “Defense Buildup Program,” December 16, 2022, [https://www.mod.go.jp/j/policy/agenda/guideline/plan/pdf/program\\_en.pdf](https://www.mod.go.jp/j/policy/agenda/guideline/plan/pdf/program_en.pdf), 4-6.

Although there is political will to improve and advance exports, it struggles to do so because of its limited defense industry, even if it counts with its own Acquisition, Technology and Logistics Agency. Supply chain risks and companies exiting this sector are structural challenges that hinder the possibility of Japan becoming an arms exporter. In addition, the JSDF have never been engaged in combat operations, so there has not been an opportunity for “lessons learned” in the operational aspect of the industry. Also, it is the Japanese Ministry of Defense that is financially supporting the industrial base because the only customers are the JSDF. Japan has the technological and infrastructural capacities to be competitive in the global market, but it has no opportunity to compete because it is only recently that there is political will to boost the defense industry. If national defense products are exported to global markets and compete against foreign goods, then the industry could learn from a trial and error process. In this sense, it could sell used equipment, licensed weapons, or contribute to indirect sales. A good place to start is in the Japan-U.S. alliance, particularly in the Defense Industrial Cooperation, Acquisition and Sustainment Forum.<sup>64</sup> With an increase of flow of technology and supply chains between both countries, the defense industrial base can be strengthened dramatically. Apart from the United States, South Korea can also be an example for Japan in terms of arms exports and ascendance from a regional to a global player in this field.

In the long term, Japan will become an arms exporter. With the premise that a strong defense industry is a strong defense, and the necessity of strengthening alliances for the defense and stability of the region, exports will be a key element in Japanese foreign policy. “Increasing arms exports is inevitable for the Japanese defense industry,” especially as Japan consolidates its position as a leading actor in the Far East.<sup>65</sup> There is an important factor that must be considered when analyzing the defense industry, and that is Taiwan. The 2022 NSS does not explicitly state that Japan would defend Taiwan with direct military deployment, but stresses the importance of the partnership and the need for peace stability in the Strait.<sup>66</sup> If this policy evolves and Japan commits itself to the physical defense of Taiwan, then it evidently needs to acquire the necessary capabilities to counter China.

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<sup>64</sup> Yuki Tatsumi, “A Transformation in US-Japan Defense Cooperation,” *Stimson*, July 29, 2024, <https://www.stimson.org/2024/a-transformation-in-us-japan-defense-cooperation/>.

<sup>65</sup> Hiroyuki Sugai, “Japan’s future defense equipment policy,” *Center for 21st Century Security and Intelligence*, Brookings Institute, October 2016, [https://www.brookings.edu/wp-content/uploads/2016/10/201610\\_japan\\_future\\_defense\\_hiroyuki\\_sugai.pdf](https://www.brookings.edu/wp-content/uploads/2016/10/201610_japan_future_defense_hiroyuki_sugai.pdf).

<sup>66</sup> Ministry of Foreign Affairs of Japan, “National Security Objectives of Japan,” *National Security Strategy of Japan*, December 16, 2022, <https://www.cas.go.jp/jp/siryou/221216anzenhoshou/nss-e.pdf>, 13-15.



Recruitment is an issue in Japan which has deep links with its current social issues. According to the 2023 Defense White Paper, the total number of JSDF personnel was approximately 247,000.<sup>67</sup> With the security challenges of the region, it is only logical that Japan wishes to increase this number, but recruitment problems have been difficult to deal with in the “rank and file” members of the military. An aging population and a weak defense culture are the main contributors to the country’s outstandingly low numbers.<sup>68</sup> In order to tackle these issues and try to build a long-term sustainable solution, Japan’s defense ministry has invested in AI, automation and better living conditions for troops.<sup>69</sup> Firstly, it is dedicating 18 million yen to the establishment of an AI surveillance system in military facilities to cover the shortage of troops, and investing in the acquisition of unmanned drones. In terms of work, authorities are introducing financial incentives and benefits, as well as better living conditions for service members, which is a way of competing against the higher-paid jobs in the private sector. Still, these measures seem to bypass underlying cultural issues related to military recruitment.

Promotion of recruitment would need to account for values-based campaigns and the necessity to upgrade the JSDF to face threats in the region. Evidently, low birth rates and an aging population are a physical obstacle to an increase in military recruits, and on top of this, many young candidates are fetched by private sector professions that promise better incomes and conditions. While the government is trying to face these points, a strong national campaign about the defense of Japan in a challenging and threatening environment should be at the core of its publicity. Japan seems to be undergoing a “military reawakening” through its interest in advancing capabilities and modernizing a variety of technical sectors, but without personnel it is simply impossible. Thus, an investment in formation under the umbrella of a national and strategic culture is a possible solution to face this dilemma, and the government is executing different plans, like one where manga promotional materials are used.<sup>70</sup> Personnel is a basic element of modern militaries, and even if Japan invests in high-tech capabilities, recruitment will continue to be an issue that needs urgent resolution as the region becomes more complex.

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<sup>67</sup> Ministry of Defense, “Defense of Japan 2023,” *Acquisition, Technology and & Logistics Agency*, March 5, 2023, [https://www.mod.go.jp/en/publ/wp/paper/wp2023/DOJ2023\\_Digest\\_EN.pdf](https://www.mod.go.jp/en/publ/wp/paper/wp2023/DOJ2023_Digest_EN.pdf).

<sup>68</sup> Nippon, “Japan’s Self-Defense Force Recruitment Falls Far Short of 2023 Target,” *Nippon, Japan Data*, August 22, 2024, <https://www.nippon.com/en/japan-data/h02075/#:~:text=The%20number%20of%20new%20recruits,66%25%20rate%20in%20fiscal%202022>.

<sup>69</sup> Tim Kelly, “Japan’s military to spend on AI, automation, perks to combat recruitment crisis,” *Reuters*, August 30, 2024, <https://www.reuters.com/world/japan/japans-military-spend-ai-automation-perks-combat-recruitment-crisis-2024-08-30/>.

<sup>70</sup> Matthew Brummer, and Eitan Oren, “We Must Protect This Peace with Our Hands”: Strategic Culture and Japan’s Use of Force in International Disputes as Depicted in Ministry of Defense Manga Promotional Materials,” *Journal of Advanced Military Studies*, Strategic Culture (2022), <https://muse.jhu.edu/article/851421>.

### 3. REGIONAL CHALLENGES AND OPPORTUNITIES

*Japan is facing a complex web of challenges and opportunities in the Indo-Pacific region. The growing influence of China, tensions in the South China Sea and the Taiwan Strait, as well as the increasing interest in the Arctic, have radically transformed the geopolitical landscape in which Tokyo operates. The need to balance economic relations with China and concerns about national security, especially in the context of China's territorial ambitions, poses a strategic dilemma for Japan. Additionally, the importance of Taiwan and the Philippines as key partners in the region, and the growing competition for resources in the Arctic add layers of complexity to Japan's foreign policy agenda. This analysis will explore the challenges and opportunities facing Japan in this dynamic environment, as well as the implications for regional and global security.*

#### **3.1 The Indo-Pacific at the heart of global affairs**

Japan's strategic approach in the Indo-Pacific region has evolved significantly over the past two decades, driven by the rising influence of China and concerns about the future stability of the region. Japan's diplomatic shift from a focus on the Asia-Pacific to the broader Indo-Pacific framework was spurred by several key factors, including the growing assertiveness of China, particularly in contested maritime zones, and the recognition that Japan's traditional reliance on the United States needed to be complemented by stronger relationships with other regional powers. Prime Ministers Shinzo Abe and Taro Aso (2008-2009) were central to reshaping Japan's foreign policy, creating a foundation for what would later become Japan's strategic cornerstone, the aforementioned FOIP.<sup>71</sup> For decades, Japan's diplomatic and economic outreach revolved around the Asia-Pacific region, with particular focus on forums such as the Asia-Pacific Economic Cooperation. This framework, which brought together countries from across the Pacific Rim, helped to integrate Japan into the regional economy, centering it on the Pacific Ocean.

The early 2000s saw a shift in Japan's strategic thinking, with leaders like PM's Abe and Aso introducing broader geopolitical frameworks. Notably, PM Abe's speech in 2007 titled the "Confluence of the Two Seas" marked the beginning of Japan's conceptual pivot towards the

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<sup>71</sup> Ministry of Foreign Affairs of Japan, "Japan's effort for a "Free and Open Indo-Pacific"," March 2021, <https://www.mofa.go.jp/files/100056243.pdf>.

Indo-Pacific.<sup>72</sup> This speech, given to the Indian parliament, emphasized the merging of the Pacific and Indian Oceans into a single strategic space, also highlighting the importance of India as a partner.<sup>73</sup> Despite PM Abe's early articulation of the Indo-Pacific concept, Japan was paradoxically initially slow to fully adopt this new framework. There were two main reasons for this delay: the Japanese policymaking community was still more comfortable with the established Asia-Pacific concept, and PM Abe's departure from power in 2007 meant the momentum for this shift stalled until his return in 2012. Once back in office, PM Abe reintroduced the Indo-Pacific as Japan's primary foreign policy framework, and by 2015 and 2016, it had become Japan's dominant strategic paradigm.<sup>74</sup>

As an island nation with significant dependence on maritime trade routes, Japan is acutely aware of the importance of the Sea Lines of Communication. The security of these sea lanes is a critical concern for Japan, given the increasing tensions in areas like the South China Sea, East China Sea, and the Taiwan Strait.<sup>75</sup> China's growing assertiveness in these regions has been perceived by Japan as the most significant strategic challenge, particularly in light of disputes over the Senkaku Islands and concerns about China's coercive tactics regarding Taiwan.<sup>76</sup> The Japan Maritime Self-Defense Force has since become increasingly active in promoting freedom of navigation and participating in joint naval exercises with regional partners.<sup>77</sup> Japan's security strategy has also expanded to include capacity-building efforts across Southeast Asia. Japan has provided coast guard vessels, training, and other forms of support to countries like Vietnam, the Philippines, Indonesia, and Malaysia, helping them to bolster their maritime security capabilities.<sup>78</sup> These efforts are aimed at ensuring that Japan's regional partners can better manage their own security in the face of Chinese assertiveness.

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<sup>72</sup> Felix Heiduk, and Gudrun Wacker, "From Asia-Pacific to Indo-Pacific: Significance, Implementation and Challenges," *Deutsches Institut für Internationale Politik und Sicherheit*, July 2020, <https://www.swp-berlin.org/10.18449/2020RP09/>.

<sup>73</sup> John V. Jojin, "India, Japan and the Indo-Pacific: Evolution, Consolidation and Limitations of the Strategic Partnership," *Journal of Asian Security and International Affairs*, October 13, 2024, <https://journals.sagepub.com/doi/10.1177/23477970241282067>.

<sup>74</sup> Gemma King, "Abe Shinzo: the 'father' of the Indo-Pacific," *Perth USAsia Centre*, Indo-Pacific Strategy, <https://perthusasia.edu.au/research-insights/abe-shinzo-the-father-of-the-indo-pacific/>.

<sup>75</sup> Irimi Laimou-Maniati, "The Management of the Sea Lanes of Communication in South East Asia and the ASEAN Regional Forum's Performance," *ETH Zürich*, October 8, 1998, <https://www.files.ethz.ch/isn/23243/Management%20of%20the%20Sea%20Lanes%20of%20Communication%20in%20SE%20Asia.pdf>, 1-12.

<sup>76</sup> Takashi Hosoda, "The shifting nature of Japan's "Free and Open Indo-Pacific"," *Sinopsis*, October 12, 2022, <https://sinopsis.cz/en/the-shifting-nature-of-japans-free-and-open-indo-pacific/>.

<sup>77</sup> Takuya Shimodaira, "The Japan Maritime Self-Defense Force in the Age of Multilateral Cooperation: Nontraditional Security," *Naval War College Review*, Volume 67, No. 2, Article 6, 2014, <https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=1319&context=nwc-review>.

<sup>78</sup> Ministry of Foreign Affairs of Japan, "Chapter 3: Japan's Foreign Policy to Promote National and Global Interests," *Diplomatic Bluebook 2023*, [https://www.mofa.go.jp/policy/other/bluebook/2023/en\\_html/chapter3/c030103.html](https://www.mofa.go.jp/policy/other/bluebook/2023/en_html/chapter3/c030103.html).

Japan's emphasis on norms and rules in FOIP is not only aimed at ensuring maritime security but also extends into trade and finance. Foreign aid in the region has traditionally been dominated by Japan, but China's economic power has made it very difficult to compete against its aid funds. With the launch of the BRI, the Asian giant embarked on an ambitious project of investments and infrastructure projects and essentially expanded its influence in the region and in other parts of the world like Africa or Latin America. The plans of the "New Silk Road" are mainly financial, as China invests in special economic zones that create jobs, supports development proposals, and encourages countries to embrace technological offerings, such as the 5G network operated by Huawei.<sup>79</sup> Additionally, it creates a framework in which highways, railways, border crossing and energy pipelines are connected towards the West and South. Materially it expands the use of Chinese currency and according to President Xi Jinping, "breaks the bottleneck of Asian connectivity."<sup>80</sup> In December 2023, the number of countries that have signed to projects included in the BRI framework are 150, which includes 17 countries of the European Union and 8 countries of the G20.<sup>81</sup>

Japan has reacted rapidly to China's expansion of influence through the BRI and plans to compete in a field in which it is traditionally dominant. For instance, Japan has played a key role in shaping and leading the CPTPP, a trade agreement that promotes high standards of economic cooperation among its members. Japan took over leadership of the CPTPP after the United States withdrew from the Trans-Pacific Partnership, underlining the eastern country's commitment to maintaining an international order grounded in open and fair trade.<sup>82</sup> Japan's efforts in this regard serve as a counterbalance to China's growing economic power, with Tokyo promoting infrastructure and development projects under its own principles of "quality infrastructure." In response to China's Belt and Road Initiative (BRI), Japan launched its "Partnership for Quality Infrastructure" in 2016, committing \$200 billion over five years to infrastructure projects, particularly in Asia.<sup>83</sup> Japan's approach emphasizes transparency, sustainability, and market-oriented principles, a stark contrast to the often opaque and debt-

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<sup>79</sup> James McBride, Noah Berman, and Andrew Chatzky, "China's Massive Belt and Road Initiative," *Council on Foreign Relations*, February 2, 2023, <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.

<sup>80</sup> Harsh V. Pant, and Premesha Saha, "Mapping the Belt and Road Initiative: Reach, Implications and Consequences," *Observer Research Foundation*, February 24, 2021, <https://www.orfonline.org/research/mapping-the-belt-and-road-initiative>.

<sup>81</sup> Christoph Nedopil Wang, "China Belt and Road Initiative (BRI) Investment Report 2023," *Green Finance & Development Center*, February 5, 2024, <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2023/>.

<sup>82</sup> Shin Ito, "Japan's Critical Leadership Role on Free and Fair Trade," *Center for Strategic and International Studies*, May 15, 2018, <https://www.csis.org/analysis/japans-critical-leadership-role-free-and-fair-trade>.

<sup>83</sup> Axel Berkofsky, "Tokyo's 'Free and Open Indo-Pacific': quality infrastructure and defence to the fore," *Real Instituto Elcano*, March 14, 2019, <https://www.realinstitutoelcano.org/en/analyses/tokyos-free-and-open-indo-pacific-quality-infrastructure-and-defence-to-the-fore/>.

laden practices associated with some BRI projects.<sup>84</sup> By promoting high standards for development, Japan aims to position itself as a leader in regional infrastructure financing, while also ensuring that China adheres to these norms.

Although China is effectively competing with Japan, this competition could actually bind some diplomatic ties between Beijing and Tokyo. A naturally formed cooperation has emerged as a result of division of labor between both countries because of national interests. Japan avoids lending to countries that have a lower repayment capacity while for China this has not been a consideration.<sup>85</sup> Interestingly enough, the situation could get tense if there is intentional cooperation on projects between China and Japan; it could create overlaps and tensions. One recipient of aid could receive help from Japan and China, creating overlaps with negative effects. This is another side of the cooperation aspect that is less explored but goes to show that a division of labor in this field can be a source of diplomacy between Japan and China, it does not necessarily have to be a field of harsh competition.<sup>86</sup> Japan offers an alternative to China, but it has “expressed willingness to cooperate with China on projects under the BRI umbrella under certain conditions, including openness and transparency.”<sup>87</sup> Thus, Japan chooses diplomacy but it is not unaware of the risks that a cooperation with China could entail, as China is a challenger to Japan’s dominance in aid and loans.

One of the most significant developments in Japan's security posture has been its participation in multilateral security frameworks such as the QUAD. Initially proposed in 2007, the QUAD was revitalized in 2017 as concerns over China's regional ambitions grew. The QUAD serves as a platform for coordinating regional security efforts, especially in the maritime domain, and has regularly held naval exercises and diplomatic consultations. Japan views the QUAD as a critical component of its FOIP strategy, as it provides a means to counter China's influence without provoking direct confrontation.

Japan’s engagement with AUKUS, the trilateral security pact among Australia, the United Kingdom, and the United States, underscores its alignment with other regional powers committed to countering China's influence in the Indo-Pacific. Although Japan is not a formal

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<sup>84</sup> Masafumi Iida, “Japan’s Reluctant Embrace of BRI?,” *Stiftung Wissenschaft und Politik*, October 2018, [https://www.swp-berlin.org/publications/products/projekt\\_papiere/Iida\\_BCAS\\_2018\\_BRI\\_Japan\\_6.pdf](https://www.swp-berlin.org/publications/products/projekt_papiere/Iida_BCAS_2018_BRI_Japan_6.pdf), 1-6.

<sup>85</sup> Hiroyuki Hoshiro, “Aid coordination through competition? Unintended consequences of China-Japan rivalry in foreign aid policy in Asia,” *International Relations of the Asia-Pacific*, 24(3), November 15, 2023, <https://academic.oup.com/irap/article/24/3/429/7424197>, 429-464.

<sup>86</sup> *Ibid.*

<sup>87</sup> Carla P. Freeman, and Mie Ôba, “Bridging the Belt and Road Divide,” *Carnegie Endowment for International Peace*, October 10, 2019, <https://carnegieendowment.org/posts/2019/10/bridging-the-belt-and-road-divide?lang=en>.



member of AUKUS,<sup>88</sup> it has shown strong support for the initiative, viewing it as complementary to its own defense interests. AUKUS aims to enhance security cooperation, particularly through nuclear-powered submarines for Australia, advanced cyber capabilities, and high-tech defense systems, which directly bolster collective security in the region.<sup>89</sup>

Japan has actively diversified its security partnerships in recent years, focusing especially on Australia and India, even though the U.S. remains its most crucial security ally. In 2006 the United States, Japan, and Australia established the Trilateral Strategic Dialogue, a key mechanism for coordinating regional security efforts.<sup>90</sup> Under this framework, the Blue Dot Network was developed to promote high-quality infrastructure projects, further integrating Japan's economic and security policies.<sup>91</sup> Japan's relationship with Australia has strengthened significantly, particularly in security. In 2020, both countries signed a Reciprocal Access Agreement, allowing closer cooperation between their defense forces. Australia has since become Japan's second most important security partner, with both nations conducting joint military exercises and sharing intelligence.<sup>92</sup>

Japan's relationship with India, however, is more complex. While Japan views India as a critical partner in the Indo-Pacific, their strategic priorities often differ. India is not a formal United States ally, and its non-aligned stance sometimes complicates deeper security cooperation. Nonetheless, Japan has made significant infrastructure investments in India and seeks to bolster defense ties. Japan's outreach to India is part of a broader effort to include more countries in the FOIP framework and to counterbalance China's influence in the region.<sup>93</sup>

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<sup>88</sup> Allyson Park, "JUST IN: Japan's Possible Role in AUKUS still up in the air," *National Defense Magazine*, August 28, 2024, <https://www.nationaldefensemagazine.org/articles/2024/8/28/just-in-japans-possible-role-in-aucus-still-up-in-the-air>.

<sup>89</sup> William James, and David Brunnstrom, "US, UK, Australia consider Japan's cooperation in AUKUS security pact," *SWI*, April 9, 2024, <https://www.swissinfo.ch/eng/us%2c-uk%2c-australia-consider-japan%27s-cooperation-in-aucus-security-pact/75329080>.

<sup>90</sup> U.S. Department of State, "U.S.-Australia-Japan Trilateral Strategic Dialogue," *Office of the Spokesperson*, August 5, 2022, <https://www.state.gov/u-s-australia-japan-trilateral-strategic-dialogue/>.

<sup>91</sup> U.S. Department of State, "Blue Dot Network Advances Sustainable Infrastructure Projects," *Bureau of Economic and Business Affairs*, September 11, 2023, [https://www.state.gov/blue\\_dot\\_network\\_sustainable\\_infrastructure#:~:text=The%20Blue%20Dot%20Network%2C%20launched%20in%202019%20by,sector%20finance%20to%20build%20sustainable%20infrastructure%20projects%20worldwide](https://www.state.gov/blue_dot_network_sustainable_infrastructure#:~:text=The%20Blue%20Dot%20Network%2C%20launched%20in%202019%20by,sector%20finance%20to%20build%20sustainable%20infrastructure%20projects%20worldwide)

<sup>92</sup> Australian Government, Defence, "Australia-Japan Reciprocal Access Agreement," Department of Foreign Affairs and Trade, August 13, 2023, <https://www.defence.gov.au/defence-activities/programs-initiatives/australia-japan-reciprocal-access-agreement>.

<sup>93</sup> Borah Rupakjyoti, "Japan's Infrastructure Investment in Northeast India," *The Diplomat*, February 8, 2022, <https://thediplomat.com/2022/02/japans-infrastructure-investment-in-northeast-india/>.

### 3.2 Addressing the complex relation with China

Japan's economy, although it is strong, is dependent on what happens in other countries. For example, because Japan exports large quantities to the United States, a recession or macroeconomic policy will probably affect its economy as well. In 2008, during the economic recession, the GDP of the U.S. declined at an annual rate of 9%, therefore causing a sharp decline in imports from Japan, whose decline was at an annual rate of 12% in its GDP.<sup>94</sup> Regarding China, Japan is an economic partner but a rival in terms of security. Japan's overdependence was noticeable when China restricted rare earth exports in 2010 over the dispute of the Senkaku Islands, and it served as a warning that had foreign policy consequences.<sup>95</sup>

An interdependence between two countries is very difficult to change in the short and medium term, but an adaptation of the economies to favor shifts is more than possible, and Japan's measures are an example. In 2020 and during the COVID-19 pandemic, Japan's government and Japanese companies looked towards Southeastern nations for business. The Japanese METI helped companies to shift production from China to the Southeast or Japan while the Japan External Trade Organization (JETO) supported companies to adjust their supply chains to ASEAN, India, and Bangladesh.<sup>96</sup> To support means to subsidize and provide for legal approvals and assistance to stimulate offshoring from China. In October of 2023, Mitsubishi halted its production of vehicles in China.<sup>97</sup> In May of 2024 Honda scaled down the production workforce and suspended the production of three plants.<sup>98</sup> However, the exact terminology would not be "decoupling" but "readjusting" economies, as the Southeast becomes more economically integrated and new opportunities arise in ASEAN member countries. The "in-China-for-China" corporate policy is having effect as many companies simply do not profit as much by tailoring production for Chinese consumers, and in the long term, security implications could prove to be a risk for profit.

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<sup>94</sup> Masahiro Kawai, and Shinji Takagi, "Why was Japan Hit So Hard by the Global Financial Crisis?," *Asian Development Bank Institute*, October 2009, <https://www.adb.org/sites/default/files/publication/156008/adbi-wp153.pdf>.

<sup>95</sup> Simon Evenett, and Johannes Fritz, "Revisiting the China-Japan Rare Earths dispute of 2010," *Center for Economic Policy Research*, July 19, 2023, <https://cepr.org/voxeu/columns/revisiting-china-japan-rare-earths-dispute-2010>.

<sup>96</sup> Yuqing Xing, "Japan's plan to restructure global supply chains," *Hinrich Foundation*, July 16, 2024, <https://www.hinrichfoundation.com/research/article/trade-and-geopolitics/japan-plan-to-restructure-global-supply-chains/>.

<sup>97</sup> Michelle Toh, "Mitsubishi Motors is ending production in China," *CNN*, October 25, 2023, <https://edition.cnn.com/2023/10/25/cars/japan-mitsubishi-ending-china-production-intl-hnk/index.html>.

<sup>98</sup> Bloomberg, "Honda Motor cuts jobs in China, pauses productions at three plants," *Business Standard*, September 11, 2024, [https://www.business-standard.com/world-news/honda-motor-cuts-jobs-in-china-pauses-production-at-three-plants-124091101568\\_1.html](https://www.business-standard.com/world-news/honda-motor-cuts-jobs-in-china-pauses-production-at-three-plants-124091101568_1.html).

It must be made clear that currently Japan and China have strong economic relations, but are skeptical in terms of security and defense matters. This, however, might worsen as the rivalry in the Far East increases. China is Japan's largest export partner after the United States and in terms of imports, China is the largest partner, so their economic relations are clearly steady.<sup>99</sup> Japan now claims that China is exercising economic coercion, and as relations with ASEAN and the United States continue to advance, the political considerations will blend with the commercial ties, creating tensions and security dilemmas. Consequently, economic trade could worsen if tensions over the Southeast continue to rise, and the "relationship between the two countries becomes ambiguous and mixed with elements of both competition and cooperation."<sup>100</sup>

The growing tension in the Indo-Pacific is highlighted by several regional fronts that, in one way or another, push Japan to have a firm foreign policy. These include North Korean missile tests or China's various military exercises near Taiwan, which have placed Japan and the region on high alert. Another cause for concern are the territorial disputes, whereas as tensions increase in the Indo-Pacific, these controversial claims might be a source of direct conflict. When analyzing the surroundings of Japan, it is essential to describe each of the main issues it must deal with to ensure peace and stability.

Japan has direct territorial interests and disputes the sovereignty of the Senkaku Islands with China. These islands have belonged to Japan since 1972, following the Okinawa Reversion Agreement, in which the United States ceded its territory to the country now led by PM Shigeru Ishiba. Despite this, China has claimed sovereignty over the islands since 1992. As a result, since the 2000s, China has made numerous incursions, invading Japanese territorial waters. China has also declared sovereignty over Philippine territorial waters, and not only has there been strains over the exclusive economic zone (EEZ) of the Philippines, but there have also been collisions of coast guard ships of both countries. In reaction, the Philippines has improved its relations with the United States and Japan. The Philippines has signed agreements with the U.S. to increase base access, joint exercise training and weapons transfers. Likewise, Japan and the Philippines signed a defense pact in July 2024 and an exchange of military equipment.

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<sup>99</sup> OEC, "Japan (JPN) Exports, Imports and Trade Partners," The Observatory of Economic Complexity, updated July 2024, <https://oec.world/en/profile/country/jpn>.

<sup>100</sup> Feng Liu, and Kai He, "China's Bilateral Relations, Order Transition, and the Indo-Pacific Dynamics," *The China Review*, 23, No. 1, February 2023, [https://www-jstor-org.ezproxy.unav.es/stable/pdf/48717987.pdf?refreqid=fastly-default%3Ad1b7ffa9c168a50bd609465467818701&ab\\_segments=&initiator=&acceptTC=1](https://www-jstor-org.ezproxy.unav.es/stable/pdf/48717987.pdf?refreqid=fastly-default%3Ad1b7ffa9c168a50bd609465467818701&ab_segments=&initiator=&acceptTC=1), 28-32.

### ***The concern over Taiwan***

The stable relations between Taiwan and Japan have created a perception in Japan's public opinion that Taiwanese problems are also Japanese problems. This has been further developed by the notion of "resist China and assist Taiwan." However, the reality concerning the two territories is different. Japan has carried the idea of the Free and Open Indo-Pacific and therefore sees itself as the guarantor of security in the region but evidence shows that in the event of Chinese military intervention in Taiwan, Japan would face a strategic dilemma.

Japan has always maintained a good economic and strategic relationship with the government now presided over by Lai Ching-te. For example, during the COVID-19 pandemic, the Japanese government donated more than two million vaccines to Taiwan, Vietnam and the Philippines. Another example is that when the Chinese government imposed sanctions on pineapples from Taiwan, Japan decided to buy Taiwanese pineapples to dampen economic effects. A final instance is when Japan showed its support for Taiwan joining the CPTPP. Thus, Japan and Taiwan have a fluid economic relationship, but when it comes to security, it might be somewhat different.<sup>101</sup> The fact that the Japanese government does not recognize Taiwan as a state weakens relations, especially in the defense, but above all, it calls into question Japan's ambiguity regarding the status that the island should have. The United States has maintained that Taiwan is part of China, in what is known as the "One China policy."<sup>102</sup> However, Japan is reluctant to declare Chinese sovereignty over Taiwan and shows a torn attitude, in which any scenario is possible. In the first place, relations on security and defense issues between Japan and Taiwan are scarce if not non-existent.<sup>103</sup> This is visible in the lack of agreements on cyberspace and regional security issues or in the lack of joint military developments, making it more difficult to respond militarily to a Chinese attack on the island.

Most critical is the omission of a clear response to an invasion of Taiwan, which generates mistrust of Japan as it strives to be a regional actor through its FOIP agenda. Therefore, in the absence of a bilateral agreement between Taiwan and Japan, it is not surprising that the country now led by PM Ishiba has resorted to multilateral agreements with other countries, including

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<sup>101</sup> Bill Sharp, "Why Japan will not come to Taiwan's rescue," *Asia Times*, September 23, 2024, <https://asiatimes.com/2024/09/why-japan-will-not-come-to-taiwans-rescue/>.

<sup>102</sup> Adam P. Liff, "Japan, Taiwan and the "One-China" Framework after 50 years," *The China Quarterly*, 252, September 26, 2022, <https://www-cambridge-org.ezproxy.unav.es/core/journals/china-quarterly/article/japan-taiwan-and-the-one-china-framework-after-50-years/14816CCA1B6E067452E15B2CED381165>, 1066-1093.

<sup>103</sup> Jane Rickards, "Lacking Japanese security cooperation with Taiwan," *Australian Strategic Policy Institute*, July 19, 2024, <https://www.aspistrategist.org.au/lacking-japanese-security-cooperation-with-taiwan/>.

the United States.<sup>104</sup> The United States, on its part, has a bilateral agreement with Taiwan and has developed the Global Cooperation and Training Framework in 2015 of which Taiwan, Australia, Canada and Japan are members. The aim of the organization is to exploit Taiwanese strengths in addressing issues of global concern, including cybersecurity issues.

Finally, Japan's economic dependence on China plays an important role, which is why many Japanese politicians have called on their government to recognize the “one-China policy.” Former PM Yukio Hatoyama (2009-2010) stated that “it is crucial for the Japanese government to fully understand the one-China principle. This means recognizing that there is only one China in the world, that Taiwan is an inseparable part of China, and that the government of the People's Republic of China is the sole legal government representing the whole of China.”<sup>105</sup> However, there are those who also demand a greater role for Japan in the island of Taiwan, such former PM Aso Taro, who said that “If a major problem took place in Taiwan, it would not be too much to say that it could relate to a survival-threatening situation.” He added that “Okinawa could be the next.”<sup>106</sup>

Taiwan plays a very important role for the stability of the region, and many authors are quick to describe it as a buffer state: a small territory that serves as a cushion for the expansionist desires of two superpowers, in this case the United States and China. This sends a signal to all the countries that any intervention by one of them on the island will be met with a response from the other superpower, triggering a regional and possibly international conflict. Many Taiwanese academics and politicians believe that it is necessary that Japan improves its military relations with the island.<sup>107</sup> They state that “there are areas where Taiwan really, really needs Japan, and to some extent Japan really needs Taiwan.”<sup>108</sup> On the other hand, Japan could maintain its current status quo, creating a sense of insecurity in the region but above all a distrust of the FOIP policy.

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<sup>104</sup> Yoichi Kato, “How should Taiwan, Japan, and the United States cooperate better on defense of Taiwan?,” *Brookings*, October 27, 2021, <https://www.brookings.edu/articles/how-should-taiwan-japan-and-the-united-states-cooperate-better-on-defense-of-taiwan/>.

<sup>105</sup> Jian Xueqing, “Japan urged to respect one-China principle,” *China Daily*, May 21, 2024, <https://www.chinadaily.com.cn/a/202405/21/WS664bf8b2a31082fc043c8338.html>.

<sup>106</sup> “Japan deputy PM comment on defending Taiwan if invaded angers China,” *Reuters*, July 6, 2021, <https://www.reuters.com/world/asia-pacific/japans-aso-peaceful-solution-desirable-any-taiwan-contingency-2021-07-06/>.

<sup>107</sup> Ryan C. Bercaw, “Yes, Japan Will Defend Taiwan,” *The Diplomat*, May 18, 2024, <https://thediplomat.com/2024/05/yes-japan-will-defend-taiwan/>.

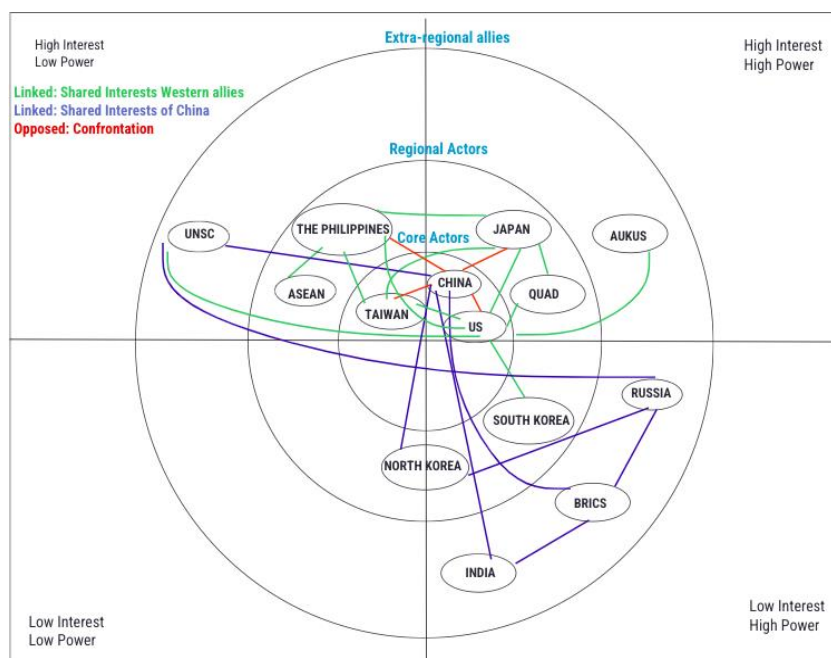
<sup>108</sup> Jane Rickards, “Lacking Japanese security cooperation with Taiwan,” *Australian Strategic Policy Institute*, July 19, 2024, <https://www.aspistrategist.org.au/lacking-japanese-security-cooperation-with-taiwan/>.



### Scenario Setting 1: How would a Chinese invasion of Taiwan impact the region?

The following section will provide a prospective analysis on a security crisis in Taiwan, specifically the impact of a Chinese invasion of the island with a variety of scenarios with different consequences and results. This is a conflict that has been widely studied in wargames and in other analytical activities because of the plausibility of the invasion.<sup>109</sup> The time frame selected to develop the scenarios is 2025-2030, since it seems imminent that China will take action given a series of factors, including economic opportunity, force readiness, and international turmoil.<sup>110</sup> Before entering into the process of constructing scenarios, a map of actors was developed to showcase the variety of stakeholders in this conflict and the relations between each one of them. By creating this map, relevant actors are identified through shared interests with others or confrontational attitudes that might heighten tensions in the region. There are three perimeters of importance: the core actors, regional actors, and extra-regional actors. They are placed on the map depending on the interest they have and on the power that they can exert to influence the outcome of the situation.

Figure 1. Map of actors and relations

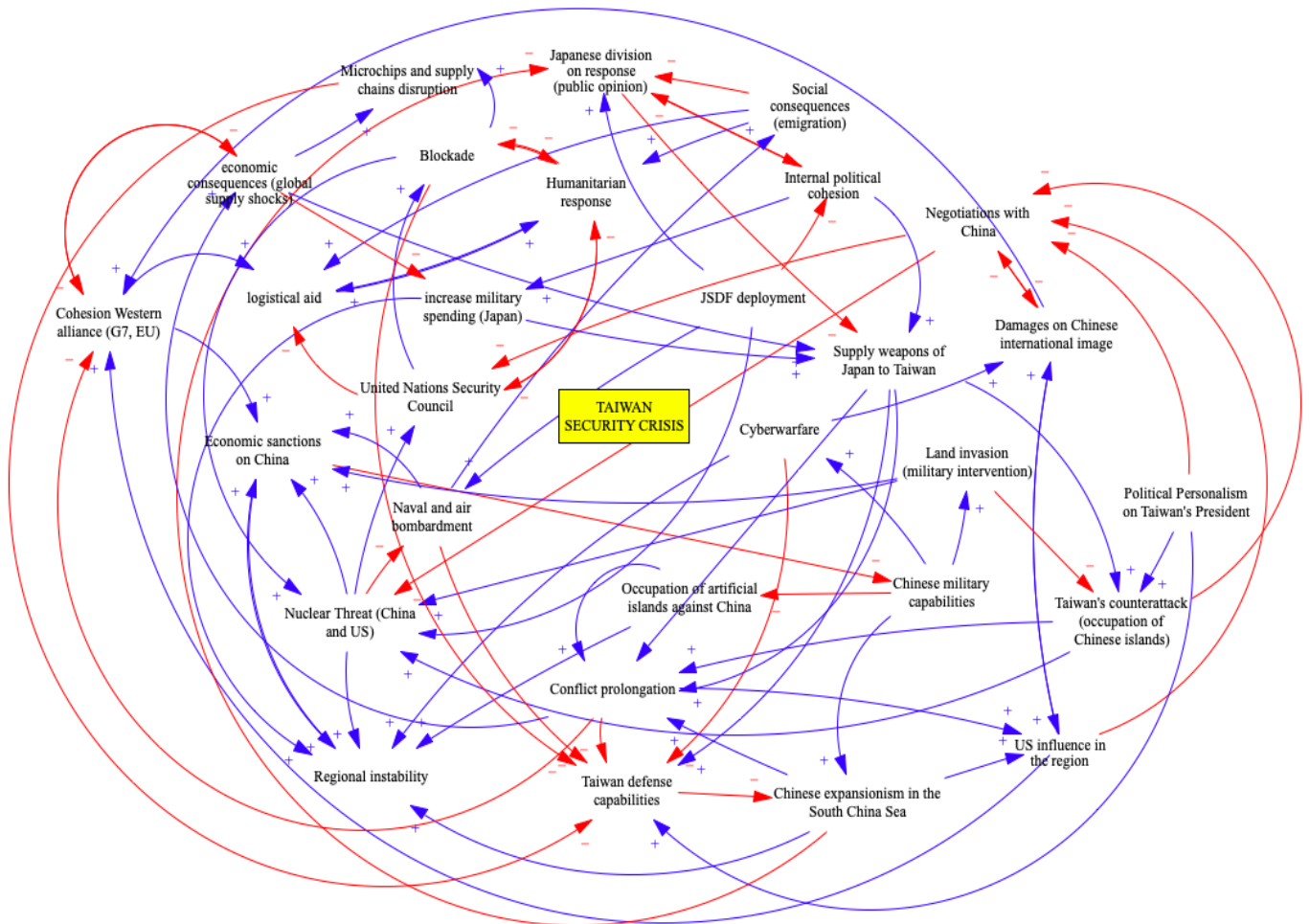


<sup>109</sup> Kristen Welker, Courtney Kube, Carol E. Lee, and Andrea Mitchell, “Xi warned Biden during summit that Beijing will reunify Taiwan with China,” *NBC News*, December 25, 2023, <https://www.nbcnews.com/news/china/xi-warned-biden-summit-beijing-will-reunify-taiwan-china-rcna130087>.

<sup>110</sup> “Will China invade Taiwan? A Potential Timeline for Conflict,” *Global Guardian*, <https://www.globalguardian.com/global-digest/will-china-invade-taiwan>.

The first step in this analysis was to brainstorm all the possible relevant variables concerning the situation and how they interact with each other. The analysis was guided by two questions: “what is happening and what are the main characteristics of the situation? Why is it happening?” To answer these questions, a map of influences was created to show the relationship between key variables. In the first set, many variables were identified, but the high number direct and inverse relationships formed a complex and opaque graph. Since the number of variables was superabundant and of little use, a second map of influences was created with the most important variables from the main brainstorming session. Below are both diagrams.

Figure 2: Complete influence diagram





version of drivers was selected by dividing the variables into six dimensions: internal politics, regional politics, extra-regional politics, security, social, and economic. Then, the drivers were reduced to the most essential ones regarding the conflict and placed on an impact table. The table shows a division of drivers between those that are game-changers and those that are megatrends. At the same time, it is divided between the impact of the drivers and the predictability of the same. Those with the highest importance are placed in the upper left side, where the impact is high and the predictability is low: a Taiwanese counterattack against Japan, a JSDF deployment in Taiwan, and the possible use of nuclear weapons.

After consolidating the drivers, the most important part of the prospective analysis takes place: the construction of scenarios. In order to carry out this function, a morphological analysis was followed in which each driver had a set of values that and with the combination of these scenarios were formed. The first table below is the matrix that was created for this purpose and the table afterwards is the combination of these drivers and their values and the resulting scenarios.

**Figure 4: Impact chart with drivers**

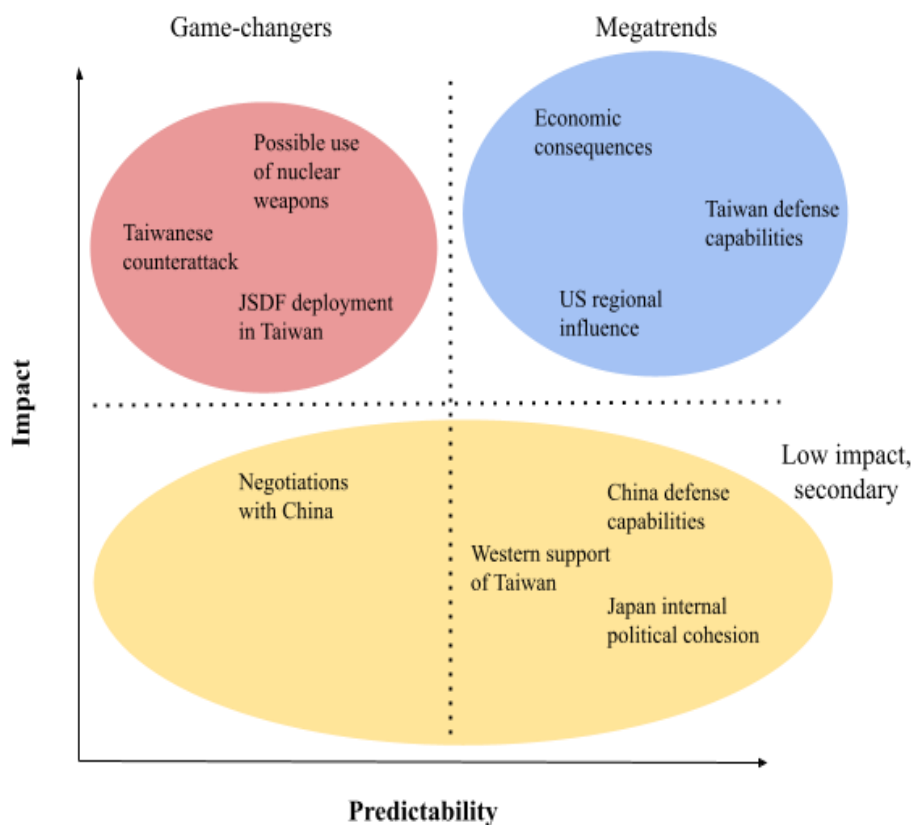


Figure 5: Description of drivers

SECURITY CRISIS IN TAIWAN 2025-2030	
MEGATRENDS	
Negative Economic Consequences	If an invasion of Taiwan occurs, the world economy will suffer a huge economic crisis due to the great dependency on Chinese products. More specifically, in the case of Taiwan, this country will suffer a disruption of the microchips and the supply chains. Moreover, the economic sanctions to China could increase inflation.
US influence in the region	The expansion of China towards Taiwan and the South China Sea will provoke the United States to intervene. In fact, the US has conducted several military exercises in the region and they have military bases in Indo-Pacific prepared to intervene, altogether with his regional allies (Aukus, Philippines, Japan and QUAD).
Taiwanese defense capabilities	The president of the island of Taiwan has approved an increase on the military spending due to the Chinese threat. In case of war, Taiwan's allies will deploy defense military capabilities in order to hold off the Chinese attack.
Chinese defense capabilities	The increase in military spending has enabled China to confront new threats and be able to conduct an effective offensive against both Taiwan and other disputed territories, without using the threat that nuclear weapons suppose.
Japan internal political cohesion	An attack on Taiwan would threaten Japanese sovereignty over the Senkaku Islands and the archipelago itself. In this unstable environment, political forces have remained cohesive in order to have a clear response to China's actions.
Western support of Taiwan	The influence of the United States on the region will have repercussions on other states and alliances (QUAD, the EU, AUKUS) which, in addition to imposing economic sanctions on China, will contribute to Taiwan's defense by deploying military capabilities.
GAME-CHANGERS	
Possible use of nuclear weapons	Will China or the United States resort to nuclear escalation? Will other nuclear powers in the region make use of this capacity?
Taiwanese counter-attack	Will Taiwan counterattack in case of China's invasion? Will it counterattack by invading Chinese territory? Will it use its air raid strategic locations?
JSDF deployment in Taiwan	Will Japan deploy military personnel to aid in the defense of Taiwan? Will it use its maritime forces in the Taiwan Strait to counter a Chinese incursion?
Negotiations with China	Will concessions be made to China in case of successful incursions? Who will lead the negotiations?

Figure 6: The chart used for the morphological analysis.

Negative Economic Consequences	US influence in the region	Taiwanese Defense Capabilities	Chinese Defense Capabilities	Japanese internal political cohesion	Western support	Possible use of nuclear weapons	Counter-attack of Taiwan	JSDF deployment in Taiwan	Negotiations with China
A <sub>1</sub> Severe	B <sub>1</sub> Increased	C <sub>1</sub> Strong	D <sub>1</sub> Strong	E <sub>1</sub> Increased	F <sub>1</sub> Strong	G <sub>1</sub> Probable	H <sub>1</sub> Active	I <sub>1</sub> Probable	J <sub>1</sub> Successful
A <sub>2</sub> Significant	B <sub>2</sub> Continued	C <sub>2</sub> Standard	D <sub>2</sub> Significant	E <sub>2</sub> Continued	F <sub>2</sub> Continued	G <sub>2</sub> Likely	H <sub>2</sub> Necessary	I <sub>2</sub> Possible	J <sub>2</sub> Potential
A <sub>3</sub> Moderate	B <sub>3</sub> Limited	C <sub>3</sub> Limited	D <sub>3</sub> Standard	E <sub>3</sub> Unstable	F <sub>3</sub> Limited	G <sub>3</sub> Remote	H <sub>3</sub> Limited	I <sub>3</sub> Unlikely	J <sub>3</sub> Potential, but limited
A <sub>4</sub> Minimal		C <sub>4</sub> Weak	D <sub>4</sub> Limited		F <sub>4</sub> Neutral	G <sub>4</sub> Unlikely	H <sub>4</sub> No possibility	I <sub>4</sub> Unnecessary	J <sub>4</sub> Minimal
			D <sub>5</sub> Weak		F <sub>5</sub> No support	G <sub>5</sub> No use			J <sub>5</sub> Difficult

Figure 7: The combination of values and drivers that form five scenarios

	Scenarios	Description
1	A <sub>1</sub> B <sub>3</sub> C <sub>4</sub> D <sub>1</sub> E <sub>1</sub> F <sub>1</sub> G <sub>4</sub> H <sub>3</sub> I <sub>3</sub> J <sub>4</sub>	Chinese successful invasion of Taiwan. Limited Western intervention and extreme economic consequences.
2	A <sub>2</sub> B <sub>1</sub> C <sub>1</sub> D <sub>2</sub> E <sub>1</sub> F <sub>1</sub> G <sub>3</sub> H <sub>1</sub> I <sub>2</sub> J <sub>5</sub>	Taiwan resists the invasion while receiving aid from the US and conflict is protracted. Nuclear escalation is remote.
3	A <sub>3</sub> B <sub>1</sub> C <sub>1</sub> D <sub>4</sub> E <sub>1</sub> F <sub>1</sub> G <sub>4</sub> H <sub>1</sub> I <sub>3</sub> J <sub>3</sub>	China conducts a limited invasion and ends in a stalemate, with the US and Japan supporting Taiwan. Diplomacy remains elusive.
4	A <sub>1</sub> B <sub>1</sub> C <sub>2</sub> D <sub>2</sub> E <sub>1</sub> F <sub>1</sub> G <sub>4</sub> H <sub>3</sub> I <sub>3</sub> J <sub>2</sub>	China's blockade leads to disruptive economic consequences and threat of a wider conflict. Japan and the US send economic aid.
5	A <sub>4</sub> B <sub>2</sub> C <sub>2</sub> D <sub>3</sub> E <sub>2</sub> F <sub>2</sub> G <sub>4</sub> H <sub>4</sub> I <sub>4</sub> J <sub>1</sub>	Negotiations between China and Taiwan advance and a military conflict is avoided. The priority is to minimize economic consequences and ensure regional stability.



The first scenario describes a rapid and decisive Chinese victory. In this combination of drivers, China launches a swift and decisive military operation, consisting in the invasion of Taiwan. With its superior military capacity, it overwhelms Taiwanese defenses. The United States reacts by strongly condemning the attack and leads the West in imposing economic sanctions, but it nevertheless refrains from direct military intervention. Japan is united internally and provides economic support but avoids military involvement. In terms of Taiwan, it tries a counterattack but it is limited and negotiations are futile because of China's impositions of terms and conditions. This scenario has severe global economic consequences, especially for the semiconductor industry, and has led the region into an unprecedented instability.

In the second scenario, the result is a protracted conflict with international intervention. China's invasion is not entirely successful, as the geographical complications and the strong resistance from Taiwan halts the attacks. Taiwan is aided by significant US logistical military support and Taiwanese forces employ guerrilla tactics and missile strikes against Chinese strategic points. The conflict spans over time, leading to substantial Chinese military losses and further severe global economic disruption. Japan keeps unity in the face of threat and increasingly considers military involvement. The possible use of nuclear weapons is remote but remains a concern. Negotiations are challenging and the conflict continues to dismantle the security of the region.

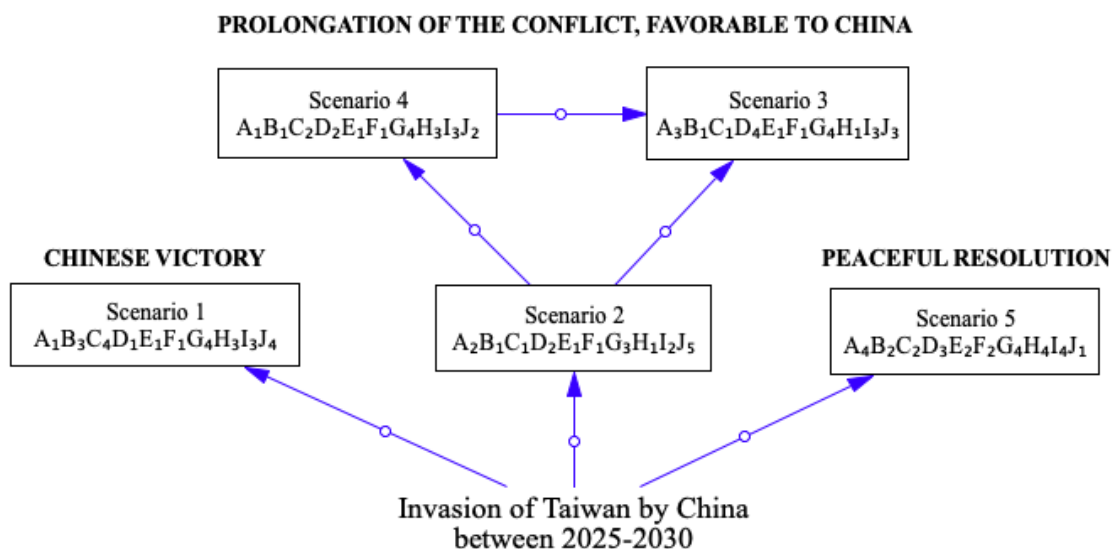
The third scenario is the combination of drivers that result in a limited Chinese invasion and a stalemate. China launches an invasion, but it is limited to key coastal areas. Taiwan is backed by strong Western support and mounts a determined resistance in urban and mountainous regions. The conflict is closer to a stalemate and both sides suffer heavy losses. The United States increases its military presence in the region but avoids direct confrontation and Japan remains united, but with no foreseeable option of direct intervention. Negotiation prospects are complicated and global economic implications are significant.

In the fourth scenario, China employs economic warfare and puts in place a critical blockade. It imposes a naval blockade and cuts off vital supply lines, which disrupt global trade. The United States increases its naval presence in the region but avoids direct confrontation and Japan provides vital economic support to Taiwan. Taiwan focuses on national defense against cyber attacks, in which China has force superiority. Nuclear escalation is possible if tensions continue to rise but a full-scale military conflict is unlikely. Negotiations may take place but a peaceful resolution is uncertain.

The fifth scenario is a diplomatic breakthrough and a peaceful resolution of the dispute. A diplomatic solution is reached and a further advancement of the military conflict is avoided. The resolution minimizes economic consequences and is able to safeguard a certain regional stability. Both sides maintain defense capabilities but prioritize diplomatic engagements. The United States and Japan play a vital role in promoting dialogue and ensuring security. Furthermore, the threat of use of nuclear weapons is minimized and both sides recognize the importance of a peaceful resolution.

After formulating these scenarios, three key events are the result of this prospective analysis. The most likely scenario is the third, as Taiwan is difficult to invade because of the physical barriers and the access to the island. Although China is successful in reaching coastal areas, the inland resists the attack and allies provide aid to Taiwan. This makes the conflict span over time and cause heavy casualties. Apart from this most plausible scenario, the other scenarios lead to different outcomes. The first scenario inevitably is a conclusion of its own: a Chinese victory. This same phenomenon occurs with the fifth scenario, in which a peaceful resolution is found. However, scenario two (a protracted conflict with international intervention) could lead to either scenario four (the employment of economic warfare through a blockade), or even scenario three (a limited invasion and a stalemate). In addition, scenario four can lead to scenario three, the most plausible situation. These last scenarios all describe a very plausible conclusion: the prolongation of the conflict that is favorable to China.

Figure 8: Graph of scenario possibilities and outcomes



Through this prospective analysis, it can be seen that the escalating tensions in the Taiwan Strait can surmount to a larger conflict that will involve other actors and will have global consequences. A study of a possible Chinese invasion of Taiwan is necessary in order to see how players have a role in the Indo-Pacific and the importance of this region for the world.

### 3.3 Regional security concerns

#### *The Senkaku/Diaoyu Islands dispute*

Japan has a territorial dispute with China over the Senkaku Islands and the respective EEZ waters.<sup>111</sup> Although there has only been one maritime confrontation between the Japanese Coast Guard patrol vessels and the China Coast Guard patrol vessels, the possibility of escalation is always likely, especially when Japan is economically dependent on China.<sup>112</sup> China's reasons for its interest over the territorial waters of the Senkaku Islands are not only geopolitical, but also for the exploitation of natural resources.<sup>113</sup> In 1969, the United Nations Commission for Asia and the Far East declared that "potentially huge reserves of oil and natural gas were found under the continental shelf in the East China Sea, particularly in the area north of Taiwan."<sup>114</sup> The exploitation of these resources is part of a country's sovereign right over the waters of its EEZ, something that was already agreed between Tokyo and Beijing in 1997, under the Japan-China Fishery Agreement.<sup>115</sup> In this agreement, both declared non-interference of the other's fishing activities in either's EEZ.

The United States also considers the strategic importance of the Senkaku Islands. The fact that Japan continues to maintain control over these islands will allow the free navigation of United States naval survey vessels and intelligence-gathering aircraft in an area close to Taiwan, which is highly criticized by the Chinese government. Likewise, control over these territorial waters also allows for Japan to maintain encirclement in the skies, thus creating a defensive air system for identification and military exercises. If Japan maintains control over these islands and

<sup>111</sup> Fang Ming, and Ivy Lee, "Deconstructing Japan's Claim Of Sovereignty Over The Diaoyu/Senkaku Islands," *Asia-Pacific Journal*, December 30, 2012, <https://apjif.org/2012/10/53/ivy-lee/3877/article>.

<sup>112</sup> "Japan protests at Chinese ships near disputed islands," *BBC*, July 11, 2012, <https://www.bbc.com/news/world-asia-china-18792556>.

<sup>113</sup> Office of Policy Planning and Coordination on Territory and Sovereignty, "Let's see China's Argument," [https://www.cas.go.jp/jp/ryodo\\_eg/taiou/index.html#senkaku](https://www.cas.go.jp/jp/ryodo_eg/taiou/index.html#senkaku).

<sup>114</sup> Monika Chansoria, "1969 Report by UN Economic Commission for Asia and the Far East: A Turning Point in the Historical Debate over Senkaku Islands," *Japan Review*, 2, March 5, 2019, [https://www.jiia-jic.jp/en/japanreview/pdf/JapanReview\\_Vol2\\_No3\\_03\\_Chansoria.pdf](https://www.jiia-jic.jp/en/japanreview/pdf/JapanReview_Vol2_No3_03_Chansoria.pdf).

<sup>115</sup> U.S. Department of State Bureau of Intelligence and Research, "No. 70 Fisheries Agreement: China - Japan," *Limits in the Areas*, April 6, 1976, <https://www.state.gov/wp-content/uploads/2019/11/LIS-70.pdf>.

territorial waters, it acts as a check against China. However, another main beneficiary is the United States, which will be able to deploy navy vessels more effectively in the event of a regional escalation in Taiwan, something that already happened with Cuba in 1962 and which came close to triggering a global war.

### ***The Philippines***

Hostilities between the Philippines and China have compelled the former to sign a defense pact with Japan, intensified by multiple interceptions of Chinese ships within the Philippine EEZ. However, the threat posed by this alliance between Manila and Tokyo has not had the intended deterrent effect. Not only have Chinese vessels continued to enter Philippine waters, but there has also been a collision between a Chinese Coast Guard ship and a Philippine Coast Guard vessel, which was criticized by the United States ambassador in Manila by saying that the United States stands “with the Philippines in upholding international law.”<sup>116</sup>

Relations between Tokyo and Manila took a step forward in the 2010s when both countries aligned on a common goal: the containment of Chinese maritime expansion within the first-island-chain. The threat posed by Beijing has led the Philippines to consider Japan as its most important security partner: “of all Southeast Asian countries, Japan’s security relations with the Philippines are the most advanced. Because it is a close ally of the United States, Japan is seen by Manila as an important security partner.”<sup>117</sup> Although relations between the Japanese and Filipino governments have remained steady, the same cannot be said for the United States. During Rodrigo Duterte's presidency, his foreign policy involved a “gambit of gravitating closer to Beijing while alienating Washington.”<sup>118</sup> This actually benefited Japan, which saw an opportunity to be the optimal ally of the Philippines and other countries in the Indo-Pacific region.

Japan and the Philippines gave more weight to other international actors, including ASEAN. Since the 2013 NSS of Japan, the commitment to the security of ASEAN was already visible. The document stresses the importance of addressing territorial disputes in respect of

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<sup>116</sup> Christopher Bodeen, “Chinese and Philippine vessels collide at a disputed atoll and governments trade accusations,” *Associated Press News*, August 31, 2024, <https://apnews.com/article/china-philippines-us-sea-clash-d08f4532c2a66047c6fa2833b76d7773>.

<sup>117</sup> Sheldon Simon, “U.S.-Southeast Asia Relations: Courting Partners,” *Comparative Connections*, 17, No. 2, September 2015, <https://cc.pacforum.org/2015/09/courting-partners/>, 53-64.

<sup>118</sup> Aileen Baviera, “President Duterte’s Foreign Policy,” *Contemporary Southeast Asia*, 38, No. 2, August 2016, [https://www.jstor.org/stable/pdf/24916629.pdf?refreqid=fastly-default%3A0f1d355ab1ff10ed357d0bebe1234c6c&ab\\_segments=&initiator=&acceptTC=1](https://www.jstor.org/stable/pdf/24916629.pdf?refreqid=fastly-default%3A0f1d355ab1ff10ed357d0bebe1234c6c&ab_segments=&initiator=&acceptTC=1), 202-207.

international law, referring to the Philippines and Vietnam, countries with which China continues to have several territorial disputes.<sup>119</sup> Likewise, the Philippine and Japanese governments signed a document known as “A Strengthened Strategic Partnership for Advancing the Shared Principles and Goals for Peace, Security, and Growth in the Region and Beyond,” in which both countries pledged “to ensure maritime safety and security in the South China Sea and their serious opposition to unilateral actions to change the status quo in the contested territory including China's large-scale projects and construction of outputs on the land features.”<sup>120</sup> This is a clear response to Beijing's construction of artificial islands and is especially in the contested sea.

What makes the two countries' relations unique was the pact in 2016 that committed Japan to transfer military and technological weaponry to the Philippines. Although Japan already had such agreements with other allies such as the United States or Australia, this was the first one with an Asian country with which China also has a territorial dispute. This favors Japan's execution of its FOIP policy, especially in Taiwan and the Senkaku Islands. Both the Philippines and Japan maintain that the role of the United States in the security of the region is key.<sup>121</sup> This is further accentuated by the trilateral United States-Japan-Philippines strategic dialogue held in Manila last year.<sup>122</sup> Among the objectives that were established, the dialogue established methods for countering Chinese gray zone coercion and the impacts of a Taiwan contingency on each country's national interests.<sup>123</sup> Although the possibility of a conflict between China and the Philippines is not very likely, if it were to happen, Japan would support its ally with troops, not only as part of the “collective defense” advocated by Shinzo Abe, but also as a response to the FOIP.

### **Polar regional engagement**

Over the past decades, Japan has been adopting a more active position in the Arctic region.<sup>124</sup> Preceded by a successful Antarctic policy that targeted the scientific research and the

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<sup>119</sup> Ministry of Foreign Affairs of Japan, “National Security Strategy of Japan,” December 17, 2013, <https://www.cas.go.jp/jp/siryoku/131217anzenhoshou/nss-e.pdf>, 23-28.

<sup>120</sup> Renato Cruz de Castro, “Abe: The patron of Philippine-Japan security partnership,” *Philstar Global*, July 16, 2022, <https://www.philstar.com/news-commentary/2022/07/16/2195865/abe-patron-philippine-japan-security-partnership>.

<sup>121</sup> Kyodo News, “Japan, Philippines, U.S. to set up 3-way security framework,” March 28, 2023, [https://english.kyodonews.net/news/2023/03/6da3b3136c62-breaking-news-japan-philippines-us-to-set-up-3-way-security-framework.html#google\\_vignette](https://english.kyodonews.net/news/2023/03/6da3b3136c62-breaking-news-japan-philippines-us-to-set-up-3-way-security-framework.html#google_vignette).

<sup>122</sup> *Ibid.*

<sup>123</sup> Gregory B. Poling, and Japhet Quitzon, “Sustaining the U.S.-Philippines-Japan Triad,” *Center for Strategic and International Studies*, February 12, 2024, <https://www.csis.org/analysis/sustaining-us-philippines-japan-triad>.

<sup>124</sup> Glenn D. Hook, Julie Gilson, Christopher W. Hughes, and Hugo Dobson, “Japan's International Relations: Politics, Economics and Security (3rd ed.), *Routledge*, August 30, 2011.

technological diplomacy, the Arctic began to receive attention in 2009, following the announcement by the State Secretary for Foreign Affairs Hashimoto that it would be part of the Arctic Council as an observer status, something that was formalized a few months later.<sup>125</sup>

However, in order to understand Japan's Arctic policy and its projection in the coming years, it is worth mentioning the plans that the country has been developing in the Antarctic continent, as well as its position in the eyes of international law. Japan's basic goal is the placement of the Antarctic under international management and the importance of supporting the planning and the implementation of measures to promote the principles of the Antarctic Treaty. Nevertheless, the key for Japan is the control it exercises over three ice breakers that allow the Japanese State to conduct maritime activities: Shirase, Soya and Teshio.<sup>126</sup> Shirase is under the command of the Japan Maritime Self Defense Forces which oversees affairs related to marine physics, marine chemistry and tidal fluctuation, and the other two are under the command of the Japan Coast Guard and only used as patrol boats. This position of dominance has allowed the Japanese country to continue, practically without impunity, the activity of research and whaling, something that has led to criticism by NGOs and even an unfavorable ruling from the International Court of Justice.

Following this direction, former PM Abe announced that the Japanese policy on the Arctic would be research and development, as well as national security and natural resources as specific initiatives, among others. The Japanese perception of the region is pessimistic in the medium term, but the great scientific progress and economic opportunity that the Arctic represents has led Japan to improve its capabilities in scientific research and technology. Despite this, there is a clear difference between Japanese policies on the Arctic and the Antarctic: the commitment to the latter has led to the adoption of issues such as the freezing of jurisdictional claims, the demilitarization and denuclearisation of the entire continent and the prohibition on mining activities, something that is unlikely to be implemented by the Arctic states.<sup>127</sup>

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<sup>125</sup> S. Hashimoto, "Statement by H.E. Seiko Hashimoto, State Secretary for Foreign Affairs of Japan on the occasion of the 50th Anniversary of the Antarctic Treaty," *Ministry of Foreign Affairs of Japan*, April 6, 2009, <https://www.mofa.go.jp/announce/svm/state0904.html>.

<sup>126</sup> Aki Tonami, "Japan's Arctic Policy," *Asian Foreign Policy in a Changing Arctic: The Diplomacy of Economy and Science at New Frontiers* (Chapter 3), September 6, 2016, <https://link.springer.com/content/pdf/10.1057/978-1-137-53746-1.pdf>, 47-66.

<sup>127</sup> Oran R. Young, "Building Regimes for Socioecological Systems: Institutional Diagnostics," *Institutions and Environmental Change: Principal Findings, Applications, and Research Frontiers*, January 2011, 115-144.



However, given the economic and strategic importance of the Arctic, the Japanese government has set as primary goals the use of tools of science and technological diplomacy, in order to promote trade and investment for the future, such as the Northern Sea Route (NSR) which will strengthen Japanese businesses.<sup>128</sup> The feasibility of this new navigation route, which already allows the transport of goods during the summer, is Russia's most ambitious project, in which Japan can play a key role. However, the Japanese country conducted an investigation in the 2000s to see the feasibility of the NSR and concluded that the feasibility of the NSR was limited and that there were too many uncertainties to generate any financial benefits in the near future, but does not rule out the benefits that may occur in the long-term, sponsored by climate change and melting ice.

The FOIP formula promulgated by Shinzo Abe's government can be interpreted as an extension of the Arctic concept, emphasizing the “free and open maritime order”, something that Moscow is not in favor of, so there is nothing to suggest that the Russian country wants to reach some kind of agreement with Japan, mainly for two reasons: the energy supply of the region, especially of liquefied natural gas (LNG), and Russia's refusal to allow the NSR to serve as a resource transportation route for other states. Despite the fact that Japan has already been involved in LNG projects on the Yamal Peninsula, which could avoid confrontation and good understanding with the Kremlin.

The importance of the NSR for Japan lies in two objectives. First, the diversification of resource supply, in order to reduce the import of oil and natural gas. Second, the obtention of a more competitive LNG price and the diversification of transportation routes, which would avoid the transportation of goods or energy supply through geopolitically unstable regions such as the Strait of Malacca, with piracy or blockades, or the Suez Canal. However, the NSR will not replace other transportation routes for many years or even decades, something that Japan could use to improve its relationship with Russia. In this view, Japan could replace the policy of freedom of navigation and put more efforts on energy security and resource development together with its neighbor Russia and a greater involvement in research projects in the region, many of them led by Moscow. This would oppose cooperation with the Northern European countries such as Norway, Denmark, Iceland, Sweden and Finland, which despite being allies of Japan, do not have the strategic and economic importance that Russia represents.

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<sup>128</sup> Nanae Kaneko, “Japan’s Arctic Policy and the Northern Sea Route: Conflict between “Energy Security” and “Freedom of Navigation”,” *Japan Foreign Policy Form*, August 31, 2021, <https://www.japanpolicyforum.jp/diplomacy/pt2021083115072811438.html>.

The importance that the Arctic has, not only in terms of energy, but also other types of natural resources such as coal, iron, uranium, nickel copper, tungsten, lead, rare earths, zinc, gold, silver and diamonds, have made Japan keep an eye on the region. The Japanese country could take advantage of this because “when the government formulates its Arctic policy, the data and knowledge obtained from scientific research should be strategically used for planning and promoting the long-term perspectives on the economic benefits that Japan can draw from the Arctic.”<sup>129</sup> This summarizes the idea of “planting today the flag, to be used tomorrow”.<sup>130</sup>

### 3.4 Multi-front geopolitical engagement in Asia

In 1977, Prime Minister Takeo Fukuda said that the promotion of a “two-way cultural exchange between Japan and ASEAN nations should be further intensified”, and that the “future stability and prosperity of the ASEAN area can only be assured within a framework of peaceful progress throughout Southeast Asia as a whole.”<sup>131</sup> These two positions have marked Japan’s foreign policy regarding the organization: a stable diplomacy through cultural ties and a mutual desire for peace in the region. It is a superb opportunity for Japan to showcase its soft diplomacy, which is a strength in its foreign policy. With cultural exchanges as the pillar of its relations, it consolidates its role as a member of a regional community while promoting values and addressing Japanese national interests. Among Southeast Asians, Japan is the most trusted power, after which comes the U.S. and the European Union.<sup>132</sup> As for strategic relevance to ASEAN, Japan ranks third after China and the United States, but it is seen as a strong “third party” to depend upon against the uncertainties of the United States-China strategic rivalry. When asking specifically about why Southeast Asians trust Japan, most say that it is a responsible stakeholder that champions international law, has vast economic resources and political will and has an admirable civilization and culture. This is very interesting data because it shows the results in the efforts of a Japanese public diplomacy campaign. Clearly, the strategy

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<sup>129</sup> Fujio Ohnishi, “The Process of Formulating Japan’s Arctic Policy: From Involvement to Engagement,” *East Asia-Arctic Relations: Boundary, Security and International Politics*, No.1, November 2013, <https://www.cigionline.org/static/documents/no1a.pdf>.

<sup>130</sup> Aki Tonami, “Japan’s Arctic Policy,” *Asian Foreign Policy in a Changing Arctic: The Diplomacy of Economy and Science at New Frontiers* (Chapter 3), September 6, 2016, <https://link.springer.com/content/pdf/10.1057/978-1-137-53746-1.pdf>, 47-66.

<sup>131</sup> Former Prime Minister Takeo Fukuda, “Speech by Prime Minister Takeo Fukuda (Fukuda Doctrine Speech),” *National Graduate Institute for Policy Studies and Institute for Advanced Studies on Asia*, August 18, 1977, <https://worldjpn.net/documents/texts/docs/19770818.S1E.html>.

<sup>132</sup> ASEAN Studies Centre, “The State of Southeast Asia: 2024 Survey Report,” *ISEAS-Yusof Ishak Institute*, April 2, 2024, <https://www.iseas.edu.sg/wp-content/uploads/2024/03/The-State-of-SEA-2024.pdf>.

with its neighboring countries of ASEAN is working, and the trend seems to show that ties will further be strengthened.

The year 2023 marked the 50<sup>th</sup> anniversary of ASEAN-Japan cooperation and Japan's relationship with ASEAN members entered into a more proactive phase. Regional cooperation in Southeast Asia and throughout the Pacific basin is crucial for Japan as the area is vulnerable to geopolitical friction and potential crisis. That is why the importance of compatibility between Japan's FOIP and the ASEAN Outlook on the Indo-Pacific is at the core of dialogue between these partners. Thus, "ASEAN and Japan can navigate the challenges and build a stronger and more sustainable relationship" to be able to face the increasing strategic dilemma between China and the U.S., primarily.<sup>133</sup>

China has exponentially strengthened its position and expanded its influence in Southeast Asia in recent years through its economic and military power. The only way Japan can win the support of ASEAN members in the face of a Chinese hegemony is evidently with a strong diplomacy but also through the art of leadership. If these countries see Japan as a reliable and strong ally then confidence is bolstered and a values-based friendship can be put in place. Economy is also a relevant barometer, which is why Japan could upgrade its influence through aid and loans, as discussed earlier. Japan can take advantage of its solid relations with the larger economies of the region like Thailand, Indonesia, Singapore and the Philippines and try to aid those countries with less connectivity to the global market, such as Cambodia, Laos and Myanmar, where China is attempting to "fold them into a Sino-centric economic structure."<sup>134</sup> China has a strong and powerful presence in the region, but Japan can openly voice concerns about China's assertiveness, as it has done multiple times in summits and regional institutions.<sup>135</sup> Another field in which Japan has advantage is a governance model that favors safety and freedom. This is connected to a values-based approach, as Japan can provide an alternative for China's "surveillance state" standard. Another method of securing partnerships is by exporting its economic policies regarding capital development, as the middle-income trap is evermore present in the region. The way to avoid this issue is by prioritizing advanced

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<sup>133</sup> Vannarith Chheang, "Is the ASEAN-Japan relationship fit for the times?," *East Asia Forum*, September 22, 2023, <https://eastasiaforum.org/2023/09/22/a-relationship-fit-for-the-times/>.

<sup>134</sup> Nobuhiro Aizawa, and Ben Bland, "RESOLVED: Japan Is Well-positioned to Counterbalance China in Southeast Asia," *Center for Strategic and International Studies*, July 1, 2020, <https://www.csis.org/analysis/resolved-japan-well-positioned-counterbalance-china-southeast-asia>.

<sup>135</sup> Keita Nakamura, "Japan PM Ishiba eyes closer ASEAN ties, wary of China assertiveness," *Kyodo News*, October 11, 2024, <https://english.kyodonews.net/news/2024/10/a02360ed3fa0-asean-japan-china-s-korea-leaders-meet-on-economy-n-korea.html>.

economies through education, stable public institutions, and sustainable entrepreneur environments.<sup>136</sup> Japan can most certainly aid in this field through closer cooperation with ASEAN countries in manufacturing and trading of a new generation of products.<sup>137</sup> Japanese diplomacy can use its assets in governance and economy to push forth an agenda of further cooperation with ASEAN countries to counterbalance China's increased presence in the region. With this in mind, both Japan and its allies can benefit as the region would become more security, stable and economically proficient.

### ***Relations with Russia***

The relationship between Japan and the Russian Federation is a complex and evolving dynamic, shaped by a myriad of historical events, unresolved territorial disputes, and shifting geopolitical realities. At the heart of this contentious relationship lies the unresolved issue of the Kuril Islands, a string of islands off the northern coast of Japan that have been the subject of a territorial dispute since the end of World War II.<sup>138</sup> While economic and diplomatic cooperation between the two countries has seen moments of progress, the territorial issue continues to be a major stumbling block in the normalization of bilateral relations. This conflict over territory has impeded the two countries from signing a formal peace treaty, leaving them technically still in a state of unresolved conflict.<sup>139</sup>

Referred to as the Northern Territories by the Land of the Rising Sun, these territories consist of the islands of Iturup, Kunashiri and Shikotan, plus the Habomai archipelago, which lie in the eastern part of the Nemuro region of eastern Hokkaidō. The dispute has its roots in the 19<sup>th</sup> century. Following the Treaty of St. Petersburg in 1875, Japan obtained the Kurils in exchange for ceding Sakhalin to Russia.<sup>140</sup> However, the situation changed at the end of World War II when the Soviet Union occupied the southern Kurils. The tenure of Prime Minister Shinzo Abe marked a period of active engagement between Japan and Russia in an effort to resolve the

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<sup>136</sup> Homi Karas, "Developing Asia and the Middle-Income Trap," *Brookings*, August 5, 2013, <https://www.brookings.edu/articles/developing-asia-and-the-middle-income-trap/>.

<sup>137</sup> Guanle Lim, and Nhat Anh Nguyen, "The ASEAN-Japan relationship 50 years on," *East Asia Forum*, January 20, 2024, <https://eastasiaforum.org/2024/01/20/the-asean-japan-relationship-50-years-on/>.

<sup>138</sup> Vlad M. Kaczynski, "The Kuril Islands Dispute Between Russia and Japan: Perspectives of Three Ocean Powers," *Russian Analytical Digest*, 2023, <https://css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/pdfs/RAD-20-6-8.pdf>.

<sup>139</sup> Alexander Nikolaevich Panov, and Kazuhiko Togo, "Carte Blanche: Absence of a Peace Treaty—Abnormal Situation," *Japan-Russia Relations: Implications for the U.S.-Japan Alliance*, edited by Gilbert Rozman, Sasakawa Peace Foundation USA, 2016, [https://spfusa.org/wp-content/uploads/2016/05/Sasakawa\\_Japan-Russia.pdf](https://spfusa.org/wp-content/uploads/2016/05/Sasakawa_Japan-Russia.pdf), 17-21.

<sup>140</sup> Takai Susumu, "Stalin's Definition of the Kurile Islands," *The Opri Center of Island Studies*, May 1, 2018, <https://www.spf.org/islandstudies/research/a00020r.html#:~:text=With%20the%20signing%20of%20the,Island%20chain%20through%20peaceful%20means.>

long-standing territorial dispute<sup>141</sup> Abe adopted a "new approach" to negotiations, hoping to secure a peace treaty and make headway in bilateral relations by fostering economic cooperation and diplomatic engagement. Abe and Russian President Vladimir Putin reached an agreement at the 2018 Singapore Summit to accelerate negotiations based on the "1956 Joint Declaration," which stipulated that Russia would transfer the islands of Habomai and Shikotan to Japan upon the signing of a peace treaty.

This strategic move underscored Abe's commitment to enhancing security dialogues with Russia, aiming to build trust and lay the groundwork for a lasting peace treaty. Despite Abe's departure from office in September 2020, his successors, Suga Yoshihide and Kishida Fumio, maintained the appearance of continuity with Abe's policy due to Abe's ongoing influence within the ruling Liberal Democratic Party. However, both leaders placed less emphasis on Russia relations as the prospects of reaching a favorable settlement grew increasingly remote.

Japan attempted to continue dialogue despite Russia's annexation of Crimea in 2014, with Abe prioritizing peace negotiations even amidst U.S. and Western reservations. However, the escalating geopolitical strain following Russia's 2022 invasion of Ukraine dramatically altered Japan's stance, effectively halting all exchanges and interactions regarding the Kuril Islands. Prime Minister Kishida Fumio's administration aligned with Western allies in G7 to impose economic sanctions on Russia. Although negotiations with Russia were already facing challenges before the Ukraine conflict, this alignment represented a departure from Abe's engagement-focused policy, the rift between Tokyo and Moscow and stalling any remaining hopes for a peace treaty. Moscow responded by suspending all territorial talks with Japan<sup>142</sup> and canceling longstanding visa-free exchanges between Russian and Japanese residents of the northern islands and declared Japan's Kuril Islands Residents' Federation an "undesirable organization" in April 2023. These moves reflected Russia's reinforced control over the islands and increased tensions with Japan.<sup>143</sup>

In the near to mid-term, a resolution to the Kuril Islands dispute appears highly unlikely, largely due to the intensifying geopolitical climate and Russia's militarization of the islands. Russia

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<sup>141</sup> Floriana Fossato, "Russia: Kuril Islands Dispute With Japan Nears Resolution," *Radio Free Europe/Radio Liberty*, November 9, 1998, <https://www.rferl.org/a/1089947.html>.

<sup>142</sup> Chermaine Lee, "Japan-Russia tensions flare over Ukraine war amid decades-long land disputes," *Voice of America English News*, May 8, 2024, <https://www.voanews.com/a/japan-russia-tensions-flare-over-ukraine-war-amid-decades-long-land-disputes/7602490.html>.

<sup>143</sup> Ike Barrash, "Russia's Militarization of the Kuril Islands," *Center for Strategic and International Studies*, September 27, 2022, <https://www.csis.org/blogs/new-perspectives-asia/russias-militarization-kuril-islands>.

views the Kurils as a critical part of its defense strategy in the Asia-Pacific, especially as a buffer zone protecting the Sea of Okhotsk and its essential nuclear submarine fleet<sup>144</sup>. From Moscow's viewpoint, any concession would introduce vulnerabilities along its eastern maritime borders, thereby weakening its strategic position in the Pacific. This emphasis on defense suggests that Russia is unlikely to relinquish control, particularly as it solidifies military installations on the islands<sup>145</sup>.

On February 7, 2024, Japan's government hosted the National Convention to Demand the Return of the Northern Territories in Tokyo, underscoring Japan's ongoing commitment to reclaiming the islands. Japanese Prime Minister Kishida Fumio acknowledged that relations with Russia had reached a difficult phase due to the Ukraine crisis but reiterated Japan's determination to address the territorial issue. Moving forward, Japan's approach emphasizes maintaining ties with former residents of the islands, most of whom are now elderly, with priorities like renewing exchanges, cemetery visits, and reinforcing the shared cultural connection. This approach signals Japan's intent to keep the dialogue open for future negotiations, even as current relations remain strained.

The dispute remains deeply rooted in the strategic, economic, and symbolic interests of both countries. While Japan views control of the islands as essential to its security and national pride, Russia's military fortification of the region reflects its commitment to maintaining a Pacific buffer against potential threats. From Japan's perspective, the geographical proximity of the Kurils to Hokkaido, its northernmost main island, makes control of the Kurils a cornerstone of national security. The islands serve as a natural barrier zone between Japan and Russia, and their strategic location would enhance Japan's capacity to monitor and protect its waters in the North Pacific. For Russia, however, the Kuril Islands play a similarly crucial role in its defense strategy. Moscow has increasingly militarized the Kurils, constructing defensive infrastructure to safeguard its eastern frontier. The islands offer Russia a buffer protecting the Sea of Okhotsk, a critical region for its Pacific nuclear submarine fleet. As a result, any attempt to cede control would represent a compromise to Russia's position in the Pacific.

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<sup>144</sup> Yu Koizumi, "Russian Pacific Fleet Redux: Japan's North as a New Center for Gravity," *War on the Rocks*, October 22, 2024, <https://warontherocks.com/2024/10/russian-pacific-fleet-redux-japans-north-as-a-new-center-of-gravity/>.

<sup>145</sup> Maria Shagina, "Sanctions in Japan-Russia Economic Relations: Impact and Adaption," *Institute for Security & Development Policy*, June 2019, <https://www.isdp.eu/publication/sanctions-in-japan-russia-economic-relations-impact-and-adaption/>.



In terms of economic resources, the waters surrounding the Kuril Islands are rich in marine resources, including highly valuable fishing and crabbing grounds. Control over these waters would provide Japan with access to an abundant supply of seafood, thus bolstering its fishing industry, a vital sector for Japan.<sup>146</sup> Additionally, the islands themselves are believed to contain untapped natural resources, such as potential reserves of oil and natural gas.<sup>147</sup> Given Japan's reliance on energy imports, securing control over resource-rich territories to resource-rich territories would yield long-term economic benefits and enhance Japan's energy security. Beyond their strategic and economic significance, the Kuril Islands carry deep symbolic importance for Japan. The dispute over the Northern Territories is deeply ingrained in Japanese public consciousness, and the recovery of these islands is seen as a matter of national pride. The Japanese government has consistently leveraged the Kuril Islands issue to assert its sovereignty and maintain domestic support, emphasizing the islands' role in reinforcing Japan's post-war foreign policy goals. Resolving the territorial dispute favorably would thus serve as a diplomatic achievement, validating Japan's right to territorial integrity and strengthening its influence in regional geopolitics.

Looking ahead to the long term, there exists a slight but uncertain possibility that significant changes within Russia or in the global geopolitical landscape could open new avenues for negotiation. Historical precedent suggests that Russia has at times, been open to considering territorial adjustments. During Boris Yeltsin's administration in the 1990s, Russia showed interest in possibly transferring some disputed territories in exchange for economic concessions or diplomatic agreements. Should Russia face internal challenges, shifts in leadership, or a reduction in external pressures, a new administration might be more willing to reconsider the status of the islands<sup>148</sup>. A cessation of hostilities in Ukraine might create an opportunity for Japan and Russia to resume dialogue about disaster management, regional fisheries, and maritime security due to overlapping interests beyond the territorial dispute. In the event of leadership changes or other transformative geopolitical shifts, this could serve as a foundation for constructive engagement<sup>149</sup>, even if a comprehensive territorial agreement remains elusive.

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<sup>146</sup> Chris Chase, "The Kuril Islands becoming new hotspot for Russian seafood industry," *SeafoodSource*, August 11, 2022, <https://www.seafoodsource.com/news/supply-trade/the-kuril-islands-becoming-new-hotspot-for-russian-seafood-industry>.

<sup>147</sup> Robert Shines, "The Kuril Islands: Power Projection and Resource Protection," *Geopolitical Monitor*, November 17, 2015, <https://www.geopoliticalmonitor.com/the-kuril-islands-power-projection-and-resource-protection/>.

<sup>148</sup> Hironori Fushita, "JIIA Strategic Comments (No.7): Japan-Russia Peace Treaty Negotiations - Past Developments and Future Points," *The Japan Institute for International Affairs*, January 23, 2019, [https://www2.jiia.or.jp/en/article\\_page.php?id=16](https://www2.jiia.or.jp/en/article_page.php?id=16).

<sup>149</sup> *Ibid.*

## *The Korean Peninsula*

Diplomatic relations between North Korea and Japan have not always been stable, even though North Korea has an unofficial embassy in Tokyo, known as Chongryon. Hostilities between the two countries have intensified due to missile launches by Pyongyang that have flown over Japanese airspace.<sup>150</sup> However, for Japan, the animosity is also rooted in North Korea's nuclear program and the abduction issue, something Pyongyang tries to downplay by emphasizing that the matter has already been resolved. As Kim Jong-un's sister Kim Yo-jong stated that if Japan continues to try to interfere with sovereign rights be preoccupied with the abduction issue, "of which there is nothing more to resolve or investigate, then the Prime Minister's [offer for talks] will inevitably be labeled as just an attempt to improve his popularity."<sup>151</sup> North Korea's ballistic tests, the abduction of Japanese citizens in the last century, Japan's colonial history on the Korean Peninsula, and ongoing blame-shifting have significantly weakened the possibility of understanding between the two sides, creating noticeable regional instability and likely prompting involvement from two superpowers, the United States and China.

This discord between Tokyo and Pyongyang was leveraged by President Trump during his presidency, when he met with Kim Jong-un in Singapore, Vietnam, and even Panmunjom, North Korea. In reality, it went no further than a photo-op as missile launches continued during Trump's presidency.<sup>152</sup> In addition, the alliance between South Korea, the United States, and Japan only grew stronger, a trend that has continued under President Biden's administration.<sup>153</sup> The top leaders of the three countries met in April 2023 at Camp David, with the intent of forming a collective security environment, which China was quick to label as "mini-NATO style" due to the three countries' commitment to information-sharing, collective messaging, and policy coordination. The purpose of this meeting also served to end any possible hostilities between South Korea and Japan and set aside historical animosities at the highest levels.

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<sup>150</sup> Katharina Buchholz, "The Rise of North Korean Missile Tests," *Statista*, August 29, 2024, <https://www.statista.com/chart/9172/north-korea-missile-tests-timeline/#:~:text=North%20Korean%20missile%20tests%20intensified,including%20five%20of%20intercontinental%20missiles>.

<sup>151</sup> Al Jazeera, "North Korea says Japan's Kishida proposed summit with Kim," March 25, 2024, <https://www.aljazeera.com/news/2024/3/25/north-korea-says-japans-kishida-proposed-summit-with-kim>.

<sup>152</sup> Scott A. Snyder, "Why is North Korea Turning More Aggressive," *Council on Foreign Relations, Asia Program*, February 7, 2024, <https://www.cfr.org/expert-brief/why-north-korea-turning-more-aggressive>.

<sup>153</sup> Scott A. Snyder, "The Trilateral Summit at Camp David: Institutionalizing U.S.-Japan-South Korea Coordination," *Council on Foreign Relations, Asia Unbound*, August 17, 2023, <https://www.cfr.org/blog/trilateral-summit-camp-david-institutionalizing-us-japan-south-korea-coordination>.

The governments of Seoul and Tokyo have chosen to improve their diplomatic relations, such as through the General Security of Military Information Agreement, and to coordinate in order to address other actors, including North Korea and China. Despite the efforts by South Korea and Japan to “bury the ghosts of the past,” public opinion in each country continues to hold an unfavorable view of the other.<sup>154</sup> This is mainly because of past events on the Korean Peninsula and the territorial dispute over the Takeshima Islands, known as Dokdo in South Korea.<sup>155</sup>

However, this is a topic that both governments prefer not to discuss openly, choosing instead to maintain the status quo. Both Japan and South Korea have demonstrated a closer alignment, reflected in their shared responsibilities: Japan’s problems are also South Korea’s, and vice versa. Thus, Japan’s 2022 NSS designated North Korea as “an immediate military threat,” even though North Korea is not included in Japan’s FOIP. On the other hand, former South Korean President Moon Jae-in expressed his commitment last year to cooperate with Japan in the Indo-Pacific region, and even he later stated that “despite the negative memories of World War II, Japan is a partner that shares universal values and has common interests.”<sup>156</sup> Ultimately, the goal is to collectively respond to the threat posed by Kim Jong-un's regime.<sup>157</sup>

In the last two decades, however, a historic opportunity to reduce tensions in the Far East has been lost. In the 2000s, a series of summits known as the Six-Party Talks were initiated with the objective of ending North Korea's nuclear program, with the involvement of Japan, China, the United States, North Korea, Russia, and South Korea.<sup>158</sup> However, the exchange of responsibilities and North Korea's growing threats hindered the progress of these talks, ultimately positioning the Far East in a bloc structure: China, Russia and North Korea against Japan, the U.S. and South Korea. There is little to suggest a revival of the Six-Party Talks, as the animosity between these blocs remains evident, especially following recent news of North Korean troops deployed in Russia to fight on the front lines against Ukraine.<sup>159</sup>

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<sup>154</sup> The Genron NPO, “The 1st Japan-South Korea joint opinion poll,” May 14, 2013, [https://www.genron-npo.net/en/opinion\\_polls/archives/5263.html](https://www.genron-npo.net/en/opinion_polls/archives/5263.html).

<sup>155</sup> Olivia Tasevski, “Islands of ire: The South Korea-Japan dispute,” *Lowy Institute*, April 27, 2020, <https://www.lowyinstitute.org/the-interpretor/islands-ire-south-korea-japan-dispute>.

<sup>156</sup> Eisuke Mori, “Unwavering President Yoon pushes ahead to strengthen US-ROK alliance and restore trust between Japan and South Korea,” *Nikkei Business*, May 15, 2023, <https://business.nikkei.com/atcl/gen/19/00179/051500167/>.

<sup>157</sup> Junnosuke Kobara, “Yoon riles foes by extending olive branch to Japan in speech,” *Nikkei Asia*, August 16, 2023, <https://asia.nikkei.com/Politics/Japan-South-Korea-ties/Yoon-riles-foes-by-extending-olive-branch-to-Japan-in-speech>.

<sup>158</sup> Olivier Guillard, “What future - in the short term - for the Six-Party Talks?,” *Institut de Relations Internationales et Stratégiques*, July 30, 2015, <https://www.iris-france.org/62099-what-future-in-the-short-term-for-the-six-party-talks/>.

<sup>159</sup> Karolina Hird, Daniel Shats, and Alison O’Neil, “North Korea Joins Russia’s War Against Ukraine: Operational and Strategic Implications in Ukraine and Northeast Asia,” *Institute for the Study of War*, November 1, 2024,

This same formula being used by Russia now could apply if North Korea were to attack its southern neighbor, whether through missile launches or ground forces: Japan would provide military support, backed by the United States. Nevertheless, the likelihood of North Korea deciding to attack remains remote, despite growing regional tensions. This is primarily because it would not receive the same support from China (crucial to North Korea's economy) that it currently has from Russia.

***Scenario Setting 2: Growing tensions between South Korea and Japan over the Liancourt Rocks***

The Liancourt Rocks, also known as Takeshima/Dokdo dispute, is a territorial dispute between South Korea and Japan that dates back more than three hundred years. It currently belongs to Japan since 1905. However, the South Korean country has repeatedly declared sovereignty over these two islands, an issue that has confronted both governments and even intervened to reaffirm sovereignty. The importance of this small territory lies in the national sentiment of both countries: what for some was a sign of defeat, colonization and humiliation, for others is a sign of pride, nationalism and hegemony over the region.<sup>160</sup> Moreover, the territory also has a good geographical location for fishing grounds and possible gas reserves.<sup>161</sup>

**Figure 9: Dispute scenarios and their descriptions.**

Scenarios	Description
1	Maintenance tensions over the sovereignty of the rocks. Negative impact on the bilateral relations of both countries. Intervention of the United States. Public sentiment grows increasingly hostile.
2	Rise of tensions. Cyberattacks on important government institutions. Restrictions on trade or imposition of tariffs. Regional instability, which could be used for China over the Senkaku Islands.
3	Peaceful resolution of the dispute, led by the United States. Joint agreement to explore the resources of the region. Strengthening economic, security and technological relations (supply chain).

In the first scenario, Japan and South Korea maintain their claims over the Liancourt Rocks, which led to persistent tensions without any progress toward resolution. The dispute periodically flares up with incidents such as naval confrontations and fishing disputes. Both governments fear that any concession could be seen as undermining their sovereignty,

<https://www.understandingwar.org/backgrounder/north-korea-joins-russias-war-against-ukraine-operational-and-strategic-implications>.

<sup>160</sup> Mikiyoung Kim, "A War of Memories: Dissecting The Dokdo/Takeshima Dispute," *Global Asia*, September 2012, [https://www.globalasia.org/v7no3/feature/a-war-of-memories-dissecting-the-dokdo-takeshima-dispute\\_mikiyoung-kim](https://www.globalasia.org/v7no3/feature/a-war-of-memories-dissecting-the-dokdo-takeshima-dispute_mikiyoung-kim).

<sup>161</sup> Paul Huth, Sunwoong Kim, and Terence Roehrig, "The Dokdo/Takeshima Dispute: South Korea, Japan and the Search for a Peaceful Resolution," ed. *Brill*, April 15, 2021.

reinforcing the status quo and reducing the likelihood of a peaceful settlement. The prolonged dispute negatively impacts bilateral relations, as it hinders cooperation on shared priorities like trade, security, and technological exchange. International allies, especially the United States, may apply diplomatic pressure to encourage a resolution and preserve regional stability; however, entrenched positions limit outside influence. Public sentiment, particularly in South Korea, grows increasingly hostile, which could lead to social unrest or economic boycotts against Japanese products. This hardening of attitudes affects not only government interactions but also public perception, deepening mistrust and creating barriers to reconciliation, thus contributing to a more volatile Northeast Asian region.

In the second scenario, tensions between Japan and South Korea over the Liancourt Rocks intensify, leading to increased naval confrontations as both countries boost their coast guard presence near the disputed area. Additionally, both sides engage in cyberattacks targeting government websites and critical infrastructure, further deepening hostilities and showcasing their willingness to leverage digital warfare as part of the dispute. Economic retaliation, such as imposing trade restrictions or tariffs, becomes another tool for each nation to assert pressure, damaging bilateral trade relations and international relations over the region. The potential consequences of this limited military escalation are significant. Increased military engagement risks spiraling into a broader conflict that could draw in other regional powers and threaten overall stability in Northeast Asia or even in the Indo-Pacific region, which could be used by China to increase his threat against Japan over Taiwan or the Senkaku Islands.

In the third scenario, South Korea and Japan achieve a peaceful resolution through international mediation, led by a third-party mediator like the United States. The breakthrough could involve both nations agreeing on a joint development agreement, allowing shared resource exploration and economic benefits in the disputed area. This approach might also lay the groundwork for a more comprehensive, long-term diplomatic solution. This compromise would likely lead to strengthening bilateral relations, creating opportunities for greater cooperation on pressing issues like trade, security, and technological exchanges (supply chain). By reducing the risk of conflict, this resolution would contribute to a more stable Northeast Asia, which could be spread in a more unified alliance against the regional threats of North Korea and China.

Taking these scenarios into account, it seems that the 3rd scenario is the most plausible, not only because it would resolve the territorial dispute over the Liancourt Rocks, but also because of the strengthening of economic and technological relations.

## CONCLUSION

Japan stands at a pivotal crossroads, with significant internal and external challenges that will shape its role in the Indo-Pacific region and its influence in global affairs. Domestically, Japan's economy remains burdened by high public debt, deflationary pressures, and a shrinking workforce, driven by a rapidly aging population and low fertility rates. Despite efforts like "Abenomics" and more recent policies aimed at economic revitalization, progress has been gradual, leaving Japan vulnerable to future economic and social strains. Addressing these issues will require a bold, sustained commitment to reforming economic structures, promoting productivity, and easing immigration policies to rejuvenate the workforce.

In the realm of defense, Japan is undertaking substantial modernization, with plans to increase defense spending and expand capabilities through its alliance with the United States and partnerships with regional players like Australia, South Korea, and ASEAN members. The 2022 National Security Strategy signals a shift toward greater autonomy in defense, while balancing constitutional restrictions with a pressing need to counterbalance China's growing influence, North Korea's nuclear threat, and Russia's unpredictable reactions in the region. However, Japan's reliance on the United States for security presents both a strength and a limitation, as shifts in this ally's foreign policy could impact Japan's ability to independently secure its interests.

Geopolitically, Japan's role in promoting a Free and Open Indo-Pacific has strengthened its diplomatic influence, yet this position requires careful navigation. While China remains an essential economic partner, tensions over territorial disputes and regional influence complicate this relationship.

Japan's ability to maintain economic interdependence with China while reducing strategic reliance will be crucial in maintaining stability. Japan's future depends on its agility in reforming economic policies, advancing military self-sufficiency, and carefully managing its alliances. The coming years will be decisive for Japan as it seeks to fortify its economic and security frameworks amidst a shifting global order. Success will depend on Japan's commitment to innovation, adaptability, and resilience in addressing the multifaceted challenges facing the nation.



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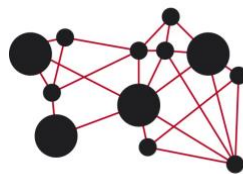
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