# Japan's defence sector reaches an inflection point

Publié le 13 octobre 2026

**Baoqi Zhu**
Associate Director, Quantitative Research & Multi Asset Solutions

## Points clés

- Japan's defence spending is accelerating. It reached its previous target two years early, and February's decisive election win gives the government room to go further.
- New defence special taxes should provide additional funding in fiscal 2027, which provides further support for the view that higher defence spending could prove durable.
- Export reform lets Japanese firms compete abroad, with Australia's frigate order an early win and a possible US frigate opportunity ahead.
- Faster spending, additional funding and wider markets suggest 2026 is an inflection point, with Japan's defence cycle becoming larger and more durable.

For decades, Japan kept its defence ambitions deliberately modest. That began to change in 2022, and spending has risen sharply since. For investors, the question now is whether this becomes a long-lasting industrial cycle. Developments in 2026 suggest it might. The spending increase is accelerating and has stronger political backing. New taxes are giving it a dedicated source of funding. Export reform is also opening overseas markets to Japanese manufacturers, and the first large orders are already arriving.

**Figure 1: Japan’s defence policy shift accelerates in 2026**




Source: Japan Ministry of Defence.

## Faster spending, firmer political backing

For most of the period after the Cold War, Japan's defence budget sat at or below about 1% of GDP1. The cap was informal, but it held until 2022.

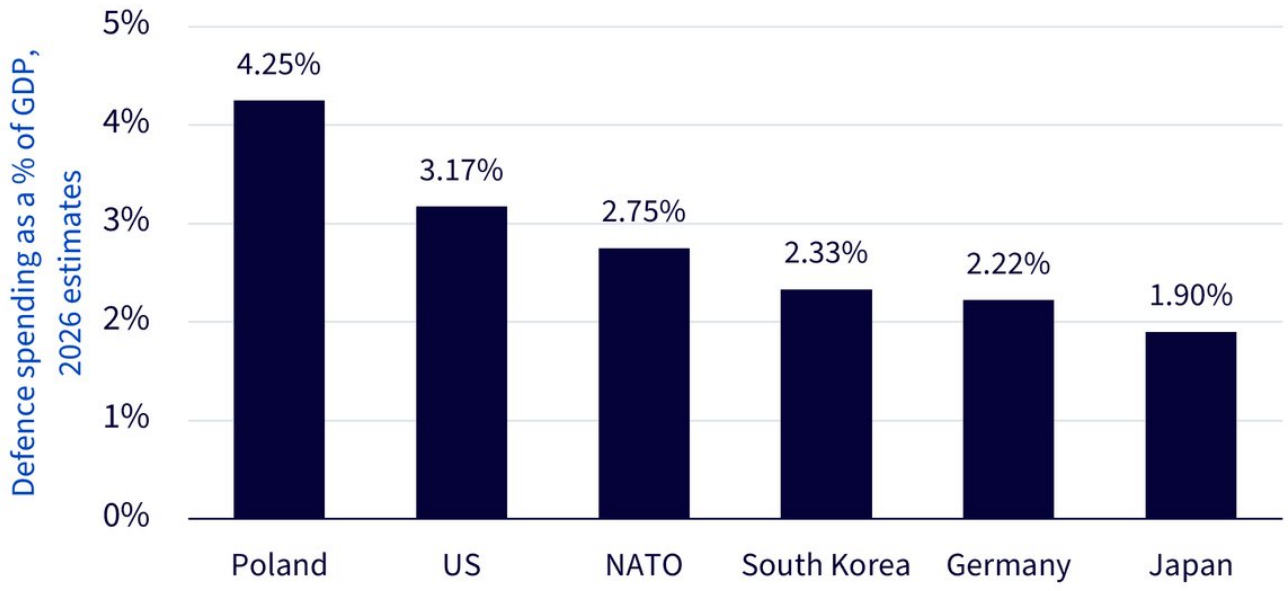
That changed in December 2022. The government published three new security documents. They set a goal of lifting defence and related spending, by FY2027, to a level equal to 2% of FY2022 GDP2. Total defence spending over FY2023 to 2027 was set at ¥43 trillion.

Since then, the pace has picked up. Under Prime Minister Sanae Takaichi, a long-standing defence hawk, Japan reached that target in FY2025, two years ahead of schedule, helped by a supplementary budget. As the previous target is fixed to 2022 GDP and includes related items such as coast guard spending, the ratio on current GDP is slightly lower than 2%, but the direction is still clear.

The February general election strengthened the political foundation. The Liberal Democratic Party won a two-thirds majority in the lower house on its own, and together with its coalition partner, the ruling bloc holds a commanding position. The main opposition alliance, which includes Komeito, a long-time brake on defence expansion, lost around two-thirds of its seats. Japan's build-up began before the vote. The result gives the government scope to go further as it prepares to revise its security policy by December 2026. The question now is how far it will go.

Washington has been pushing hard and has urged Japan to spend 3.5% of GDP on defence3. Japan is also reported to be considering a medium-term target of 3.5% of GDP, in line with NATO and other US allies4. That would mean more than double current levels.

**Figure 2: Defence spending as a percentage of GDP, 2026 estimates**




Source: NATO, Japan and South Korea Defence Ministries. Core defence spending for NATO nations, overall defence spending for Japan and South Korea.

## A dedicated way to pay

A fair investor question is whether Japan can keep paying for this. Japan's public debt is the highest among advanced economies and roughly double the G7 average. With debt at that level, spending plans without a clear funding source tend to fade.

Part of the answer lies in a new set of defence taxes. The first measures took effect on 1 April 2026. The Defence Special Corporate Tax is charged at 4% of a company's corporate tax bill, after a deduction of ¥5 million. For a large company paying the standard 23.2% national rate, that adds just under 1% (23.2% x 4%)5. The deduction means most small companies are exempt. The Finance Ministry expects the tax to raise ¥923 billion in 20276. Tobacco tax also rose in April, with a second increase due in October. Another new tax is the Defence Special Income Tax. From January 2027, individuals will pay a surcharge equal to 1% of their income tax bill.

Together, the new taxes should raise about ¥1.3 trillion in fiscal 20277. That covers only part of a defence budget that has reached a record ¥9 trillion in FY2026.

The signal matters more than the sum. Governments rarely raise taxes for a temporary programme, and Japan had avoided doing so for defence for decades. A dedicated revenue stream may make higher levels of defence spending harder to reverse. It also makes it easier for companies to plan capacity around.

## From one customer to many

For decades, Japanese defence companies had essentially one customer. Export rules limited most sales to five categories covering rescue, transport, warning, surveillance and minesweeping equipment. Production runs were small and unit costs high.

In April 2026, the government scrapped those categories, opening the way for exports of warships, missiles and other weapons. Each lethal export will be reviewed by the National Security Council and limited to countries with defence technology agreements with Japan.

Mitsubishi Heavy Industries (MHI) has already shown what this can mean. It has signed a contract to build three upgraded Mogami-class frigates for Australia, with the first due by December 2029. Canberra has committed up to AUD 20 billion to a fleet of 11 ships8. It is Japan's largest-ever defence export.

A bigger opportunity may follow. The US Navy is studying frigate designs from Japan, South Korea and Turkey, including the export version of MHI's Mogami. Up to two ships could be built abroad before production moves to US yards. This is at an early stage. Congress could still limit the waiver that allows foreign-built warships9.

MHI is the most direct beneficiary so far. Kawasaki Heavy Industries, which builds submarines and military aircraft, and IHI, a leading maker of military jet engines, remain tied mainly to domestic spending for now. The new rules give both a route to foreign customers over time.

## Conclusion

Japan's defence story has moved beyond the policy shift of 2022. Spending is rising faster than planned, with a strong political mandate behind it. Dedicated taxes suggest the higher budget is here to stay. Export reform and the Australian order show that the market is getting bigger. For Japanese defence companies, this adds up to a larger and more durable source of demand than at any point in the post-war era.

## What WisdomTree offers

For investors looking to access this theme, the WisdomTree Asia Defence UCITS ETF (WDAF) offers a focused route. The fund tracks the WisdomTree Asia Defence UCITS Index, which covers defence companies across Asia Pacific, excluding China. It concentrates on firms with material defence revenues, which avoids the diluted exposure that comes with broad industrial conglomerates. Japan accounted for about 15.5%10 of the fund, alongside larger weights in South Korea and India. The fund is weighted by market capitalisation, adjusted for defence revenue exposure and rebalanced quarterly, making it a targeted way to capture the region's structural defence upswing.

Investors should also consider the risks associated with the strategy. The fund provides targeted exposure to the defence sector and may therefore be more sensitive to political, regulatory and government spending developments affecting defence companies. Investments in equities can fall in value, and investors may lose some or all of the amount invested. Currency movements may also affect investment returns. Please refer to the KID and Prospectus for full details of the risks associated with the fund.

1 Source: Stockholm International Peace Research Institute.
2 Source: The National Security Strategy.
3 Source: Japan scraps US meeting after Washington demands more defence spending.
4 Source: Japan Eyes Defense Spending at 3.5% of GDP After US Pressure.
5 Source: PwC: Corporate - Taxes on corporate income.
6 Source: Ministry of Finance, Japan.
7 Source: Ministry of Finance, Japan.
8 Source: Australian Department of Defence.
9 Source: Japanese, South Korean, Turkish Warships Under Consideration for New U.S. Frigate Competition.
10 Source: WisdomTree, as of 25 September 2026.

## IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area ("EEA") & Switzerland:** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA, except Switzerland:** This document has been issued and approved by WisdomTree UK Limited or Atlantic House Investments Limited, which are both authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited, WisdomTree UK Limited and Atlantic House Investments Limited are referred to as "WisdomTree" (as applicable) throughout. Our Conflicts of Interest Policy and Inventory are available on request.

**This marketing communication is intended for all investors; however, the WisdomTree products described in this document and related materials may be restricted in certain jurisdictions and may only be available to particular categories of investors in accordance with applicable laws and regulations. Where a product is not authorised or its distribution is restricted in your jurisdiction, it is the responsibility of any person or entity in possession of this information to inform themselves of, and comply with, all relevant restrictions. Before making any investment, investors should seek appropriate legal, regulatory, tax and investment advice to assess the suitability and implications of investing in these products. Information about WisdomTree products is available at wisdomtree.eu. WisdomTree does not offer investment advice tailored to individual circumstances. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment.**

**This marketing communication should be read in conjunction with the relevant WisdomTree products' Prospectus, Key Investor Information Document ("KIID"), Key Information Document ("PRIIPS KID") as relevant. In particular, investors should carefully read the specific risks detailed under the section entitled 'Risk and Reward Profile' in the KIID, 'What are the risks and what could I get in return?' in PRIIPs KID and under the section entitled 'Risk Factors' in the Prospectus of the Issuer for further details of risks associated with an investment in the product(s) detailed herein. Further information regarding the WisdomTree exchange-traded product(s) detailed herein, such as a detailed list of the underlying investments and the indicative net asset value, can be obtained by visiting the WisdomTree website at (www.wisdomtree.eu).**

An investment in WisdomTree exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. An investment in WisdomTree funds is dependent on the performance of the underlying investments, less costs.

Both WisdomTree ETPs and funds involve numerous risks including among others, general market risks relating to any relevant underlying index, credit risks on the provider of index swaps utilised in ETPs, exchange rate risks, interest rate risks, inflationary risks, liquidity risks, derivatives risk and legal and regulatory risks.

The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements.

**WisdomTree Issuer ICAV**

Certain funds referred to in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an open-ended, umbrella-type Irish Collective Asset-management Vehicle with segregated liability between sub-funds and is authorised by the Central Bank of Ireland ("CBI") as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Irish law. Each fund is represented by a separate class of shares (the "Shares") issued by WT Issuer.

The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares.

The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

**For Investors in Switzerland:**

This document/constitutes/an advertisement of the financial product(s) mentioned/herein.

The prospectus (in English only) and the key investor information documents (KID) (in German, French and Italian) are available from WisdomTree's website:/https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports

**For WisdomTree UCITS products only:** the representative and paying agent of the ETPs in Switzerland is Société Générale Paris, Zurich Branch,/Talacker/50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of/jurisdiction/and performance is at the registered seat of the representative and paying agent. Some of the sub-funds referred to in this document may not have

been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA may only be available to Qualified Investors.

**For Investors in France:**

The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

**For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.

**For Investors in Israel:** Offering materials for the offering of the Shares and securities have not been filed with or approved or disapproved by the United States Securities and Exchange Commission or any other state or federal regulatory authority, nor has any such regulatory authority passed upon or endorsed the merits of this offering or passed upon the accuracy or completeness of any offering materials. Any representation to the contrary is unlawful. The products mentioned herein have not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute “an offer to the public” under sections 15 and 15a of the Israel Securities Law, 5728-1968 (“the Securities Law”) or section 25 of the Joint Investment Trusts Law, 5754-1994 (“the Joint Investment Trusts Law “), as applicable. The products are being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in the First Addendum (“the Addendum”) to the Securities Law, “Sophisticated Investors”) who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This prospectus or this document may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a product is purchasing such product for its own benefit and account and not with the aim or intention of distributing or offering such product to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing a product for another party which is a Sophisticated Investor).

Nothing in this document should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995. Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. A recipient of this document may be required to provide confirmation that it is a Sophisticated Investor purchasing a product for its own account or, where applicable, for other Sophisticated Investors.