

Japan's Place in a G2 World

By Raf Manji



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Japan Is Back, Again!

In 2013, Prime Minister Shinzo Abe stood before the United States Congress and delivered a message that was as much for his own people as it was for Washington. “Japan is back,” he declared. It was a phrase carefully chosen – direct, confident, and a little defiant. After two decades of deflation, political churn, and a persistent sense of national diminishment, it was an assertion of intent as much as a statement of fact.

More than a decade later, the assertion is starting to look prescient. The Nikkei 225 broke through its 1989 bubble-era peak in early 2024 for the first time in 35 years, a milestone that was both financial and psychological. Fresh leadership has brought a more outward-facing posture – witness Japan’s decision to deploy Japan Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA) financing to support energy transition across the Association of Southeast Asian Nations (ASEAN), a move that is as strategic as it is developmental. Corporate governance reforms have unlocked shareholder value long buried in cross-shareholding structures. Foreign direct investment (FDI) is at record levels. And over 40 million tourists visited Japan in 2024, a number that would have seemed fantastical even five years ago. Something has genuinely shifted. The question now is what Japan does with the moment.

There is, however, a curious paradox at the heart of this story. Many Japanese do not see themselves the way the rest of the world sees them. Speak to people in Tokyo, Osaka or Kyoto and you encounter a modesty – sometimes a diffidence – about Japan’s place in the world that sits oddly alongside the evidence of the country’s reach and influence. The shadow of World War II, and especially of Hiroshima and Nagasaki, runs long and deep. The postwar settlement instilled a particular disposition: pacifist, deferential in security matters to the US, cautious about projecting power or leadership beyond its shores. Generations of Japanese have grown up in that disposition.

But the outside world does not share that hesitation. Foreigners arriving in Japan for the first time are almost universally struck by the quality of its institutions, the depth of its culture, the competence of its everyday life. Its cultural exports are beloved globally in ways that few countries can match. Its diplomacy is widely respected. Its development finance is trusted. The gap between how Japan sees itself and how others see it is one of the most striking asymmetries in contemporary geopolitics.

This article is an attempt to close that gap – or at least to name it clearly. Japan is better placed than it knows to play a leadership role in the emerging world order. The case for that is not sentimental. It rests on economics, strategic architecture, cultural capital, and historical relationships that are both durable and underutilised.

The Long Road Back

To understand where Japan is now, it is worth tracing the arc of the past 80 years. The postwar economic miracle – fueled by American security guarantees, an undervalued yen, and the extraordinary productive capacity of a disciplined industrial workforce – turned a devastated country into the world’s second-largest economy by 1968. The 1970s brought the oil shocks and external pressure, but Japan adapted, shifting from energy-intensive heavy industry toward electronics, precision manufacturing and automobiles. By the mid-1980s it was a global economic superpower, running large trade surpluses and accumulating capital at a pace that made it an object of both admiration and anxiety in Washington.

As I explored in my previous article in this journal, the Plaza Accord of 1985 was the first major attempt to address those imbalances. The engineered appreciation of the yen that followed – from 260 to 155 against the dollar in little more than a year – was dramatic in its scale. The Bank of Japan’s response, loosening monetary policy to soften the blow, fuelled the great asset price bubble of the late 1980s. Land prices in Tokyo reached levels that defied comprehension. The Nikkei surged to nearly 39,000. The bubble burst at the end of the decade and what followed was a prolonged reckoning – two, arguably three, lost decades of stagnation, deflation, non-performing loans, and diminished national confidence.

“Abenomics”, launched in 2012, was the most determined effort to break the spell. The three arrows of monetary easing, fiscal stimulus and structural reform produced mixed results – the first two deployed with force, the third rather more cautiously. But Abenomics did succeed in shifting the psychological climate. Deflation was not fully vanquished but it was no longer the settled expectation. The yen depreciated, corporate profits recovered, and the stock market rallied. More importantly, Japan began to reclaim a more active foreign policy voice, with Abe himself investing heavily in relationships across Southeast Asia, the Pacific, India, Europe and the Middle East.

Japan today is a country that has absorbed a very long and painful economic lesson. It understands financial bubbles from the inside. It has lived through deflation, fiscal pressures, demographic decline and the limits of monetary policy in ways that most other advanced economies have only recently begun to grapple with. This hard-won experience is itself a form of capital – analytical, institutional, and diplomatic. A country that has navigated what Japan has navigated, and come out the other side with its social cohesion intact and its institutions functioning, has earned a certain credibility.

There is also something important in the texture of contemporary Japan that resists easy categorisation. It is simultaneously one of the most technologically sophisticated societies on earth and one of the most committed to artisanal tradition. The tea ceremony and the bullet train. The ancient cedar forests of Yakushima and the neon geometry of Shibuya. This capacity to hold modernity and tradition in productive tension – rather than allowing one to obliterate the other – is not just aesthetically distinctive. It offers a model of development that is increasingly relevant to societies wrestling with the costs of rapid modernisation.

A G2 World & the Middle-Power Gap

The geopolitical context into which Japan is stepping is sharply different from the one that shaped its postwar trajectory. For 40 years after the Cold War, the global order was organised around a core of multilateral institutions – the Group of Seven (G7), the World Trade Organization (WTO), the International Monetary Fund (IMF), the World Bank – with the United States as their ultimate guarantor. That order is now under serious strain.

The “Liberation Day” tariffs of US President Donald Trump’s administration in April 2025, which I analyzed in my previous article, represent something more than a trade policy disagreement. They mark a structural retreat from the multilateral operating system that has underpinned global economic governance since 1985. The G7 has been sidelined. The WTO is bypassed. “America First” has become a literal governing principle. Meanwhile, China’s growing economic and military reach – and its willingness to build alternative institutions, from the Asian Infrastructure Investment Bank (AIIB) to the Cross-Border Interbank Payment System (CIPS) to the Belt and Road Initiative (BRI) – has established a second pole of gravity in the global system.

The result is a world that is neither truly unipolar nor genuinely multipolar. It is, increasingly, a G2 world: one structured around the competition and negotiation between Washington and Beijing, with everyone else navigating the space between them. That space is uncomfortable, contested, and full of countries that have no interest in being forced to choose sides.

This is the middle-power gap. And it is where Japan’s opportunity lies.

The analogy with Germany is instructive. Germany, like Japan, bears a heavy postwar inheritance. Like Japan, it rebuilt itself as a responsible international actor committed to multilateral norms, development assistance and rules-based trade. Like Japan, it has faced pressure – from Washington and from within – to do more, to

lead more, to spend more on defence. And like Japan, it has at times struggled to translate its economic weight into commensurate political and strategic influence. But Germany’s leadership within the European Union and its bridging role between the Atlantic world and its eastern neighborhood have given it a structural function in European geopolitics that no other country can replicate.

Japan can play an analogous role in the Indo-Pacific – and, crucially, beyond it.

The Architecture of Influence: Quad, FOIP, G7 & ASEAN

What makes Japan’s strategic position unusual, and unusually valuable, is the breadth of its institutional footprint. It is, simultaneously, a member of the G7, a core member of the Quadrilateral Security Dialogue (Quad), a founding voice of the Free and Open Indo-Pacific (FOIP) concept, and the most deeply embedded external partner of the ASEAN grouping. No other country sits across all four of these frameworks at once.

The Quad – Japan, the US, Australia and India – is the most significant new security architecture to emerge in the Indo-Pacific in decades. It brings together four democracies with large economies, significant military capacity and a shared interest in maintaining freedom of navigation, supply chain resilience and technological openness across the region. Japan is not merely a participant in this grouping; it was Japan’s Abe who revived the dormant Quad in 2017, after a decade of inactivity, and invested it with the strategic seriousness it now carries.

The FOIP concept is similarly a Japanese intellectual contribution to the regional order. First articulated by Abe in 2016, it provided a normative framework – rules-based maritime order, infrastructure connectivity, respect for sovereignty – that was subsequently adopted by the US, Australia, India, the EU and many others. This is not a small thing. The ability to generate the conceptual vocabulary that structures how others think about a region is a form of soft power that is easy to underestimate and very difficult to replicate.

Japan’s relationship with ASEAN is deeper and longer-standing than any other external partner’s. Japanese Official Development Assistance (ODA) has been building roads, ports, power stations and human capital across Southeast Asia for six decades. Japanese companies are embedded in the manufacturing ecosystems of Thailand, Vietnam, Indonesia and beyond. Japan-ASEAN trade exceeds \$230 billion annually. This is not a relationship built on transactions alone – it is built on decades of patient engagement, people-to-people ties, and a record of showing up consistently, including during the Asian Financial Crisis of 1997 when Japan’s Miyazawa Initiative provided \$30 billion in financial support to affected economies at a moment of acute need.

The G7 membership gives Japan something no other Asian country has: a seat at the table of the world’s leading liberal democracies. As the G7 becomes more relevant again – precisely because the US-China competition has elevated the value of coordinated positions among like-minded countries – Japan’s role as the sole Asian voice in that room becomes more, not less,

significant.

Capital, Industry & Technology: the Creditor Nation Advantage

Japan has been the world's largest net foreign creditor for 34 consecutive years. This is a fact that tends to get lost in the noise of yen depreciation headlines and demographic anxiety, but it is one of the most consequential facts about Japan's place in the global economy. Japan owns more of the rest of the world than any other country. Its pension funds, life insurance companies, and sovereign wealth vehicles hold vast portfolios of foreign assets. Its banks are among the most active international lenders in the world, particularly across Asia and the Americas.

This accumulated capital is not just a balance sheet figure. It is a strategic resource. At a moment when the global development finance landscape is shifting – China's Belt and Road has generated significant debt distress across the developing world, while Western multilateral finance has struggled to match the speed and scale of China's offer – Japan's patient, concessional and technically credible capital is in genuine demand.

JBIC and JICA are the institutional vehicles for this deployment. JICA's ODA program remains one of the world's largest and most respected, with a track record of infrastructure delivery that is hard to match. JBIC's export finance and equity co-investment tools give Japan the capacity to structure complex transactions across energy, transport, digital infrastructure and industrial development. The recent extension of JBIC support for energy transition finance across ASEAN – including for liquefied natural gas (LNG) projects in the near term and renewables infrastructure over a longer horizon – is an example of this capacity being deployed with strategic intent, not just commercial logic.

But the capital dimension extends beyond official finance. Japanese corporations – in automotive, electronics, robotics, semiconductor equipment, advanced materials and life sciences – possess technology that is critical to the industrial ambitions of developing and emerging economies. The ability to pair capital with technology transfer, and to do so through long-term partnership structures rather than pure FDI extraction, is a model of economic engagement that a growing number of countries find more attractive than the alternatives on offer.

In a world where technology and industrial capacity are increasingly geopolitically contested, where the question of who controls semiconductor supply chains, battery chemistry and AI infrastructure is a matter of national security, Japan's technology depth is not just an economic asset. It is a diplomatic one.

The Historical Connections: Asia, Europe & South America

Middle-power leadership is rarely built on abstract principles alone. It requires relationships – the kind that have been cultivated over years, that survive changes in government, and that create genuine obligations and expectations on both sides. Japan has these

relationships in abundance, and not only in the obvious directions.

In Southeast Asia, the Japanese footprint goes well beyond trade and investment. Japanese popular culture has shaped youth identities across the region for decades. Japanese cities have twinning relationships with ASEAN counterparts. Hundreds of thousands of Southeast Asian students and workers have lived and worked in Japan. The Mekong-Japan cooperation framework, the Japan-ASEAN integration fund, and Japan's consistent support for ASEAN centrality in regional architecture are not diplomatic gestures – they are the sediment of a long relationship.

In South America, Japan's connections run deeper than most observers recognise. The Japanese diaspora in Brazil is the largest outside Asia, numbering over 1.5 million people, concentrated in São Paulo but spread across the country. Peru, Bolivia and Argentina also have significant Japanese communities, with histories stretching back to the Meiji Era emigration programs of the late 19th and early 20th centuries. These diaspora communities are bridges – economic, cultural and political – that create genuine affinity and receptivity to Japanese engagement in ways that a country without this human geography simply cannot replicate.

In Europe, the relationship has historically been primarily economic – Japan and the EU concluded a major free trade agreement in 2019, the Economic Partnership Agreement, creating one of the world's largest open trade zones. But the strategic dimension has grown markedly in recent years. Japan's participation in North Atlantic Treaty Organization (NATO) partner activities, the deployment of a Japanese liaison officer to NATO headquarters, and the joint statements issued following Russia's invasion of Ukraine have all signalled a new willingness to engage in European security questions. This is not without domestic complexity – the pacifist constitutional tradition remains politically significant – but the direction of travel is clear.

These connections, taken together, give Japan a relational map that extends across multiple regions simultaneously. That is unusual for a middle power and is itself a form of structural advantage.

Soft Power: the World Already Loves Japan

There is a concept in international relations – sometimes called "structural power", sometimes simply "soft power" – that refers to the ability to shape the preferences and expectations of others without coercion. The US exercised this through Hollywood, Harvard and the dollar. Britain exercised it through the BBC and the common law. Japan exercises it through something that is harder to name but unmistakable in its effect.

Forty million tourists visited Japan in 2024. That is not just a tourism statistic. It is a measure of the global gravitational pull of a culture. People travel to Japan, often at considerable expense and effort, because it offers something they cannot find elsewhere: a density of beauty, craftsmanship, cuisine, landscape and human consideration that is genuinely singular. The experience of Japan tends to produce advocates. Visitors return home and talk about it. They become, in effect, ambassadors.

This cultural pull did not arrive from nowhere. It was built, over

decades, through a set of creative industries and intellectual traditions that have achieved global reach on their own terms, without the assistance of military power or financial inducement. Studio Ghibli's films – *Spirited Away*, *My Neighbor Totoro*, *Princess Mononoke* – are among the most beloved works of animation ever made, watched by hundreds of millions of people on every continent. Osamu Tezuka, the godfather of manga and anime, created a visual language that has shaped global popular culture so thoroughly that most of its inheritors are unaware of its origins. Haruki Murakami is translated into more than 50 languages. Nintendo and Pokemon between them have reached essentially every country on earth. Sanrio's Hello Kitty, launched in 1974, remains one of the most recognised symbols in the world.

Japanese cuisine tells a similar story. Japan has more Michelin-starred restaurants per capita than any other country. Japanese food culture – sushi, ramen, *izakaya*, the philosophy of *omakase* – has not merely spread globally but has become, in many cities, the benchmark against which other cuisines are measured. This is soft power expressed through the stomach, and it is remarkably durable.

The significance of all this for Japan's diplomatic position is not trivial. Countries that feel warmly toward Japan are more receptive to Japanese-led initiatives. Leaders whose populations love Japanese culture are more likely to align with Japanese positions in international forums. Trust, built through culture, pays dividends in diplomacy. Japan has an extraordinary trust surplus with much of the world, and it has barely begun to spend it.

Japan as Balancing Power: the Argument

Bring all of this together and a clear argument emerges. In a G2 world – one structured around US-China competition, with the multilateral center under strain – there is a structural demand for trusted, well-resourced, culturally respected actors who can operate in the space between the two poles without being captured by either.

Japan meets this description more fully than any other country. It is a treaty ally of the US and shares its commitment to democratic norms and rules-based order. But it is also deeply embedded in Asian economies, including a trade relationship with China that neither country has any interest in severing. It is neither a threat to China's legitimate interests nor a tool of American containment. It is, in the truest sense, a balancing power – one that can maintain productive relationships across the G2 divide and use those relationships to advance stability, development and norms.

This is not a comfortable position. It requires diplomatic agility, domestic political management, and a willingness to be frank with both Washington and Beijing when their behaviour undermines regional stability. Japan's response to Trump's Liberation Day tariffs – measured, multilateral, and focused on defending the WTO framework – was an example of exactly this kind of principled independence. So too is Japan's careful management of its relationship with China, maintaining the dialogue channels and economic ties that make de-escalation possible, even as it builds the security partnerships that deter adventurism.

The residual tensions with China over historical grievances – the

Nanjing Massacre, the “comfort women” issue, the Yasukuni Shrine visits – remain real and should not be minimised. These are not resolved. But they are managed. And the management itself is a form of statecraft: demonstrating that responsible engagement with a difficult past is possible without either denial or paralysis. Germany provides the most direct precedent. The postwar German model – genuine reckoning with historical crimes, institutional embedding in multilateral structures, patient rebuilding of trust through consistent behavior – enabled Germany to become one of the most influential countries in Europe despite, or perhaps because of, the weight of its 20th century history. Japan's trajectory has some differences – the domestic political culture around historical memory remains more contested – but the direction is the same.

Japan's Moment

History is rarely linear, and opportunities for middle powers to shape the international order are rarer still. They tend to arrive in windows – moments when structural change creates space that did not previously exist, and when a country with the right combination of resources, relationships and credibility can step into that space and make a difference.

Japan is in such a window now.

The G2 competition between the US and China is not going to resolve quickly. The fraying of multilateral institutions is not going to repair itself. The demand from developing and emerging economies for an alternative to a forced choice between Washington and Beijing is real and growing. Japan – as a creditor nation, as a technology power, as a trusted development partner, as a cultural phenomenon, as a member of the Quad and the G7 and the Indo-Pacific framework simultaneously – is positioned to answer that demand in ways that no other country can quite replicate.

What is required is less a change in Japan's capabilities than a change in Japan's self-perception. The modesty is understandable. The postwar settlement instilled it deliberately, and the trauma of the war years – the atomic bombings above all – created a national psychology that has been, for most of the past 80 years, deeply averse to anything that looks like the projection of power or leadership. That psychology served important purposes. It helped rebuild trust. It kept Japan out of dangerous adventures. It created the conditions for the economic miracle.

But the world has changed. The moment calls for something different. Abe saw it, and named it. The task now is to act on it – with the confidence that comes not from forgetting the past, but from having genuinely learned from it. The rest of the world is waiting. And it is already, more than most Japanese perhaps realize, on Japan's side.

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