M Capital Group









Japan: Asset Management Nation?

Mobilizing Savings for a New Era of Growth

M Capital Group Research

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M Capital Group

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Our Word is Our Bond

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EXECUTIVE SUMMARY

Japan is entering a period of economic transition after nearly three decades defined by deflation, stagnant wages, ultra-low interest rates, and weak domestic demand. Some of the conditions that shaped the post bubble economy are beginning to reverse. Wage settlements at major companies exceeded 5% for a third consecutive year in 2026, real wages turned positive during the first half of the year, and the Bank of Japan raised its policy rate to 1.0%, the highest level in roughly three decades. At the same time, Japan still faces severe structural constraints. Its population has fallen to about 123 million, more than 30% of the population is aged 65 or older, public debt remains above 200% of GDP, and a weak yen continues to pressure household purchasing power through higher import costs.

Key Indicators of Japan's Economic Transition

5%+ Wage hikes at major firms exceeded 5% for a third straight year (2026)	1% BOJ policy rate, the highest level in roughly three decades	123M Population, with more than 30% aged 65 and over
>200% Public debt as a share of GDP	US$15.1T Record household financial assets, March 2026	47.2% Share still held in cash & deposits (US$7.13 trillion)

Sources: M Capital Group, October 2026

At the center of this transition is an unusual financial imbalance. Japanese households are exceptionally wealthy, but a large share of that wealth remains in cash and deposits. Household financial assets reached a record US$15.1 trillion by March 2026, with

US$7.13 trillion, or 47.2%, still held in cash and deposits. This allocation is not simply the result of conservative preferences. It reflects decades of experience with the collapse of the 1989 asset bubble, prolonged deflation, a bank centered financial system, employer managed retirement savings, and relatively limited exposure to market based investing. For much of the post bubble period, holding cash was a rational response to the economic environment.

The government is now attempting to reverse that legacy through its broader Asset Management Nation strategy. The policy goes well beyond encouraging households to buy stocks. It combines expanded tax advantaged investment accounts, pension reform, financial education, stronger institutional asset management, corporate governance reform, new lending structures, modernization of market infrastructure, and measures to attract foreign asset managers. The strategy was formalized in 2023 and expanded in 2026 through a broader growth investment agenda that targets US$1.58 trillion in domestic investment by 2040.

The most visible household policy is New NISA. The 2024 reform made the tax exemption permanent and increased the annual investment allowance to as much as US$22,800, with a lifetime tax free investment limit of US$114,000. By the end of 2025, NISA accounts had reached roughly 28.26 million, while cumulative purchases totaled about US$449 billion. The evidence suggests that the program is reaching beyond Japan's traditional investor base. Around 65.8% of new users earn less than US$31,600 per year, and 77% report having no prior financial or economic education. Younger investors are also adopting NISA particularly quickly.

However, the household balance sheet is changing more slowly than participation rates suggest. Direct household equity holdings rose 25.7% year on year by March 2026, while investment trust holdings increased 14.4%, compared with only 0.6% growth in cash and deposits. Yet equities still accounted for only 6.9% of household financial assets and investment trusts only 1.5%. Japan therefore appears to be experiencing a gradual reallocation rather than a wholesale shift away from cash. The composition of NISA flows also creates an important complication. Global equity funds are especially popular in the tsumitate category, meaning that part of the savings being mobilized is flowing into foreign markets rather than directly financing Japanese companies. More fundamentally, even the NISA money that stays in Japan mostly buys existing shares from other investors rather than new shares from companies. Chapter Three examines this primary-versus-secondary distinction directly, alongside the bank lending and corporate bond channels that carry more of Japan’s actual corporate financing.

The reforms are also changing corporate behavior. The Tokyo Stock Exchange's cost of capital campaign, pressure to unwind cross shareholdings, and revised governance framework have increased pressure on management teams to improve capital efficiency. Shareholder activism has become a visible part of that shift. By September 2026, activist trackers identified 246 Japanese companies facing some form of activist pressure.

Contested shareholder votes are also becoming more meaningful, with several activist director candidates winning board seats despite management opposition. These developments suggest that governance reform is affecting not only disclosure, but also the balance of power between shareholders and corporate management.

Japan is also trying to position itself as a stronger international financial center. Special Zones for Financial and Asset Management Businesses, English language registration, tax incentives, and faster visa processing are designed to lower entry barriers for foreign firms. Tokyo rose to 10th place globally in the March 2026 Global Financial Centres Index, although it still trails Hong Kong and Singapore and remains outside the top ten in the index's specialized investment management ranking. The progress is therefore meaningful but incomplete.

The financial reform agenda is unfolding alongside a broader restructuring of the Japanese economy. Government backed semiconductor investment, robotics, tourism, real estate, and data centers are drawing both domestic and foreign capital. Japan is investing heavily in advanced semiconductor capacity through Rapidus and TSMC, while robotics is increasingly being used to address labor shortages created by demographic decline. Tourism reached a record 42.7 million international visitors in 2025, with spending of about US$60.1 billion. Foreign real estate purchases have also accelerated, while global technology companies are committing tens of billions of dollars to Japanese data center capacity. These trends broaden the investment case for Japan beyond financial reform alone.

Taken together, the evidence points to a real but incomplete structural transformation. Japan is becoming more willing to invest, more demanding of corporate management, more open to foreign capital, and more active in strategic industrial policy. Yet the transition remains uneven. Younger households are changing faster than older ones, foreign capital remains a major driver of equity market performance, and nearly half of household financial wealth is still held in cash and deposits. Japan's challenge is therefore not a lack of capital. It is whether that capital can be mobilized more productively and whether the behavioral changes now visible at the margin can become durable across the broader economy.



JAPAN'S ECONOMIC FUNDAMENTALS

Japan's Economic Fundamentals: A Transition That Remains Incomplete

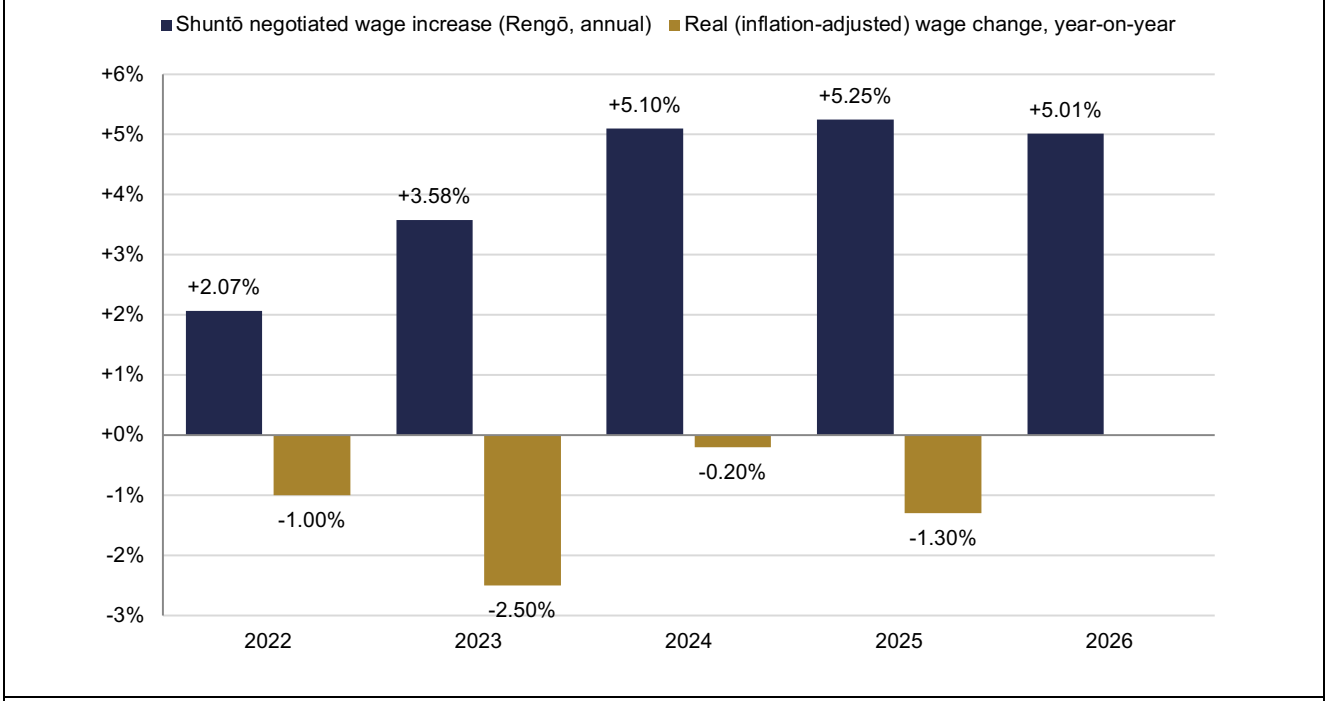
Japan enters the second half of the 2020s at an unusual economic inflection point. After nearly three decades defined by deflation, stagnant wages, ultra-low interest rates, and subdued domestic demand, many of the conditions that characterized the post-bubble Japanese economy are beginning to reverse. Major Japanese companies agreed to average wage increases of 5.37% in the 2026 *shunto* negotiations, marking the third consecutive year of wage growth above 5%. Inflation has also become more persistent: after years in which Japan struggled to generate sustained price growth, the Bank of Japan now expects core consumer inflation to remain above 2% through much of fiscal 2026 before gradually converging toward its 2% target. The Bank of Japan has also begun to normalize monetary policy, raising its policy rate to 1.0% in June 2026, its highest level in roughly three decades, while Japanese financial markets have benefited from improved corporate profitability, governance reforms, and renewed investor interest.

Yet beneath these signs of normalization, many of Japan's longstanding structural constraints remain firmly in place. The country's population fell to around 123.1 million in 2025, down 3.1 million from 2020, with population declines recorded in more than 90% of municipalities. At the same time, household purchasing power remains under pressure, while the yen has traded around ¥159–160 per U.S. dollar and recently reached levels weak enough to prompt large-scale government intervention. Combined with Japan's exceptionally high public-debt burden and rapidly aging society, these pressures limit the extent to which improvements in wages, markets, and corporate performance translate into stronger domestic consumption. Japan is therefore not simply emerging from deflation; it is attempting to transition toward a new economic model while still carrying many of the structural characteristics of the old one.

Wage Growth Has Returned, but Households Have Yet to Feel the Full Benefit

Perhaps the clearest sign of change has been the return of meaningful wage growth. Japan's annual *shunto* wage negotiations have produced historically strong settlements for several consecutive years. In 2026, major corporations represented by Keidanren agreed to average wage increases of approximately 5.4%, following similarly strong gains in 2024 and 2025. The persistence of these increases is significant for an economy where nominal wages barely moved for much of the previous three decades.

Wage Growth Has Returned—but Households Haven't Felt It



Source: MCG, October 2026

Headline wage growth, however, has not translated proportionately into higher household purchasing power. Nominal wages were essentially flat for most of the three decades after 1997, when average annual income peaked at US$29,600; even the record nominal wage of US$30,300 reached in 2024 remained below the 1997 level once adjusted for inflation, and real wages have grown at an average annual rate of roughly −0.3% since 1991. The COVID-era years set an uneven baseline for the recent stretch: real wages fell an estimated 1.2% in the pandemic-disrupted year of 2020, edged up modestly in 2021 as the economy reopened, then began a longer slide as import-driven inflation took hold. Real wages declined for a fourth consecutive year in 2025, falling 1.3% for the year as a whole and remaining negative in every month, as rising consumer prices continued to erode the gains from nominal wage increases. That trend reversed in 2026. Real wages turned positive again in January and continued to rise for six consecutive months. By June, real wages were up 1.6% year-on-year, while total cash earnings increased 3.4%, the strongest pace of the year. The improvement was supported by a 3.4% rise in base

salaries and a 3.5% increase in special bonuses. For the first time in several years, therefore, nominal wage growth was beginning to translate into an actual improvement in household purchasing power.

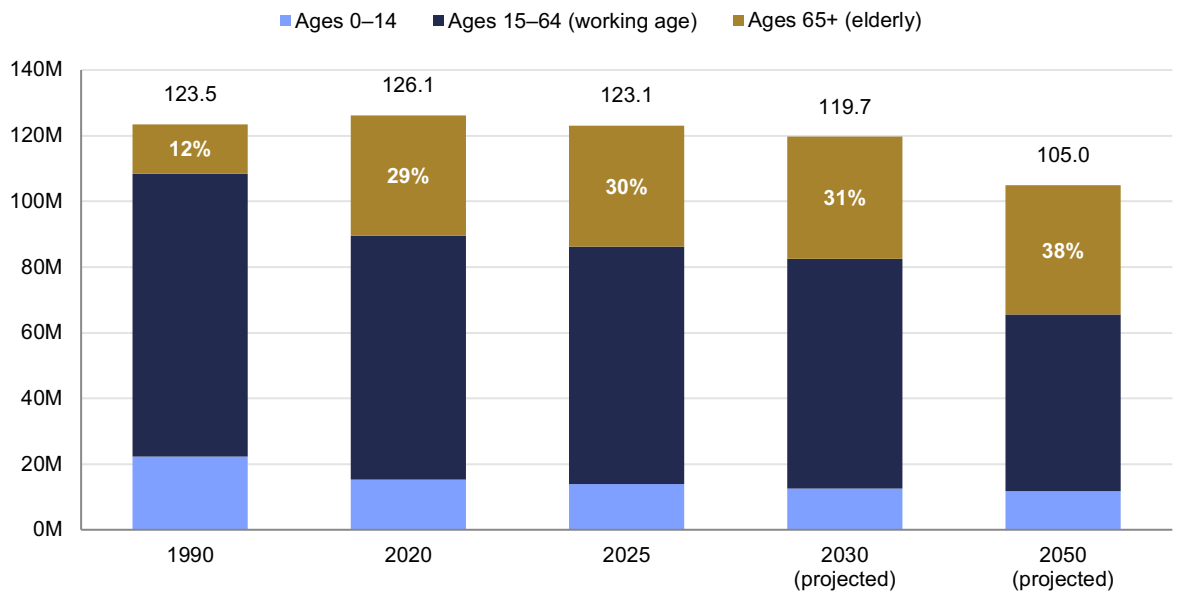
The 2026 improvement is therefore economically significant, but it should not yet be interpreted as a decisive break from Japan's long period of wage stagnation. The key shift is not simply that nominal wages are rising, but that wage growth has finally begun to outpace inflation, allowing workers to recover some purchasing power after several years of erosion. If sustained, positive real wage growth could strengthen household consumption, reinforce domestic demand, and help create the wage-price cycle that policymakers have long sought to establish. At the same time, the recovery remains fragile. Six months of positive real wage growth follows decades of weak income growth and four consecutive years of declining real wages, meaning that households are still rebuilding purchasing power rather than experiencing a large increase in disposable income. Moreover, the headline *shunto* settlements are concentrated among major corporations and may overstate the improvement experienced by workers at smaller firms, where wage increases tend to be more limited.

This distinction is particularly important for Japan's effort to shift households from saving to investment. Rising nominal wages alone do not necessarily create additional investable income if higher prices continue to absorb much of those gains. Sustained real wage growth, by contrast, could gradually give households greater financial capacity to move beyond precautionary cash savings and allocate more income toward equities, mutual funds, and tax-advantaged investment accounts such as NISA. The durability and breadth of the recent wage recovery are therefore important not only for consumption, but also for whether Japan can successfully convert higher household income into greater participation in financial markets.

Demographic Decline Is Reshaping Both the Supply and Demand Sides

The wage story is inseparable from Japan's demographic trajectory. Japan's population stood at around 123.1 million in October 2025, down more than 3 million from the 2020 census, with population decline accelerating and occurring across the overwhelming majority of municipalities. At the same time, more than 30% of the population is aged 65 or older, making Japan one of the oldest societies in the world.

Japan's Population Is Shrinking—and Aging—at the Same Time



Source: MCG, Japan's Institute of Population and Social Security Research / UN World Population Prospects, October 2026

The demographic shift is significant in both scale and composition. Japan's population remained broadly stable between 1990 and 2020, rising modestly from 123.5 million to 126.2 million, but the age structure changed dramatically over the same period. The share of people aged 65 and above increased from just 12% in 1990 to 29% in 2020 and 30% by 2025. Looking ahead, the total population is projected to decline from roughly 123.2 million in 2025 to 119.7 million by 2030 and just 105.0 million by 2050—a decline of more than 18 million people, or roughly 15%, in only 25 years. At the same time, the elderly share is projected to rise further to 38% by 2050, more than three times its 1990 level.

The demographic outlook is further weakened by Japan's persistently low birth rate. The total fertility rate has remained well below the replacement level of roughly 2.1 for decades, falling from 1.54 births per woman in 1990 to 1.33 in 2020, 1.20 in 2023, 1.15 in 2024, and a preliminary 1.14 in 2025. The decline in the absolute number of births has been even more pronounced: Japan recorded only about 671,000 births in 2025, down from 686,000 in 2024 and less than one-quarter of the 2.7 million births recorded at the peak of the postwar baby boom in 1949. These figures suggest that Japan's population decline is not simply the result of a large elderly population, but a self-reinforcing demographic process in which fewer women of childbearing age are themselves having fewer children. Even if fertility were to stabilize, the smaller base of younger generations means that population decline is likely to continue for decades.

These demographic pressures affect the economy in two opposing ways. On the supply side, a shrinking working-age population has tightened labor markets and strengthened workers' bargaining power. Chronic labor shortages in sectors ranging from construction

and hospitality to manufacturing and healthcare have made higher wages increasingly difficult for employers to avoid. In this sense, demographics have become one of the forces finally breaking Japan's long-running cycle of stagnant compensation.

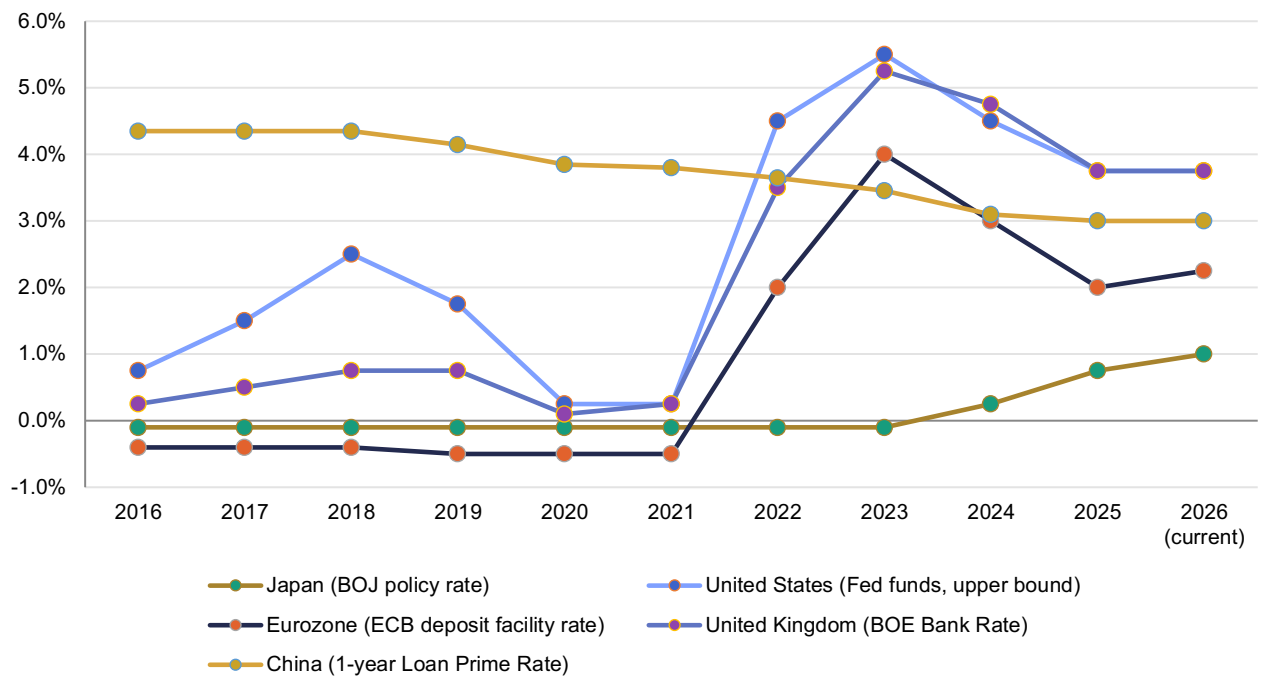
On the demand side, however, population aging creates the opposite pressure. Older households generally consume differently from younger ones, while decades of economic uncertainty and deflation have reinforced a preference for liquidity and capital preservation. Wealth is also heavily concentrated among older generations. Consequently, the households controlling a disproportionate share of Japan's financial assets are often the same households with the least incentive to materially alter long-established saving behavior.

This produces one of the central structural contradictions facing Japan: demographic decline is helping generate wage inflation through labor scarcity while simultaneously weakening domestic demand and reinforcing conservative household asset allocation.

Monetary Policy Is Normalizing—But Only Gradually

Japan’s monetary-policy framework is centered on the Bank of Japan’s commitment to price stability. Since January 2013, the BOJ has defined price stability as a 2% year-on-year increase in the consumer price index, with the broader objective of supporting sustainable economic growth. Monetary policy is decided by the nine-member Policy Board at eight Monetary Policy Meetings each year, primarily through adjustments to money-market conditions and short-term interest rates.

A Decade of Diverging Policy Rates: Japan vs. the World's Major Economies



Source: MCG, October 2026

For much of the period after the global financial crisis, however, even modest inflation proved difficult to achieve. The BOJ responded with increasingly unconventional measures, including quantitative and qualitative monetary easing and, eventually, negative interest rates. The objective was not simply to lift prices temporarily, but to break entrenched deflationary expectations and establish a self-sustaining cycle in which higher wages support consumption, stronger demand allows firms to raise prices, and those price increases feed back into further wage growth.

That environment has begun to change. As inflation has become more persistent and wage growth has strengthened, the BOJ has started to unwind the exceptionally accommodative policies that defined the previous decade. The policy rate reached 1.0% in June 2026, marking a significant departure from the negative- and near-zero-rate environment that had prevailed for years. Yet the pace of tightening has remained cautious, reflecting concerns that premature or excessive tightening could weaken household consumption, raise financing costs for smaller firms, and interrupt the still-developing wage-price cycle.

This gradual approach highlights the unusual challenge facing Japanese policymakers. The BOJ is attempting to normalize monetary conditions after decades of deflation without suppressing the domestic demand needed to make that normalization sustainable. The objective is therefore not simply to bring inflation back toward 2%, but to ensure that price

growth is supported by durable wage gains and underlying economic activity rather than temporary import-cost pressures.

For households, the implications are mixed. Higher interest rates increase the nominal return on deposits and therefore make cash somewhat more attractive than it was under zero or negative rates. At the same time, sustained positive inflation means that deposits can still lose purchasing power if deposit rates remain below the rate of inflation. This marks an important departure from the deflationary environment in which holding cash carried little real cost. As Japan moves toward a more conventional monetary regime, households increasingly face a genuine asset-allocation decision between preserving liquidity in bank deposits and seeking higher long-term returns through equities, bonds, and investment funds. The BOJ's policy shift therefore forms an important part of the broader environment shaping Japan's effort to move household wealth from savings toward investment.

Weak Yen: Both a Symptom and an Amplifier of Japan's Structural Imbalances

The yen has become one of the clearest market expressions of Japan's broader economic tensions. Despite the Bank of Japan's gradual policy normalization, the currency remained under sustained pressure through much of 2026, weakening beyond ¥160 per U.S. dollar in early September before rebounding sharply toward ¥155 as expectations of another BOJ rate hike increased. On September 3 alone, the yen strengthened by roughly 2%, reflecting a market increasingly sensitive to the expected path of Japanese interest rates.

The weakness of the yen is partly a consequence of Japan's still-low interest-rate environment relative to other major economies. Even after the policy rate reached 1.0%, the gap between Japanese and U.S. yields remained substantial. That dynamic has made the yen attractive as a funding currency and has kept depreciation pressure in place despite repeated efforts by policymakers to slow the decline. In July and August 2026, Japanese authorities spent a record US$96.5 billion supporting the currency, including a rare, coordinated intervention with the United States. Yet the yen subsequently weakened again, illustrating the limits of intervention when the underlying monetary and capital-flow dynamics remain unchanged.

The coordination behind that intervention had been building for months. In January 2026, Japan's finance minister Satsuki Katayama raised the yen's decline directly with U.S. Treasury Secretary Scott Bessent. After their meeting in Washington, she told reporters that Bessent shared her concern over the currency's "one-sided depreciation," a comment widely read at the time as tacit U.S. tolerance for future intervention. That alignment became direct joint action over the summer, when Japan sold an estimated US$58.97 billion in a single day in late July and the U.S. Treasury followed with its own coordinated purchases of yen, the first joint U.S.-Japan currency intervention since 2011. The operation was unusual in its mechanics, not just its rarity. Rather than working through

the Federal Reserve and a formal Group of Seven framework, as in the two prior U.S. interventions this century, the New York Fed sold euros for yen while Japan borrowed dollars through the Fed's FIMA repo facility against its Treasury holdings, rather than selling them outright. U.S. officials framed the move as support for an ally, but analysts have pointed to a more self-interested motive as well: a sharply weaker yen risked dragging down other Asian currencies and pressuring Japan, the largest foreign holder of U.S. Treasuries, to sell bonds in order to defend its own currency, which could have pushed up U.S. borrowing costs just as long-term yields were already rising. Both governments have since signaled they are prepared to intervene again if the yen resumes its decline.

The exchange rate is also closely tied to Japan's dependence on imported energy and raw materials. Japan imports the overwhelming majority of its energy needs, and the BOJ has noted that more than 90% of the country's crude oil supply comes from the Middle East. Mineral-fuel imports were equivalent to roughly 3% of nominal GDP in 2025. A weaker yen therefore raises the domestic-currency cost of oil, food, and other imported inputs, transferring income abroad and compressing both corporate margins and household real incomes. The BOJ has explicitly identified yen depreciation as one factor amplifying recent inflation, alongside higher energy and commodity prices.

This creates a particularly difficult policy trade-off. A weaker yen benefits export-oriented companies by increasing the yen value of overseas revenues and improves Japan's price competitiveness in sectors such as tourism. At the same time, however, it raises the cost of imported necessities and can erode the purchasing-power gains from higher wages. Yen weakness can therefore reinforce the same divergence already visible elsewhere in the economy: internationally exposed corporations and asset holders may benefit, while households and domestically focused businesses bear a disproportionate share of the cost.

The currency also matters directly for Japan's effort to shift household wealth from savings toward investment. If households move money out of domestic bank deposits and increasingly allocate it to global equity funds or foreign securities, those flows can contribute at the margin to outward capital movement and additional demand for foreign currencies. This creates a potential paradox in the government's "savings-to-investment" strategy: mobilizing dormant household cash may improve household returns and deepen participation in financial markets, but if much of the new investment is directed overseas, it may do less to support domestic capital formation and could reinforce pressure on the yen.

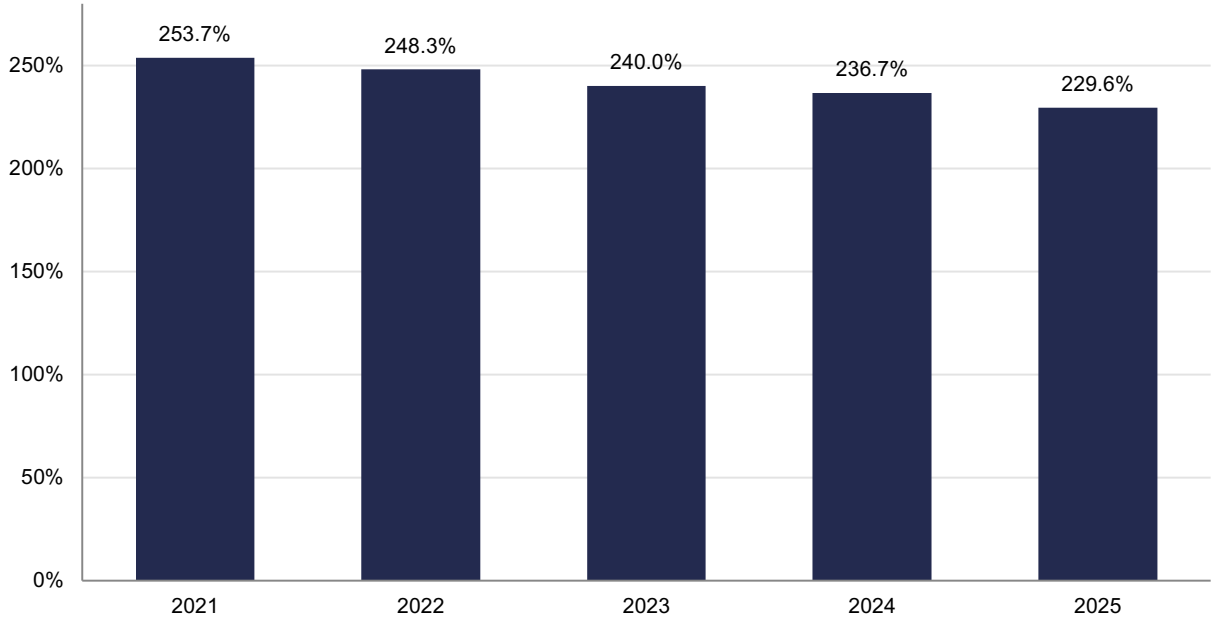
For this reason, the weak yen should be understood not simply as a currency-market phenomenon, but as both a symptom and an amplifier of Japan's structural imbalances. It reflects the country's low relative interest rates, weak growth prospects, energy-import dependence, and outward investment flows; at the same time, it raises import costs, feeds inflation, weakens household purchasing power, and complicates the BOJ's path toward monetary normalization. That feedback loop makes the exchange rate central to

understanding both Japan's current macroeconomic adjustment and the broader challenge of redirecting household wealth into productive investment.

Fiscal Constraints Increase the Importance of Private Capital

Japan's fiscal position represents another major constraint on its economic transition. Decades of weak growth, repeated fiscal stimulus, and rising age-related expenditures have left the country with the highest public-debt burden among advanced economies. The IMF estimates Japan's general government gross debt at 204% of GDP in 2026, nearly twice the 108% average for advanced economies. Although the ratio has declined from its pandemic-era peak, the scale of the debt stock remains exceptional and leaves government finances increasingly sensitive to changes in borrowing costs.

Japan's Government Debt as a Share of GDP



Sources: MCG, International Monetary Fund, World Economic Outlook Database, October 2026

The impact of that debt burden is becoming more visible as monetary policy normalizes. Japan's FY2026 general-account budget totals US$774 billion, of which US$198 billion—roughly one-quarter of total expenditure—is allocated to national debt service. Interest payments alone are budgeted at US$82.3 billion, up from US$66.5 billion in FY2025, an increase of nearly 24% in one year. As older government bonds mature and are refinanced at higher yields, debt-service costs could continue to rise, crowding out other policy priorities.

Demographic aging places additional pressure on the budget. Social-security spending is projected at US$247 billion in FY2026, equivalent to around 32% of total general-account expenditure, and continues to rise as pension, healthcare, and long-term-care needs increase. At the same time, the shrinking working-age population limits growth in the tax base. The government therefore faces a difficult fiscal equation: a smaller pool of workers must finance growing age-related expenditures while higher interest rates increase the cost of servicing an already large debt stock.

Japan also remains reliant on new borrowing to finance current spending. The FY2026 budget calls for US$187 billion in new government bond issuance, resulting in a bond-dependency ratio of 24.2%. This means that roughly one-quarter of government expenditure continues to depend on debt issuance rather than tax and other revenues.

These fiscal constraints increase the strategic importance of mobilizing private capital. Rather than relying indefinitely on deficit-funded stimulus, policymakers are seeking to redirect Japan's large pool of household and institutional savings toward equities, investment funds, corporate financing, and other productive assets. In this sense, the government's "savings-to-investment" agenda is not merely a financial-market reform; it is also part of a broader effort to create alternative sources of growth without placing additional strain on the public balance sheet.

The scale of private wealth makes that strategy particularly attractive. Japanese households hold more than US$12.7 trillion in financial assets, yet a large share remains concentrated in cash and bank deposits. Redirecting even a modest portion of those assets toward productive investment could deepen domestic capital markets and reduce the economy's reliance on fiscal stimulus. The central issue is therefore not whether Japan possesses sufficient capital, but whether it can mobilize that capital more effectively.

An Economy Between Two Regimes

Japan is no longer the deflationary, zero-rate economy that defined much of the post-bubble era, but neither has it completed the transition to a self-sustaining growth model. The result is an uneven normalization in which stronger wages, higher asset prices, and improving corporate performance coexist with persistent household caution and structural demographic and fiscal constraints.

This tension helps explain Japan's push to become an "Asset Management Nation." The policy challenge is not a shortage of private wealth, but how to mobilize a large pool of household savings that remains concentrated in cash and deposits. The key question is whether Japan can redirect this capital toward productive investment. Success will also depend on whether households are willing to change behaviors shaped by decades of deflation and risk aversion.



BUILDING AN ASSET MANAGEMENT NATION

The economic transition is gradually changing the incentives facing Japanese households. Inflation has returned to around the Bank of Japan's 2% target, while the policy rate reached 1.0% in June 2026, its highest level in roughly three decades. At the same time, fiscal constraints are becoming more binding, increasing the government's incentive to mobilize private capital as a source of growth. Yet Japan's household balance sheet still reflects the economic system of the previous several decades: households hold a record US$15.1 trillion in financial assets, with roughly half remaining in cash and bank deposits.

This unusually high preference for cash is not simply a matter of individual risk aversion. It was shaped over decades by the collapse of the asset bubble, prolonged deflation, a bank-centered financial system, employer-provided retirement structures, and limited experience with market-based investing. The Japanese government is now attempting to reverse that legacy through a coordinated "Asset Management Nation" strategy that seeks to move household savings into investment while also strengthening the institutions, asset managers, and capital markets needed to absorb that capital.

This chapter therefore examines two related questions: why Japanese households accumulated such a strong preference for saving in the first place, and whether current government policies are sufficient to produce a lasting shift from savings to investment.

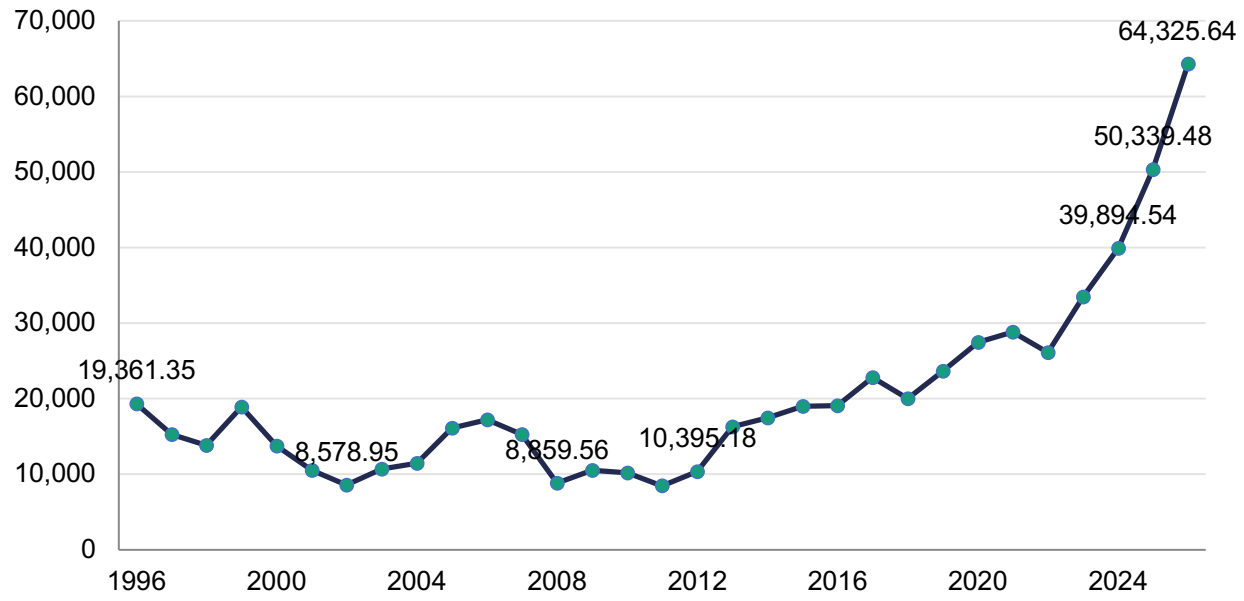
I. The Roots of Japan's Savings Culture

- **A Trauma the Market Has Not Fully Erased**

The roots of Japanese household risk aversion can be traced back to the collapse of the 1989 asset-price bubble. The downturn was extraordinary in scale, affecting equities, real estate, and the banking system at the same time.

The Nikkei 225 closed at an all-time high of 38,915.87 on December 29, 1989. The decline began almost immediately. The index fell 35% in 1990, dropping from 37,189 in early January to 23,849 by year-end. By the end of August 1992, it had fallen to 14,309, representing a 63% decline from the peak in less than three years. The market continued to struggle over the following decade. The Nikkei reached a post-bubble low of 7,862 in March 2003, nearly 80% below its 1989 peak. It fell even further during the global financial crisis, reaching 7,054.98 in March 2009. The index did not close above its 1989 high again until February 22, 2024, when it reached 39,098.68. This meant that a full recovery took more than 34 years. The length of that recovery was exceptional. By comparison, the S&P 500 took about seven years to recover from the 2008 financial crisis and roughly five and a half years to surpass its 2000 dot-com peak. In Japan, the recovery spanned more than three decades. For many households, this meant that most or all of their adult financial lives were shaped by a stock market associated with prolonged losses rather than long-term wealth creation.

Three Decades of the Nikkei 225: From the Lost Decades to Record Highs



Sources: MCG, EconStats, October 2026

The real estate collapse was even more severe and affected ordinary households more directly than the stock market decline. Land prices in Japan's six major cities surged between 1985 and 1991. Commercial land prices rose 302.9%, residential land prices increased 180.5%, and industrial land prices climbed 162.0%. At the peak of the bubble, prime Ginza retail land traded at roughly $219,000 per square meter at the time. The scale of the boom was so extreme that the land beneath the Tokyo Imperial Palace was reportedly valued at more than the entire state of California. The downturn was equally severe. In 1992 alone, Tokyo residential land prices fell 19%, while commercial land

prices declined 13%. These declines continued for more than a decade, and by the mid-2000s many prime central Tokyo properties were worth only a fraction of their peak values. The losses also reached far beyond wealthy investors. Small business owners, family farmers, and ordinary homeowners were exposed through property ownership and mortgage debt. Many had borrowed against valuations that would not recover for decades.

The banking crisis took more than a decade to resolve. The collapse in property and collateral values eventually spread through the financial system. Non-performing loans at Japan's major banks reached roughly US$139 billion by March 1999. Across the banking system, they peaked at about US$273 billion at the end of fiscal 2001. The non-performing loan ratio then fell from 8.4% to 2.9% by March 2005, showing how long it took to repair bank balance sheets. The crisis also led to the failure of several major financial institutions. Seven jusen mortgage lenders failed in 1996. Yamaichi Securities and Sanyo Securities collapsed in 1997, followed by Hokkaido Takushoku Bank later that year. Long-Term Credit Bank of Japan and Nippon Credit Bank failed in 1998. The cleanup required substantial government support. Roughly US$298 billion in public funds was channeled through the Deposit Insurance Corporation from the mid-1990s through the early 2000s, while cumulative bank losses and write-offs between 1992 and 2004 reached an estimated US$608 billion.

The combined destruction of equity and real-estate wealth was enormous. Some estimates place the total loss at roughly three times Japan's annual GDP. The scale and duration of the crisis help explain why its impact on household behavior lasted far longer than a normal business cycle. For many Japanese savers, the lesson was not simply that markets could fall, but that losses could persist for decades.

The damage persisted in corporate and household behavior for more than a decade. Economist Richard Koo's influential "balance sheet recession" framework helps explain what followed. After the bubble collapsed, many Japanese companies found themselves carrying heavy debt against assets that had sharply declined in value. Rather than maximizing profits or pursuing new investment, firms focused on repairing their balance sheets and paying down debt. This behavior persisted even as the Bank of Japan cut interest rates toward zero to encourage borrowing and investment. Corporate demand for funds turned negative in 1995 and remained negative until 2005. In other words, Japanese companies became net debt repayers for a full decade despite historically low borrowing costs. Corporate capital investment also weakened significantly, falling to roughly 22% of GDP by 2003.

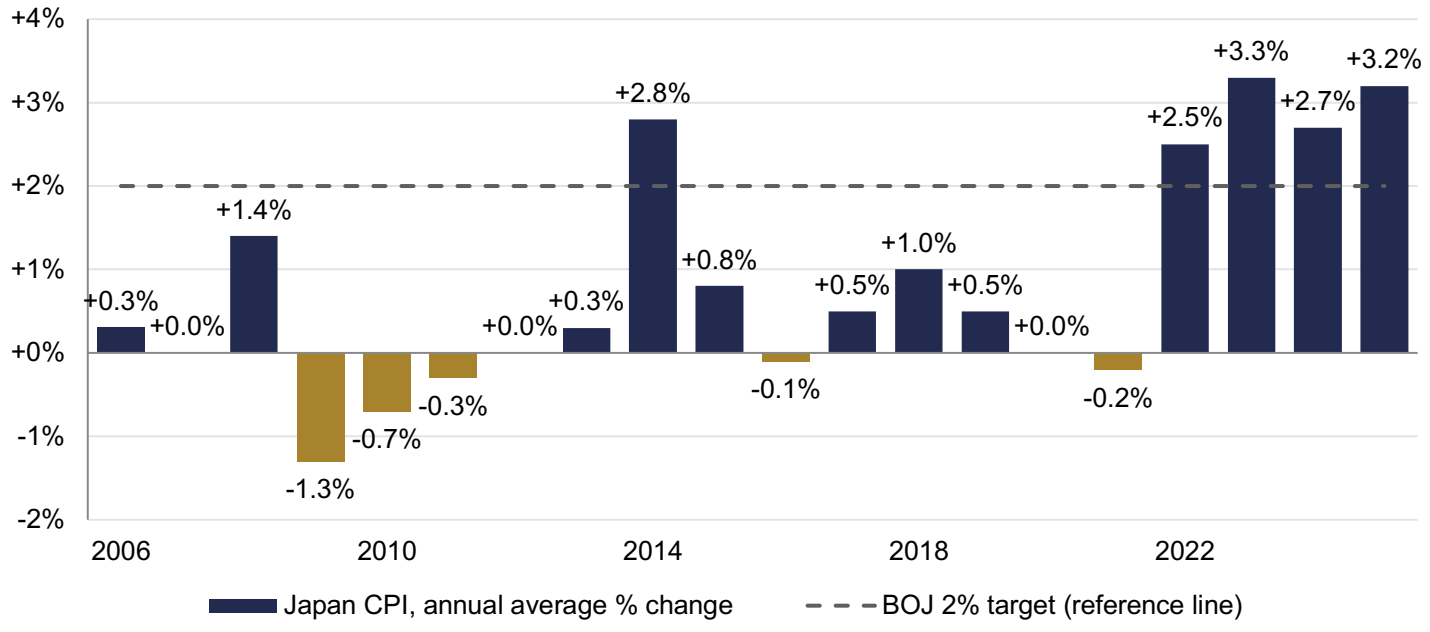
The broader economic impact was severe and long-lasting. Japan's GDP in 2017 was only about 2.6% higher than it had been in 1997. This implies average annual growth of roughly 0.13% over two decades. The persistence of this stagnation reinforced the perception among both companies and households that caution, deleveraging, and capital preservation were more rational than aggressive borrowing or investment.

Taken together, this is the environment in which today's older Japanese households learned to manage money: a stock market that lost nearly four-fifths of its value and did not recover for 34 years, a real estate market whose collapse was even sharper and touched homeowners directly, a banking system that failed serially and required a decade of public rescue, and a corporate sector so scarred that it spent ten straight years paying down debt instead of investing, even when borrowing was free. That is not a distant historical footnote: it is a lived experience for anyone currently in their fifties or older, which is also, not coincidentally, the age cohort holding the largest share of Japan's dormant cash.

- **When Deflation Made Cash the Winning Asset**

For most of the three decades that followed, Japanese households were responding correctly to their environment. Under sustained deflation, cash appreciates in real terms simply by sitting still. That is the precise opposite of the incentive structure that conventional investment advice assumes, and the data bear out just how long, and how thoroughly, that assumption held in Japan.

Two Decades of Japanese Inflation: From Chronic Deflation to Above-Target Prices



Sources: MCG, Statistics Bureau of Japan, Ministry of Internal Affairs and Communications, October 2026

Deflation in Japan was mild in any single year, but remarkably persistent. Between 1995 and 2013, consumer-price inflation was negative or flat in 13 of 19 years. The sharpest annual decline was 1.3% in 2009 during the global financial crisis. From 1999 to 2012, Japan's overall price level fell by roughly 4% on a cumulative basis. The relatively small cumulative decline is itself important. Japan did not experience a sudden collapse in prices. Instead, as the Bank for International Settlements has described it, deflation was "long-lasting but mild." This prolonged period of weak or falling prices gradually reshaped household expectations and reinforced the appeal of holding cash.

For ordinary savers, holding cash often made economic sense. Japan's major banks kept ordinary yen deposit rates at just 0.001% for 17 consecutive years, from February 2007 until the Bank of Japan exited negative rates in 2024. Deposit rates then rose to 0.02%, which was still extremely low in nominal terms. However, during years of mild deflation, even a near-zero nominal return could translate into a positive real return. Money left in a bank account could therefore gain purchasing power over time. The stock market often delivered a very different outcome. The Nikkei 225 closed at 18,934 in 1999 and at 10,395 in 2012, a nominal decline of about 45% over 13 years. This was before accounting for transaction costs, timing risk, and the severe market downturns of 2000 to 2003 and 2008. For many households, the comparison was straightforward. Bank deposits were not only safer, but for much of this period they also produced better outcomes than equities.

Policymakers eventually gave this behavior a name: the "deflationary mindset." Bank of Japan officials spent much of the 2010s describing persistent deflationary expectations, or defure maindo, as a policy problem in their own right. Even after prices stopped falling, businesses remained reluctant to raise prices and wages. Households also remained cautious about spending and investing because they had grown accustomed to stable or declining prices. Some economists argued that mild deflation also helped cushion stagnant wages. Falling prices supported real purchasing power even when nominal incomes barely increased. This reduced the pressure on households to seek higher returns through investment.

These habits do not disappear as soon as inflation turns positive. For households that spent much of their adult lives seeing cash preserve purchasing power while equities delivered weak or volatile returns, a few years of positive inflation may not be enough to change long-standing financial behavior.

- **A Financial System Deliberately Designed to Channel Savings into Banks**

Japan's bank-centered financial culture was not created by household choices alone. It was also shaped by government policy. In 1875, Meiji-era reformer Hisoka Maejima established Japan's postal savings system to promote thrift among the public. Savings education was also introduced into schools to encourage participation.

The system later became an important source of public financing. Beginning in 1907, the government's Deposit Bureau started lending postal savings deposits to the national

treasury. This eventually developed into the postwar Fiscal Investment and Loan Program, or FILP. The program became so important to national policy that it was often referred to as Japan's "second budget."

FILP pooled household postal savings together with public pension reserves and directed the funds toward government priorities. These included postwar reconstruction, railways, highways, and state-owned or government-linked institutions. For much of the twentieth century, depositing money in the postal savings system was both convenient for households and useful to the government.

The system played an important role in Japan's postwar development, but it also reinforced a financial culture centered on deposits rather than securities investment. Even after the postal savings system was privatized in the 2000s, the habit of keeping household wealth in bank and postal deposits remained deeply entrenched.

- **Corporate Paternalism Did the Investing, So Households Didn't Have To**

A second structural pillar of Japan's savings culture came from the postwar employment system. Lifetime employment, seniority-based wages, and enterprise-based unions gave many workers a relatively predictable income path. Under the seniority wage system, workers in their fifties historically earned roughly 1.9 times what they earned in their twenties at the same company. Low job mobility reinforced that predictability and reduced the need for households to actively manage career and income risk.

Retirement benefits played a similar role. Under taishokukin, employers accumulated retirement benefits on behalf of workers and paid them out as a lump sum at retirement, often alongside a company pension. For university graduates with 35 or more years of service, the average payout fell from US$203,000 in 1997 to US$126,000 in 2017, a decline of about 38%. More recent figures show further erosion, from US$138,000 in 2018 to US$129,000 in 2023. For much of the postwar period, this system functioned as an employer-managed savings vehicle that required little active financial planning from workers.

That model has weakened substantially. The share of workers in non-regular employment rose from roughly 20% in 1990 to 36.8% in 2024, or about 21.26 million workers. As lifetime employment and traditional retirement benefits have eroded, households have had to take more responsibility for their own financial planning. However, the habits formed under the old system have changed more slowly than the system itself.

- **Few Alternatives, and a Literacy Gap that Compounds the Caution**

Japan's financial structure also gave households relatively few attractive alternatives to deposits. Housing, which serves as a major wealth-building asset in many advanced

economies, has historically played a different role in Japan. The market for existing homes remains comparatively small, and residential structures have traditionally depreciated rapidly. Existing homes accounted for only about 14.5% of residential transactions in 2018, while detached houses have historically been valued as approaching zero after roughly 20 to 25 years, regardless of their physical condition. This reduced the usefulness of housing as a liquid, appreciating asset that households could sell or borrow against to build wealth.

Financial literacy presents another barrier. In Japan's 2022 Financial Literacy Survey, respondents answered 59% of internationally comparable financial-knowledge questions correctly, compared with 68% in Germany, 67% in France, and 60% in the United Kingdom. The gap was particularly large on diversification. Only 50% of Japanese respondents answered the relevant question correctly, compared with 71% in Germany and 74% in France. In the same survey, only 7.1% reported receiving financial education at school, while just 12.0% expressed confidence in their own financial knowledge.

These gaps have practical consequences. Research by the Bank of Japan has found that financial literacy is positively associated with ownership of risky financial assets. Households with less knowledge and confidence are therefore less likely to move beyond deposits into equities and investment funds. Financial literacy does not fully explain Japan's preference for cash, but it adds another barrier to changing behavior that was already reinforced by decades of poor market performance and institutional dependence on deposits.

The cumulative result of these forces is a household sector that is, by any measure, wealthy — US$15.1 trillion in aggregate financial assets, a record — but overwhelmingly under-invested, with roughly half of that wealth sitting in cash and ordinary bank deposits earning close to nothing. That imbalance is precisely what Japan's government has spent the last several years trying to correct, through what it has explicitly branded a national project: turning Japan into an "Asset Management Nation."

II. The Push to Become an "Asset Management Nation"

The historical forces described above help explain why Japanese households still hold such a large share of their wealth in cash and deposits. The government's current challenge is to change that behavior without relying on a single policy tool. Instead, Japan has adopted a broader strategy to encourage households to invest, improve the quality of institutional asset management, strengthen corporate governance, and make the country more attractive to domestic and foreign asset managers.

This effort is now framed under the government's "Asset Management Nation" agenda. Its objective is not only to move household savings into financial markets, but also to improve the institutions and market infrastructure needed to allocate that capital more productively.

"Asset Management Nation" is a formal government policy agenda. The initiative began in December 2023 with the Financial Services Agency's *Policy Plan for Promoting Japan as a Leading Asset Management Center*. It was expanded in 2026 through the *Financial Strategy for Promoting Growth Investment*, which set a target of US$1.58 trillion in total domestic investment by 2040. The strategy operates across four areas: households, institutional investors, corporations, and financial-market infrastructure. The government is pursuing these reforms at the same time because they are closely connected. The goal is to move household savings into investment, improve the quality of institutional asset management, strengthen corporate returns, and modernize the financial system.

"Asset Management Nation" Reform Structure



Sources: MCG, Japan's Financial Services Agency (FSA), October 2026

- **Household-Facing Measures**

The centerpiece is NISA, or the Nippon Individual Savings Account. It is a tax-advantaged investment account that was made permanent and significantly expanded under the 2024 New NISA reform. The redesign mattered because it changed both the scale and flexibility of the program. To understand why New NISA has produced stronger results, it is important to look at the specific changes introduced in 2024.

The redesign was intended to remove several barriers built into the old system. The original NISA, introduced in 2014, required households to choose between different account types and placed time limits on the tax exemption. Gains were exempt for only five years under the general account and twenty years under the installment account.

Once the exemption period ended, investors had to decide whether to sell, transfer the assets, or continue holding them without the same tax benefit. For households already cautious about market risk, those limits reduced the appeal of long-term investing.

The 2024 reform addressed this by making the tax exemption permanent. It also allowed investors to use two investment categories at the same time. The *tsumitate* category provides an annual allowance of US$7,590 for long-term mutual fund investing. The growth investment category provides an additional US$15,200 for stocks and funds. Together, the two categories allow up to US$22,800 per year, with a lifetime tax-free investment cap of US$114,000. Up to US$75,900 of that amount can be allocated to the growth investment category. The new structure is therefore more flexible and better suited to long-term investing. It removes the expiration date, increases the investment limits, and allows households to combine gradual fund investing with direct investment in stocks and other funds. For a population shaped by decades of market caution, these changes reduce some of the practical barriers that previously discouraged participation.

The growth data suggest that the redesigned NISA is having a stronger impact than the previous system. By December 2025, the number of NISA accounts had reached roughly 28.26 million, an increase of about 2.67 million in one year. Cumulative purchases through NISA accounts totaled US$449 billion. This pace of growth is significantly faster than what the pre-2024 program achieved over a comparable period. The government has set a target of 34 million accounts by the end of 2027. Reaching that level would mean participation by roughly one in three Japanese adults. At that scale, NISA would no longer be a niche investment product. It would begin to function more like a mainstream household financial account.

The program is now being extended to younger generations in an effort to shape investment habits earlier. Starting in January 2027, the government will remove the minimum age requirement for the installment tier. This will effectively create a “Children’s NISA” for those under 18. Each child will be allowed to invest up to US$3,800 per year, with a lifetime tax-free limit of US$38,000. The policy reflects a broader behavioral objective. Older households formed their financial habits during the 1989 market crash and the long period of deflation that followed. Younger generations do not share the same experience. By introducing investing earlier in life, the government hopes to make market participation a normal part of household financial planning before a strong preference for cash has time to develop.

NISA’s retirement counterpart, iDeCo, is undergoing a major expansion. Japan’s individual defined-contribution pension plan had roughly 3.8 million participants in 2025, far fewer than NISA. One reason is that contribution limits have remained relatively low for years. For example, an employee without an employer pension plan has been limited to US$146 per month. Under reforms scheduled for 2027, that limit will rise to US$392 per month, nearly three times the current level. Contribution limits will also increase for other groups. The cap for self-employed workers will rise from US$430 to US$475 per month, while employees already covered by corporate pension plans will also receive higher limits. Policymakers have also proposed removing the current cap of 35 investment

products per iDeCo plan. This would give participants a broader range of investment choices. While NISA is designed to make investing easier to start, the iDeCo reforms are intended to help households invest more for retirement once they are already participating.

A dedicated institution now exists to address Japan's financial literacy gap. The Japan Financial Literacy and Education Corporation, or J-FLEC, was established in April 2024 and became fully operational in August of that year. It was capitalized with roughly US$6.69 million, with most of the funding provided by the national government. The Bank of Japan, the Japanese Bankers Association, and the Japan Securities Dealers Association also contributed. J-FLEC has set clear quantitative goals. It aims to dispatch instructors 10,000 times per year and reach 750,000 participants annually. This is roughly double the Financial Services Agency's previous effort, which involved about 5,000 dispatches and reached around 300,000 people. J-FLEC also aims to raise the correct-answer rate on standard financial literacy tests from the current 40% to 50% range to 70%. Financial education is also being strengthened in schools. Since April 2022, the Ministry of Education has incorporated financial education into the national curriculum from elementary school through high school. Together, these measures target both adults and younger generations. The goal is to build financial knowledge earlier and reduce one of the barriers that has historically limited household participation in investment.

Robo-advisory services address another important barrier: choosing what to invest in. Even after a household opens a NISA or iDeCo account and learns the basics of investing, it still has to select specific products. This can be difficult for first-time investors with limited experience and little family tradition of market investing. Robo-advisory platforms simplify this process. They typically use a risk-tolerance questionnaire to build and automatically rebalance a diversified portfolio. This reduces the need for households to select individual securities on their own. In that sense, robo-advisory services can help turn newly enrolled savers into active investors by lowering the practical barrier of portfolio selection.

- **Institutional-Facing Measures**

The government is not only targeting households directly; it is also professionalizing the institutional capital that sits alongside them, on the theory that a household-facing campaign is only as credible as the pension funds, endowments, and asset managers that stand behind it.

The Asset Owner Principles provide a formal governance framework for Japan's institutional investment reforms. Published by the Cabinet Secretariat on August 28, 2024, the Principles form part of the broader policy to promote Japan as a leading asset management center. They operate on a "comply or explain" basis. Asset owners are expected either to follow each principle or explain publicly why they do not. The Principles cover five areas. Asset owners should set clear investment objectives that align with beneficiary interests. They should maintain sufficient internal expertise or use external specialists when needed. They should select investment methods and managers carefully

and manage conflicts of interest. They should communicate clearly with stakeholders. They should also engage in stewardship to support the sustainable growth of investee companies.

The framework is voluntary and applies broadly to public pensions, mutual aid associations, corporate pension plans, insurers, and university funds. The Government Pension Investment Fund, or GPIF, is the most important institution in this system. As of mid-2025, GPIF managed roughly $1.8 trillion, making it the world's largest pension fund. GPIF's scale also highlights an important capacity issue. The fund operated with only about 187 employees, compared with 676 employees at Norway's Government Pension Fund Global, which managed about $1.92 trillion. Major Canadian and Californian public funds employ more than 2,000 people each, despite managing less than one-third of GPIF's assets. This staffing gap helps explain why the Principles emphasize adequate personnel, external expertise, and outsourcing. For a fund of GPIF's size, stronger governance and effective delegation are essential to improving investment management.

A parallel effort is under way to strengthen university endowment management. The government created a University Fund, worth roughly $65 billion, to generate investment income for a small group of designated "excellence" universities. In fiscal 2025, the fund posted a record net profit of US$2.00 billion, up 23% year on year. The fund also uses a more diversified investment approach than the deposit-heavy model traditionally associated with many Japanese institutions. Roughly 60% of its return came from global equities, while alternative assets such as real estate and private equity generated US$1.34 billion in gains. This allocation is much closer to the diversified endowment model used by major U.S. universities. Tohoku University became the fund's first designated beneficiary in November 2024. The Institute of Science Tokyo followed in January 2026. Kyoto University is expected to become the third designated university in fiscal 2026, with projected annual grants of roughly US$127 million. The University of Tokyo remains under review. The scale of the fund is also notable. Harvard's endowment stood at $53.2 billion after earning a 9.6% return in fiscal 2024. Japan's University Fund is therefore similar in headline size, although the two structures serve different purposes. Harvard's endowment supports one university, while Japan's fund distributes investment income across several government-designated institutions.

Outsourced chief investment officer, or OCIO, services are being promoted as a practical solution for smaller institutional investors. These investors often lack the scale and internal resources of GPIF or the University Fund. OCIO providers can offer portfolio construction, manager selection, risk management, and other investment functions that would be difficult to build in house. There are signs that the model is gaining traction. Goldman Sachs Asset Management spent more than a decade developing its Japan OCIO business before securing its first institutional client in 2024. It added a second pension fund client in early 2025 and reportedly had about ten additional prospective clients in its pipeline by mid-2025. The numbers remain modest, but the pace of activity has increased. The Asset Owner Principles may support further growth in this market. The framework encourages asset owners to use external expertise when they lack sufficient internal capabilities. Global firms such as Goldman Sachs, BlackRock, and

Mercer are now competing for this business. Their involvement suggests that institutional outsourcing in Japan is becoming a more meaningful growth opportunity.

The Emerging Managers Program, or EMP, is designed to broaden Japan's domestic asset management industry. It was launched as a public-private initiative under the government's broader strategy to promote Japan as a leading asset management center. The goal is to help newer and smaller managers gain access to capital and build credible track records. Several major institutions have already made concrete commitments. Nomura has targeted about US$63.3 million of new investment in emerging and foreign asset managers by the end of March 2030. Mitsubishi UFJ Trust and Banking has committed an initial US$31.6 million to a fund of funds that invests in domestic private equity managers with limited track records. It also plans to extend this approach to areas such as hedge funds and commodities.

Other reforms support the same objective. The Asset Owner Principles discourage institutional investors from rejecting a manager simply because it has only a few years of experience. A regulatory change in May 2025 also allowed asset managers to outsource middle and back office functions, reducing the cost of launching a new firm. The state-backed Japan Investment Corporation has also invested directly in emerging private equity and venture capital funds. Together, these measures support a broader institutional reform agenda. Large asset owners are being pushed toward stronger governance. Smaller institutions are being encouraged to use external expertise. At the same time, the government is trying to ensure that a wider pool of domestic managers is available to receive and invest the capital being mobilized.

- **Corporate-Facing Measures**

These reforms will have limited impact unless Japanese equities remain attractive to investors. This is why the household and institutional initiatives are being pursued alongside a broader corporate governance reform agenda. That campaign has already contributed to stronger equity-market performance and record highs in both the Nikkei and TOPIX. The shift has been significant. In 2026, the Nikkei reached an intraday level above 72,000, more than five times its 2012 level. This marked a clear break from the long period of weak market performance that followed the 1989 bubble collapse. For policymakers, stronger corporate performance and higher equity valuations are important because they make the broader savings to investment strategy more credible for households and institutions.

The 2026 revision of the Corporate Governance Code is designed to simplify the existing framework and shift attention toward more substantive governance. The Financial Services Agency and the Tokyo Stock Exchange finalized the revision on July 21, 2026. The process followed an Expert Panel review that began in October 2025 and a public consultation that received comments from 147 individuals and organizations. The revision significantly reduced the size of the Code. The total number of provisions fell from 83 to

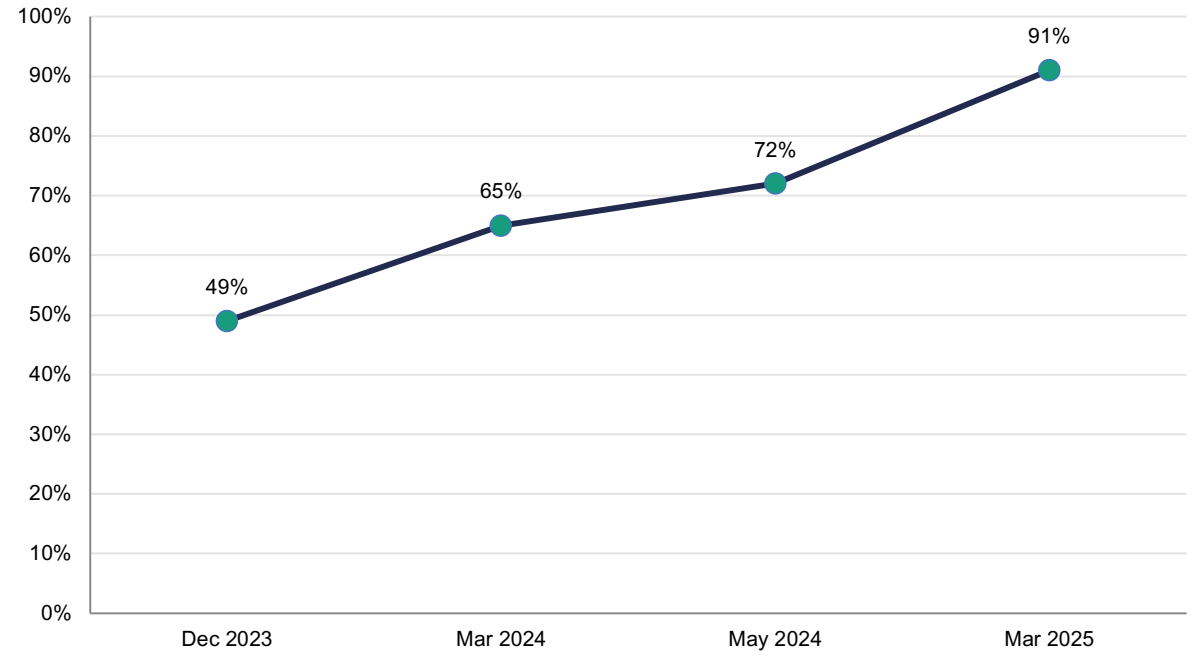
30. Basic principles were reduced from five to four, while 31 principles were consolidated into 26. All 47 supplementary principles were removed from the formal Code and moved into a separate, non-binding interpretive guidance framework.

Four changes are especially important. First, boards are expected to assess more actively whether cash, financial assets, and other resources are being used for growth investment. Second, companies are encouraged to file securities reports about three weeks before annual shareholder meetings, giving investors more information before voting. Third, the corporate secretary function is now formally recognized in governance standards, with clearer expectations around support for independent directors. Fourth, the new interpretive guidance encourages companies to explain their value-creation strategy in a more substantive way rather than relying on standardized disclosure. The broader objective is to encourage companies to use capital more productively and support growth investment. This mirrors the government's wider effort to mobilize household and institutional capital more effectively.

"Economic Profit" gives the growth investment agenda a clearer financial test. Economic Profit is defined as net operating profit after tax minus the cost of capital. In practical terms, a company creates value when its return on invested capital exceeds its weighted average cost of capital. If returns fall below the cost of capital, the company is destroying value even if it still reports an accounting profit.

The Tokyo Stock Exchange has reinforced this approach through its *Action to Implement Management that Is Conscious of Cost of Capital and Stock Price*. The initiative was introduced for Prime and Standard market companies in March 2023. Public tracking began in January 2024. The program is not a legal mandate, but disclosure rates have risen quickly. Among Prime market companies, the share that disclosed a response or stated that they were considering one increased from 49% in December 2023 to 72% in May 2024 and more than 90% by March 2025. By July 2025, more than 60% of Prime companies had updated their original disclosures.

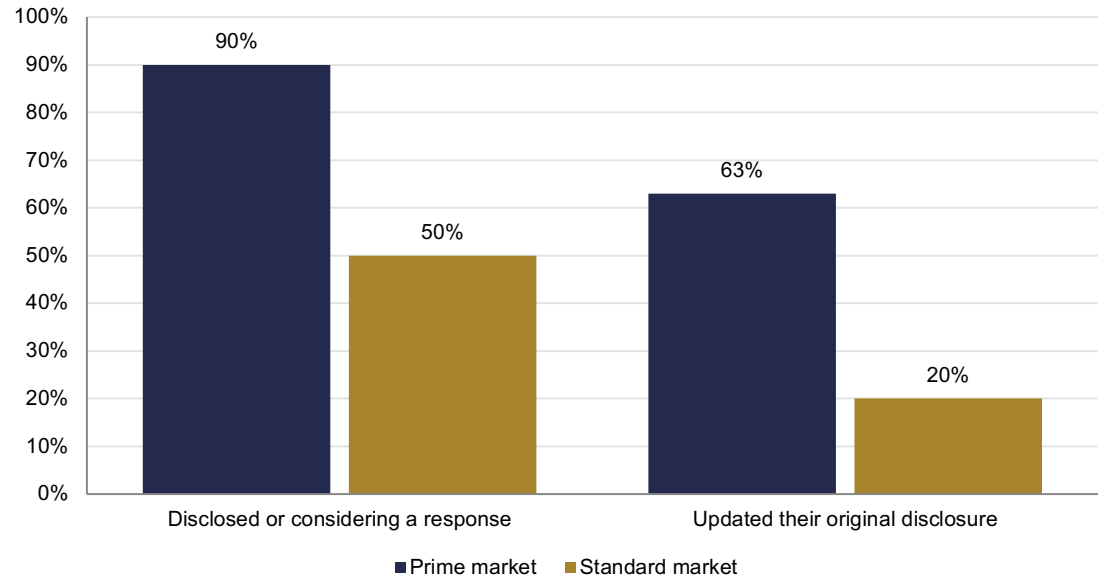
Prime Market: Rising Compliance, 2023-2025



Sources: MCG, Financial Services Agency, October 2026

Progress has been slower among Standard market companies. Roughly half had responded to the TSE request, and only about 20% had updated their disclosures over the same period. This gap suggests that investor and peer pressure have played an important role in driving compliance.

July 2025: The Compliance Gap



Sources: MCG, Financial Services Agency, October 2026

One visible result has been the rise in share buybacks. Japanese companies authorized roughly US$118 billion in buybacks in fiscal 2024, and fiscal 2025 was on pace to match or exceed that level. Mitsubishi Corporation announced a US$6.33 billion buyback in April 2025, the largest single program at the time. Buybacks can improve capital efficiency quickly, but they are only one response. The broader policy goal is to encourage companies to direct capital toward investments that generate returns above their cost of capital, including new growth projects, productivity improvements, and other forms of long-term value creation.

A parallel reform in bank lending targets growth-oriented and asset-light companies that have historically had limited access to traditional bank credit. Japanese banks have typically relied heavily on tangible collateral such as real estate, machinery, and equipment. This approach tends to favor large, asset-heavy companies. Startups and smaller growth companies are often disadvantaged because much of their value comes from intellectual property, customer relationships, brand, and other intangible assets.

The Act on the Promotion of Cash Flow-Based Lending, enacted on June 7, 2024, created a new enterprise value security interest. This allows incorporated borrowers to pledge the value of the business as a whole rather than only specific physical assets. Eligible collateral can include intellectual property, know-how, customer relationships, and goodwill. Major banks began moving to use the new framework, including Sumitomo Mitsui Banking Corporation. The 2026 financial strategy also expanded the role of regional banks in enterprise-value-based lending beginning in May 2026. This is important because regional banks often have the closest relationships with small and mid-sized companies. The reform is designed to broaden access to growth capital. It

complements the government's wider effort to mobilize household and institutional savings more effectively. The Emerging Managers Program expands the range of asset managers that can receive capital, while cash-flow-based lending expands the range of companies that can access financing. Together, these measures aim to direct more capital toward productive businesses rather than only toward firms with large pools of physical collateral.

Cross-shareholding reform is one of the oldest and slowest parts of Japan's corporate governance agenda. Japanese banks and insurers have historically held large equity stakes in companies with which they have lending or business relationships. These arrangements can protect management from outside pressure and reduce incentives to improve capital efficiency. The problem remained visible in recent market data. As of March 2023, nearly half of listed Japanese companies traded below a price-to-book ratio of 1, suggesting that investors valued many firms at less than the accounting value of their net assets. This strengthened calls for companies to improve returns on capital and make better use of their balance sheets.

Regulatory pressure has increased. In February 2024, the Financial Services Agency called on Japanese non-life insurers to accelerate the sale of cross-shareholdings. Some companies have also announced numerical targets, including reducing such holdings to below 20% of net assets, and in some cases below 10%. The process is gradual because large relationship-based holdings cannot be sold quickly without affecting market prices. Even so, the direction is clear. Cross-shareholdings are declining, companies are setting more explicit reduction targets, and regulators are applying greater pressure on major holders. These changes reinforce the broader push toward stronger governance, higher capital efficiency, and greater accountability to shareholders.

- **Infrastructure Ambitions**

The most forward-looking part of the campaign is the development of tokenized financial-market infrastructure. Japan is exploring the use of blockchain technology for financial settlement, including the possible tokenization of government bonds. By mid-2026, the effort had moved beyond research and into a formal joint initiative involving the Bank of Japan, the country's two main financial regulators, and several of its largest commercial banks. The initiative remains at an early stage, but it signals a broader effort to modernize Japan's financial infrastructure and keep pace with changes in global capital markets.

The scale of the planned infrastructure upgrade is substantial. Japan has roughly US$7.38 trillion in outstanding government bonds and bills, equivalent to about $7 trillion. These securities currently settle one business day after a trade, while equities generally settle in two business days. In August 2026, the Financial Services Agency, the Ministry of Finance, and the Bank of Japan announced plans to develop blockchain-based settlement infrastructure. The goal is to move both government bonds and equities toward near-instant T+0 settlement rather than the current batch-based system. The transition

will be gradual. A detailed development plan is expected by early 2027, while full implementation is not anticipated until the early 2030s. In the meantime, roughly 40 regional and online banks began testing tokenized bank deposits in August 2026. This suggests that Japan is treating tokenization as a long-term market infrastructure project rather than a short-term technology experiment. The focus is on improving settlement speed, efficiency, and resilience across a very large financial system.

The institutions involved show that this initiative is firmly embedded in Japan's financial establishment. In addition to the Financial Services Agency, the Ministry of Finance, and the Bank of Japan, the project includes Japan's three megabanks: MUFG, SMBC, and Mizuho. Several of these banks had already begun blockchain settlement trials by April 2026. The initiative also involves the Japan Securities Clearing Corporation and major financial firms such as Nomura, Daiwa Securities, SBI Securities, State Street Trust and Banking, and BlackRock Japan. Coordination is supported in part by Progmat's Digital Asset Co-Creation Consortium. Technology partners include the Canton Network and the Solana Foundation. This broad participation suggests that tokenization is being treated as a modernization of core financial infrastructure rather than as a fringe crypto experiment. The same institutions involved in Japan's broader capital-market reforms are also helping build the next generation of settlement infrastructure.

This settlement initiative is separate from the Bank of Japan's research on a digital yen. The BOJ has taken a much more cautious approach to a retail central bank digital currency. It has said that it has no immediate plans to issue one, partly because cash remains widely used in Japan. The BOJ has continued to study the idea, however. By 2025, its research program included seven working groups and 64 private-sector companies. These groups examined the technical and institutional issues that a digital yen would create. The BOJ has also identified important challenges with using public blockchain infrastructure, including scalability, privacy, and governance.

As a result, current experimentation is focused more on permissioned and wholesale settlement systems than on a public retail token. A separate private-sector initiative, Japan Post Bank's planned DCJPY tokenized deposit currency, is also targeting a 2026 launch. These developments show that Japan is pursuing several forms of digital money at the same time. They include wholesale central-bank settlement, private tokenized bank deposits, and the tokenization of government bonds and equities. The projects are related, but they remain distinct and are being developed on separate tracks.

The public case for these reforms is focused mainly on competitiveness. Japan wants to modernize settlement so that its markets do not fall behind other major financial centers. The United States moved to T+1 equity settlement in 2024, while Japan is exploring a move toward near-instant T+0 settlement. Faster settlement could reduce the amount of capital tied up between trade execution and final settlement. That becomes more important as interest rates rise from the near-zero levels that prevailed for many years.

There is also a broader concern about keeping investment activity within Japan. One industry estimate suggests that nearly 80% of Japanese institutional investors plan to allocate to crypto assets within three years. Regulators have therefore expressed concern that investors could shift activity toward jurisdictions with more advanced blockchain-based market infrastructure. For now, tokenization remains one of the least proven parts of the Asset Management Nation strategy. Its importance will depend on whether the planned development roadmap in 2027 leads to a workable system in the early 2030s. Much will also depend on how technology, regulation, and investor demand evolve before full implementation.

- **Courting the World**

The international dimension of the campaign is just as important as the domestic reforms. Japan is not only trying to mobilize household and institutional capital at home. It is also building a clearer entry system for foreign investors and asset managers.

The Special Zones offer foreign firms a concrete package of regulatory and financial support. Japan designated four Special Zones for Financial and Asset Management Businesses in June 2024. Tokyo focuses on innovation and sustainable finance. Osaka emphasizes international investment and startup growth. Fukuoka is positioned as a gateway to Asian markets, while Sapporo and Hokkaido focus on green finance. Foreign firms can use the Financial Market Entry Office to complete the registration process in English. The office supports companies from initial consultation through final approval. The service was first launched in Tokyo and was extended to all four zones by March 31, 2025.

The incentives are also substantial. The Financial Start-Up Support Program can provide up to US$94,900, covering 70% of eligible setup costs for a new asset management office through March 2027. Asset management firms can also receive a 30% corporate tax deduction on qualifying performance-based compensation. In addition, qualifying carried interest can be taxed as capital gains at a flat 20% rather than as ordinary income.

The government has also introduced measures to make relocation easier for foreign professionals. These include inheritance tax relief on certain offshore assets and faster processing for Highly Skilled Professional visas, which can take about 10 days. A separate residency category has also been created for foreign investors funding Japanese startups.

Together, these measures address some of the main barriers foreign asset managers have historically faced in Japan. They simplify registration, reduce setup costs, improve the tax treatment of compensation, and make it easier to bring international talent into the country.

The regulatory push is supported by a growing calendar of international events. Japan Weeks will return for its fourth annual edition from October 26 to 30, 2026. Launched in 2023, the program brings together seminars and investor events aimed at overseas asset managers and institutions considering greater exposure to Japan. The FinCity Tokyo Global Forum extends the same message overseas. Its theme, “Resilience of Tokyo as an International Financial Center,” is designed to promote Tokyo directly to an international audience, including investors and firms based in New York. Fukuoka’s Ramen Tech, scheduled for October 7 to 11, 2026, shows how the campaign is also reaching the startup and innovation ecosystem. Organizers expect more than 15,000 attendees across over 100 events, including more than 1,200 international visitors. This compares with roughly 12,000 total attendees the year before.

These events help keep Japan visible to foreign investors, asset managers, entrepreneurs, and financial professionals. They also support the broader goal of making Japan easier to access for both international capital and international talent.

Important frictions remain, and Japanese officials have acknowledged them directly. One challenge is the shortage of qualified lecturers and financial advisors, particularly outside major cities. An FSA-affiliated official has noted that more work is needed to expand this professional base, especially in rural areas.

Operational practices also remain a barrier. Japan has historically required asset managers and trust banks to manually double-check daily investment fund valuations. The FSA has identified this as a Japan-specific practice and is working to simplify it so that fund administration is more consistent with international standards.

Investor behavior presents another challenge. A March 2025 FSA discussion paper found that Japanese retail investors remain relatively cautious about using AI in financial services. This is notable because participation in traditional investment products has increased. Roughly one in four Japanese adults now holds a NISA account, yet most of the country’s roughly US$13.9 trillion in household financial assets still remains in cash and deposits.

These frictions do not undermine the broader reform effort, but they show that important gaps remain. Japan has made it easier for foreign firms to enter and has expanded access to investment products. However, professional capacity, operating practices, and household behavior are still adjusting to the new system.



FROM POLICY TO PRACTICE

The policy architecture described in the previous section is only part of the story. Japan has expanded NISA and iDeCo, strengthened institutional and corporate governance, modernized market infrastructure, and created new channels to attract foreign capital. The more important question is whether these reforms are actually changing behavior among households, investors, companies, and foreign asset managers.

The evidence so far suggests that meaningful change is underway, but it remains uneven and incomplete. Household participation in financial markets is broadening, corporate behavior is shifting, and foreign interest in Japan has strengthened. At the same time, adoption varies significantly across generations, cash still dominates household balance sheets, and many of the structural constraints discussed in Chapter One remain firmly in place. This section therefore evaluates how far Japan's "Asset Management Nation" strategy has progressed, where its effects are already visible, and what could still limit its long-term success.

- **Household Participation Has Broadened, Not Just Deepened**

The clearest evidence that New NISA is attracting new investors, rather than simply increasing investment among existing participants, is the income and wealth profile of its users. As of early 2026, 39.3% of new NISA users reported annual income below US$19,000, while another 26.5% earned between US$19,000 and US$31,600. In total, 65.8% earned less than US$31,600 per year. About one-third, or 33.4%, also held less than US$31,600 in total financial assets. These figures suggest that New NISA is reaching well beyond wealthy households and established investors.

The program is also attracting people with limited financial experience. 77% of new NISA users reported having no prior financial or economic education, compared with 22.7%

who did. This is particularly important given the financial literacy gap discussed in Chapter Two. New NISA appears to be bringing into the market many households that previously lacked both investment experience and formal financial knowledge.

So far, the experience of these new investors has been largely positive. 64.9% of users in the *tsumitate* category and 61.7% of users in the growth investment category reported unrealized gains, with a similar share also reporting realized gains. These positive returns have likely supported continued participation. They also create an important risk, however. Many new investors have entered during a strong equity market. Their willingness to remain invested through a significant downturn has therefore not yet been tested.

The age data reinforce the same pattern and suggest that younger investors are adopting NISA particularly quickly. In 2025, investors in their twenties purchased US$7.97 billion through NISA, roughly 17 times the level recorded in 2014. Investors in their thirties purchased US$20.8 billion, about 14 times the 2014 level. By comparison, total NISA purchases across all age groups increased by roughly six times over the same period.

This means that participation among the youngest age groups is growing much faster than the program as a whole. The 2024 redesign appears to have supported this shift by making the tax exemption permanent and better suited to long-term investing. Younger workers also cite concerns about inflation and the future reliability of the public pension system as reasons to invest.

Their contribution patterns are also important. Many younger investors make small, regular monthly purchases rather than large one-time investments. This suggests that NISA is not simply attracting existing wealth into a more tax-efficient account. It may also be helping create a new long-term saving and investment habit among younger households.

Economy-wide shareholding data show the same pattern on a broader scale. The number of individual shareholder relationships across Japan's four stock exchanges rose to 83.59 million in fiscal 2024, an increase of 9.14 million in a single year. Individual investors accounted for 98.0% of all shareholder relationships, although this measure counts holdings rather than unique people because one investor can own shares in multiple companies.

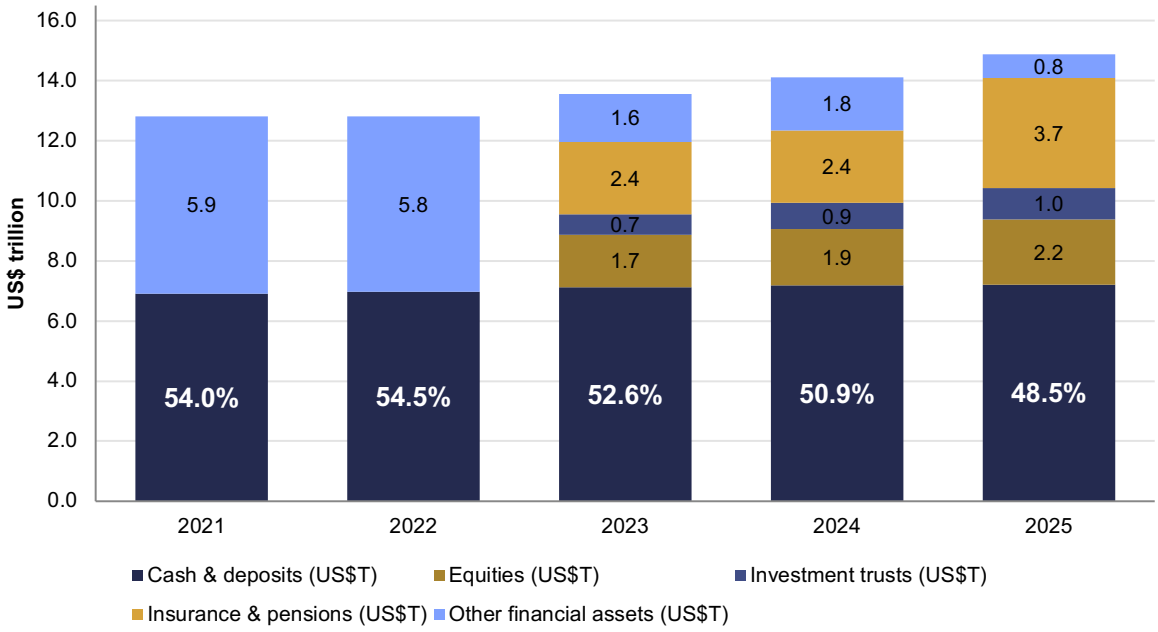
The value of those holdings tells a more modest story. Individuals held 17.3% of total market capitalization in fiscal 2024, up only slightly from 16.9% the year before. This suggests that retail participation is expanding much faster than retail ownership by value. More people are entering the market, but the amount of capital they control is increasing only gradually.

The contrast with Japan's traditional retail investor base is also striking. A Nomura survey from December 2025 found that established individual investors were 88.0% male, 59.9% were aged 60 or older, and 64.5% held at least US$63,300 in financial assets. That profile

is very different from the newer NISA users described above, who are generally younger, lower-income, and less financially experienced. This suggests that New NISA is not simply giving existing investors a more tax-efficient account. It is also bringing a different demographic group into the market and broadening participation beyond Japan's traditional retail investor base.

- **The Household Balance Sheet Is Shifting, But Only at the Margin**

Japan's Household Financial Assets: Growing, but Still Mostly Cash



Source: MCG, Bank of Japan, October 2026

Japan's household financial assets reached a record US$15.1 trillion by the end of March 2026. Cash and deposits remained the largest category at US$7.13 trillion, or 47.2% of the total. However, their share has continued to decline gradually from the roughly half of household assets they represented for much of the post-bubble period. Cash and deposits also grew only 0.6% year on year.

Investment assets grew much faster. Direct household holdings of equities increased 25.7% to US$1.04 trillion, while investment trusts rose 14.4% to US$228 billion. Even after this growth, equities accounted for only 6.9% of household financial assets and investment trusts just 1.5%. Insurance, pension, and annuity products remained another major category, representing 24.5% of household assets after growing 3.0% year on year.

The overall picture is therefore one of gradual reallocation rather than a fundamental reversal of household portfolios. Investment assets are growing much faster than cash,

but from a much smaller base. Cash and deposits are still increasing and continue to represent nearly half of total household financial wealth. Japan's shift from savings to investment is clearly underway, but the aggregate balance sheet shows how far the transition still has to go.

Compared with other advanced economies, Japan remains a clear outlier. Morgan Stanley Research estimated that Japanese households held roughly 51% of their financial assets in cash in early 2024, compared with about 34% in Europe and just 12% in the United States. This gap has persisted for decades. Recent growth in equities and investment trusts has narrowed it only modestly. Fund flow data show a similar pattern. Morgan Stanley found that inflows into cash and transferable deposits have declined, while outflows from low interest and savings deposits have increased. At the same time, inflows into stocks and other risk assets have risen. This suggests that households are actively reallocating money rather than simply benefiting from higher asset values.

The distinction between active household reallocation and simple gains from rising stock prices is an important caveat. Economist Richard Katz has argued, using Japan Exchange Group data, that individuals held 17.3% of the total value of listed Japanese stocks in 2024, almost unchanged from 2014. He also argues that the increase in household stock ownership from roughly 14% in 2019 to 18% in 2023 was driven almost entirely by higher stock prices rather than new household purchases. This presents a more skeptical view than the data above. However, Katz uses a different methodology and denominator from the Bank of Japan's Flow of Funds data. The two measures should therefore be treated as complementary rather than directly comparable.

Katz's argument is useful, but it does not capture the full picture. NISA activity is measured through actual purchase flows rather than changes in asset values. Cumulative NISA purchases reached US$449 billion by the end of 2025, including roughly US$119 billion in 2025 alone. These figures reflect new money being invested rather than existing holdings simply increasing in value.

Both patterns can therefore exist at the same time. New household investment is clearly increasing, especially through NISA and among younger investors. At the same time, the overall household share of equity ownership remains heavily influenced by older, existing holdings whose value rises and falls with the broader market.

One reason the shift has remained gradual is that Japan's tax system has historically treated real estate and financial assets differently. Katz estimates an effective tax rate of roughly 15% to 17% on real estate gains, compared with a flat 20% tax on capital gains and dividends from stocks. This difference can still make real estate relatively attractive to households. It also reinforces the property-focused wealth patterns discussed in previous chapters, even though Japan's secondary housing market has not always provided a strong alternative to stock market investing.

NISA has reduced the tax burden on financial investment, especially for stocks and funds held inside the account. However, the broader tax difference between stocks and real estate remains. As a result, the current policy campaign has made stocks more attractive relative to cash, but it has done less to change the competition between financial assets and real estate for household capital.

- **NISA Capital Is Not Staying Entirely in Japan**

An important feature of the New NISA data is where the money is actually going. In the *tsumitate* investment category, the most popular holding is global equity investment trusts, held by 37.9% of users. This means that a significant share of newly invested household savings is flowing into foreign rather than Japanese equity markets.

The growth investment category is more domestically focused. 48.2% of users hold Japanese equities directly. Taken together, NISA flows appear to be split fairly evenly between domestic and foreign markets.

This creates the same paradox discussed in Chapter One's analysis of the yen. Japan can succeed in increasing NISA participation, expanding invested assets, and attracting a broader range of households while still sending a meaningful share of that capital overseas. In that case, the policy may strengthen household investment participation without directing the same amount of capital toward Japanese companies. It may also contribute at the margin to the yen weakness discussed earlier.

- **NISA Money and Real Investment: Do Household Flows Reach Companies?**

When a Japanese company needs capital to grow, it has historically had three options: borrow from a bank, issue bonds if its credit rating allows, or sell new shares. For decades the third option has been the narrowest, constrained by a chronic shortage of domestic risk capital, while the first has remained dominant by a wide margin. That raises a pointed question about the "Asset Management Nation" strategy described throughout this paper: when household savings move into NISA accounts and from there into the stock market, does that money actually reach companies as growth capital, or does it mostly change hands between investors who already own the shares?

The evidence points toward the latter, at least directly. Almost all NISA activity, and the overwhelming majority of Tokyo Stock Exchange trading more broadly, consists of purchases of existing shares from other investors rather than purchases of newly issued shares from companies; only the latter delivers new capital to a company's balance sheet. The scale of the gap is stark. The Prime Market recorded US$8.98 trillion in trading value in 2025, an all-time high. Japanese companies raised just US$8 billion through IPOs that same year, itself the strongest IPO year since 2018. New equity issuance therefore amounted to well under a tenth of one percent of secondary trading value. A NISA investor

buying shares of a listed Japanese company is, in the overwhelming majority of cases, paying another investor for those shares, not funding the company directly.

This is not unique to Japan; secondary trading dwarfs primary issuance in every major equity market, and Japan's own policy documents do not claim otherwise. The more defensible version of the argument is indirect: broader retail participation, layered onto the foreign institutional buying described earlier in this chapter, supports higher valuations and a lower cost of capital, which can make companies more willing to issue new shares when conditions allow, and can give activist and other shareholders more leverage to press management to deploy capital productively rather than hoard it. But that chain is not mechanical. Japan's own IPO market shows how quickly it can break: 2025's seven-year high in IPO proceeds did not survive into 2026, when first-half listings fell to just 18, the lowest count since 2011, and proceeds fell to US$917 million, even as the Nikkei traded near record highs. Bankers attributed the drop to a shortage of AI-era listing candidates and IPO review standards stricter than in the United States, not to weak investor demand. A rising, NISA-supported market does not automatically translate into more companies choosing to raise primary capital from it.

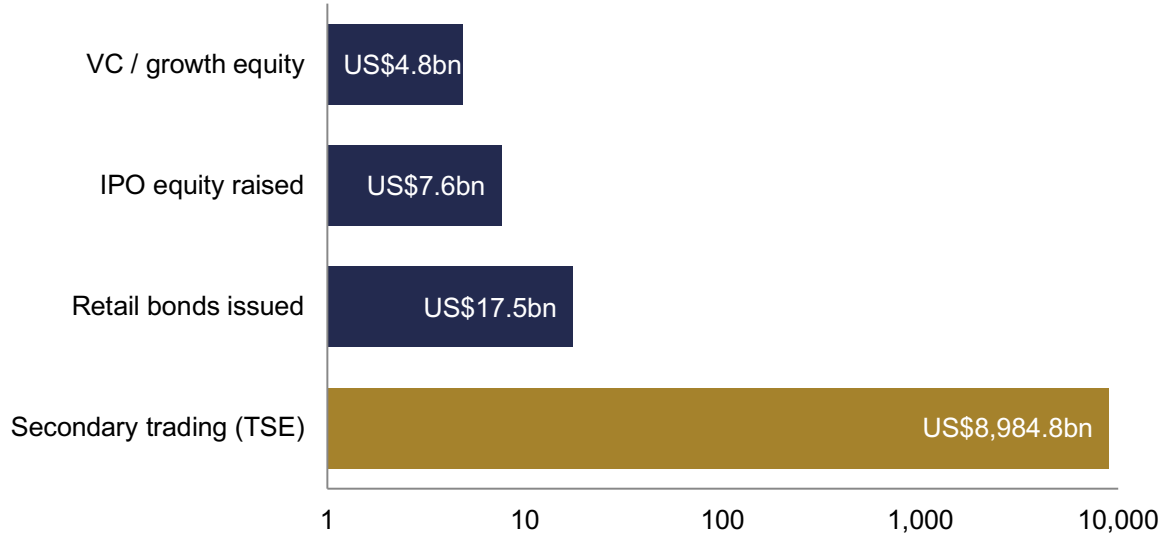
Put the other two financing channels back into the picture and the more direct answer to where Japanese growth capital actually comes from becomes clearer: mostly banks. Bank loans are estimated to still account for more than 80% of Japanese corporate funding, and that channel has been expanding rather than shrinking. Total bank lending outstanding reached roughly US$4.25 trillion by May 2026, up 5.7% year on year, the fastest pace since the pandemic-distorted numbers of 2021, led by an 8.7% expansion at the megabanks. If the "Asset Management Nation" campaign has a direct answer to the growth-capital question, the Act on the Promotion of Cash Flow-Based Lending discussed in Chapter Two may be closer to it than NISA: it targets bank credit, the channel Japanese companies actually use, by letting asset-light and intangible-heavy companies borrow against enterprise value rather than physical collateral, rather than targeting equity markets, the channel households are being encouraged to invest through.

The corporate bond market shows a smaller but more direct version of household capital reaching companies, and increasingly funded by some of the same savers the NISA campaign is trying to reach. Japanese companies issued roughly US$99 billion in dollar-denominated bonds in the first quarter of 2026 alone, the highest pace in six years, and retail purchases of corporate bonds have grown quickly alongside it: individual investors bought US$17.3 billion of corporate bonds in the first part of 2026, already exceeding the full 2025 total. Unlike a NISA equity purchase, a retail bond purchase generally does fund the issuing company directly, at least at initial issuance. The market remains structurally narrow, however: it is open mainly to companies with investment-grade credit ratings, leaving smaller, unrated, and growth-stage companies dependent on banks or on the still-small pool of domestic risk capital.

The channel that most directly resembles new risk capital reaching growth companies, rather than existing shareholders, is venture and growth equity, and it remains the smallest of the three by a wide margin. Japanese startups raised roughly US$5 billion in

2025, essentially flat versus 2024. American startups raised US$339 billion in the same year, up 59%. NISA does not close this gap directly; it is a retail public-markets vehicle, not a venture capital allocation tool. The government's more targeted, if still modest, attempt to grow this specific pool of capital runs through the Emerging Managers Program and the state-backed Japan Investment Corporation described in Chapter Two, both of which route capital to newer managers and funds rather than through household brokerage accounts.

Where Does Growth Capital in Japan Actually Come From?



Sources: MCG, Japan Exchange Group, Bloomberg, Yahoo Finance, Japan Investment Corporation (JIC), October 2026

None of this undermines the paper's broader argument, but it does sharpen it. The "Asset Management Nation" strategy is best understood as strengthening the plumbing around Japanese equities — valuations, governance, liquidity, and both retail and foreign participation — rather than as a direct financing mechanism for corporate growth. Whether that plumbing eventually produces more primary capital formation depends on narrower, less publicized levers: cash-flow lending reform for bank credit, the corporate bond market's slow broadening beyond investment-grade names, and the Emerging Managers Program and Japan Investment Corporation for venture and growth equity. NISA's household money is, for now, doing something real but different: rewarding existing shareholders, deepening market liquidity, and building a retail investor base that companies can eventually tap if and when they choose to issue new shares. On the evidence available, it is not yet a direct channel for the "real investment" in growing companies that motivated the strategy in the first place.

- **Uptake Remains Generationally Uneven**

Interest in the newly approved Children's NISA, which will take effect in January 2027, shows that participation remains uneven across generations. Overall, 43% of NISA users with children or grandchildren say they would recommend opening an account for them. Support is highest among users in their thirties and forties, at roughly 50%, and declines steadily among older age groups. This pattern reflects a broader generational divide. Younger households are joining Japan's Asset Management Nation campaign more quickly, but they also hold less accumulated wealth and have less direct memory of the 1989 crash and the long deflationary period discussed in Chapter Two. Older households hold a much larger share of Japan's dormant savings, but they are also more risk averse for the historical reasons described earlier. The challenge is therefore not only to attract new investors. It is also to change the behavior of older households that hold much of the wealth the government is trying to mobilize. That is more difficult because their preference for cash was shaped over decades.

- **Foreign Capital, Not Retail Flows, Is the Larger Force Behind the Equity Rally**

The NISA-driven shift in household behavior is not happening in isolation from the market conditions described in Chapter One. On the available evidence, it is not the primary force behind them either. Foreign investors purchased a net US$70 billion of Japanese stocks in the first half of 2026 alone. That was about five times the equivalent period in 2025, and it topped the previous half year record set during the Abenomics rally of the early 2010s, when net purchases reached US$52.5 billion. Much of this buying concentrated in companies that supply the physical infrastructure behind the global AI buildout rather than AI software itself. Semiconductor equipment makers, optical fiber and data center suppliers, and memory chip producers led the way. Foreign strategists generally frame this as a view that Japan's comparative advantage in AI related investment lies in hardware and materials rather than in frontier AI models themselves. Retail NISA flows into domestic equities are real and growing, but they remain a second, smaller engine behind the same record Nikkei and TOPIX highs Chapter Two described. They are running alongside a foreign institutional wave that dwarfs them in scale.

Japan's rally has actually been more restrained than its regional peers, which is worth noting before turning to the risk this creates. The Nikkei 225 rose about 39% in the first half of 2026. South Korea's KOSPI roughly doubled over the same period, and Taiwan's main index gained about 59%, both markets carrying even heavier concentration in a small number of AI linked semiconductor names such as Samsung and SK Hynix. Japan's more diversified exposure across equipment makers, materials suppliers, and component producers, rather than a small number of chipmakers, appears to have made its rally somewhat less extreme. Less extreme, however, is not the same as insulated, and the same theme that lifted these stocks has already shown how quickly it can reverse.

That reversal is not hypothetical. On July 17, 2026, a global sell off in AI and semiconductor stocks, triggered by investor doubts about whether hyperscale technology infrastructure spending was actually justified by returns, hit the same Japanese names that had led the rally. SoftBank fell 11.46% in Tokyo trading that day. Tokyo Electron and

Advantest each fell more than 8%, and Kioxia fell more than 16%, though part of that decline was tied to an adverse patent ruling specific to the company. One strategist covering the sell off described it plainly, calling it an unwinding of crowded AI momentum trades rather than any deterioration in the underlying businesses. SoftBank's own chief executive publicly dismissed AI bubble concerns as absurd only weeks earlier, which underscores how quickly sentiment moved even among those most invested in the theme succeeding. A single volatile week is not proof that the broader rally is unsustainable, but it is direct, recent evidence that the same foreign flows driving Japan's market higher can reverse just as fast, and in the same concentrated set of stocks, whenever global sentiment toward AI infrastructure spending shifts.

This matters for the "Asset Management Nation" story because of timing as much as magnitude. Most first time NISA investors described earlier in this chapter opened their accounts and made their first purchases during exactly the window when this foreign led, AI themed rally was pushing Nikkei and TOPIX to record highs. Their entire investing experience to date has therefore been shaped by a market cycle they did not create and do not control. A policy campaign built on making investing feel safe and rewarding to first time investors is, for now, benefiting from a tailwind it did not generate. Whether that same population stays invested once foreign capital rotates out of the AI theme, as it already has for brief stretches in 2026, is a separate and largely untested question.

- **Corporate-Governance Reform Is Now Visible in a Second Channel: Activist Investing**

The corporate reforms described in the previous chapter are also changing how investors engage with Japanese companies. The TSE’s cost of capital campaign and the pressure to unwind cross shareholdings have made companies more exposed to activist investors. In 2024, activist investors purchased at least $6.6 billion of Japanese equities and took stakes in at least 146 companies. Elliott Investment Management made four new investments in Japan that year, more than in the entire 2020 to 2023 period combined. Oasis Management also launched a record 12 public campaigns.

Analysts link this increase to the decline in cross shareholdings. As these defensive holdings are reduced, companies have less protection from activist pressure for asset sales, capital returns, and strategic changes. This suggests that the reforms are doing more than improving disclosure. They are also changing the balance of power between management teams and shareholders and increasing pressure on companies to use capital more efficiently.

The trend accelerated further in 2025 and 2026. During the June 2025 annual meeting season, Japanese companies received 399 shareholder proposals across 114 companies, marking the fourth consecutive year of record activity. Of these, 146 proposals came from institutional investors and activist shareholders rather than ordinary retail investors. By September 2026, activist campaign trackers identified 246 Japanese

companies facing some form of activist pressure. Oasis Management led with 37 targets, followed by Dalton Investments, the Murakami group, Silchester International, and the Nippon Active Value Fund. By these measures, Japan has become the second largest market for shareholder activism in the world, behind only the United States. This is a significant change for a market that had very little organized activist activity before the corporate governance reforms of the 2010s.

The more important question is not how many activist campaigns are launched, but how many gain meaningful shareholder support. Of the 146 institutional and activist proposals filed during the 2025 season, 40 received at least 30% support. That level is often high enough to force boards to engage, even when a proposal does not formally pass. Several proposals went further and won outright despite management opposition. At Ekitan & Co., shareholders approved all six activist-nominated director candidates with roughly 80% support each. At Tokyo Cosmos Electric, five activist director candidates were elected with about 52.6% support, while three more won with about 52.3%. At Taiyo Holdings, a proposal to remove the company president received 49.90% support, falling short by only a small margin.

These results show that activist campaigns are no longer symbolic. Shareholders are increasingly willing to support director changes and leadership challenges, and Japanese boards are now losing, or nearly losing, contested votes at annual meetings. A 2026 campaign involving Kadokawa shows how quickly this pressure can escalate. Oasis Management increased its stake from 8.86% in mid-March to 15.25% by late June, becoming the company's largest shareholder. It then proposed removing the president at Kadokawa's June 2026 annual meeting and signaled that it could also seek board seats and changes to capital allocation and dividend policy. Oasis pursued a similar strategy at Nidec in 2026. It invested roughly $1.19 billion for a 6.74% stake and nominated its own board candidate. Oasis argued that the company needed more independent outside directors following an internal accounting fraud investigation.

These cases illustrate the effect of the reforms discussed in Chapter Two. As cross shareholdings decline, companies have fewer friendly shareholders to protect management. That gives activist investors more leverage to push for changes in governance, capital allocation, and corporate strategy.

- **Real Progress Toward Hub Status, But Not Yet Arrival**

The clearest external scorecard for Japan's campaign to become a genuine international financial and asset management hub is the Global Financial Centres Index, and the most recent edition tells a mixed but informative story. Tokyo rose to 10th place globally in the March 2026 edition, up five places from 15th in the prior ranking. This is plausibly linked to the Special Zones, the cost of capital campaign, and the promotional calendar described in Chapter Two. Hong Kong held third place and Singapore held fourth, so Tokyo has narrowed the gap without closing it. The more pointed data point is in the index's specialized ranking of top investment management centres specifically, which is the exact business Japan is trying to build. Tokyo does not appear at all among the top ten there, and New York, Hong Kong, London, Seoul, San Francisco, Dubai, Singapore, Shanghai, Shenzhen, and Zurich all rank ahead of it.

A closer look at the underlying scores adds an important qualification to the headline rank change. Tokyo's actual rating fell slightly, from 744 points to 739, even as its rank climbed five places. That combination means Tokyo's improvement in the standings owes at least as much to other financial centres losing ground as it does to Tokyo becoming more competitive in absolute terms. The index also breaks each city's score into five components, and Tokyo's pattern across them is uneven rather than uniformly strong. It ranks 5th globally in human capital, reflecting Japan's large and well-educated workforce, but only 9th in business environment, 9th in infrastructure, 9th in reputation, and, most tellingly for this chapter's purposes, 10th in financial sector development, the component most directly tied to asset management activity. Hong Kong ranks 3rd in that same category and Singapore ranks 4th. Tokyo's people and physical infrastructure are already close to world class. Its financial sector itself, judged by the same index Japan is using as its own benchmark, still lags the two regional hubs it is most often compared against.

This year's result also carries more weight because of where Tokyo is coming back from. Industry tracking of the index over the past decade shows Tokyo drifting as low as the low twenties in some editions during the late 2010s and early 2020s, well outside the top tier of global financial centres. Returning to the top ten in 2026 therefore represents a genuine multi year recovery rather than a single good quarter, even if the underlying score data above suggests the recovery is partial and somewhat fragile.

The Financial Market Entry Office described in Chapter Two has a track record that predates the current campaign and helps explain why foreign firms find the process workable in practice, not just on paper. Its predecessor desk processed its first case in 2017, when Legal & General Investment Japan, a subsidiary of the UK asset manager, completed registration for three separate licenses in about three months. That is roughly half the time such registrations typically take in Japan. The office that grew out of that early case now operates as the standard entry point for foreign asset managers under

the Special Zones framework, giving the current push a working operational history rather than an untested new bureaucracy.

Taken together, this evidence points to real but incomplete progress. For international asset managers, the opportunity case for entering Japan now is straightforward. There is a large, still under invested pool of household capital, entry incentives built specifically for foreign entrants, a working entry office with an actual track record, a corporate governance tailwind already lifting equity returns, and a weak yen that makes entry costs comparatively cheap in the near term. The risk case is equally concrete. Policy durability beyond the current government's branding of the initiative is untested, an aging population still skews conservative even as younger cohorts warm to investing, and Tokyo's own improved GFCI score depended partly on other cities slipping rather than on Tokyo closing its financial sector development gap outright. A market correction, whether driven by an AI investment theme reversal, a yen policy shock, or a broader risk off event, would test both the durability of newly broadened retail participation and Japan's still incomplete claim to rank alongside Hong Kong and Singapore as a genuine investment management centre, rather than merely a listed equities market that foreign capital is currently flowing into.

Overall, meaningful and broad-based behavioral change is underway in Japan. Households that spent decades favoring savings are gradually becoming more willing to invest. Corporate boards are facing stronger activist pressure, and Tokyo’s position as a financial center is improving. Whether these changes will last is still uncertain. One question is whether the real wage growth discussed in Chapter One will continue long enough to give households meaningful investable income. Another is whether the current equity rally, supported by foreign capital and strong interest in AI related industries, can survive a downturn without reversing recent gains in market participation. There is also uncertainty about how new NISA investors will respond to their first major market correction. Many entered during a prolonged bull market and have not yet experienced a severe decline. More broadly, it remains unclear whether policy reforms alone can fully reverse a savings culture shaped over many decades by postal savings, corporate paternalism, deflation, and the lasting effects of the post bubble period.



BEYOND ASSET MANAGEMENT
JAPAN'S BROADER ECONOMIC REINVENTION

The first three sections—From Policy to Practice, Building an Asset Management Nation, and Japan's Economic Fundamentals—focused on Japan's effort to shift household savings into investment through tax incentives, corporate governance reform, and broader changes to the financial system. However, the Asset Management Nation agenda is part of a much wider economic transformation. Japan is also rebuilding strategic industries such as semiconductors and robotics, benefiting from a rapid expansion in tourism, and attracting growing investment into real estate and data centers. These trends draw on many of the same domestic and foreign capital flows discussed earlier in the paper.

This chapter examines how these broader forces reinforce or complicate Japan's financial transformation. It then considers what Japan's experience may mean for other aging, high saving economies and for international investors evaluating the country's long-term outlook.

I. Three Forces Reshaping Japan Alongside Wealth Management Campaign

- **The Semiconductor and Robotics Push**

Japan's attempt to rebuild a domestic chipmaking industry is now one of the largest industrial policy bets the government has ever made. Rapidus, the state backed chip venture formed in 2022 to build Japan's first advanced logic semiconductors since the 1980s, entered 2026 having already drawn a cumulative US$18.4 billion in government support toward its 2 nanometer program, with total project investment expected to exceed US$44.3 billion once private co-investment and in kind government contributions of factories and equipment are included. That support kept growing through the year. In

February 2026, Rapidus closed a US$1.69 billion funding round split between US$633 million from Japan's Information Technology Promotion Agency and US$1.06 billion from 32 private companies, including Canon, Fujitsu, Honda, IBM Japan, Kioxia, NEC, NTT, SoftBank, Sony, Toyota, and the Development Bank of Japan, eight of which topped up stakes they had first taken when the company was founded. A further US$949 million arrived from the same government agency in June, taking Rapidus's paid in capital and capital surplus to US$2.69 billion, on top of the separate, larger subsidy commitments running through Japan's technology development agency, NEDO. The company is targeting volume production of 2 nanometer chips in fiscal year 2027, a ramp to 1.4 nanometer production after that, operating profitability by fiscal year 2030, and an initial public offering in fiscal year 2031, a timeline that would eventually let ordinary investors, including NISA account holders, buy into the project directly rather than only through the government's own balance sheet.

The work itself is also moving from paper plans toward physical output. Rapidus completed its first extreme ultraviolet lithography exposures at its IIM-1 pilot line in Chitose, Hokkaido, in 2025, and in 2026 brought in the American test and measurement firm Keysight Technologies to refine the process design kit for its 2 nanometer, gate all around transistor design and to diagnose yield problems at the wafer, device, and circuit level, with an initial design kit release targeted for early customers in the first quarter of 2026. It is an unglamorous milestone, but a telling one: the venture has moved into the harder work of actually manufacturing usable chips rather than simply announcing intentions to do so.

Alongside Rapidus, Taiwan's TSMC has become Japan's most consequential foreign industrial investor, and its own plans have expanded faster than originally announced. Its first Kumamoto fabrication plant is already profitable and in mass production. A second fab, whose construction TSMC began in late 2025 as a US$13.9 billion project aimed at 6 nanometer chips for automotive and AI applications, was upgraded again within months. In February 2026, TSMC briefed Japan's prime minister on a plan to raise the fab's target process to 3 nanometers and its total investment to roughly US$17 billion, citing the AI opportunity even as demand for the plant's originally planned automotive chips has weakened. Tokyo's own support scaled alongside it, from an initial US$4.63 billion subsidy approved in 2024 for the earlier, smaller investment plan to a reported total closer to US$7.59 billion as the project grew, with officials now considering additional government money on top of that for the 3 nanometer upgrade. The government's rationale is straightforward: Japan currently has no domestic capacity below 6 nanometers, and officials view a Kumamoto plant capable of 3 nanometer chips as necessary to supply the AI data centers, autonomous vehicles, and robotics that demand across the region is increasingly built around.

Robotics is the older and more mature half of this technology story, and Japan's position there is already dominant rather than aspirational. The country accounts for roughly 46% of global industrial robot production, a share built up over decades to compensate for a shrinking workforce, and that dominance still shows up in current order books rather than only in historical output. Japan's three largest robot makers, Fanuc, Yaskawa Electric,

and Kawasaki Heavy Industries, together booked US$1.08 billion in orders in the third quarter of 2025 alone, a 17% increase from a year earlier, with industry wide orders up 26% to US$1.40 billion and Fanuc's own orders jumping 39% on demand from American manufacturers reshoring production to escape labor shortages and from Chinese electric vehicle and electronics makers automating their lines.

The same demographic pressure that built this export business is now pushing robotics into a genuinely new frontier at home. A widely cited 2023 study projected Japan will face an economy wide shortfall of 11 million workers by 2040, and within that broader gap the elder care sector alone is expected to be short 570,000 workers, with the sector currently attracting barely one applicant for every 4.25 open positions. Tokyo's response has moved beyond isolated prototypes to a coordinated national program. In mid 2026 the government committed as much as $6.1 billion over five years, part of a broader US$2.34 trillion, fourteen year technology strategy, to fund a domestic multimodal foundation model for robotics through a consortium called Noetra. The consortium was commissioned by the trade ministry and the national research and innovation agency NEDO, is backed by SoftBank, NEC, Sony, Honda, and roughly forty other companies, and draws technical support from the national research institute AIST.

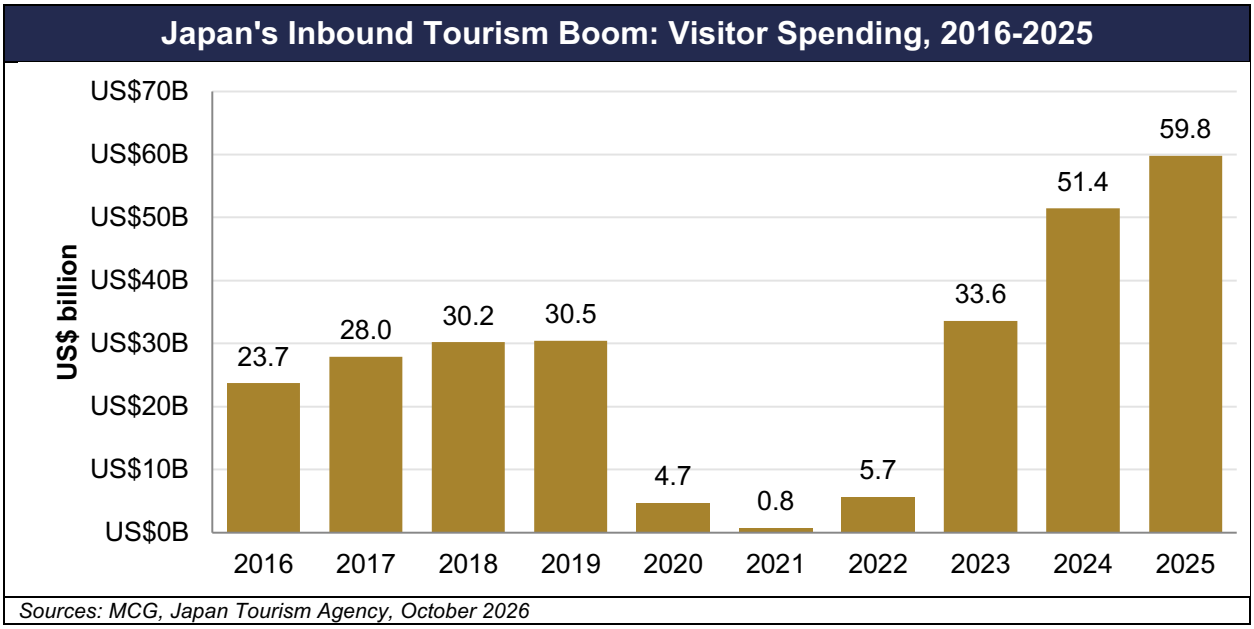
The explicit target is 10 million AI equipped robots deployed across 18 industries, including manufacturing, logistics, construction, and healthcare, by 2040, an ambition officials have framed as capturing more than 30% of the eventual global market for AI robotics rather than simply closing Japan's own labor gap. Government funded prototypes such as the AIREC humanoid robot remain focused on specific care tasks like patient transfers, bathing assistance, and mobility support, and are still expensive and mechanically limited. A parallel private sector effort is meanwhile trying to solve a more mundane problem: training data. In August 2026, five companies, including the trading house Yamazen and the data infrastructure firm INSOL-HIGH, opened a shared humanoid training facility outside Tokyo housing up to 40 robots, aimed explicitly at mid sized manufacturers who cannot individually afford the US$50,000 to US$150,000 teleoperation rigs needed to generate the task specific data these robots require, with the resulting data treated as shared intellectual property across the consortium's members. None of these efforts alone proves Japan will solve its labor shortage through automation. Together, they mark a shift from scattered experimentation toward public and private capital converging on the same bet at roughly the same time.

The connection between this technology push and the wealth management campaigns already discussed in this paper is closer than it first appears, and it runs in both directions. The foreign investor wave into Japanese equities, concentrated in semiconductor equipment makers, materials suppliers, and memory chip producers, is often framed purely as a market phenomenon riding a global AI investment theme. The industrial policy detailed above suggests it is, in large part, the direct output of that policy: the same companies foreign hedge funds and long only managers have been buying are the domestic supply chain that Rapidus and TSMC's expansion are trying to build up, and

government subsidy money is functioning as an early, patient co-investor sitting alongside the private capital policymakers are trying to draw into equities and funds. A Rapidus IPO in 2031, still five years away and contingent on the company actually meeting its production and profitability targets, would be a natural, symbolic capstone to that connection, converting a state funded national champion into a listed company that ordinary retail accounts and pension funds could hold directly rather than only through the government's own balance sheet. The robotics buildout points toward a similar convergence on a longer horizon. If Noetra and its government backers succeed in building a viable robotics foundation model, and if mid sized manufacturers can genuinely access shared training data through facilities like the one outside Tokyo, the resulting companies, from established robot makers to newer humanoid ventures, become the next generation of the kind of domestically listed, technologically differentiated businesses that governance and disclosure reforms elsewhere in this paper have been trying to make more attractive to hold.

- **The Tourism Pivot**

Inbound tourism has become one of the clearest and fastest moving success stories in Japan's post pandemic economy, and its scale now rivals some of the financial market figures discussed earlier. Japan welcomed a record 42.7 million international visitors in 2025, up 15.8% from 36.9 million in 2024 and now roughly one third above the pre pandemic 2019 level of 31.9 million. Visitor spending reached a record US$60.1 billion for the year, up 16.4% from 2024 and an increase of US$8.23 billion in a single year, a figure driven directly by a weak yen that traded around ¥150 to the dollar through most of 2025 compared with roughly ¥110 in 2019, making Japan dramatically cheaper for foreign visitors even as the same currency weakness has raised import costs for Japanese households.



Sources: MCG, Japan Tourism Agency, October 2026

Behind that headline number sits a spending pattern that is broader and more evenly distributed than it might first appear. Average spending per visitor reached US$1,450, with European and Australian travelers spending the most per head, Germans averaging US$2,490 and British and Australian visitors averaging US$2,470, even though these nationalities arrive in far smaller numbers than Japan's Asian neighbors. By category, lodging was both the largest and fastest growing line item, at US$22.2 billion and up 26.7% for the year, ahead of shopping at US$15.8 billion, up a more modest 6.4%, and food and beverage at US$13.3 billion, up 18.8%. By nationality, China remained the single largest source of spending at US$12.7 billion, or about 21% of the total, followed by Taiwan, the United States, South Korea, and Hong Kong, with the top five markets together accounting for more than 60% of all visitor spending, a concentration that matters for how exposed the sector is to any single country's travel patterns.

That lodging led all categories in growth is visible directly in hotel industry data. Japanese hotel occupancy reached 68.4% for full year 2025, up 2.1 percentage points from a year earlier, while the average daily room rate rose 11.4% to US$142 and revenue per available room rose 14.9% to US$97, according to industry tracking data. The gains were not evenly spread. Luxury and upper upscale hotels saw average rates climb 19.3%, more than four times the 4.2% increase at economy and midscale properties, and Tokyo alone posted 78.2% occupancy at an average rate of US$220 a night, well above the 54.6% occupancy recorded across regional areas outside the major gateway cities. International guest nights rose 18.6% for the year even as domestic guest nights fell 0.8%, a divergence that reflects both the currency advantage foreign visitors enjoy and the effect of room rates that have simply outpaced what many Japanese households are now willing to pay, with business hotel rates up 114.5% since 2021 alone.

Tokyo has responded to the strain with a wave of new fees rather than simply celebrating the visitor numbers. Mount Fuji's climbing permit doubled to US$25 for the 2025 season, alongside a mandatory safety briefing, a daily cap of 4,000 climbers, and an overnight closure of the trail to same day hikers, all aimed at reducing the crowding and safety incidents that accompanied the mountain's earlier, unregulated surge in visitors. Kyoto restructured its accommodation tax the same year into a tiered schedule running from US$1.27 a night for budget rooms to US$63 a night for rooms costing US$633 or more, a change the city expects will more than double its annual tourism tax revenue, from roughly US$32.9 million to US$79.7 million.

Whether that additional revenue reaches the residents actually living with the crowding is a separate and more contested question. One estimate puts the amount of visitor spending leaking overseas each year, largely through the 12% to 20% commissions foreign online travel platforms charge Japanese hotels and ryokan, at US$696 million to US$823 million, roughly ten times Kyoto's entire annual accommodation tax revenue. Foreign overnight stays also remain heavily concentrated in just five prefectures, Tokyo, Osaka, Kyoto, Hokkaido, and Fukuoka, and three metropolitan areas alone account for 69% of visitor transport spending, leaving much of the rest of the country with

comparatively little of the US$60.1 billion despite hosting the roads, trains, and infrastructure the boom depends on. Wages in the accommodation sector remain US$7,590 to US$9,490 below the national average even as the industry's own revenue has passed US$50.6 billion, and in Kamakura, one of the destinations most affected by day trip crowding, only 23.4% of residents surveyed said they were satisfied with how tourism is being managed. These figures do not undercut the scale of the tourism boom so much as complicate the simple story that a record-breaking industry automatically translates into broad based local prosperity.

The relationship with China illustrates a related and more acute vulnerability: how quickly a tailwind this large can turn into a headwind for reasons that have nothing to do with Japan's underlying appeal as a destination. Chinese visitor numbers, which had been growing at over 30% annually, fell sharply after Japan's prime minister suggested in November 2025 that a Chinese move against Taiwan could threaten Japan's own security, triggering a diplomatic rift between the two governments. Chinese arrivals dropped 56.4% in the first half of 2026 compared with the same period a year earlier, from 4.72 million visitors to just 2.06 million. Japan's tourism numbers proved resilient in the aggregate, since South Korea, up 31.9%, Taiwan, which crossed 700,000 monthly visitors for the first time, and Hong Kong, up 54.8%, expanded quickly enough that Japan still recorded an all time monthly high of 3.44 million visitors in July 2026. But that record came with year over year growth of just 0.1%, meaning the other markets grew just barely fast enough to offset the loss of China rather than adding meaningfully to it, an outcome that looks like resilience on the surface and looks more like a near miss underneath it.

A further structural change is arriving on the shopping side of the ledger. Starting November 1, 2026, Japan is overhauling its tax free shopping system, replacing the current practice of an immediate tax deduction or in store refund with a system requiring visitors to pay the full, tax inclusive price and claim their refund only upon departure from the country. In exchange, the reform simplifies rules that visitors have long found confusing, eliminating the separate US$3,160 cap on tax free purchases of consumable goods, removing special sealed packaging requirements, and extending the purchase window to a uniform 90 days for all goods. The net effect on the US$15.8 billion shopping category is genuinely uncertain: simpler rules and a higher effective purchase ceiling could support further growth, but a refund that arrives only at the airport, rather than instantly at the register, removes some of the impulse buying dynamic that has helped make shopping one of the more visible parts of Japan's tourism boom.

Tourism connects to the broader wealth management campaign through the same channel that real estate and property investment does, discussed next. The weak yen that makes Japan cheap for tourists is the identical weak yen that makes Japanese hotels, ryokan, and commercial property cheap for foreign institutional buyers, and both flows are, in a sense, two different expressions of the same currency and asset repricing story running through this paper. A tourism sector generating close to US$63.3 billion in annual foreign currency revenue is also a meaningful, if partial, offset to the imported energy costs and outward investment flows that have been identified elsewhere in this paper as sources of structural yen weakness, even if it is nowhere near large enough on its own to

reverse that dynamic. The government's own ambitions extend well beyond the current record: Tokyo has set a formal target of 60 million visitors and US$94.9 billion in visitor spending by 2030, which would very roughly double the tourism sector's economic footprint again from its already record 2025 base within five years, a target that both the hotel capacity constraints and the China related volatility described above suggest will require the sector to grow in a more resilient and more evenly distributed way than it has so far.

- **Real Estate and the Data Center Boom**

A third trend, less visible in daily headlines than either the chip race or the tourism boom but arguably more directly connected to the "Asset Management Nation" story, is a surge of both foreign real estate investment and AI linked data center construction that is now competing for the same land, capital, and power infrastructure. Foreign purchases of Japanese real estate reached US$7.22 billion in the first half of 2025 alone, roughly double the equivalent period in 2024, led by American private equity firms such as Blackstone, Warburg Pincus, and KKR alongside Hong Kong's Gaw Capital Partners. The individual transactions involved are large by any standard: Blackstone's US$2.53 billion acquisition of the Tokyo Garden Terrace Kioicho complex, Gaw Capital's US$949 million purchase of Tokyu Plaza Ginza, and KKR's roughly US$633 million agreement to acquire Nissan's own corporate headquarters building are all transactions from a single recent stretch, with office properties alone accounting for about 40% of total foreign acquisitions. The investment logic mirrors precisely the case for entering Japanese equities and asset management described in Chapter Three: investors describe Japan as offering a wider yield gap than comparable Western markets, an expectation of inflation driven rent increases after decades in which Japanese rents barely moved, and, again, a weak yen that lowers the effective entry price for anyone converting dollars or Hong Kong dollars into yen denominated assets.

Layered on top of this conventional property boom is a newer and faster growing source of demand: data centers built to support the same AI investment theme already discussed in this chapter and in Chapter Three. Global hyperscalers committed roughly US$28 billion to Japanese data center capacity across a compressed period spanning late 2024 and early 2025, led by Amazon Web Services at US$15.5 billion, Oracle at US$8 billion, and an initial Microsoft commitment of US$2.9 billion that Microsoft itself expanded to a further US$10 billion pledge covering AI infrastructure, cybersecurity, and workforce development by April 2026.

That demand is now running into a genuine physical constraint rather than a purely financial one: Tokyo's power grid faces waiting periods of five to ten years for new large scale connections, and total data center related electricity demand is projected to roughly triple, from about 19 terawatt hours in 2024 to somewhere between 57 and 66 terawatt hours by 2034, forcing hyperscalers to spread capacity across Tokyo, Osaka, and smaller satellite sites rather than concentrating it in the capital as earlier data center generations

did. This is, in effect, a physical world version of the same capital allocation problem the "Asset Management Nation" campaign is trying to solve in financial markets: an enormous pool of capital wants to enter Japan, and the binding constraint is no longer whether the money is available but whether the underlying infrastructure, in this case land, power, and grid connections rather than fund registrations and tax treatment, can absorb it fast enough.

II. Implications for Countries Sharing Japan's Structural Characteristics

Japan is not a unique case. A shrinking working age population, a historically underinvested household savings pool, an export dependent corporate sector, and a currency and monetary policy shaped by decades of near zero interest rates are all features shared, in varying degrees, by several of Japan's neighbors and by parts of Europe. What Japan has attempted over the past several years is, in effect, a live policy experiment that these other economies are already watching closely, and in some cases actively copying.

South Korea offers the most direct and explicit parallel. Seoul's Corporate Value up Program, announced in February 2024 with detailed guidelines following that May, was described by the Korean government itself as an attempt to emulate the success of Japan's own corporate governance reforms dating back to 2013. The mechanics track Japan's playbook closely but with a more prescriptive, incentive heavy design: a Korea Value up Index and associated exchange traded funds mirror the cost of capital disclosure lists the Tokyo Stock Exchange has published since 2024, tax incentives reward participating companies more explicitly than Japan's principles based comply or explain framework does, and Korea's National Pension Service has been drawn into an engagement role similar to the one GPIF plays under Japan's Asset Owner Principles described in Chapter Two. Results so far have underwhelmed some analysts, who note a persistent lack of concrete detail and describe the program as, at best, the start of what will need to be a multiyear effort rather than a completed reform. Taiwan has pursued a parallel but distinct path through its own Corporate Value up Program launched in 2024, which layers Japan style governance and disclosure expectations onto an explicitly government led industrial policy focused on developing new economy sectors, an approach that leans more heavily on picking and supporting strategic industries, echoing Japan's own Rapidus style bet on semiconductors, than on governance reform alone.

China represents a starker and more cautionary version of the same demographic and savings story, at a much larger scale and, on the evidence, at an earlier and more severe stage. Chinese households' savings rate peaked at roughly 50.7% in 2010 and remained as high as 45.7% as of 2021, far above even Japan's own historical peak of 34.1% in 1991 and nearly double Japan's most recent reading of about 24.6%. China's age structure in 2020, with 18.0% of the population under 15 and 17.8% aged 60 or older, closely matched Japan's own age structure three decades earlier, in 1990, implying a demographic lag of roughly thirty years between the two countries. Economists studying this parallel warn that China faces the same core policy trap Japan spent three decades navigating unsuccessfully before the reforms described in this paper began: that

expansionary fiscal and monetary stimulus alone, without structural reforms that genuinely raise household income and productivity, tend to prop up growth temporarily without resolving the underlying savings glut and weak domestic demand. Whether China's own emerging efforts to promote personal pension accounts and broaden retail equity participation prove any more successful than Japan's decades of false starts before New NISA remains, as of this writing, a genuinely open question.

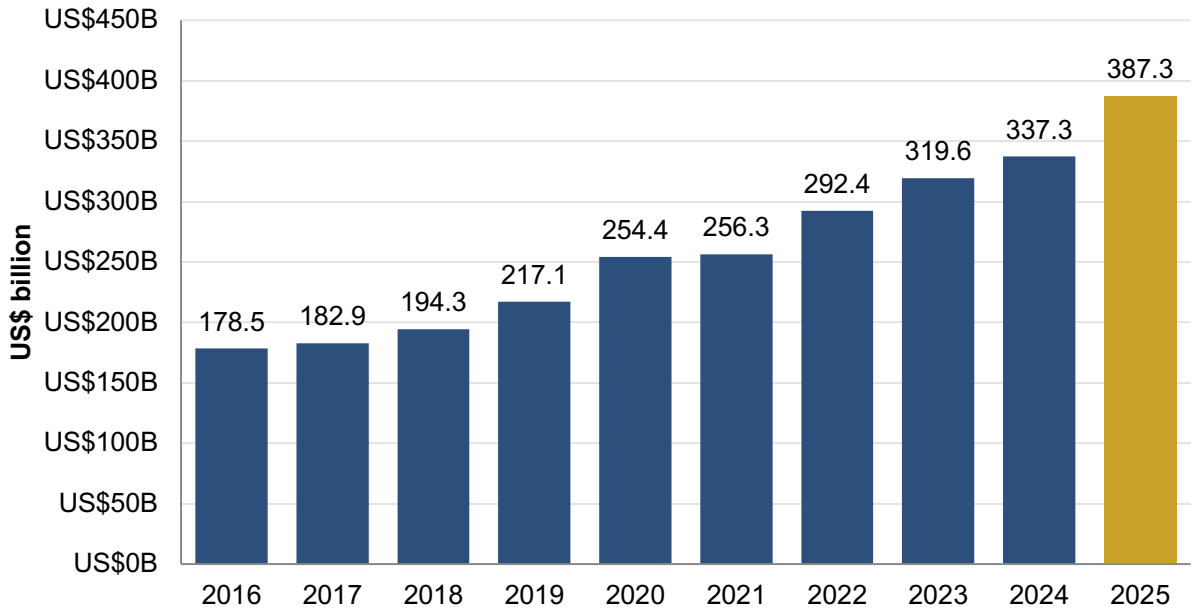
Parts of Europe, and Germany in particular, present a slower moving but structurally similar risk, this time without Japan's specific historical trauma of a 1989 style asset bubble collapse to explain the caution. Germany's fertility rate has hovered near 1.3 for a generation, a level that guarantees rapid population decline on the same trajectory Chapter One documented for Japan, while high domestic savings, low domestic demand, stagnant growth, and what analysts describe as building deflationary pressure have led some observers to conclude that Germany is on course to emulate Japan's experience, tempered for now by Germany's persistent trade surpluses and its ability to finance itself domestically without relying on foreign capital the way some of its southern European neighbors do. Italy, for its part, already carries a savings rate higher than Greece, Portugal, or Spain, alongside its own long-standing demographic and growth challenges, suggesting the aging, high saving, low growth combination Japan has spent this decade trying to break out of is less a Japan specific curiosity than a pattern several advanced economies may eventually have to confront on their own terms.

The lessons that travel from Japan's experience to these other economies are real but partial. A formal disclosure and cost of capital campaign modeled closely on Japan's own, as Korea and Taiwan have both attempted, appears to be a genuinely exportable mechanism, since it does not depend on any country specific history and can be implemented by a securities regulator within a single budget cycle. A tax advantaged, permanent, simplified retail investment account modeled on NISA is similarly exportable in principle, and the fact that Japan's own program was itself explicitly modeled on the United Kingdom's Individual Savings Account shows this kind of policy transfer already has a working precedent. What appears far harder to transplant is the deeper behavioral shift chronicled in Chapter Two of this paper: Japan's own household caution was the product of a very specific sequence of a catastrophic and prolonged asset bubble collapse, mild but multi decade deflation, a postal savings system built by design to channel money into government bonds rather than equities, and a corporate paternalism system that did households' investing for them for most of the twentieth century. China, Korea, Germany, and Italy each arrived at their own version of high household saving and cautious investing through different histories, which means the policy tools that appear to be working on the margin in Japan, real as that early evidence from Chapter III is, may take a different amount of time, or require different complementary reforms, to produce comparable results elsewhere.

III. Implications for International Investors

Pulling the threads of this paper together, the practical opportunity for international investors in Japan is broader than a single “buy Japanese equities” or “buy Japanese real estate” thesis, and the risks are more interconnected than they might first appear. The clearest way to think about both is to break the opportunity into four distinct avenues into the same broad transformation, and then to recognize that the risks sitting underneath those four avenues are not independent of one another.

Foreign Direct Investment in Japan Has More Than Doubled Since 2016



Sources: MCG, Bank of Japan, October 2026

- **Financial Sector Plays on the Wealth Management Campaign Itself**

The most direct way to invest in Japan's shift from savings to investment is through the companies positioned to manage the money as it moves. Foreign ownership of the Tokyo Stock Exchange has already reached roughly 32% of total market capitalization, the highest level on record and a sixfold increase from about 5% in the early 1970s, even as domestic retail investors still hold only around 17% of the market. That gap is itself part of the argument for this avenue: domestic asset managers, brokerages, trust banks, and outsourced chief investment officer providers positioned to capture a still growing pool of NISA and institutional flows have room to grow simply as Japanese households close that gap over time, while the exchange group itself sits closest to the campaign's core mechanics as a toll taker on rising trading volumes rather than being exposed to any single downstream sector.

- **Industrial and Supply Chain Plays on the Technology Buildout**

A second avenue runs through the semiconductor and robotics companies at the center of the industrial policy described earlier in this chapter. The equipment, materials, and component makers that supply Rapidus's pilot line and TSMC's expanding Kumamoto footprint are the same domestic supply chain that has attracted much of the recent foreign equity buying into Japanese markets, so this avenue offers a way to invest in the industrial policy itself rather than only in the financial infrastructure built around it. Investors taking this route are, in effect, betting that government subsidy money continues to function as a patient co-investor alongside private capital, and that Japan's specific niches, lithography adjacent equipment, specialty materials, and precision robotics, continue to hold their position in a global supply chain that multiple countries are now actively trying to reshore or duplicate at the same time.

- **Consumer and Real Asset Play on Tourism and Property**

A third avenue sits closer to the physical economy than to capital markets narrowly defined: hotels and retail property in gateway cities, the logistics and office assets foreign private equity has been acquiring at scale, and the broader tourism value chain from transport to hospitality. This is also the avenue most exposed to the concentration and fragility risks described earlier in this chapter, since a large share of the visible gains sits in a handful of already expensive gateway markets, and a single diplomatic dispute demonstrated in 2025 and 2026 how quickly one major source market can be removed from the picture almost overnight. Investors drawn to this avenue may find more attractive entry points in regional Japan, where occupancy and room rates still lag the major cities by a wide margin, than in the already fully priced Tokyo and Kyoto hospitality assets that have captured most of the recent headlines.

- **Infrastructure Plays on Data Centers and Market Plumbing**

A fourth avenue is only beginning to take an investable form: the data center and financial market infrastructure buildout that will require sustained capital investment in power generation, grid capacity, and digital infrastructure regardless of which specific operating companies end up occupying that capacity. NTT Data's plan to launch Japan's first domestic, data center specialized real estate investment trust, targeting an initial asset base of roughly US$633 million with a path toward contributing up to US$6.33 billion in facilities over time, shows this avenue starting to move from privately held infrastructure into securities investors can actually buy. It is also, tellingly, a response to balance sheet pressure of its own, since NTT Data's return on invested capital had fallen to a nine year low before the REIT plan was announced, suggesting more Japanese companies may follow the same path of securitizing infrastructure assets to fund further AI related capital spending. As more data center and digital infrastructure assets are packaged this way, this avenue may end up being the one where Japan's capital markets reforms and its physical reindustrialization most directly intersect.

- **Correlated Risk: a Reversal in the AI Investment Cycle**

The risks underneath these four avenues are unusually correlated with one another for a market this large, which is itself an important portfolio construction insight rather than a side note. A reversal in the global AI investment theme would simultaneously hit the semiconductor equity trade, slow the industrial policy buildout described in this chapter, and reduce the data center demand currently absorbing so much real estate and power infrastructure capital, meaning a single macro catalyst could touch several ostensibly distinct Japan investment theses at once rather than just one of them.

- **Correlated Risk: A Sudden Yen Appreciation**

A second correlated risk is already visible as this paper is being written. In early September 2026, traders began rapidly unwinding yen funded carry trades ahead of a Bank of Japan policy meeting later that month, sending the yen up more than 2% against the dollar in a single session after the BOJ's governor and a fellow board member signaled openness to a larger than usual rate increase. A move of this kind, whether it proves temporary or the start of a more durable shift, would cut across all four avenues at once. It would raise the effective entry cost for the tourism and real estate flows currently benefiting from currency weakness, reduce the yen value of foreign earnings for exporters, and could reverse some of the foreign equity buying interest in semiconductor names, even as it would genuinely help the household purchasing power and import cost problems a weak yen has created. Investors holding unhedged yen exposure across several of these avenues at the same time should recognize they are effectively holding one large, shared currency bet rather than several diversified ones.

- **Correlated Risk: Political Durability of the Reform Agenda**

A third risk is less a market event than a governance question. A political shift away from the current government's specific branding of the wealth management campaign is unlikely to reverse individual measures like NISA that already have tens of millions of enrolled participants, since those accounts are now a durable part of household financial behavior rather than a discretionary policy that a new government could simply cancel. It could, however, plausibly slow the corporate governance, institutional reform, and international courtship efforts that depend more on sustained bureaucratic and political attention than on any single piece of durable legislation, meaning the slower moving, less visible parts of this transformation are also its more politically fragile parts.

- **Portfolio Construction: A Structural Allocation, Not a Trade**

For an investor or allocator thinking about Japan as a discrete decision rather than a single trade, the evidence assembled across this paper points toward treating it as a multi-year structural allocation rather than a short-term cyclical one. That is precisely because the demographic transition, the corporate governance campaign, the technology reindustrialization, and the tourism and real estate cycle are each individually slow moving, government backed, and unlikely to reverse quickly even if any one of them stalls

temporarily. At the same time, the concentration risk already flagged in the equity market specifically, where a large share of the recent rally sits in a relatively narrow set of AI linked names, argues for diversifying deliberately across the four avenues described above rather than concentrating exposure in the same handful of semiconductor equipment makers that have already delivered most of the visible gains foreign investors are currently celebrating. Japan's own reinvention is real, broad based, and still incomplete in exactly the ways this paper has described throughout. For international capital, that combination of genuine structural change and genuine unresolved risk is what makes it worth watching closely, allocating to deliberately, and revisiting regularly, rather than treating as either a finished success story or a passing trade.



Japan's current transformation is likely to be judged over years rather than quarters. Many of the reforms examined in this paper are still at an early stage. New NISA has existed in its current form only since 2024. Corporate governance reforms are still changing boardroom behavior. Institutional reforms are only beginning to reshape how pensions, endowments, and asset managers allocate capital. Market infrastructure projects such as tokenized settlement will not reach full implementation until the early 2030s. The most important question is therefore not whether early indicators are positive, but whether these changes survive a less favorable economic and market environment.

The first test will be household behavior. New NISA has benefited from strong equity markets, and many first time investors have entered during a period in which gains have been common. Their behavior during a major correction remains largely untested. The durability of the savings to investment shift will depend on whether households continue making regular contributions when returns become negative, particularly among younger investors who have little experience with prolonged market downturns. At the same time, the government faces a harder challenge with older households. They hold a large share of Japan's accumulated wealth, but their preference for liquidity was shaped by decades of deflation, weak equity returns, and financial crises.

Real wages will be equally important. The shift from savings to investment cannot depend only on tax incentives. Households need sufficient disposable income to invest after meeting consumption needs. The return of positive real wage growth in 2026 is encouraging, but it follows decades of stagnation and four consecutive years of falling real wages. If wage growth continues to exceed inflation, households may gradually gain more capacity to invest. If inflation again outpaces earnings, precautionary saving could remain dominant even as NISA participation continues to rise.

The direction of household capital will matter almost as much as the amount being invested. Japan's policy can succeed in creating more investors while still producing limited domestic capital formation if a large share of new savings flows into global funds. This creates a potential tension between two objectives. The government wants households to earn higher long term returns, but it also wants more private capital to support Japanese companies and domestic investment. A sustained preference for foreign assets could improve household diversification while doing less to strengthen the domestic investment cycle. It could also add to outward capital flows and place additional pressure on the yen.

A related and more granular test is whether household capital, even when it stays inside Japan, increasingly reaches companies as new financing rather than simply changing hands between existing shareholders. Most retail investment activity to date has taken the form of secondary-market purchases of existing shares and fund units, while bank loans remain the dominant channel for corporate fundraising and the corporate bond and venture and growth-equity markets remain comparatively narrow. A meaningful shift toward primary capital formation would show up in rising equity issuance, a corporate bond market open to more than investment-grade borrowers, and continued growth in venture and growth-equity funding — trends worth tracking separately from headline NISA account and asset growth.

Corporate reform will face its own test. The rise in activist campaigns, shareholder proposals, buybacks, and cost of capital disclosures suggests that management behavior is changing. The next question is whether Japanese companies move beyond balance sheet optimization and generate stronger long-term returns through productive investment. Selling cross shareholdings and repurchasing stock can improve capital efficiency, but sustainable value creation will ultimately depend on higher productivity, innovation, and returns on new investment. The semiconductor, robotics, data center, and industrial projects discussed in Chapter Four will therefore be important indicators of whether better capital allocation translates into stronger economic growth rather than only higher financial valuations.

Japan's international ambitions will also remain a work in progress. Tokyo's return to the global top ten among financial centers is meaningful, but it still trails Hong Kong and Singapore in financial sector development and investment management. Continued progress will depend on whether foreign asset managers view Japan not simply as an attractive equity market during a favorable cycle, but as a long-term base for managing capital. That will require continued regulatory simplification, deeper professional talent pools, more competitive operating practices, and sustained policy attention beyond the current government's branding of the initiative.

The broader investment case for Japan will also depend on several closely linked risks. A reversal in global AI spending could affect semiconductor equities, data center investment, and broader foreign equity flows at the same time. A stronger yen could

reduce the competitiveness of exporters, tourism, and foreign real estate purchases, even as it improves household purchasing power and lowers import costs. These relationships mean that several apparently separate Japan investment themes are partly exposed to the same underlying drivers.

Japan's experience may also become increasingly relevant outside Japan. South Korea and Taiwan have already adopted elements of Japan's corporate governance approach, while China and parts of Europe face their own combinations of aging populations, high household savings, and weak domestic demand. The most transferable lessons are likely to be institutional rather than cultural. Tax advantaged investment accounts, cost of capital disclosure, stronger stewardship, and better asset management governance can be adapted relatively easily. Changing household behavior is more difficult because savings cultures reflect decades of economic experience and institutional development.

Japan should therefore be viewed neither as a completed success story nor as another temporary market cycle. The reforms are broad enough, and the behavioral changes visible enough, to suggest that something structural is occurring. At the same time, the transformation has not yet reached the scale required to fundamentally alter household balance sheets or remove Japan's demographic, fiscal, and productivity constraints. The next several years will show whether the country can turn wider market participation into durable capital formation, stronger corporate returns, and higher household wealth.

For international investors, that combination is precisely what makes Japan important. The opportunity is not limited to one sector or one market trade. It extends across financial services, industrial technology, tourism, real assets, and digital infrastructure. But the strongest case for Japan is also the longest term one. Its reinvention is likely to unfold gradually, unevenly, and with periodic setbacks. The central question is whether the reforms now changing behavior at the margin can eventually become strong enough to change the structure of the economy itself.

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