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## Weekly Brief

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# A Changing Story in Japan

Sixty years ago, BCG opened its second office outside of Boston—in Tokyo. It was an unconventional and bold move for a young firm but has led to a unique depth of knowledge of the market and a very nuanced read of what the headlines miss.

No doubt Japan faces significant structural challenges. At the same time, Japan's economy has undergone a transformation over the past decade. Reforms have made the business environment more dynamic and attracted significant amounts of foreign capital—and that momentum shows no signs of slowing. The country's economy, meanwhile, has rebounded from nearly flat growth in 2024—Japan's weakest year since 2020—and expanded at a 1.5% rate in the first half of this year.

Japan's strengths were on full display during my visit there last week to celebrate BCG Japan's 60th Anniversary and to meet with dozens of clients.

**The Common Narrative**

The challenges facing Japan are well known and fall into three categories.

**Fiscal Sustainability.** Japan's debt is projected at 204.4% of GDP for 2026, according to the IMF. That is well above levels for other wealthy nations; the US, for example, is at 126%, and Germany at 65%. That debt burden also limits the central bank's room to raise rates in defense of the currency: while the yen has strengthened some 6% since late July, it remains structurally challenged.

**Aging Population.** The share of Japan's population aged 65+ is approaching 30%, and the total population is shrinking by nearly 1 million people a year. That creates challenges not only for businesses, such as labor shortages, but also for the country's pension and other safety-net systems.

**Energy Dependence.** Japan's energy self-sufficiency ratio—the share of total primary energy consumption that is met with domestic production—was just 16.4% in 2024. That is below most European nations, and well below the US and Canada. It exposes the country to disruption in the global energy markets.

**The Counter Narrative**

Japan's strengths tend to be underappreciated. Three stand out to me.

**Corporate Reforms.** Over the past decade, policy changes have rewritten the rules for business in Japan. For example, the Corporate Governance Code, first introduced in 2015 and updated most recently this year, sets standards for board independence, shareholder rights, and capital efficiency. And the Ministry of Economy, Trade and Industry 2023 guidelines requiring companies to be less resistant to M&A has led to a more robust dealmaking environment.

**AI Transformation.** AI, including physical AI, is emerging as a powerful tool in adapting to a shrinking workforce. Adoption is already relatively strong in manufacturing, building on a high degree of automation and robotic usage.

**Policy Continuity.** Whether it is efforts to raise productivity and wages, promote strategic investment, or drive a green transformation, Japanese policies have often been consistent across changes in political leadership. Such consistency can give business greater confidence in setting forward-looking strategies and making capital investments.

**Implications for Business**

Business leaders should take Japan's full narrative into account when making decisions on where to invest. This means:

**Reassessing Where Japan Sits in the Growth Portfolio.** Changes in industry structure, regulation, technology, and corporate behavior can create substantial opportunities, even when aggregate growth remains modest. For companies that have treated Japan primarily as a mature market to manage for stability, it may be worth revisiting that assumption.

**For Exports from Japan, Balancing Currency Tailwinds Against Tariff Exposure.** A weaker yen makes exports from Japan more competitive, but tariffs and other trade barriers are limiting that effect for several industries. Leaders need to weigh the two forces together.

**Tapping into Japan's Dealmaking Opportunities.** Global companies can access technologies, capabilities, customers, and partners—including through acquisitions, alliances, and collaboration with Japanese companies expanding globally.

**Drawing Lessons from Japan's Experience with Disruption.** Japanese businesses have spent decades navigating large currency swings, energy dependence, demographic pressure, and complex economic relationships with both the US and China. There are lessons in that experience for any global company seeking to build resilience.

Until next time,

**Christoph Schweizer**
Chief Executive Officer

## Further Insights

### The 2025 Japan Value Creators Report

A company needs a strategic narrative that demonstrates not just what it aims to achieve but why investors should choose it.

Explore Japan's Equity Story

### Pension Systems Are Cracking—Here's How to Fix Them

Aging populations are straining pension systems worldwide. Our analysis reveals how smarter design and savvy implementation can secure sustainability, equity, and adequacy for future generations.

Fix the Funding Gap

### The Great Divide: How the US and China Are Splitting the AI World

The AI superpowers—the US and China—are creating two increasingly incompatible tech stacks. For companies, the window for mixing the two may be closing.

Understand the AI Divide

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