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Systems International House of Japan

SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE 21ST CENTURY: AN AGENDA FOR JAPAN AND THE UNITED STATES

NOVEMBER 20-22, 2025
KARUIZAWA, JAPAN

FINAL REPORT

2025 Symposium on Building the Financial System of the 21st Century: An Agenda for Japan and the United States

The twenty-eighth Japan-U.S. Symposium on Building the Financial System of the 21st Century was held from November 20-22, 2025 in Karuizawa, Japan. Sessions addressed how far financial regulatory changes were likely to proceed, the implication of tariffs on international finance and trade, impact of activist investors on Japanese corporate governance and financial markets, and the impact of monetary policy on economic growth in Japan.

Topic 1: How Far Will Financial Regulation Go?

In Topic 1, participants discussed prospects for financial regulatory changes. They observed that in the U.S., there was an increasing trend toward liberalization, including in banking and digital assets, as well as a shift toward expanding retail access to more financial products, particularly private assets. Participants also saw a contrast between the U.S. and Japan, with U.S. financial regulation changing dramatically from administration to administration, whereas Japanese financial regulatory change was more incremental and consistent.

Regulatory Balance

Participants had contrasting views of whether the U.S. and Japanese financial systems were overregulated or appropriately regulated. Banking was a particular area that many participants regarded as being overregulated, especially in the U.S. They raised three main concerns. First, they argued that stringent capital, liquidity, and leverage requirements reduced banks' ability to provide essential growth capital to the economy, raising borrowing costs for SMEs and innovative companies. Second, they argued that many of those requirements did not actually increase the safety of the banking system and that some, such as the supplemental leverage ratio, were actively counterproductive. Third, they pointed out that heavy regulation on banks was leading to more credit being provided by non-bank financial institutions, where it was harder for regulators and supervisors to identify systemic risks. There were fewer concerns about Japanese banking regulation, which had avoided "gold-plating" of Basel standards and where non-bank lending was less extensive than in the U.S. However, they also observed that Japan had fully implemented Basel III, while the U.S. had not, raising issues of competitive equality and impacts on economic growth. Meanwhile, other participants cautioned that post-crisis banking regulation had been enormously successful at preventing systemic risk and contagion even at times of peak stress, such as the COVID-19 epidemic. They were therefore wary of rolling back key elements of those regulations.

Participants also identified a number of activities in which more, or at least more explicit, regulation might be needed. These included various uses of AI, as well as digital assets, private markets, and prediction markets. In the case of AI, participants noted that there was a lack of clarity about the ways in which it could be used, related largely to the non-transparency of AI decision-making. For example, while robo-advising was seen as an attractive way of supporting retail investors, concerns about liability for mistaken advice were delaying its widespread use. In some cases, there were also concerns about potential systemic effects, for example in the case of AI-driven trading, where runs and contagion could occur based on hallucinations. Credit rating was another area where some participants saw considerable potential but also reluctance due to its potential to make mistakes or break existing laws (for example, by unintentionally discriminating against certain demographics).

Overall, participants distinguished between deregulation and liberalization. Many were in favor of further liberalization of financial markets, by which they meant allowing investors, savers, and financial institutions to use their own judgment about how to manage risks and pursue their

financial strategies. In some cases, this could mean less regulation or less intrusive supervision—in banking regulation for example, reducing complexity, making stress testing more transparent, and reducing capital, liquidity, and leverage requirements that raised costs without improving crisis management. Many participants also hoped for reduction of entry barriers to private markets or the establishment of crypto exchanges or funds. However, they also emphasized the importance of appropriate regulation to well-functioning markets. Regulation could reduce uncertainty about liability, which in turn could support innovation and competition, as financial institutions would be able to introduce and expand access to new products and techniques to increase speed, reduce costs, and improve functionality with the confidence that they would not be liable to legal attack. Regulation was also seen as essential to ensuring market integrity, quality of market information, ensuring cyber security, and other functions that could give investors confidence in the fairness and efficiency of markets in which they were considering investment.

There was still considerable scope for disagreement about the correct regulatory balance, as participants recognized that regulatory systems pursued multiple objectives, including financial stability, investor protection, competition, innovation, and economic growth. Many participants agreed that the Biden administration had emphasized financial stability and investor protection over promoting innovation and competitiveness. Some characterized this as a “safer is better” approach. They argued that this had reduced the ability of the financial system to provide growth capital to the economy, leading to lower economic growth and lost opportunities for investors. In contrast, the Trump administration was primarily concerned with promoting financial innovation, maximizing choices available to investors, and increasing the ability of banks and public and private markets to provide growth capital. Many participants expressed frustration with the “safer is better” approach, arguing that economic growth and investor returns should be the primary goal of financial regulation.

Participants noted considerable cross-national differences between the U.S., Japan, and the EU. In contrast to the U.S., where the regulatory pendulum had swung dramatically, financial regulatory changes had been more consistent in Japan and the EU in recent years. This reflected a greater political consensus about the goals of financial regulation, as well as a greater reliance on technocratic processes. Greater consistency allowed financial institutions and investors to plan and make investment decisions with more confidence about the shape of markets, which many participants saw as attractive. For example, Japan had been a leader in establishing rules for digital finance, allowing for the expansion of opportunities for Japanese crypto investors and preventing the types of issues of fraud and market manipulation that had damaged U.S. investors in cases such as the FTX failure. Exchange operators could also have the confidence that they were operating within the law thanks to regulatory clarity and dialogue between regulators and the industry. However, some participants argued that Japanese (and, even more so, European) financial regulation remained too restrictive, overemphasizing stability over innovation and growth. They noted that U.S. financial markets were more vibrant than those of Japan and Europe and that U.S. economic growth had outstripped Japanese and European growth, which they attributed to U.S. financial markets generating more growth capital and rewarding innovation and risk-taking by companies. To a considerable extent, this was seen to reflect the dominance of bank lending in Japan and the EU, whereas the U.S. had a complex ecosystem of banks, public markets, and private markets that could address the needs of companies of every

size, type, and stage of maturity. These participants made the case that Japan and the EU would benefit from promoting financial innovation to create such an ecosystem. However, a number of participants argued that Japanese regulation had achieved the correct balance between financial stability and encouraging innovation. Innovation in digital finance had been encouraged while also protecting the banking system from new systemic risks. The positive effects of two decades of capital market liberalization and high-quality supervision could be seen in Japan's booming stock markets, improved corporate governance, and rising market discipline as seen in M&A markets and the impact of activist investors. Moreover, these participants noted that Japan had achieved these successes through steady, incremental processes supported by political consensus and industry-regulator dialogue. They contrasted this with the more unpredictable and politicized process in the U.S., which had created both uncertainty and gaps in regulation. They also saw the Japanese regulatory system and policy process as superior to the EU, which they characterized as stifling capital markets development due to a conservative approach to risk and innovation, as well as a slow, multilayered, bureaucratic policy making process.

Digital Asset Regulation

Participants agreed that one of the biggest developments in financial market regulation since the previous Symposium was the promotion of digital assets in the U.S. Prior to 2025, U.S. digital asset markets were marked by regulatory uncertainty, lack of political consensus, and in some cases open hostility on the part of regulators. The Trump administration had completely flipped the script compared to the Biden administration, making efforts on multiple fronts to promote digital finance including stablecoins, crypto assets, and tokenization.

On the legislative front, the passage of the GENIUS Act had broken a multi-year legislative stalemate between advocates and opponents of stablecoins. It mandated that USD stablecoins be fully backed by safe, highly liquid assets and prevented them from paying interest to holders in order to reduce incentives for risk-taking (and thus also making them less competitive with bank deposits). Given the central role of stablecoins in mediating between traditional and digital finance (with stablecoins so far having been primarily used to buy and sell digital assets like Bitcoin), many advocates had seen stablecoin regulation as an essential first step toward a more comprehensive digital assets ecosystem. Stablecoins were also seen as having the potential to become systemically important in the payments system, making it all the more important to ensure that they were properly backed with safe, liquid assets. Broader legislation to govern regulation of digital assets (CLARITY Act) had not yet passed the Senate, but many participants were optimistic that the law would be finalized in 2026. The CLARITY act would clearly define digital assets, designate the regulators and supervisors for different activities, and mandate conformity with financial regulations including anti-money laundering, disclosure and transparency, and segregation of customer funds.

In addition to advancing legislation, the Trump administration had been proactive in promoting digital finance in other ways, enabling a rapid expansion in digital financial products and services to U.S. investors. In particular, the SEC had reversed its previous reluctance to approve crypto funds and exchanges as well as its aggressive enforcement approach toward players in the industry. Under its new leadership, the SEC was considering creating a new taxonomy for digital assets that would clarify which digital assets qualified as securities, provided guidance for crypto

asset custody, and established crypto ETF listing standards. Importantly, it also curtailed enforcement actions against a variety of digital finance issuers and exchanges. Increased regulatory certainty together with decreased fear of enforcement actions had already led to a burgeoning of ETFs and other offerings, and participants anticipated that this trend would continue.

In many respects, the new legislation would bring the U.S. regulatory system for digital assets (particularly for stablecoins) in line with those of Japan, the EU, and other major financial centers such as Hong Kong and Singapore. However, many participants agreed that the U.S. had become much more active in promoting digital finance, both through the actions of regulatory and supervisory agencies and due to the strong rhetorical support of the Trump administration—including the Treasury, Department of Justice, and the White House Working Group on Digital Asset Markets, among others. One major difference between the Japanese and U.S. approaches was in the relationship between the digital and traditional financial markets. Japanese digital finance law had so far been predicated on a clear separation between digital assets and the banking system (although banks are already authorized to apply for a license to issue stablecoins, those assets would be kept separate from deposits). In contrast, U.S. regulators had signaled that banks would be encouraged to do business with institutions issuing, trading, and custodial digital assets. On the other hand, the Japanese government was in the midst of clarifying the status of digital assets as securities. As currently under discussion, this would by 2028 effectively bring digital financial products into the mainstream by treating them as securities in all respects, including disclosure, market integrity, taxation, and insider trading rules. Participants differed in their assessments of which approach to dealing with digital assets was better—the new U.S. approach, which emphasized speed and experimentation, or the more deliberative Japanese one, which emphasized financial stability and effective prudential regulation.

Participants also raised concerns about new threats to systemic stability. Some worried about a build-up of invisible risks in less-regulated markets like digital assets and private assets, in particular the potential for contagion between those assets and the traditional financial system. In the absence of data about connections between those markets on the one hand and banks and debt markets on the other, they feared that regulators were flying blind. A particular concern in this regard was over stablecoins. In the event of large-scale redemptions of a stablecoin, the quality of its backing would be the key to whether redemptions became a run; meanwhile, if the stablecoin market expanded significantly, large-scale redemptions could also upset money and short-term debt markets.

The rise of digital finance, and especially stablecoins, also raised concerns about the speed and magnitude of capital flight from developing economies. Stablecoins would offer the ability to avoid capital controls, potentially increasing the frequency and impact of currency crises. Some participants also noted the predominance of the USD in stablecoin issuance and worried that it could weaken the international status of other major currencies including the Yen and Euro.

Digital finance was also seen as posing new or increased challenges in terms of criminal behavior. The anonymity of many digital assets would complicate enforcement of anti-money laundering, terrorist financing, and know-your-customer regulations, facilitating crime, terrorism, and tax avoidance. Participants recognized the importance of identifiable on-ramps and off-ramps to reduce these problems; at the same time, anonymity was one of the original

promises of crypto assets and many users and issuers would be resistant to changing that. An additional concern was the challenge of atomic settlement. While parties to a transaction would typically prefer to have access to their funds immediately, making this an attractive aspect of digital finance, the difficulty of reversibility would make it more difficult to track cybercrime (or even just mistakes) and provide restitution to its victims.

Regulation of Private Markets

Another area of significant liberalization in the U.S. was access to private markets. Already, private equity and private credit had expanded rapidly—particularly in the U.S., but also to some extent in Europe and Japan. Participants attributed this growth to several factors, on both the supply and demand sides. It was observed that private markets had shown higher returns than public markets in recent decades. Some attributed this to a better economic model, in which investors had more direct control over the uses of their capital, including direct management of companies in the case of private equity. It was also argued that private markets allowed for longer time horizons for investors, which was seen as particularly attractive to investors such as pension funds and life insurers; moreover, some participants saw significant cost reductions relative to publicly-traded firms in terms of regulatory burdens. For private credit, it was agreed that a major factor in its growth was banking regulations that had made banks less willing to make loans to riskier clients.

In the U.S., there had been an ongoing debate about who should have access to private markets. Private markets had long been accessible to institutional investors as well as individual investors who qualified on the basis of assets and/or income but most retail investors were prevented from investing in private markets on the principle that they should be protected from investments that could be more opaque, more illiquid, and potentially riskier than public securities. A number of participants argued that this line of thinking was out of date and unnecessarily disadvantaged regular households relative to wealthy ones. They noted that private market returns had exceeded public market returns for an extended period of time, making it unfair to exclude most retail investors. It was also argued that retail investors already had access to many other financial products that were at least as volatile and risky as private markets, including crypto assets, derivatives available on retail trading platforms, and even prediction markets. Thus, they advocated for enhanced retail access. Other participants were more skeptical of the benefits of expanded access to private markets. They questioned whether the superior returns could last as the size of private markets expanded and the quality of deal flow declined. They also expressed concerns about the quality of financial information and the difficulty of determining the value of a close-end fund composed of private assets. Perhaps most importantly, they identified long lock-in periods for most closed-end funds as creating significant liquidity risks for retail investors who might need to access their funds sooner than they originally expected.

Already in the U.S., the barriers to retail entry to private markets had been eroding in recent years (with redefinition of sophistication requirements), and the Trump administration planned to lower them much further. In particular, an August executive order had directed the Department of Labor to facilitate the right of defined-contribution (e.g., 401(k)) owners to invest in alternative assets including private offerings. Proponents of this change had pointed out that defined-contribution pension assets are by definition meant to be held for the long-term, reducing

concerns about liquidity. This alignment of time horizons made private assets an ideal investment for defined-contribution pensions. It was also noted that there was a growing secondary market (“secondaries”) for private equity, which would allow investors to sell their holdings quickly if needed. Thus, several of the major concerns that had justified restrictions on private assets had been effectively addressed. Other participants were more skeptical. They questioned the quality of pricing of secondaries, given the low turnover and the limited information on investments in a given fund. Moreover, they argued that liquidity was likely to plummet in times of financial stress, making it more difficult for investors to sell holdings at times when many investors might need to do so at once, although empirical evidence of this was scant. And challenges of opacity and market pricing would remain. Regardless, rules were being put in place to allow greater access, and participants agreed that there would be an expansion of retail ownership of private assets.

Japanese regulators and industry were open to the expansion of private assets for some of the same reasons that U.S. regulators and industry had embraced them. Private equity and venture capital were seen as important vehicles for funding start-ups and innovative firms, as well as accepting longer time horizons than publicly-traded equities. Private credit was also seen as a potentially important way of expanding credit, especially to smaller or less-established firms, due to the conservative nature of bank lending. However, Japanese regulators were more cautious about granting retail investors access to private assets. Japanese restrictions on individual investors were similar in intent to pre-2025 U.S. rules, but Japanese individual investors in private assets were almost entirely high net-worth. Moreover, participants saw little appetite among Japanese regulators for the kind of liberalization that the U.S. was pursuing (not to mention the fact that Japanese defined-contribution pension holdings were far lower than in the U.S.). Thus, most anticipated that growth in Japanese private markets would primarily come from institutional investors like life insurers and trust banks.

Some participants raised the question of system risk. In principle, the long-term holding periods for private markets should eliminate or at least substantially reduce the risk of contagion. However, it was argued that there could be wider exposure to the risk. For example, private equity funds often carried leverage (for example, as part of a leveraged buyout). And some participants expressed concern that there was not enough reliable data on bank exposure to private markets. Losses in private credit could also have reverberations elsewhere in the financial sector—for example, if losses by a fund affected the value of life insurance or annuity policies, or if investors in private assets were using them as collateral against leveraged investments. Some participants brought up the recent example of the collapse of First Brands. While some argued that it showed the potential for contagion from private credit to the banking sector, since the syndicated loans had included both banks and NBFIs, others argued that the case was actually reassuring, since the losses in private credit had not spread beyond those funds themselves.

International Cooperation

Observing the divergence of U.S., Japanese, and European regulation in several areas, participants addressed the question of whether international regulatory cooperation was still possible or desirable. They noted that international cooperation had been important in improving

the efficiency and safety of global markets. The post-financial crisis regulatory agenda had been particularly sweeping and transformative, reshaping regulations on banking, financial markets, and derivatives, and fundamentally reconfiguring approaches to prudential and macroprudential supervision. Globally-active financial institutions had benefited from having a common rulebook, even where the costs of compliance were high or individual jurisdictions had different interpretations or gold-plating of globally-agreed rules. Ongoing regulatory dialogues at organizations like the Financial Stability Board, the Basel Committee, IOSCO, and IAIS had facilitated a common regulatory framework, promoting cross-border finance. While financial regulators and institutions did not necessarily agree with every aspect of this global regime, many saw the value in consistency.

Many participants argued that the bases of that cooperation appeared to be increasingly in question. They observed growing regulatory divergence among major players, especially the U.S. and EU, compounded by efforts at extraterritorial enforcement, including the global extension of the EU's data privacy laws and the U.S.'s secondary financial sanctions. They argued that the political bases of cooperation were also under assault, as nationalism, populism, and suspicion of technocrats rose in much of the world (albeit with the partial exception of Japan), making international cooperation less valued among voters and politicians. One example raised by some participants was the Basel III Endgame. While Japan had already fully adopted Basel III, the EU had postponed and amended it and the U.S. was in the midst of reconsidering its own version.

Overall, however, participants anticipated that cooperation, or at least roughly common standards, would continue to hold in traditional finance, partly because they had shown their worth in times of stress during COVID-19 and partly because major global financial institutions benefited from the certainty and consistency of following a common set of rules across borders. Even if the U.S. were to significantly water down the Basel III Endgame rules, for example, most of the principles of global financial cooperation would hold. However, participants saw large and widening differences outside of traditional financial activities, including in digital finance, private markets, and uses of AI. U.S. regulation was far more oriented toward enabling financial innovation and new uses of technology than Japan, or especially the EU. For some participants, the U.S. prioritization of innovation and experimentation looked like it could be coming at the expense of increasing systemic risk. For others, Japan and the EU were giving up opportunities for growth and innovation that would weaken them in the long run.

Regulatory divergences could easily lead to fragmentation, reducing the efficiency of financial systems and creating compliance headaches for multinational financial institutions. Some participants also raised the possibility of a race to the bottom, as efforts to promote non-traditional financial institutions and practices—for example, to attract crypto exchanges or become a world-leader in AI—could lead to systemic vulnerabilities that could cause financial crises. Not all participants saw these regulatory divergences as problematic, however. They argued that it was appropriate for different jurisdictions to experiment with different approaches to new products and technologies. Over time, the value or dangers of particular activities would become more apparent, but in the absence of consensus or sufficient information about how they would be used, perhaps it was better to try out different approaches rather than regulating the unknown.

Topic 2: Implications of Tariffs on International Finance and Trade

In Topic 2, participants considered the implications of U.S. tariffs on international trade and finance. They discussed whether the tariffs were successful in either economic or political terms in the U.S., as well as their impact on global trade to date and the ways in which Japanese firms were adapting to the new reality. Participants also addressed how tariffs might affect international finance. Finally, they discussed the future of the international trading system and whether the establishment of a rules-based system would be feasible.

Trump Administration Tariff Policy

Participants recognized that the Trump administration's tariff policies constituted a significant break with postwar U.S. trade policy. The policies raised overall tariffs to levels not seen since the 1930s. Moreover, they abandoned the principle of uniform tariffs for most-favored nations in favor of unilateral tariffs on a country-by-country basis. While final agreements on tariff levels were mostly decided following bilateral negotiations, the functional result in all major cases was much higher tariffs on imports to the U.S. without retaliatory tariffs on imports from the U.S. (in part due to even higher U.S. tariffs imposed in response to retaliation). In the case of Japan, new U.S. tariffs averaged 15%, albeit with some exceptions based on negotiations or U.S. supply chain needs. In addition, Japan pledged to invest \$550 billion in the U.S. by 2029 with the U.S. government exerting substantial control over project selection and sharing in the profits.

The Trump administration had offered multiple justifications for the tariffs. Economic justifications included reducing the U.S. trade deficit, countering unfair trade practices by foreign countries, revitalizing U.S. manufacturing, collecting tariff revenues to help fund tax cuts, and addressing domestic income inequality by bringing manufacturing jobs back home. In addition, the administration had enumerated a variety of political goals, ranging from traditional concerns about national security to non-traditional justifications for trade restrictions including allowing the transit of illegal drugs and immigration to the U.S, though some questioned how tariff policy would achieve these goals. Tariffs and other trade restrictions on China constituted a special case, with average tariffs above 50% and a variety of specific restrictions on particular products including banning the export of certain high-tech and military-relevant products to China.

One question that participants addressed was whether the various goals were attainable and/or compatible with each other. Many participants expressed skepticism on both counts. With regard to the U.S. trade deficit, it was noted that the deficit reflects the overall difference between saving and investment; thus, the deficit could only be shrunk by increasing saving (i.e., decreasing consumption) or reducing the fiscal deficit. Given the expansionary nature of the administration's expansionary fiscal policy, the only way the trade deficit would decline in the short term would be through reduced consumption, which would be incompatible with raising real wages. A second question was whether tariffs would lead to a revitalization of U.S. manufacturing. With high enough tariffs for long enough, it was argued that domestic production of some goods was likely to increase, albeit presumably at higher prices. However, many

participants pointed out for high-tech or precision manufacturing, investments are planned years in advance, and depend on a variety of factors beyond tariffs, including access to high-quality labor and connections (or in some cases proximity) to global supply chains. Absent a high level of confidence that tariffs would stay in place for the long term as well as an effective workforce policy, investors would be hesitant to make large-scale shifts in their supply chains. In this sense, it would be important for the Trump administration to make a credible commitment to permanently higher tariffs. Low-wage labor-intensive production was unlikely to move back to the U.S. because of high prevailing wages. As for effects on household welfare and the U.S. fiscal balance, a key question was who would pay for tariffs. While the White House had argued that the cost would be borne by foreign exporters who would lower their prices in order to keep market share in the crucial U.S. market, estimates by outside economists suggested at least half of the cost of tariffs was being borne by U.S. consumers (in the form of higher prices) or U.S. importers (by reducing their profit margins). Some of the cost of the tariffs could be reduced by importing from countries with facing lower tariffs (especially on products that were still subject to other trade agreements), so the effects would vary based on country of origin, pricing power of a given producer, or price elasticity of demand. But it appeared that the prediction that foreigners would bear the full cost of tariffs was mistaken. Some participants argued that the Trump administration had effectively admitted that tariffs were leading to higher prices when it recued tariffs on a variety of food commodities just before the Symposium. To further complicate the analysis, a variety of manufactured products, especially intermediate goods, had been temporarily exempted from tariffs.

While there was considerable skepticism about the economic effects of the U.S. tariff policies, some participants argued that they were bringing about some political successes. Strikingly, the U.S. had been successful at reaching one-sided agreements with many of its trading partners, particularly its allies. Japan, for example, had agreed to accept an increase of average tariffs from around 2% to 15% without imposing new tariffs on U.S. products, in addition to pledging large-scale investments whose profits would be shared with the U.S. government. Even the EU had agreed to accept unilateral 15% tariffs. Whether imposing high tariffs on allies would damage cooperation on other fronts was another question, but in principle the administration could declare victory in this respect.

Another potential political success was showing an ability to stand up to China, which many Americans felt was threatening the U.S. economy as well as U.S. security interests. The Trump administration's willingness to impose high tariffs (rising above 100% on average at one point and still around 50% on average) as well as restrict some technology exports could be seen as symbolically important. With the U.S. economy no longer absorbing the bulk of Chinese excess production, it would have to find other markets either at home or in the rest of the world. For Japan (as well as Europe and elsewhere), this would raise concerns about a flood of low-priced Chinese exports that might lead them to protect their home markets as well. At the same time, China had shown the ability and willingness to weaponize its own trade policies, including by restricting exports of rare earth elements to the U.S. and canceling imports of U.S. agricultural products.

How Are Tariffs Changing Global Trade?

While the final configuration of U.S. tariffs and trade policy was not completely certain, participants agreed that at least for the duration of the Trump administration, tariffs would remain at historically high levels and be differentiated by country rather than imposed on a most-favored nation basis. Even if the next administration were to be more free trade-oriented, it would be difficult to fully unwind the tariffs, particularly if they were producing significant revenue that would require either spending cuts or tax cuts to make up for their removal. Thus, an important question was how tariffs were changing global trade.

Participants identified several issues that would contribute to answering that question. First, although they agreed that the Trump administration had shown considerable commitment to the principle of high, country-specific tariffs, they noted that there remained a great deal of unpredictability as to the levels and distribution of those tariffs going into the future. Already, the administration had shown a willingness to adjust tariffs without warning, whether to respond to the needs of a U.S. company requesting lower tariffs on essential intermediate goods or to reduce the impact of tariffs on grocery prices as Christmas approached or as a signal of political hostility toward a particular country or leader. President Trump had also spoken about using tariffs to balance trade—thus, in principle, he could lower tariffs on a country with which the U.S. developed a trade surplus. Perhaps the biggest wild card was uncertainty over how the Supreme Court would rule regarding the use of the International Emergency Economic Power (IEEPA) Act to declare the trade deficit to be a national emergency and then impose unilateral tariffs. Many participants anticipated that the Supreme Court would find the tariffs to be a violation of the statute. While this would lower most tariffs, it would also add considerably to policy uncertainty, as the president would presumably use other authorities to impose tariffs, each of which would require a specific process and maximum limit.

Uncertainty about tariffs also implied uncertainty about the effects of tariffs, although participants identified a few patterns that they were beginning to see. In particular, exports from China to the U.S. were down considerably, shifting away from China to producers facing lower U.S. tariffs. And the destination of Chinese exports (which were at historically high levels) was shifting from the U.S. to other countries. Multinationals with operations in multiple countries could selectively shift where final assembly was occurring for exports to the U.S., minimizing disruptions in supply chains. Nonetheless, it seemed likely that trading partners in Asia and Europe would encounter a surge of cheap Chinese exports, leading to pressures on their own competing industries.

The big unanswered question was what effects the tariff policies would have on global investment and thus supply chains. Participants agreed that it was still too early to say anything about investment into the U.S., since manufacturing investment takes years to plan and execute. While a number of major investments, such as chip manufacturing plants, had been announced by the Trump administration, they had either been started in previous years and were just coming online or were at an early stage of planning. Interestingly, participants stated that they were not aware of any evidence of Japanese manufacturers making major changes to their existing U.S. investment plans, although there was some discussion of increasing production in existing plants. The main reason given was the intricacy of supply chains for complex products, which would

make shifts in production and transportation schedules costly in the short term. However, many participants anticipated that Japanese (and probably Korean, Taiwanese, and European) manufacturing companies would likely start shifting parts of their supply chains, at least for final exports to the U.S., in order to reduce the impact of tariffs. Some participants also raised the possibility that concerns over economic security and the possibility of a new Cold War could induce more reshoring and friendshoring among companies that were reliant on China for critical components and intermediate goods. A number of participants argued that it was likely that at least some of that friendshoring would result in investments in the U.S., partly to access U.S. markets and partly to fulfill the Japanese government's promise to facilitate \$550 billion in investment in U.S. strategic industries. Meanwhile, the ever-changing jumble of bilateral tariffs made it difficult for companies with multinational operations or supply chains to optimize their production for export to the U.S.

Finally, a number of participants noted that the impact of the tariffs on Japan would be muted by the weakness of the yen, which would make Japanese goods cheaper for U.S. consumers. Indeed, over the last two years, the yen was trading around its lowest level since 1990 in nominal dollar terms and its lowest level since 1985 in real effective exchange rate terms. With the expectation that Japanese interest rates would start to rise and U.S. interest rates would continue to fall, the yen seemed likely to strengthen a bit, but it would have a long way to go to return to its historical average.

Financial Impacts of U.S. Trade Policies

While tariff policy most directly affects patterns of goods trade, participants also discussed the potential impact on the global financial system and on U.S.-Japan financial relations. They noted that President Trump appeared to have little interest in services trade, even though the U.S. maintained surplus in services that somewhat narrowed the overall trade deficit. Still, participants identified several ways in which finance could be affected.

First, there was an expectation that U.S. trade policies could lead to redirection of trade, as U.S.-China trade dropped and growing confrontation between the U.S. and China could accelerate reshoring and friendshoring among U.S. allies. This suggested the possibility of a more fragmented global trading system. Several participants argued that finance tends to follow trade, raising the likelihood of greater financial fragmentation as well. Moreover, some anticipated that the extensive use of financial sanctions by the U.S. in recent years against entities in countries including China, Russia, and Iran, as well as the potential use of secondary sanctions on companies doing business with listed entities would increase use of financial systems that bypassed the U.S. banking system and U.S. dollar. In other words, they worried that the global trading and financial systems might fragment along the fault lines of a new Cold War.

Second, some participants argued that the unilateral actions and use of economic leverage by the U.S. against trading partners and allies would likely erode its position as a global economic and diplomatic leader. While participants remembered the history of U.S.-Japan trade and financial frictions in the 20th century and recognized that the U.S. had always operated in its own self-interest, many felt that the U.S.-led global economic system had also provided substantial international public goods in the form of a (mostly) rules-based order. They felt that in this case,

the U.S. was actively taking advantage of its allies without offering benefits in return. While Japan and other allies had felt compelled to accept unilateral U.S. tariffs, it was argued that at least some would start hedging their bets and become less willing to go along with U.S. initiatives.

Third, many participants identified the global role of the U.S. dollar as one of the most important symbols and tools of U.S. power. Some questioned whether the dollar would maintain its global preeminence, arguing that acceptance of the dollar system was based on the U.S.-led global political order. So far, however, there appeared to be no evidence of a diminution of the dollar's global role. Foreign demand for U.S. Treasuries remained robust, despite some evidence that foreign central banks including China's were marginally shifting away from dollars toward gold. However, any such shift was exceeded by continued private-sector demand. Moreover, some argued that if anything, the role of the dollar would become more central to global finance due to the expected growth of stablecoins as a payments method. Since 90% or more of global stablecoin issuance was in USD, this would guarantee continued demand for Treasuries and a continued central role for the U.S. financial system. Others were less sanguine. Some noted that the dollar had weakened a bit since President Trump's inauguration (except against the yen), although that appeared to be driven primarily by interest rate differentials with other major currencies. A more serious concern was raised by participants who feared that the president would succeed in subordinating the Fed by appointing a compliant chair and potentially by firing board members if the Supreme Court approved the dismissal of Lisa Cook. A politically subordinate Fed could lead to higher inflation as well as politically-driven business cycles that could be destabilizing to the financial system.

The most direct relationship between the Trump tariff policies and cross-border finance was seen in the U.S.-Japan investment agreement decided as part of the tariff negotiations over the summer. In order to reduce the tariff level from the "reciprocal" tariff level that was initially imposed at 25%, and in particular to ensure that Japanese automobiles and auto parts would not be subject to more than 15% tariffs, the Japanese government had agreed to facilitate at least \$550 billion in investment in priority technologies by the end of the president's term of office. While some details of the agreement had been made publicly available, there had been conflicting reports about the terms and participants found themselves with more questions than answers about how it would actually work, including whether funds would go directly to the U.S. government to invest (state capitalism) or if not, how investments would be designated as part of the \$550 billion, how profits would be shared, how much direction the U.S. government would exert, whether Japanese firms would be cooperative, and how new investments would be calculated.

New Global Trading Order

Finally, participants discussed the impact of the Trump administration's tariff policy on the future of the global trading order. While they recognized that in principle the tariffs were reversible (and in the short run some of them could even be overturned by the Supreme Court (although many could be replaced using other legal justifications), many participants expected that U.S. tariffs would remain historically high for the foreseeable future. In addition, they noted that industrial policies and subsidization of targeted industries was on the rise in many countries,

due to concerns over economic security, integrity of supply chains, and the desire to lead in the development and deployment of key technologies. Thus, many participants anticipated that the global trading order was likely to undergo important shifts.

One key question was whether some kind of a global rules-based system could be reestablished. Participants agreed that Japanese policy makers and economic leaders strongly preferred a rules-based system with clear principles for adjudicating disputes among members—in other words, a system like the WTO. Many participants saw other economies, including most prominently the EU, South Korea, the UK, Canada, Southeast Asia, and parts of Latin America, as also being supportive of a rules-based system. (Participants also recognized that China was publicly aligning itself with the WTO, but many felt that China’s actions had undermined the legitimacy of the WTO by accumulating enormous excess capacity and trade surpluses.)

Even optimists about the potential for reestablishing a rules-based trading system acknowledged that the rules themselves would need to change to accommodate the new realities of global politics and economics. They argued that a new system would need to make room for economic security and industrial policies, rather than seeking to ban policies that had remained widespread in practice. However, there was little consensus about how to deal with persistent imbalances or trading practices that damaged other countries’ industries and labor markets.

Participants discussed four possible futures for reestablishing a rules-based trading system. Some suggested that it might be possible to reform the WTO rules and structure to reestablish a truly global system, even though the ambition of the rules would need to be curtailed. An alternative vision was what some called “America passing” or a “coalition of the willing”—using existing high-quality regional and cross-regional trade agreements including the EU, CPTPP, and Mercosur to build a high-quality rules-based system that did not include the U.S. or other uncooperative economies (such as India, Russia, and perhaps China). A third possibility would be a return to Cold War-style trading blocs, one U.S.-led and the other China-led, with non-aligned economies left in sometimes uncomfortable positions. Participants agreed that the worst scenario would be a return to the 1930s, where tariffs were high and trade was governed by a jumble of bilateral tariffs and non-tariff trade policies.

Topic 3: The Future of U.S. and Japan Cross-Border Investment

In Topic 3, participants discussed the future of U.S. and Japan cross-border investment (apart from tariff effects). They gave positive assessments of the governance and regulation of both markets. Overall, participants were enthusiastic about the prospects for growth in cross-border investment, as well as the potential for mutual benefit.

Growing Opportunities

Participants noted that valuations in both the Japanese and U.S. capital markets had been prospering in recent years, with stock markets in both countries hitting historic highs over the course of 2025. On the other hand, shrinkage of the U.S. public market due to liability and over-regulation, seemed on the road to reversal due to new policies of the Trump administration. Japan and the U.S. also boasted the world's deepest and most liquid government bond markets. U.S. private markets remained by far the world's largest, but opportunities for private equity and M&A have been growing rapidly in Japan.

The U.S. has long been a major destination for outward direct Japanese investment. Japanese companies account for the largest amount of FDI into the U.S. on both a cumulative and annual basis. Japan also accounts for the largest foreign holdings of U.S. Treasuries and is among the top sources of portfolio investment into the U.S. Similarly, U.S. investors are the largest foreign holders of Japanese government bonds and equities.

U.S. institutional investors have been active in trying to improve the Japanese investing environment. Many have signed onto the Stewardship Code and have been active participants in formulating and revising it over time. Similarly, they have sought out business as fund managers for the General Pension Investment Fund (GPIF) and for Nippon Individual Savings Accounts (NISAs).

Participants gave generally high marks to Japanese financial markets regulation. While the FSA had developed a reputation in its early days as a strict, detail-oriented enforcer of rules, participants noted that it had shifted over the last fifteen years from a checkbox approach to principles-based regulation, working with financial institutions to ensure that the spirit of the law was respected. Japan had also been engaged in a number of initiatives to improve the functioning of its financial markets, including most prominently the initiative to develop Tokyo as an international asset management center, promotion of NISAs, and continuing efforts to improving corporate governance. The FSA was also working to support the development of private markets and to ensure market integrity and investor protection in digital finance while also nurturing innovation in crypto assets and blockchain applications. In addition, it was noted that the FSA was active in international cooperation, both at the global level and bilaterally with U.S. and other authorities, contributing to a smooth cross-border investment climate.

Activist Investing and Private Equity

Much of the discussion in Topic 3 was about the rise of activist investing and private equity in Japan. Many participants agreed that Japan was ripe for such investment strategies. Many public companies still bore the vestiges of traditional Japanese management practices that emphasized growth and employment over profitability. However, with the erosion of stable cross-shareholding among related firms and the establishment of stronger corporate governance principles and the support of authorities including the FSA and Tokyo Stock Exchange, activist investors saw new opportunities to take stakes in companies and then use their voice to enact changes to improve profitability.

For private equity investors, the large number of family-owned SMEs made for attractive takeover targets. In many cases, the next generation was unable or unwilling to take the reins from aging owners, leading them to seek buyers. Private equity investors were in a position to purchase such companies and explore new business models. They would also be able to inject new capital in order to grow the companies or merge them with others to achieve economies of scale.

Participants noted several characteristics of Japanese corporate governance that were contributing to the success of activist and private equity investment. One of the most important was the tendency among many Japanese companies to hoard cash rather than invest it or distribute it as dividends. Among publicly-traded companies, this was attributed to conservatism and risk aversion among managers, whereas in family-owned SMEs it was argued that in some cases it was a strategy for dealing with Japan's high inheritance taxes. Regardless, investors saw an opportunity to shift company assets away from cash into productive uses, which would immediately improve corporate profitability and value. Additionally, several participants argued that segments of the Japanese economy were characterized by lack of consolidation, leading to excessive competition, low profitability, and underinvestment in R&D. Private equity firms and activist investors were in a unique position to advance consolidation. Finally, despite improvements in corporate governance practices, it was argued that many companies still need more independent and higher quality board members who understood their fiduciary duties to investors.

While much of the discussion was about the activities of U.S.-based activist investors and private equities in Japan, participants noted that there was a growing domestic investor base as well. Local private equity was seen as particularly active in regional economies, where the Japanese government was encouraging economic revitalization as well as derisking by regional banks. Several domestic activist investor funds had also entered the fray and in some cases were seen as more willing to disrupt corporate practices than foreign activist investors, who had learned to be sensitive to Japanese corporate culture and intercorporate relations.

Topic 4: Economic Growth in Japan—Impact of Monetary Policy

In Topic 4, participants discussed the monetary policy and growth prospects in Japan and the U.S., with a particular focus on Japan. They anticipated that the Bank of Japan would continue in its cautious tightening of monetary policy to stem rising inflation, but noted that the BOJ and Japanese government faced important challenges in balancing growth, price stability, and economic inequality.

Price Stability

After nearly three decades of extremely low or negative inflation, Japanese prices had been on the rise due to aggressive quantitative easing in the 2010s, tightening labor market, and the COVID-19 supply shocks. Consumer price inflation was consistently overshooting the 2% target and the yen was at historically weak levels. As a result, the BOJ had been slowly rolling back quantitative easing and raising short-term interest rates. Participants anticipated that the cautious tightening cycle would continue, with more incremental interest rate hikes on the way. Progress on reducing the BOJ's balance sheet was considered likely to be a decades-long process, however.

There was some discussion about what was meant by “price stability,” the primary mandate of the BOJ. Conventionally, it was understood as the only mandate for monetary policy, unlike in the U.S., where the Federal Reserve Act required the Fed to consider a dual mandate of price stability and employment maximization. However, some participants argued that the BOJ's mandate could be understood as similar to the Fed's dual mandate. For one thing, while the BOJ law designates price stability as the only Bank goal, it also notes that price stability is a means of ensuring sound economic growth and development, suggesting that price stability is a tool and not just the primary objective. Also, it was noted that one of the BOJ's most important monetary policy decision-making criteria was its calculation of the output gap (the gap between real and potential output), which by definition focuses on employment conditions.

Participants noted that in recent years, there had been some dissonance between different measures of prices and wages. While overall price levels were above the target, much of this was driven by the weak yen and the prices of imported energy and food, the BOJ's preferred measure of “core core” had been lower (albeit also above the target). By 2024, however, both measures had moved above the target and wage growth was also positive. With inflationary expectations firmly anchored, participants agreed that the BOJ would need to act to moderate price increases.

Supply Side Challenges

While monetary policy conditions were shifting to normalization, participants expressed concern about other macroeconomic conditions. One concern was that, despite rising wages and a positive output gap, real wage growth had remained weak and had in fact been negative in 2025. Many participants agreed that a major challenge was sluggish productivity growth, which they attributed to a variety of supply side factors, ranging from an aging workforce to low corporate

ROI to low growth in household wealth. Some participants argued that the BOJ had a role to play in promoting productivity, for example by using its voting power in its vast stock ETF holdings to encourage innovation and better corporate governance. Others were skeptical of the notion, arguing that monetary policy should focus purely on demand and avoid being pulled into industrial policy. They felt that issues related to investment, innovation, and corporate governance were most appropriately addressed by the government and markets.

In addition to productivity, participants identified economic inequality as a structural challenge for the Japanese economy. They noted that Japan had been experiencing a K-shaped recovery, with high levels of income and wealth growth among high-income households, but stagnation among low-income households. This had important effects not only on societal notions of fairness, but was also dampening consumption growth, as low-income households, which had the highest propensity to consume, were facing lower real wages. Underconsumption was seen as one of the reasons why the Japanese government kept needing to run deficits in order to maintain economic growth. Moreover, income inequality and declining real wages among low-income households had become increasingly politically salient, creating a demand for government action. Given the highly progressive tax system, the government had relatively few direct tools at its disposal to achieve change beyond raising the minimum wage. Increasing national pension payments would not be fiscally viable, although it was noted that pensions could be more means-tested (for example through taxation). Thus, most participants focused on the need for the government to support productivity growth by improving the flexibility of the labor market, reducing regulations in agriculture and other inefficient sectors, and encouraging corporate innovation and investment. Participants were split as to whether such measures could effectively address the challenge.

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