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Has China Become the New Japan and Japan the New China?

By Andy Serwer

By now we're well into second- and third-order implications of the Trump administration on markets and investing. Getting too granular here is a fool's errand, as Oaktree sage Howard Marks recently reminded us. Still, noodling on Trump Part Deux, at least directionally, is prudent.

Some of this is blindingly obvious. The oil-and-gas business has a wind at its back, and renewables have a wind in their face. Crypto is rocking, while, with the prospect of Robert F. Kennedy Jr. at the helm of the Department of Health and Human Services, Big Pharma stocks are looking wan.

Then there's Donald Trump's take on China and Japan—as well as the state of play of these two huge economies. This past week, the president-elect announced his intention to gin up a 10% across-the-board tariff on Chinese goods—layered on top of existing tariffs, which range from 7.5% to 100% —as well as new levies on Mexico and Canada. Japan was conspicuously not mentioned.

Those tariffs, as well as other macro factors, have me wondering if China has become the new Japan and Japan is the new China. With China's economy struggling and squarely in Trump's doghouse (despite the mitigating influence of Elon Musk and Tim Cook), will the world's second-largest economy stagnate over a sustained period, like Japan's did for decades, and become a market to avoid like the Hong Kong flu? Conversely, Japan has shown signs of life lately. It's viewed favorably by the new administration as a check against China and perhaps endorsed through investments by none other than Warren Buffett. Does that mean the land of the rising sun is once again on the rise?

For a reality check, I rang up veteran global investor Jim Rogers in Singapore to ask him about a potential Asian reordering. "I'm sure there's something there," he told me. "But it sounds a little bit like American propaganda to me." (Like I said, a reality check.)

To be sure, tariffs could produce a trade war and wallop most nations, including Japan, and as such, news of Trump's tariff tirade buffeted markets around the globe. Still, Japan bulls are cautiously optimistic. "We're sitting here three weeks postelection, thinking, 'Gee, what does the Trump administration mean for our clients and Japan specifically?' " says Michal Katz, head of investment and corporate banking at Mizuho Americas. "I think it will cause disruption in the global economic order. Japan is well positioned to have a meaningful role not only as the fourth-largest economy, but also as an ally, if not the most important ally, for the U.S. in the Indo-Pacific region." (Mizuho Financial Group is one of the big three Japanese banks, along with Mitsubishi UFJ Financial Group, or MUFG, and Sumitomo Mitsui Financial Group.)

It's also worth looking at remarks on China and Japan made by presumptive Treasury Secretary Scott Bessent ("a balanced guy who can work with crazy folks," according to a Yale '84 classmate in the finance biz). Bessent waxed hawkish about China in a recent speech in which he argued that U.S. trade policy with China served to enrich Wall Street at the expense of our domestic industry and did nothing to spur Chinese economic reforms.

Bessent and Japan is another story. Some 12 years ago, he made over $1 billion betting against the yen when he was chief investment officer at Soros Fund Management, according to The Wall Street Journal. "Scott is super-conversant about Japan," former Soros colleague Buzz Burlock told me. "It has been a big focus and a big profit center for him in terms of trading yen, the JGBs [Japanese government bonds], and the equity market there, both on the long and short side."

Bessent also appears to be a student of Japanese government policies. This past June, he was interviewed at a Manhattan Institute event about his ideas for then-candidate Trump based on the "three arrows" economic program implemented by Japanese Prime Minister Shinzo Abe—whom the interviewer noted Bessent admired. Bessent said Trump's three arrows should include cutting the budget deficit to 3% of gross domestic product, achieving GDP growth of 3%, and pumping three million barrels more of oil a day.

Besides apparently having Scott Bessent's eye, what else does Japan have to recommend it? For one thing, an "inflection point in corporate governance reform," according to Partners Capital, which manages $60 billion in assets for endowments and family offices globally. "The geopolitical and macroeconomic outlook on China remains negative, and trading and liquidity dynamics in the market have worsened," Partners noted to clients. "On the other hand, we are constructive on Japan, as we see increasing evidence of shareholders unlocking value in undervalued Japanese companies."

Mizuho's Katz concurs. "The government has issued guidelines to challenge the mind-set of management teams and boards to be more receptive to approaches by foreign investors as well as potentially foreign acquirers," she says. "The Tokyo Stock Exchange has issued guidance as to how to improve capital efficiencies, shareholder value, and drive growth. That's because about half of Japanese publicly traded companies are trading at less than book value. Japanese corporates need to be focused on shareholder value creation, away from just customer experience or being employee-centric."

Katz's specific remit is to build out Mizuho's U.S. business banking. Each of the three bulge-bracket Japanese banks have found their own paths in the U.S.; MUFG owns 22% of Morgan Stanley, while this past August, Sumitomo doubled its stake in Jefferies to 10.9%. As for Mizuho, Katz says the bank has been hiring local talent and last year bought banking boutique Greenhill & Co. (founded by former Morgan Stanley President Robert Greenhill in 1996), which came with 300 bankers, for $550 million.

Katz is banking on stepped-up U.S.-Japan dealmaking—and to wit, there's at least one Japanese company looking to complete a major deal here in the U.S., that being Nippon Steel's $15 billion offer to buy U.S. Steel, which is in limbo right now, facing opposition from President Joe Biden and Trump. Still, don't be surprised if this deal gets done, says Bob Robotti, president and chief investment officer of Robotti & Co. "It's in the best interest of U.S. Steel and its employees," he says, suggesting that Washington and U.S. Steel might be able to wrangle more concessions from Nippon Steel to get the deal over the finish line.

Katz is also talking about U.S. companies taking the plunge in Japan. "When you look at the lagging valuations of Japanese companies, more constructive structural dynamics should be conducive for dealmaking activities," she says. "This past summer, I was on the ground in Tokyo with the CEO of a Fortune 500 company looking to do due diligence in the region and meet with targets both as partners and as acquisitions." Katz notes that private-equity giants like Bain Capital and KKR have been in Japan for years, but now fund-raising, hiring, and investing by PE firms have picked up. Recently, Bain and KKR have been fighting each other in a $4 billion rare hostile takeover for Japanese IT firm Fuji Soft, highlighting the changing nature of Japanese dealmaking.

Speaking of Mizuho, in October, Buffett's Berkshire Hathaway tapped that bank to raise 281.8 billion yen (about $1.87 billion) in yen-denominated bonds. Previously, Buffett used proceeds of such offerings to build positions in five large Japanese trading houses (Itochu, Marubeni, Mitsubishi, Mitsui, and Sumitomo), of which Berkshire now owns some 9% each. Buffett first disclosed these stakes in 2020 and has been building them steadily since then. Analysts say this latest sale of bonds, and another similar bond sale in April, could signal additional investment in the Japanese market.

Some observers note that these investments by Berkshire aren't necessarily wholesale endorsements of Japan, while Jim Rogers cautions that Japan is still rife with issues.

"I am not sure Japan is reviving to the extent that you might think," he says. "I'm certainly sad about what's happening in Japan, because it's one of my favorite countries. Things are getting a little less bad, but I don't see how a real revival of Japan can take place. The population is declining, and debt is skyrocketing."

True, Japan's net government debt is some 150% of GDP, but as the St. Louis Fed points out, the Japanese government is asset-rich, with holdings equivalent to 134% of GDP, as opposed to the U.S., which holds assets equal to only 23% of the size of the overall economy. And Japan's budget deficit, at 4%, is lower than that of the U.S. or China—both around 7%.

As appealing as you may find Japan or even China, though, consider the long-term performance of these markets versus the U.S., going as far back as Barron's data allows: Since 1992, the S&P 500 index has outpaced the Shanghai Composite by 1,339% to 597%. And since 1985, the S&P is up 3,520%, compared with 1,468% for the Hang Seng. And finally, since 1949 the S&P has outperformed the Nikkei 225 by 40,000% to 22,000%.

Past performance is no guarantee of future results, but heretofore, it has made the most sense to keep most of your money at home.

Earlier this past week, I checked in with Michael Saylor, executive chairman of the wildest stock in the world, MicroStrategy. Essentially a leveraged bet on Bitcoin, it's up 459% year to date.

I asked him what precipitated the latest run in Bitcoin. "Trump had said, 'We'll end the war on crypto,' " Saylor told me. "Bitcoin has gone from having like a 20% headwind to a 40% tailwind. We caught the wind and got an extraordinary boost." So, what's the real value of Bitcoin? "It's a digital transformation of money that strips away the risk of currency, stocks, bonds, and real estate and property. It's like a building, but it's a building that you can teleport to. It is indestructible, immortal, invisible, and you don't have all the things that drag down the value of a building. So, think of it as Manhattan in cyberspace."

All righty, then.