

**Macro View****Rapidly Growing Earning Power Abroad Supports Japanese Equities
Deepening Global Expansion of Japanese Companies, Led by the Non-Manufacturing Sector**

- The current account balance for fiscal year 2025 recorded its largest-ever surplus. The primary income balance supports the backbone of the current account balance, and its increase is remarkable.
- Looking at the breakdown of the primary income balance, the increase in direct investment income stands out. This means that the ability of Japanese companies to earn abroad is growing rapidly.
- It is non-manufacturing industries that are rapidly enhancing their ability to earn abroad. Among them, this movement is particularly prominent in finance and insurance, wholesale and retail trade, mining, and telecommunications.
- GNI encompasses income from abroad in addition to GDP. The growth pace of GNI exceeds that of GDP, and the difference in scale between the two is also widening. This suggests that the strength of the Japanese economy is dramatically improving in terms of income in a broad sense. Regarding the strong rise in Japanese stocks in recent years, it is considered that the growth of the ability to earn abroad is also being evaluated.

Primary Income Balance Supporting the Current Account Surplus

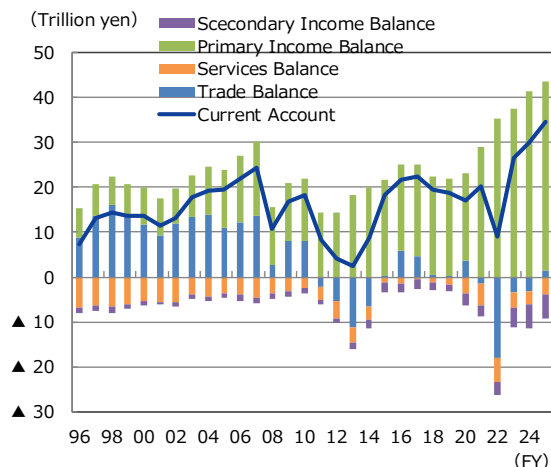
In fiscal year 2025, the current account balance recorded a record surplus of 34.5 trillion yen, surpassing the 30.0 trillion yen in fiscal year 2024 (Figure 1). During the era when Japan was known as a trading nation, Japan's current account surplus was strongly supported by a massive trade surplus backed by the export competitiveness of automobiles and home appliances. However, a reduction in production due to the sharp decline in global demand caused by the 2008 global financial crisis coincided with an increase in imports of fuel for thermal power generation triggered by the 2011 Great East Japan Earthquake. Furthermore, through the relocation of factories overseas due to the appreciation of the yen, Japan's trade balance was forced to undergo structural changes. Today, a trade deficit or a small trade surplus has become established. As earnings from trade shrink in this manner, the primary income balance has emerged as the largest surplus item supporting the backbone of the current account balance in its place.

The primary income balance refers to the balance of payments for dividends, interest, etc., arising from foreign assets and liabilities, and its growth has been remarkable. In fiscal year 2025, the primary income balance reached 42.3 trillion yen (41.4 trillion yen in fiscal year 2024), marking a record high for the fifth consecutive year.



Considering that it was 19.5 trillion yen in fiscal year 2020, the growth pace over the past five years has more than doubled. It has been a long time since Japan transformed from a structure of earning through exports to one of earning through overseas investment, and this structural change is progressing further.

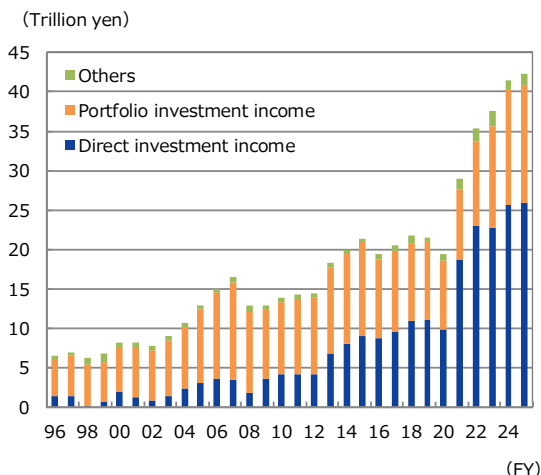
Figure 1: Current Account Balance



Note: Data is for FY1996–FY2025.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan data.

Figure 2: Primary Income Balance



Note: Data is for FY1996–FY2025.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan data.

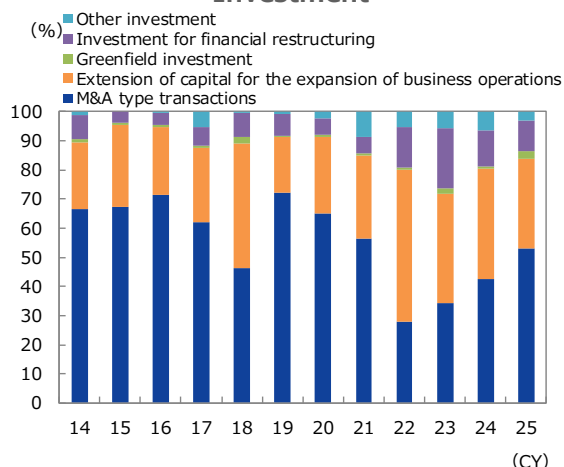
Rapidly Growing Earning Power Abroad

The breakdown of the continuously expanding surplus of the primary income balance is mainly divided into two categories: direct investment income and portfolio investment income (Figure 2). Direct investment income is the net receipt of dividends, interest, and retained earnings from overseas subsidiaries and affiliates. On the other hand, portfolio investment income is the net receipt of dividends and interest from foreign equities and bonds.

The expansion of the primary income balance is driven particularly strongly by direct investment income. In fiscal year 2025, this income reached 26.0 trillion yen, a substantial increase from 9.9 trillion yen in fiscal year 2020. Portfolio investment income in fiscal year 2025 also increased to 14.7 trillion yen from 8.7 trillion yen in fiscal year 2020, but it fell short of direct investment income. From the breakdown of the primary income balance, it can be seen that Japanese companies are not only managing funds in financial markets but are also expanding overseas themselves to enhance their earning power.

Figure 3 shows the purposes of outward direct investment. Although there are fluctuations depending on the year, the shares of "M&A type transactions" and "extension of capital for the expansion of business operations" are large. The sum of the two accounts for about 70% to 90% every year. It can be said that the global expansion of Japanese companies is centered on the acquisition of foreign companies and the expansion of overseas bases. In particular, unlike greenfield investment (starting new businesses), "M&A type transactions" have the advantage of allowing companies to incorporate existing business foundations, customers, or new technologies and know-how. For this reason, it is likely positioned as an effective means of entering overseas markets.

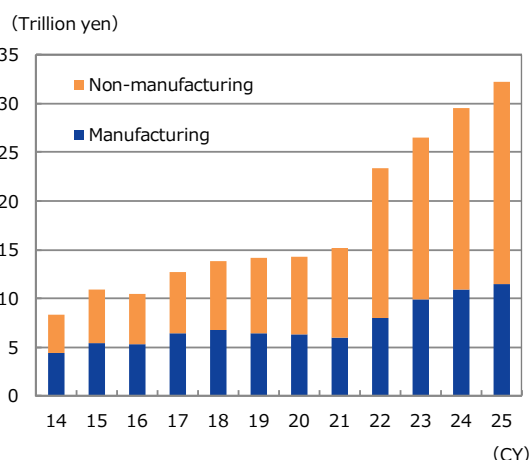
Figure 3: Purpose of Outward Direct Investment



Note: Data is for CY2014–CY2025.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan data.

Figure 4: Outward Direct Investment Income



Note: Data is for CY2014–CY2025.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan data.

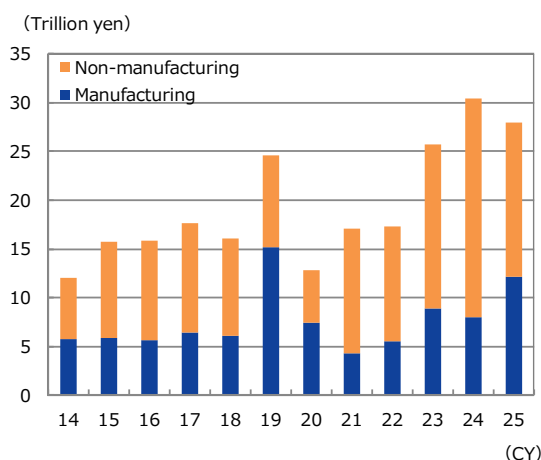
Global Expansion of Non-Manufacturing Industries Progresses

It is the non-manufacturing sector that is rapidly increasing its earning power abroad. Looking at outward direct investment income by industry, this income for the non-manufacturing sector in 2025 was 20.8 trillion yen, a significant increase from 8.0 trillion yen in 2020 (Figure 4). On the other hand, this income for the manufacturing sector in 2025 was 11.4 trillion yen. Although it has increased from 6.3 trillion yen in 2020, the rapid progress of the non-manufacturing sector is conspicuous. In the past, Japan's overseas expansion was centered on manufacturing industries such as automobiles and electrical machinery. Representative examples of this were the relocation of production bases in search of cheap labor and local production as an export substitute.

However, there is a growing movement shifting the main role to the non-manufacturing sector.

Behind the revenue growth in the non-manufacturing sector, there may also be a tailwind from the depreciation of the yen. However, a more fundamental factor appears to be the continuation of a high level of outward direct investment (Figure 5). Reflecting this trend, the outward direct investment position of the non-manufacturing sector has been steadily increasing. In 2025, this position for the non-manufacturing sector amounted to 226.1 trillion yen (117.0 trillion yen in 2020) (Figure 6). The accumulation of this position means that a foundation for generating continuous returns in the future is being formed.

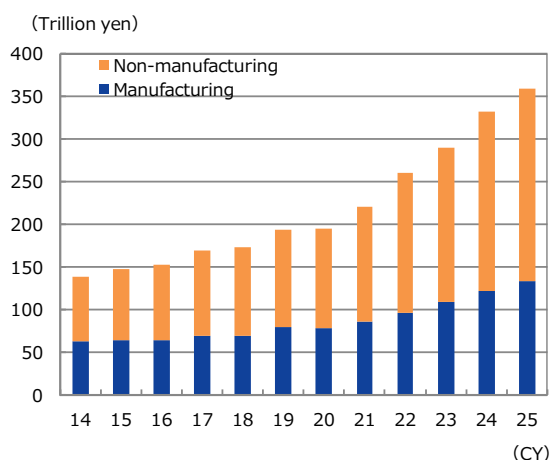
Figure 5: Outward Direct Investment



Note: Data is for CY2014–CY2025.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan data.

Figure 6: Outward Direct Investment Position



Note: Data is for CY2014–CY2025.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan data.

In Non-Manufacturing, the Overseas Expansion of Finance and Insurance, Wholesale and Retail Trade, Mining, and Telecommunications is Conspicuous

Figure 7 plots each industry with the horizontal axis representing the change in the outward direct investment position (past five years) and the vertical axis representing the change in outward direct investment income (past five years). There is a generally positive correlation, revealing that industries that have actively expanded overseas have increased their earnings. In the non-manufacturing sector, attention is drawn to finance and insurance, wholesale and retail trade, mining, and telecommunications, which are located relatively in the upper right of Figure 7.

As for finance and insurance, megabanks are strengthening their global lending and fee-based businesses by acquiring foreign commercial banks and expanding project finance to compensate for thin margins caused by the domestic low-interest-rate environment. Life and non-life insurance companies are also expanding their global earnings base through acquisitions of foreign insurance companies, anticipating the shrinkage of the domestic insurance market due to population decline.

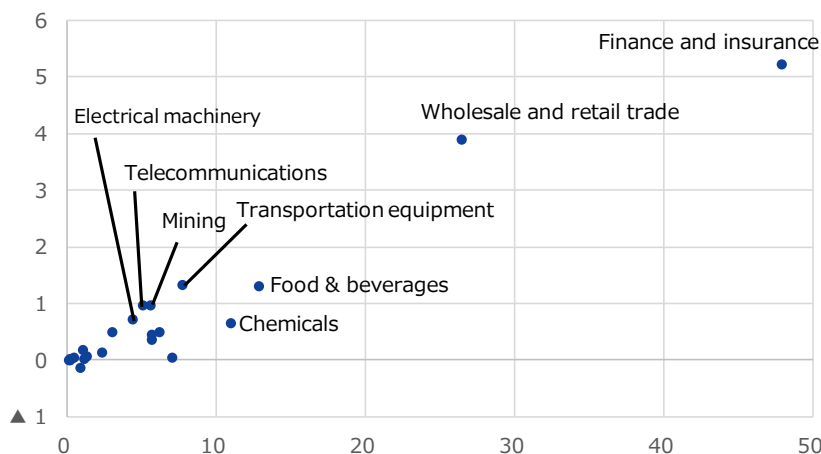
Among wholesale and retail trade, general trading companies (sogo shosha) are establishing diversified earnings bases by advancing business investments worldwide in non-resource fields such as infrastructure, food, and healthcare. In addition, retail businesses (such as convenience stores, apparel, and daily goods) are also stepping out of the domestic market, implementing aggressive M&A and expanding their store networks.

The mining industry is increasing its interests in overseas energy-related projects and metal mines. This movement is also related to the fact that Japan, a resource-poor country, aims for a stable supply of energy and mineral resources. Furthermore, by not only importing resources but also holding interests in upstream processes for extracting and producing resources, earnings obtained from overseas interests swell when resource prices rise.

The domestic telecommunications market is maturing due to population decline and price competition, making significant growth difficult to expect. Therefore, the telecommunications industry is accelerating infrastructure investments such as expanding data center businesses overseas and constructing submarine cable networks. Furthermore, by actively acquiring foreign IT companies, they are expanding beyond merely providing communication lines to develop global solution businesses such as cloud services and cybersecurity, thereby advancing the diversification of their earnings.

Figure 7: Outward Direct Investment Position and Income

(Outward direct investment income, Changes over the past 5 years, Trillion yen)



(Outward direct investment income position, Changes over the past 5 years, Trillion)

Note: The change over the past 5 years is a comparison between 2025 and 2020.

Source: Compiled by Sumitomo Mitsui DS Asset Management based on data from the Bank of Japan.

The Strength of the Japanese Economy Seen through GNI

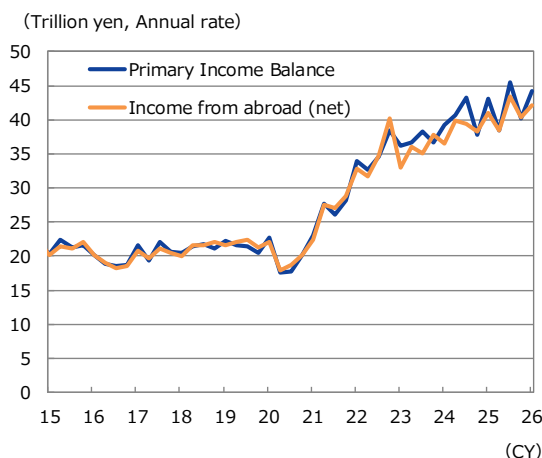
As Japanese companies enhance their earning power abroad in this manner, GNI (Gross National Income) is drawing attention as an indicator that comprehensively captures income earned both domestically and internationally. The relationship between GNI and GDP (Gross Domestic Product) on a nominal basis is as follows:

$$\text{GNI} = \text{GDP} + \text{income from abroad (net receipts)}$$

Income from abroad (net receipts) roughly corresponds to the primary income balance (Figure 8). Therefore, in addition to GDP, GNI encompasses the earning power abroad of Japanese companies, which has been the focus of this report. Against the backdrop of a shift toward inflation, GDP is on a clear growth trend and continues to hit record highs (Figure 9). However, the growth pace of GNI, which includes income from abroad, is surpassing that of GDP, and the difference in scale between the two is widening. This suggests that the strength of the Japanese economy has risen dramatically in terms of income in a broader sense (GNI).

Note that Figure 9 also includes TOPIX (Tokyo Stock Price Index). While GDP is useful data for evaluating Japanese equities from a macroeconomic perspective, the strong rise of Japanese equities in recent years may also reflect appreciation for the growth of earning power abroad included in GNI.

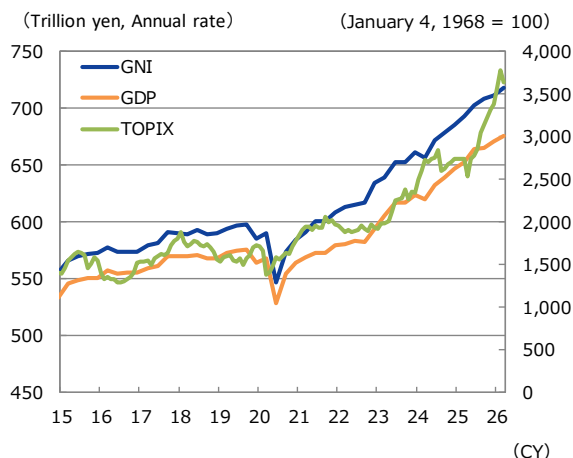
Figure 8: Primary Income Balance and Income from Abroad



Note: Data is from 1Q 2015 to 1Q 2026.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on data from the Bank of Japan and the Cabinet Office.

Figure 9: GNI, GDP, and TOPIX



Note: Data is for 2015 1Q–2026 1Q.

Source: Prepared by Sumitomo Mitsui DS Asset Management based on Bank of Japan and Cabinet Office data.

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