



# How governance reforms in Asia could support stronger market outcomes

From the Field

## Executive Summary

Asia's equity markets have seen a wave of governance improvements in recent years. Reforms across Japan, South Korea, and China have all aimed to revitalize markets and boost shareholder returns. While governance reforms alone are not a silver bullet for stock market performance, we believe they can help unlock long-term value and catalyze positive market behaviors. Japan currently leads in governance reform effectiveness, with South Korea making meaningful progress and China following with more state-driven initiatives.



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## Creating better conditions for more robust performance

Governance reforms in isolation are rarely enough to drive a sustained market rally, as fundamentals and macro conditions still dominate. These reforms typically need to coincide with favorable economic or earnings tailwinds to translate into meaningful outperformance. In the short term, a company with weak fundamentals or no competitive moat is unlikely to suddenly improve by appointing a few independent directors or publishing a value-up plan. A well-governed bad business is still a bad business.

However, governance still matters to investors. Over the long run, we believe that stronger governance can reduce a company's

cost of equity by improving transparency, accountability, and investor confidence, while also creating the conditions for more disciplined capital allocation. By contrast, weak governance increases uncertainty around decision-making and risk management, which leads investors to demand a higher premium and ultimately raises the cost of equity.

Japan's equity market performance in 2023–2024 illustrates this dynamic. Governance reforms, such as pressure to improve return on equity (ROE) and reduce cross-shareholdings,<sup>1</sup> have supported better capital discipline. At the same time, macro tailwinds, including a weaker yen

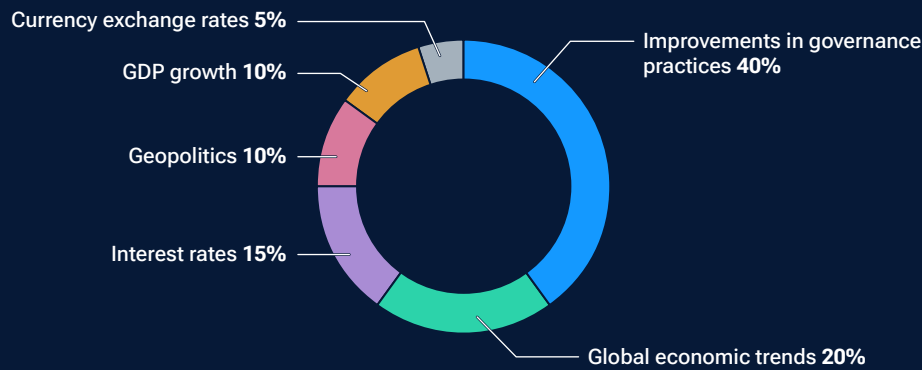
“ Over the long run, we believe that stronger governance can reduce a company's cost of equity...

– Colin McQueen  
Portfolio Manager, International Value

<sup>1</sup> Cross shareholdings are a practice that involves a publicly traded company holding shares in another listed company.

## What's driving investment decision-making in Japan?

(Fig. 1) Governance reforms and global economic trends are leading factors for investors when considering Japanese companies



As of September 10, 2025.

Note: Respondents were asked: "Which factors do you believe have the greatest impact on your investment decisions in Japanese companies?" Respondents included portfolio managers and stewardship teams from both active and passive investment managers, collectively overseeing more than USD 22.7 trillion in assets—representing some of the biggest institutional investors active in Japan.

Source: Squarewell and Kekst CNC.

and accommodative monetary policy, were critical in driving returns. Survey evidence (see Fig. 1) reinforces this pattern, showing that investors attribute their decisions in Japan to a combination of structural governance improvements and macroeconomic conditions.

### Evaluating the progress of governance reforms across Asia

To assess how governance reforms are progressing across Japan, South Korea, and China, we have applied a framework to compare all three countries. This framework considers three key factors:

- 1) Incentives:** The underlying issues that reforms aim to fix
- 2) Institutional stability:** Whether reforms endure through political or leadership changes
- 3) Specific initiatives and outcomes,** as well as associated risks and opportunities in each market.

Based on this framework, we have found that Japan currently leads on governance reform effectiveness, followed by South Korea, then China.

### Incentives behind governance reforms vary

The factors driving governance reforms differ across regions. In many markets, years of low valuations and weak returns meant reforms gained little momentum until meaningful catalysts emerged.

In Japan, initial governance reforms began as part of "Abenomics"—economic policies implemented by the Government of Japan from 2013 onward. A key turning point came in 2014 when Japan's Government Pension Investment Fund significantly reallocated its portfolio in response to near-zero bond yields that could no longer meet pension liabilities. To justify shifting more capital into equities, the government needed to ensure the stock market delivered better returns. Years of low price-to-book ratios and international criticism of capital inefficiency added further pressure for change.

In South Korea, value-up reforms since 2024 have been driven largely by political populism. South Korea has long traded at a discount to peers. Many criticized its poor governance, including chaebol dominance, low dividends, and opaque management.<sup>2</sup> Retail equity ownership surged during the pandemic. This made the "Korea discount" a mainstream political issue for both parties to tackle.

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China's reforms are more state-driven and are part of macroeconomic management. By 2023, policymakers were increasingly concerned about weak equity market performance and the need to revitalize domestic capital markets. A stronger equity market would make it easier for state-owned enterprises to raise capital, help relieve local fiscal pressures, and support the national balance sheet.

<sup>2</sup> The South Korean market has been dominated by large, family-owned conglomerates, or chaebol, that historically have favored controlling interests over minority shareholders.

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## **Institutional stability: Can reforms survive political and leadership changes?**

Governance reforms can only be effective if they endure long enough to meaningfully change corporate behavior.

Japan stands out on this measure. Governance reforms have persisted across multiple administrations, with the core reform agenda remaining intact. Moreover, key bodies such as the Financial Services Agency and the Tokyo Stock Exchange (TSE) have taken ownership and embedded changes into listing rules and stewardship frameworks.

South Korea's value-up reforms are effectively bipartisan, as both sides of the political spectrum see them as necessary and politically useful to appease retail investors. Strong performance of South Korea's Korea Composite Stock Price Index (KOSPI) draws more retail participation, which in turn reinforces the political importance of retail shareholders and the need to keep governance reforms on track. However, value-up reforms may be more closely correlated with election cycles, increasing their cyclical nature.

On the surface, China's governance campaign benefits from political stability. However, the real question is policy consistency. Governance reforms are likely







to persist as long as the equity market is weak and needed to serve broader objectives such as financial stability. Nevertheless, it's unclear whether the leadership might pivot to other priorities once immediate pressures ease.

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## **Conclusion**

Governance reforms may not immediately translate into short-term outperformance, but they can still be powerful drivers of long-term value creation and healthier market behavior. Fig. 2 (see page 4) highlights how Japan has made the most tangible progress in governance reform, supported by ongoing implementation, though challenges remain. South Korea is gaining momentum through regulatory changes, but entrenched chaebol structures continue to limit the pace of change. In China, improvements are evident but remain largely policy-driven, raising questions about the durability and consistency of outcomes. By encouraging better capital allocation, accelerating shareholder activism, and gradually shifting corporate mindsets, we believe reforms can improve the quality of markets over time. When paired with favorable macro or company-specific tailwinds, reforms can also strengthen upside potential. And even when they do not—reforms can lay the groundwork for more accountable markets.

**Fig. 2 Progress Check: How Japan, South Korea, and China compare on governance**

<b>Japan</b>	
 <b>Opportunities</b>	<ul style="list-style-type: none"><li>– Governance reforms have pushed companies to reassess cross shareholdings and capital efficiency.</li><li>– Reforms have accelerated the reduction of listed subsidiary companies—seen as problematic for minority shareholders due to potential parent conflicts.</li><li>– The TSE Prime segment’s stricter governance and liquidity rules have raised standards and should improve market quality over time.</li></ul>
 <b>Challenges</b>	<ul style="list-style-type: none"><li>– Challenges remain around board effectiveness.</li><li>– We have seen a reluctance to restructure or divest, as Japanese management has long prioritized stability over drastic actions.</li><li>– There are concerns about privatization deals and minority shareholder protection, as the integrity of these processes are not always clear.</li></ul>
<b>South Korea</b>	
 <b>Opportunities</b>	<ul style="list-style-type: none"><li>– The 2026 mandatory cancellation of treasury shares could remove a key control tool for chaebols.</li><li>– Amendments to the Commercial Code extended directors’ fiduciary duties to all shareholders and require cumulative voting at large, listed companies upon qualified shareholder request. This could support more effective activism, better shareholder protection, and stronger board oversight.</li><li>– The Financial Services Commission’s requirement for more detailed executive-pay reporting and more transparency in annual general meeting voting outcomes should help clean up governance practices.</li></ul>
 <b>Challenges</b>	<ul style="list-style-type: none"><li>– Despite progress, dominance of chaebols remains an issue. Many maintain complex, entangled shareholding structures allowing controlling families to exert significant influence despite limited direct ownership.</li><li>– A key debate is whether reforms can be truly effective without addressing South Korea’s inheritance tax, which is politically sensitive but could be a game changer in shifting chaebol attitudes toward shareholder value</li><li>– South Korea’s broader tax framework also creates challenges.</li></ul>
<b>China</b>	
 <b>Opportunities</b>	<ul style="list-style-type: none"><li>– Chinese state-owned enterprises (SOEs) were long associated with low profitability and dividend payouts. 2024 State Council guidelines included ROE and market value as executive key performance indicators. SOE executives must follow policy direction, and many SOEs operate in mature sectors which are more sensitive to value-up measures.</li><li>– The new Stewardship Code may encourage managers to vote and engage more actively.</li><li>– Hong Kong has been an attractive market for initial public offerings and spin-offs, helped by policy support from Hong Kong and mainland regulators. As more companies pursue dual listings there, they may become more open to engagement with international investors.</li></ul>
 <b>Challenges</b>	<ul style="list-style-type: none"><li>– A large portion of the payout increases and behavioral changes in China is policy driven. This raises the question of whether companies will maintain shareholder-friendly practices once immediate pressure from regulators eases.</li><li>– The government is both regulator and controlling shareholder of SOEs, creating tension between the state and shareholders.</li><li>– International investor sentiment remains cautious, reflecting the legacy of the 2021 regulatory crackdowns and zero-COVID disruptions, as well as broader concerns around policy predictability.</li></ul>

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