General Counsel Trends Driving Japan's Legal Market in 2025

Thomson Reuters Institute

Introduction

The legal services industry in Japan, while fundamentally unique, offers actionable parallels for the global large law industry. Like counterparts around the world, the Japanese legal industry is facing multiple pressures. On one hand, the industry is going through a period of great expansion, with the rise in legal spend from Japanese clients topping global charts, according to Thomson Reuters research.[1] At the same time, the domestic legal industry has been severely hampered by capacity constraints, with Japanese large law firms and corporate law departments alike struggling to find qualified talent to meet the growing surge in demand.

Further, a long-term trend towards internationalization combined with local capacity constraints have created opportunities for international law firms, particularly those that are focused on mergers & acquisitions and regulatory compliance work.

Japan-based general counsel (GCs) are actively seeking firms with strong international footprints and a good breadth of services.

The nexus of all of these trends is that Japan's legal market is set to serve as a testing ground for various theories on the capabilities of generative AI (GenAI), as well as the interaction between domestic and international firms.

Methodology

This report is based on comprehensive telephone interviews conducted by the Thomson Reuters Institute with 84 respondents based in Japan. These interviews are part of the global Market Insights study involving over 2,000 corporate counsel. Conducted throughout 2024, the interviews targeted general counsel and other senior decision-makers within the legal departments of companies with revenues of US$1 billion or more.

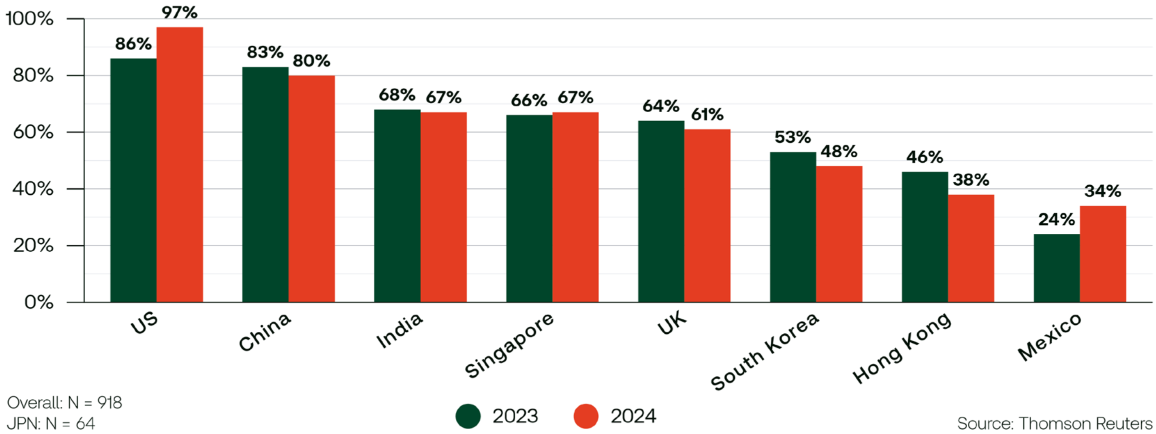
1 Legal buyer sentiment data is from Thomson Reuters Market Insights, which provides information from around the globe from legal services buyers based on annual interviews with around 2,500 legal services buyers from companies with annual revenue of more than $50 million (US).

Growing internationalization and world-leading demand

Historically, Japanese companies relied on lawyers much less than other countries (especially the United States). Culturally, there was much more of a focus on consensus, relationship-driven negotiations, and informal dispute resolution. Our data shows that 10 years ago, 74% of the largest Japanese companies had overseas legal needs. Now, 90% of the largest Japanese organizations have legal needs outside of Japan.

The average Japanese company that has more than $1 billion USD in annual revenue now has legal needs in 20 countries and allocates 43% of its legal budget to overseas work.

Figure 1: Percent of Japanese General Counsel requiring legal services by Country over the next 12 months



Overall: N = 918
JPN: N = 64

Source: Thomson Reuters

With increased internationalization, Japanese legal spending has been increasing dramatically. Spending varies considerably among organizations, but in 2014 the typical (median) annual legal spend reported by 61 of the largest Japanese companies was just $196,000 USD with approximately one-tenth of that being spent on international legal advice. Ten years later, in 2024, a similar cross-section of the market reported median spending of $1 million USD, with typical international spend reaching $847,000 USD.

Table 1: Median and mean legal spending by Japanese companies with revenue of $1billion or more USD, in thousands of US dollars

	2014	2019	2024
Number of companies reporting	61	40	40
Overall spend on outside counsel: MEDIAN	$196	$339	$1,059
Overall spend on outside counsel: MEAN	$973	$5,055	$5,488
Number of companies reporting	36	37	36
Spend on legal advice in countries other than Japan: MEDIAN	$20	$206	$847
Spend on legal advice in countries other than Japan: MEAN	$450	$1,363	$3,963

Source: Thomson Reuters

Japanese legal market growth set to continue

When it comes to Japan's potential as a growing legal market, the most important factor may well be its rate of growth.

One way of measuring the current strength of a legal market is to look at pricing trend expectations. For example, Net Spend Anticipation (NSA) uses interviews with senior in-house legal decision-makers in large companies (those with revenues equivalent to $1 billion or more, USD) to measure how GCs expect demand for legal services to trend.

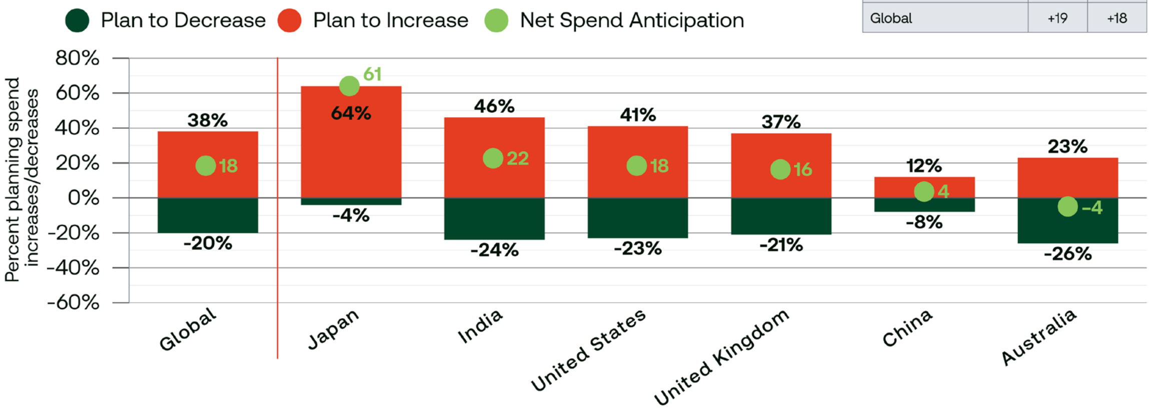
While law firm rates are known to always increase, GCs have used savvy practices — such as employing less expensive law firms, negotiating greater discounts in exchange for awarding larger matters, and more controlled billing practices — to halt or even pull back on legal matter spending while still satisfying their company's legal demands.

Indeed, changes in how many GCs expect spending to rise compared to those who expect spending to fall can thus signal the underlying demand and supply of a legal market. The global NSA, for example, has averaged in the low double digits for the last decade, with the 2024 global average sitting below 20 points. (Meaning there is less than a 20-percentage point difference between those GCs who expect legal spending to rise, compared to those who expect it to fall.)

Japan's NSA score hasn't dropped below 26 points since 2015, and anticipation for spending growth in 2025 makes Japan the world leader among major economies, with a stunning 61-point NSA for 2024, which continued its similarly leading 60 points in 2023.

Figure 2: Net Spend Anticipation in 2024 by Country

Net Spend Anticipation	2023	2024
Japan	+60	+61
Global	+19	+18



Overall: N = 1661
JPN: N = 84

Source: Thomson Reuters

By this measurement, the demand pressure for services in Japan is benefitting some of the most powerful tailwinds in the global outlook, far outstripping countries such as India (with a 22-point NSA), the United States (18 points), the United Kingdom (16 points), and China (4 points).

Indeed, one of the most interesting anomalies when it comes to Japan's data is that its NSA is even higher among the largest companies, those which make more than $6 billion USD in revenue (or roughly around 1 trillion yen) per year.

While companies of all sizes within Japan are posting higher legal spend anticipation, the largest of the large companies have even higher scores, posting a NSA of 73 points.

However, it's when we dive into the by-practice profile that the situation becomes more nuanced, showing that even as the NSA for each individual legal practice is at least on par with the global average, the distribution clearly shows greater demand optimism in certain areas.

Figure 3: Net Spend Anticipation by Practice

	Japan	Global
Regulatory	+45	+31
M&A	+37	+1
Labor & Employment	+29	+17
Disputes	+27	+9
IP	+21	+7
Corporate	+14	+12
Insurance	+4	+1
Banking & Finance	+1	+0
	N = 84	N = 1660

Source: Thomson Reuters

"We have two key strategic priorities. The first is DX [Digital Transformation]. We would like to simplify and enhance our contract-related operations, especially through the introduction of AI. The second is actively pursuing M&A, starting this fiscal year. This is our company's clear decision. We sort out positive points and how to deal with legal issues in M&As and create a system for handling large-scale M&A deals since we have not had enough M&A experiences."— Japan-based General Counsel for a retail company

M&A, for example, sees some of the highest NSA scores among the major legal practice areas in Japan, yet the nation's strong push on demand is clearly an anomaly compared to the global average. This is a direct result of Japan's major corporations being in the middle of a spending spree. Heavy on capital and struggling to provide competitive returns on that equity, Japanese corporations are thus experiencing an M&A frenzy as they seek expansion through acquisition.

The struggle to capitalize on opportunities

While intense demand growth expectations may signal lucrative opportunities for law firms, many Japanese firms are facing some increasingly common difficulties in capitalizing on these openings.

The foremost challenge in the Japanese legal industry appears as a familiar reflection of the nation's own macroeconomic challenges: staffing shortages.

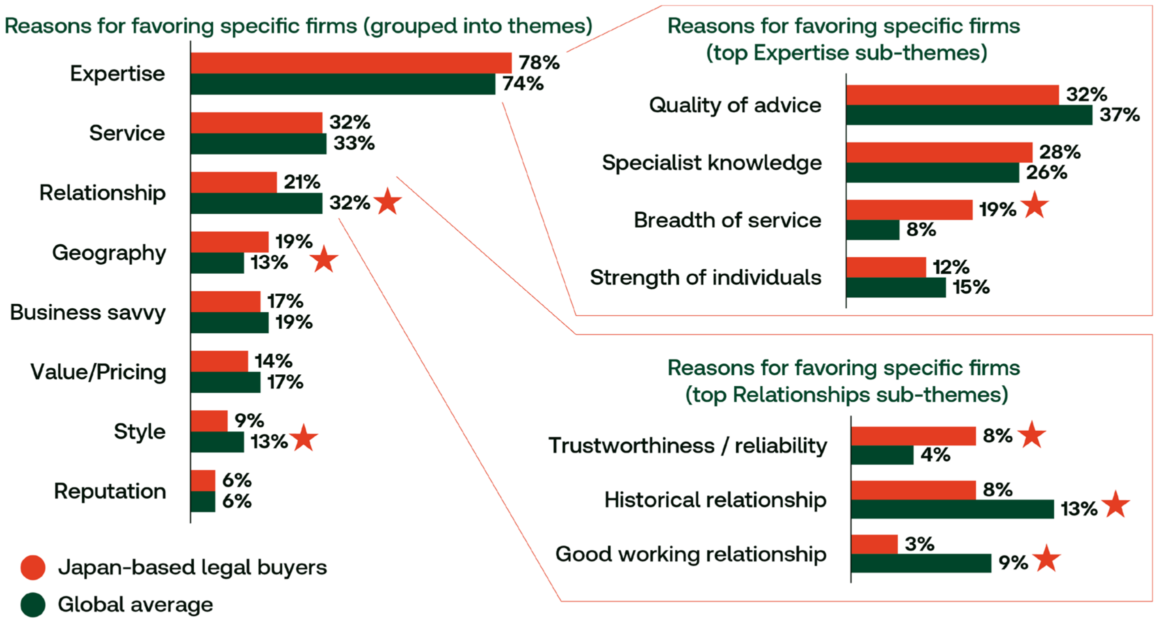
apan's birth rate is one of the lowest in the world, and its population has been actively shrinking since 2009. Labor shortage complaints are a regular refrain and despite literal decades of work to increase automation, Japan's shrinking population continues to have an impact on all sectors of the economy. Interviews with Japanese GCs and lawyers back up this assertion, painting a picture of Japanese companies that are struggling to find enough legal staff, leading to very busy corporate law departments that are working at maximum capacity.

"[Our top priorities are to] thoroughly ensure compliance, respond to changes in business structure from a legal perspective, and increase personnel."
— Japan-based General Counsel for a manufacturing company

This capacity issue, combined with growing internationalization of many Japanese companies, has opened up a significant opportunity for international law firms to compete in the Japanese market.

Ten years ago, our data showed the Japanese legal market was dominated by Japanese firms, particularly among the top four or five firms. Since then, however, international law firms have been building their presence in the Japanese market, gradually establishing mind share and favorability. The top four or five Japanese firms still lead the way, but international firms have significantly closed the gap. Part of this may be a capacity issue, in that highly favored domestic firms are having trouble keeping up with the surge in demand as talent shortages create bottlenecks. Another factor may be related to the shifting favorability drivers, or the reasons why GC's chose the firms they do.

Figure 4: Japan-based buyers favorability drivers



Stars represent statically significant differences from the global average
Total number of responses (including up to 3 firms favored per respondent): Global 4611; Japan 247

Source: Thomson Reuters

As internationalization grows, it is unsurprising that Geography — specifically global coverage — is a particularly important driver in Japan as companies expand operations into other countries.

Japanese companies favor outside law firms for their breadth of services, suggesting a preference for using a small number of trusted firms to get as much of their legal work done as possible under one roof.

Perhaps surprisingly, Relationships are not often cited as a reason for favoring specific firms. Given how deep the relationship between Japanese companies and legal service providers typically is, this may be a case of respondents simply not mentioning the obvious. Perhaps reflecting this, Trustworthiness is mentioned more in Japan than in other countries.

Looking to the future

The rise of GenAI is an issue with which all law firms are grappling, but firms in Japan are uniquely suited to benefit from its capacity-enhancing capabilities. Already, many domestic firms have moved to rapidly embrace emerging legal technologies such as e-discovery and other automation solutions, similar to how the country's manufacturing sector embraced Japan's leading efforts in industrial robotics.

Building on this technological advantage, Japanese domestic law firms are poised to transform their operational dynamics and significantly increase their capacity. This shift could lead to a rebalancing of legal spend between domestic and international firms, fostering a more robust and self-sufficient legal market in Japan. Moreover, the integration of GenAI and advanced legal technologies may not only alleviate staffing shortages but also drive further innovation within the industry, acting as a testing ground for the true potential of GenAI in legal.

The argument for this to happen is a simple one.

First, Japan's historical and cultural penchant for technological innovation cannot be overstated. The nation has long been at the forefront of advancements in robotics and automation, creating fertile ground for the adoption and integration of GenAI. This propensity towards embracing cutting-edge technologies will likely translate into a quicker and more efficient incorporation of AI into legal practices, setting a benchmark for other countries.

Second, the acute labor shortages in Japan present a critical need for capacity-enhancing solutions. Given the structural economic capacity issues noted earlier, the legal industry, like many others, is grappling with staffing challenges. GenAI offers a viable solution to bolster the workforce, streamline operations, and alleviate the pressures of understaffing.

By leveraging AI to fill gaps, Japanese firms can maintain high productivity levels despite demographic constraints, if not outright expand total capacity as GenAI's abilities and implementation are enhanced with time.

The integration of GenAI into Japan's legal industry promises not only to enhance efficiency but also to drive innovation, potentially paving the way for a transformative shift in how legal services are delivered. By acting as a testing ground for AI's potential, Japan can refine and perfect AI applications within the legal sector, setting a global standard. This pioneering approach will attract international attention and investment, further solidifying Japan's role as a leader in legal tech and methodology.

So, at least, goes one theory. Another — and one that could truly test GenAI's ability to disrupt the legal marketplace — is that this technology could serve as the final wedge for international firms to fully establish themselves in the country on par with the tap Japanese law firms. Lower cost, greater capacity, and greater degrees of innovation could be what finally closes the final gap in favorability drivers, either for international firms or for other domestic firms that are looking to make a move through embracing emerging technology.

Whether either of these theories proves true over the next few years, all eyes should be on the Japanese market, as what happens in the nation is likely to reflect emerging possibilities on the global stage.

Conclusion

Japan’s legal industry faces unique challenges that stem from the nation's broader economic journey, particularly the intersection between a wealth of international economic opportunity and far more domestic concerns around labor shortages.

Despite these challenges, the advent of GenAI and other advanced legal technologies presents a transformative opportunity for Japanese firms. By integrating AI into their operations, these firms can enhance their capacity, streamline processes, and address labor shortages more effectively. Indeed, the innovative application of AI could set Japan apart as a global leader in legal tech, driving efficiency and attracting international investment. Alternatively, it could lead to an even larger presence for international law firms, especially if domestic firms are unable to adapt.

Japan’s synergistic blend of technological prowess, urgent need for labor solutions, and rapid legal market growth makes it the ideal location for the evolution and success of GenAI in the legal industry. And if the nation's ability to harness AI's capabilities could be leveraged to redefine the landscape of legal services, Japan’s legal industry could become a model of efficiency, innovation, and resilience that other countries will aspire to emulate.

Credits

Isaac Brooks
Industry Data Analytics Manager – Thomson Reuters Institute
Isaac.Brooks@thomsonreuters.com

Bryce Engelland
Senior Industry Data Analyst – Thomson Reuters Institute
Bryce.Engelland@thomsonreuters.com

Elizabeth Duffy
Sr. Director, Client Engagement – Thomson Reuters Institute
Lucy.Leach@thomsonreuters.com

Lucy Leach
Technical Research Director – Thomson Reuters Institute
Lucy.Leach@thomsonreuters.com

Kasumi Rutherford
Legal Market Researcher
kasumi.rutherford@thomsonreuters.com

Steve Seemer
Senior Director, Thought Leadership & Strategic Relations - Thomson Reuters Institute
Stephen.Seemer@thomsonreuters.com

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Thomson Reuters

10F Atago Green Hills Mori Tower 2-5-1 Atago, Minato-ku Tokyo 105-6210

Toll-free : 0120-100-482（Monday to Friday, 9:00 am to 6:00 pm）

E-mail : marketingjp@thomsonreuters.com

www.thomsonreuters.co.jp

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