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JAPAN

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MAP



KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES

18-MONTH	LDP Coalition 75%
FIVE-YEAR	LDP Coalition 60%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS

	TURMOIL	FINANCIAL TRANSFER	DIRECT INVESTMENT	EXPORT MARKET
18-MONTH	Low	A-	A	A+
FIVE-YEAR	Low	A	A-	A

() Indicates change in rating

* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS

	REAL GDP GROWTH (%)	INFLATION (%)	CURRENT ACCOUNT (\$bn)
2018-2022(AVG)	-0.1	0.8	157.32
2023(F)	2.0	3.2	145.00
2024-2028(F)	0.8	1.7	170.00

KISHIDA'S FUTURE UNCERTAIN

Neither a Cabinet reshuffle in September nor the more recent unveiling of a \$113 billion economic stimulus package has helped to reverse the erosion of Prime Minister Fumio Kishida's popular support. The government projects that the economic package will boost GDP by about 1.2%, but economists have noted that temporary tax-cuts and one-off transfers typically contribute to increased savings, rather than consumption, and are therefore likely to have little impact on growth. Opposition leaders have criticized the plan as an expensive populist scheme designed to boost support for an unpopular government.

If that was the goal, the objective has not been achieved, and the continued slide in Kishida's approval rating only adds to the lack of clarity about the timing of the next election. The LDP is scheduled to hold an internal leadership vote in September, and it is widely assumed that Kishida has little chance of remaining at the helm unless he first manages to secure a victory for the party in a national election.

The timing of the election matters less for the LDP, which is likely to win regardless, than for Kishida, for whom a weak showing would likely mean the end of his career. Polling data suggests that support for the LDP is running at 35%-40%, in line with the party's vote share in October 2021, when it suffered a net loss of 25 seats, but still retained a majority of 256 seats in the 465-member House of Representatives. The LDP's margin for error is increased by the reliable support of Komeito (on which it

depends for its majority in the upper house) and the ideological incompatibility of the liberal CDP and the far-right populist Ishin.

In late November, South Korea, China, and Japan agreed to resume annual trilateral talks for the first time since 2019. But there is little reason to believe that the recent developments portend a fundamental shift in bilateral ties with China. Beijing likely sees the resumption of trilateral talks with Seoul and Tokyo as a means of reducing the incentive for South Korea and Japan to seek closer bilateral ties, particularly on security-related matters.

The unveiling of the economic stimulus package in early November coincided with the release of provisional data revealing a marked slowdown in activity in the July-September quarter. GDP contracted by 0.5% compared to the previous quarter, as high inflation dampened household spending, compounding the negative effects of weak demand for Japan's exports.

The decline followed an unexpectedly strong advance in the second quarter, when GDP posted a sequential gain of 1.2%. The volatility of the quarterly figures underscores the challenges for the government as it attempts to bolster a flagging post-pandemic recovery without undermining the central bank's efforts to manage inflation and steady a yen that has been unusually volatile over the last two years.

The persistent weakness of the yen and the fastest wage growth in decades point to sustained inflation above the BOJ's target of 2% in the near term. The impact of the fiscal stimulus will not be felt until 2024, when the exhaustion of the post-pandemic rebound will nevertheless produce a deceleration of real GDP growth from the 2% pace forecast in 2023. Any significant improvement in the outlook likely hinges on an unexpectedly strong revival of external demand that boosts the export sector.

Exports grew at a sluggish pace in the first half of 2023 and registered a small year-on-year contraction in the third quarter. However, a pronounced decrease in the imports bill driven by lower commodity prices has had a positive effect on the trade balance. With a recovery in tourism boosting services income, the current account surplus totaled \$108 billion at the end of September, up from \$69 billion at the same point last year, and is on track to reach 3%-3.5% of GDP by the end of the year, which is still below the pre-pandemic trend.

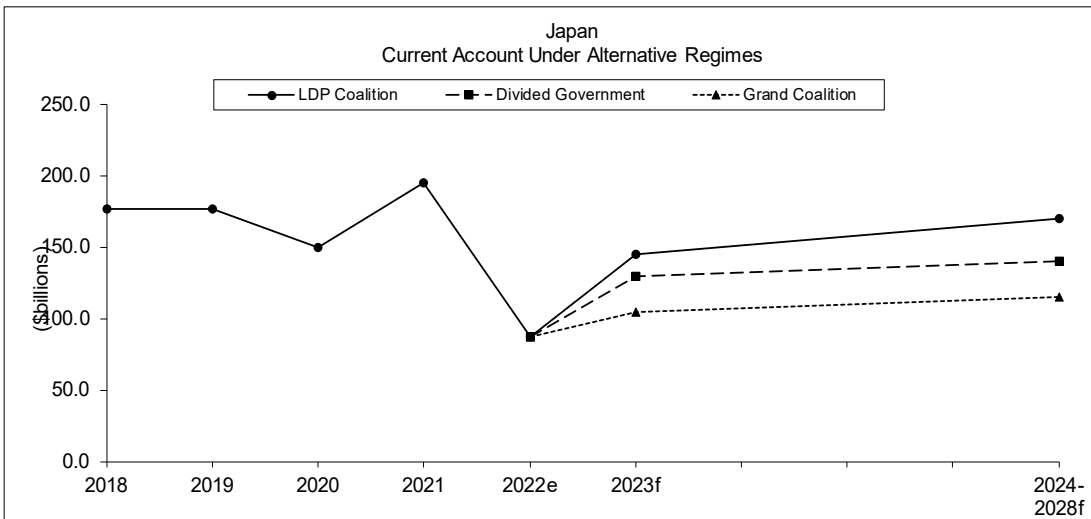
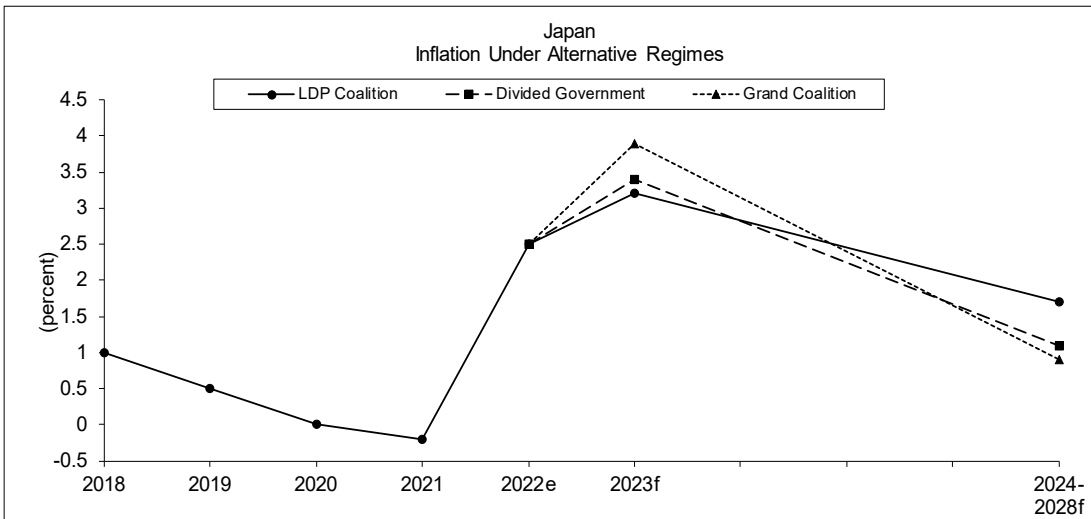
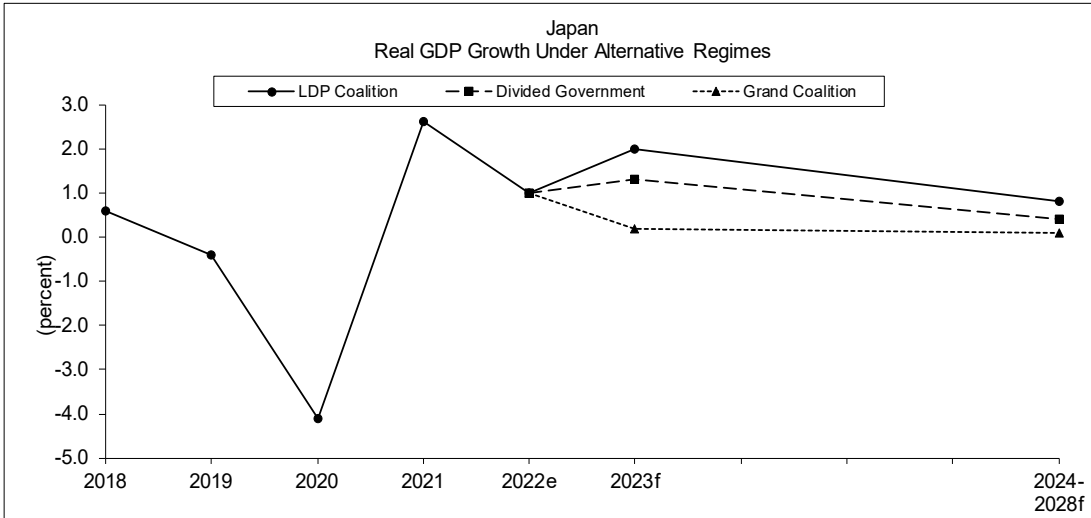
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES

	LDP Coalition			Divided Government			Grand Coalition		
	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)	GROWTH (%)	INFLATION (%)	CACC (\$bn)
2023	2.0	3.2	145.00	1.3	3.4	130.00	0.2	3.9	105.00
2024-2028	0.8	1.7	170.00	0.4	1.1	140.00	0.1	0.9	115.00

REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		LDP Coalition 75%	Divided Government 20%	Grand Coalition 5%
RISK FACTORS	CURRENT			
Turmoil	Low	Same	Same	Same
Investment				
Equity	Moderate	Same	Same	Same
Operations	Low	Same	SLIGHTLY MORE	SLIGHTLY LESS
Taxation	Low	Same	Same	Same
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Low	Same	Same	Same
Other Barriers	Moderate	Same	SLIGHTLY MORE	Same
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	High	Same	SLIGHTLY MORE	SLIGHTLY MORE
Labor Costs	High	Same	Same	Same
Foreign Debt	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		LDP Coalition 60%	Divided Government 30%	Grand Coalition 10%
RISK FACTORS	BASE			
Turmoil	Low	Same	Same	Same
Restrictions				
Investment	Moderate	SLIGHTLY LESS	Same	Same
Trade	Low	Same	SLIGHTLY MORE	Same
Economic Problems				
Domestic	Moderate	Same	SLIGHTLY MORE	SLIGHTLY MORE
International	Moderate	SLIGHTLY LESS	Same	Same

* When present, indicates forecast of a new regime



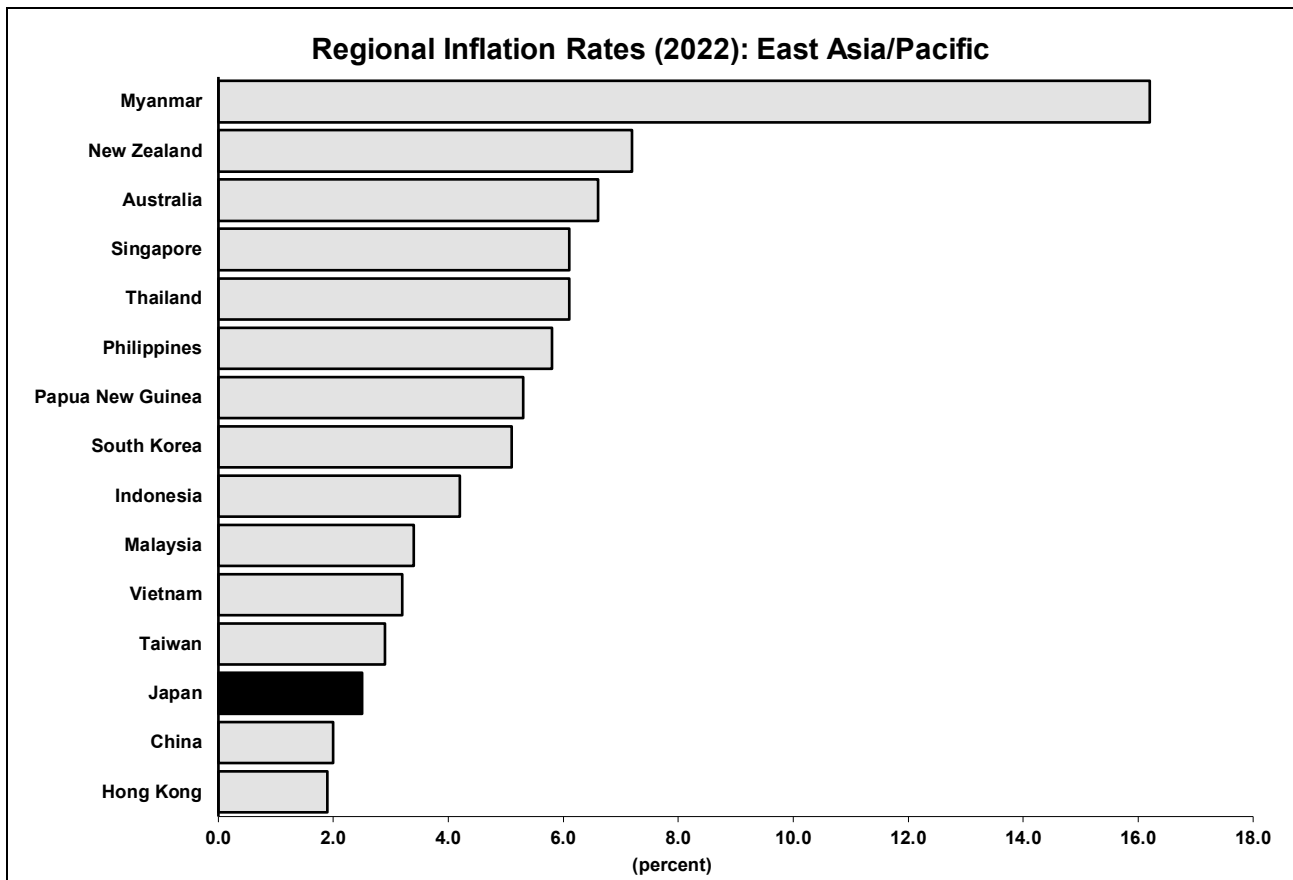
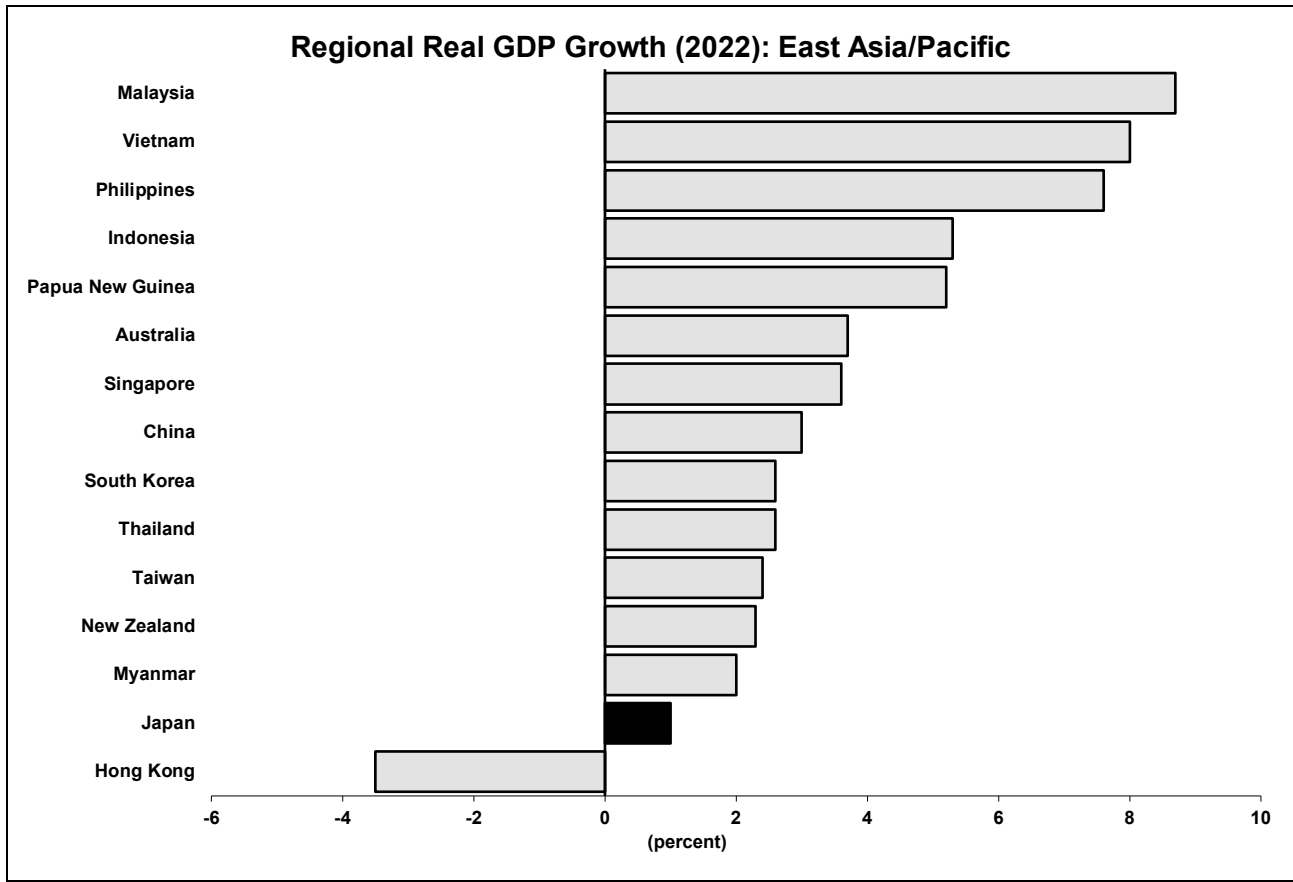
Japan Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, \$bn)	4897.13	4900.89	5206.60	4897.96	4444.86	5004.27	4931.94
Per Capita GDP (\$)	38278	38779	40578	38218	34734	39172	38688
Real GDP Growth Rate (%)	1.3	-0.1	2.0	0.3	1.6	0.8	1.7
Inflation Rate (%)	0.9	0.8	0.3	2.8	0.8	-0.1	0.5
Capital Investment (\$bn)	1217.91	1251.32	1278.56	1228.60	1109.95	1239.09	1233.35
Capital Investment/GDP (%)	24.9	25.6	24.6	25.1	25.0	24.8	25.0
Budget Revenues (\$bn)	1612.60	1736.35	1624.46	1606.53	1493.47	1681.43	1657.13
Budget Revenues/GDP (%)	33.0	35.5	31.2	32.8	33.6	33.6	33.6
Budget Expenditures (\$bn)	1846.10	2003.55	2020.16	1880.82	1657.93	1861.59	1810.02
Budget Expenditures/GDP (%)	37.7	41.0	38.8	38.4	37.3	37.2	36.7
Budget Balance (\$bn)	-233.50	-267.20	-395.70	-274.29	-164.46	-180.16	-152.89
Budget Balance/GDP (%)	-4.7	-5.5	-7.6	-5.6	-3.7	-3.6	-3.1
Money Supply (M1, \$bn)	6030.03	8070.06	6065.24	5851.98	5216.37	6467.25	6549.32
Change in Real Wages (%)	-0.3	-0.2	-1.2	-1.6	-0.5	0.9	0.7
Unemployment Rate (%)	3.4	2.6	4.0	3.6	3.4	3.1	2.8
International Economic Indicators							
Foreign Direct Investment (\$bn)	19.13	42.00	10.75	19.59	5.18	41.30	18.85
Forex Reserves (\$bn)	1188.69	1229.74	1202.92	1200.16	1179.50	1158.28	1202.61
Gross Reserves (ex gold, \$bn)	1219.16	1279.40	1237.22	1231.01	1207.02	1188.33	1232.24
Gold Reserves (\$bn)	29.12	42.55	29.56	29.50	26.13	28.52	31.90
Gross reserves (inc gold, \$bn)	1248.29	1321.95	1266.78	1260.51	1233.15	1216.85	1264.14
Total Foreign Debt (\$bn)	3274.49	4455.77	3040.88	3110.96	2931.92	3664.10	3624.57
Total Foreign Debt/GDP (%)	66.9	91.4	58.4	63.5	66.0	73.2	73.5
Debt Service (\$bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service/XGS (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account (\$bn)	123.77	157.32	45.61	37.02	136.48	196.64	203.12
Current Account/GDP (%)	2.6	3.2	0.9	0.8	3.1	3.9	4.1
Current Account/XGS (%)	11.2	12.7	4.2	3.3	13.0	18.0	17.3
Exports (\$bn)	667.90	712.39	694.24	699.32	621.86	635.16	688.90
Imports (\$bn)	688.18	725.61	784.03	798.12	629.19	584.44	645.10
Trade Balance (\$bn)	-20.28	-13.22	-89.79	-98.80	-7.33	50.72	43.80
Exports of Services (\$bn)	164.62	181.55	135.08	162.63	162.63	175.83	186.92
Income, credit (\$bn)	256.50	325.04	241.38	248.72	248.72	264.98	278.72
Transfers, credit (\$bn)	17.54	28.84	15.76	16.96	16.96	17.95	20.05
Exports G&S (\$bn)	1106.55	1247.82	1086.46	1127.63	1050.17	1093.92	1174.59
Liabilities (\$bn)	85.04	214.37	36.00	48.60	52.80	109.43	178.36
Net Reserves (\$bn)	1163.25	1107.58	1230.78	1211.91	1180.35	1107.42	1085.78
Liquidity (months import cover)	20.5	18.7	18.8	18.2	22.5	22.7	20.2
Currency Exchange Rate	109.119	113.495	97.703	105.924	121.046	108.780	112.141
Currency Change (%)	-7.0	-2.8	-18.3	-12.5	-12.5	11.3	-3.0
Social Indicators							
Population (million)	127.93	126.34	128.31	128.16	127.97	127.75	127.48
Population Growth (%)	-0.1	-0.4	-0.1	-0.1	-0.1	-0.2	-0.2
Infant Deaths/1000	2	2	2	2	2	2	2
Persons under Age 15 (%)	13	13	13	13	13	13	13
Urban Population (%)	93	92	92	93	93	94	94
Urban Growth (%)	0.3	-0.6	-0.1	1.0	-0.1	0.9	-0.2
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	3	3	4	4	3	3	3
Industry-Commerce Work Force (%)	26	25	26	26	26	26	26
Services Work Force (%)	71	72	70	70	71	71	71
Unionized Work Force (%)	18	18	18	18	18	18	18
Energy - total consumption (10 ¹⁵ Btu)	19.87	19.69	20.44	19.90	19.55	19.65	19.80
Energy - consumption/head (10 ⁹ Btu)	0.16	0.16	0.16	0.16	0.15	0.15	0.16

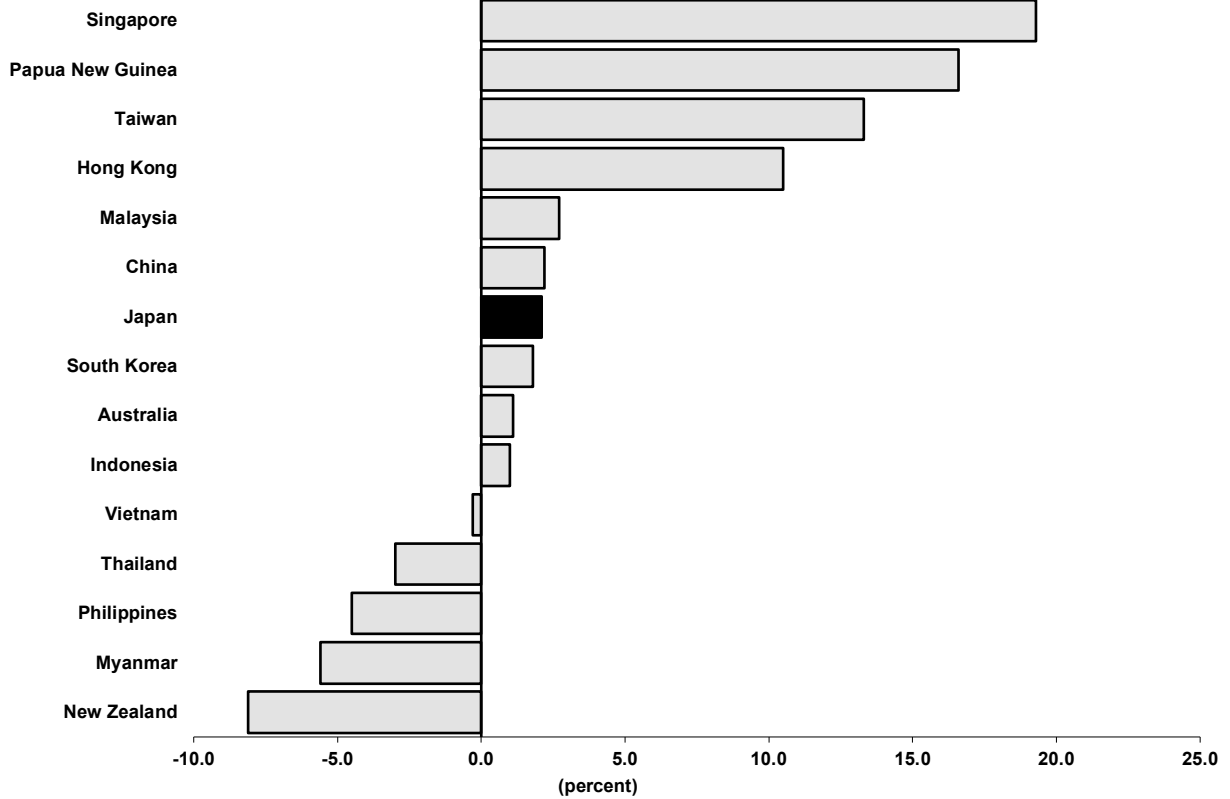
Japan Econometric Data

	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, \$bn)	4897.13	4900.89	5041.03	5118.31	5056.56	5030.88	4257.65
Per Capita GDP (\$)	38278	38779	39621	40308	39979	39912	34075
Real GDP Growth Rate (%)	1.3	-0.1	0.6	-0.4	-4.1	2.6	1.0
Inflation Rate (%)	0.9	0.8	1.0	0.5	0.0	-0.2	2.5
Capital Investment (\$bn)	1217.91	1251.32	1273.75	1307.60	1289.12	1280.75	1105.39
Capital Investment/GDP (%)	24.9	25.6	25.3	25.6	25.5	25.5	26.0
Budget Revenues (\$bn)	1612.60	1736.35	1729.07	1750.46	1792.23	1831.99	1578.01
Budget Revenues/GDP (%)	33.0	35.5	34.3	34.2	35.4	36.4	37.1
Budget Expenditures (\$bn)	1846.10	2003.55	1850.06	1909.13	2249.88	2140.22	1868.45
Budget Expenditures/GDP (%)	37.7	41.0	36.7	37.3	44.5	42.5	43.9
Budget Balance (\$bn)	-233.50	-267.20	-120.99	-158.67	-457.65	-308.23	-290.44
Budget Balance/GDP (%)	-4.7	-5.5	-2.4	-3.1	-9.1	-6.1	-6.8
Money Supply (M1, \$bn)	6030.03	8070.06	7010.70	7506.17	8735.04	9167.74	7930.63
Change in Real Wages (%)	-0.3	-0.2	0.3	-0.4	-0.1	0.3	-1.0
Unemployment Rate (%)	3.4	2.6	2.4	2.4	2.8	2.8	2.6
International Economic Indicators							
Foreign Direct Investment (\$bn)	19.13	42.00	25.30	40.06	62.78	34.36	47.50
Forex Reserves (\$bn)	1188.69	1229.74	1198.38	1255.32	1312.16	1278.93	1103.91
Gross Reserves (ex gold, \$bn)	1219.16	1279.40	1228.03	1286.28	1348.15	1356.25	1178.28
Gold Reserves (\$bn)	29.12	42.55	29.96	37.47	46.53	49.51	49.30
Gross reserves (inc gold, \$bn)	1248.29	1321.95	1257.99	1323.75	1394.68	1405.76	1227.58
Total Foreign Debt (\$bn)	3274.49	4455.77	4025.52	4285.33	4714.10	4823.74	4430.17
Total Foreign Debt/GDP (%)	66.9	91.4	79.9	83.7	93.2	95.9	104.1
Debt Service (\$bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Service/XGS (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account (\$bn)	123.77	157.32	176.74	176.61	149.80	195.61	87.83
Current Account/GDP (%)	2.6	3.2	3.5	3.5	3.0	3.9	2.1
Current Account/XGS (%)	11.2	12.7	14.1	14.1	13.5	15.1	6.6
Exports (\$bn)	667.90	712.39	735.61	695.17	630.07	749.78	751.32
Imports (\$bn)	688.18	725.61	725.41	693.79	604.05	733.73	871.08
Trade Balance (\$bn)	-20.28	-13.22	10.20	1.38	26.02	16.05	-119.76
Exports of Services (\$bn)	164.62	181.55	194.14	209.51	163.99	170.69	169.44
Income, credit (\$bn)	256.50	325.04	303.39	313.45	281.42	347.24	379.71
Transfers, credit (\$bn)	17.54	28.84	21.86	32.45	31.25	27.99	30.63
Exports G&S (\$bn)	1106.55	1247.82	1255.00	1250.58	1106.73	1295.70	1331.10
Liabilities (\$bn)	85.04	214.37	184.22	191.18	202.23	205.31	288.90
Net Reserves (\$bn)	1163.25	1107.58	1073.77	1132.57	1192.45	1200.45	938.68
Liquidity (months import cover)	20.5	18.7	17.8	19.6	23.7	19.6	12.9
Currency Exchange Rate	109.119	113.495	110.420	109.003	106.754	109.836	131.460
Currency Change (%)	-7.0	-2.8	1.6	1.3	2.1	-2.8	-16.4
Social Indicators							
Population (million)	127.93	126.34	127.23	126.98	126.48	126.05	124.95
Population Growth (%)	-0.1	-0.4	-0.2	-0.2	-0.4	-0.3	-0.9
Infant Deaths/1000	2	2	2	2	2	2	2
Persons under Age 15 (%)	13	13	13	13	13	13	13
Urban Population (%)	93	92	92	92	92	92	92
Urban Growth (%)	0.3	-0.6	-2.3	-0.2	-0.3	-0.2	-0.2
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	3	3	3	3	3	2	2
Industry-Commerce Work Force (%)	26	25	26	25	25	25	25
Services Work Force (%)	71	72	71	72	72	72	72
Unionized Work Force (%)	18	18	18	18	18	18	18
Energy - total consumption (10 ¹⁵ Btu)	19.87	19.69	19.85	19.90	19.96	20.17	18.55
Energy - consumption/head (10 ⁹ Btu)	0.16	0.16	0.16	0.16	0.16	0.16	0.15

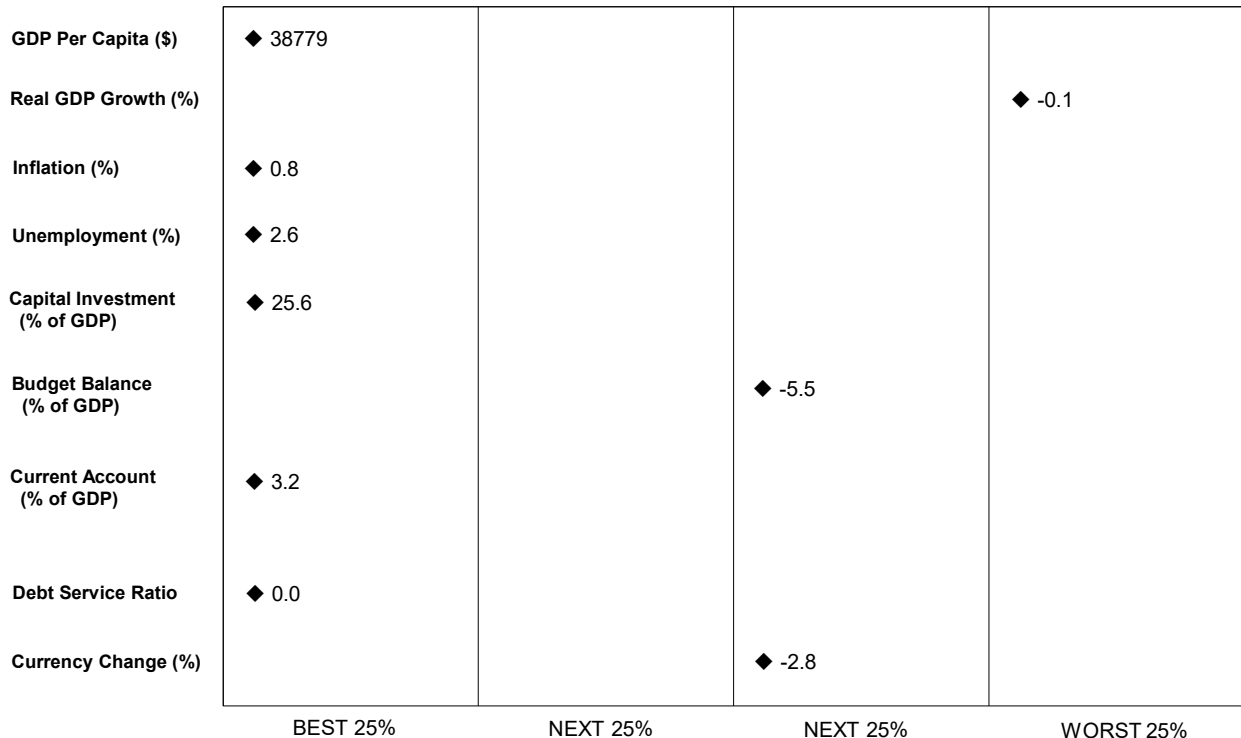
INTRA-REGIONAL COMPARISONS



Regional Current Account/GDP (2022): East Asia/Pacific



Economic Performance Profile Country's Ranking Relative to All Countries Covered by Political Risk Services 2018-2022



GEOPOLITICAL & ECONOMIC ANALYSIS

KISHIDA CONTINUING TO STRUGGLE

Neither a Cabinet reshuffle in September nor the more recent unveiling of a \$113 billion economic stimulus package has helped to reverse the erosion of Prime Minister Fumio Kishida's popular support. The results of a Nikkei/Tokyo TV poll released in late November showed Kishida's approval rating sagging to 30%, the lowest reading for any prime minister since the Liberal Democratic Party (LDP) returned to power under Shinzo Abe in 2012.

The most noteworthy feature of the Cabinet reshuffle, the second since Kishida became prime minister in October 2021, was an increase in female representation in the government, most notably with the assignment of the Foreign Affairs portfolio to Yoko Kamikawa, a former minister of justice, and the appointment of Minoru Kihara as minister of defense. But the retention of familiar faces at the ministries of Economy, Finance, Trade and Industry, and Economic Security (a reflection of the constraints imposed by the prime minister's political ties to the faction leaders who smoothed his path to leadership of the LDP) diminished the impact of an exercise designed to create an impression of reinvigoration.

The stimulus package unveiled in early November, in fulfillment of Kishida's promise to take "drastic" steps to bolster the economic security of households and encourage investment, also fell short of expectations, the large price tag notwithstanding. Key elements of the plan, which was approved in late November, include a temporary tax cut of \$266 per person to take effect in June 2024, cash transfers of \$465 for low-income households, and increased spending on subsidies for fuel and utilities.

The government projects that the economic package will boost GDP by about 1.2%, but economists have noted that temporary tax-cuts and one-off transfers typically contribute to increased savings, rather than consumption, and are therefore likely to have little impact on growth. Opposition leaders have criticized the plan as an expensive populist scheme designed to boost support for an unpopular government.

If that was the goal, the objective has not been achieved, and the continued slide in Kishida's approval rating only adds to the lack of clarity about the timing of the next election, which is not required until October 2025, but can be held early at the prime minister's discretion. The LDP is scheduled to hold an internal leadership vote in September, and it is widely assumed that Kishida has little chance of remaining at the helm unless he first manages to secure a victory for the party in a national election.

The most recent polling data will discourage Kishida from pulling the trigger before the end of the year. However, he might view the prospect of a contentious debate over the 2024/2025 budget, which will entail tackling how to pay for planned increases in defense and welfare expenditures and whether to

reinstate gasoline taxes that were frozen after the Fukushima nuclear disaster in 2011, as reason enough to make a move early next year.

The timing of the election matters less for the LDP, which is likely to win regardless, than for Kishida, for whom a weak showing would likely mean the end of his career. Polling data suggests that support for the LDP is running at 35%-40%, in line with the party's vote share in October 2021, when it suffered a net loss of 25 seats, but still retained a majority of 256 seats in the 465-member House of Representatives. The LDP's margin for error is increased by the reliable support of Komeito (on which it depends for its majority in the upper house) and the ideological incompatibility of the liberal Constitutional Democratic Party (CDP) and the far-right populist Japanese Innovation Party (Ishin).

BOLSTERING DEFENSES AGAINST EXTERNAL THREATS

The 2023 budget approved in February included a record \$46.8 billion in defense spending, a 20% increase compared to 2022, in keeping with Yishida's pledge to double the defense budget to the equivalent of 2% of GDP by 2027. The Ministry of Defense has made a request of \$53 billion for the fiscal year that begins in April 2024, an increase of 13.2%. The rise in defense spending and a proposal to amend the country's pacifist constitution highlight deepening concerns about the security threats posed by the aggressive expansionist aims of China and a nuclear-armed North Korea, which have been compounded as Russia has emerged as a dangerous destabilizing force on the world stage.

The relative absence of overt opposition to the expansion of the defense budget, which included \$1.55 billion for the deployment of US-made long-range Tomahawk cruise missiles, likely reflects a growing sense of urgency with regard to security among the broader population. However, there is less consensus about how to pay for the increased outlays.

In December 2022, the Cabinet agreed to a plan to increase the tobacco tax, extend the special income tax originally introduced to fund the reconstruction of areas damaged by the 2011 earthquake and tsunami, and introduce a surtax on corporations of 4%-4.5%, with exemptions for smaller firms. The tax hikes were delayed due to strong objections by lawmakers who feared that implementation would undermine a fragile economic recovery, and there is strong pressure for a further delay until at least 2025. However, the security threats driving the increases in spending will persist, and a decision on financing cannot be put off indefinitely.

Japan had sought to impede the creation of a Russia-China alliance by pursuing closer relations with the regime in Moscow, a strategy that is no longer feasible with Tokyo's unequivocal condemnation of Russia's invasion of Ukraine in early 2022 and its staunch support for damaging sanctions. Against that backdrop, Kishida has prioritized the strengthening of ties with Japan's partners in the US and Europe and is pushing for increased security cooperation with regional allies.

One focus of the G7 summit held in Hiroshima in May 2023 was reducing China's control of the international supply chain ("de-risking"), a topic on which there is substantial disagreement among the members of the bloc. The US advocates the use of commercial levers to encourage better behavior by Beijing, while France and Japan favor a less overtly antagonistic approach to managing China-related risks, and pushed for the release of post-summit communique that drew a clear distinction between de-risking and de-coupling from China. Beijing was not swayed by the nuance and summoned the Japanese ambassador for a scolding over the "anti-China" message issued by the G7.

Diplomatic tensions have been heightened by China's repeated acts of intimidation directed at Taiwan, but regional risks have been rising for several years, the result of regular territorial incursions by China, in the air and at sea, and the belligerence of North Korea, which periodically feels compelled to remind Japan of its missile capabilities. But signs of a thaw in relations between Japan and South Korea are further evidence of a greater sense of urgency about the need for those most vulnerable to aggression by Beijing or Pyongyang to bolster their defenses.

Relations between Tokyo and Seoul deteriorated markedly after Shinzo Abe was returned to power in 2012. A conservative nationalist who had ties to the revisionist Nippon Kaigi organization, Abe was not inclined to respond sympathetically to South Korea's demands for acknowledgment of the harm the country endured during the period of military occupation in the first half of the 20th century, and a Korean court's order for Japanese companies to shell out billions in reparations for abuses from the same period created an added obstacle to a sustained improvement in bilateral relations.

However, South Korean President Yoon Suk-yeol began putting out feelers to Tokyo soon after taking office in May 2022, and appealed for the two countries to overcome their historical differences and focus instead on their shared universal values and common future. A breakthrough came in March 2023, when Kishida and Yoon met in Tokyo for the first bilateral summit between the Japanese and South Korean heads of government in 11 years. The two leaders pledged to resume regular reciprocal visits as part of a broader normalization of relations that would enhance the potential for constructive security cooperation.

During a second meeting in Seoul, Kishida made a statement in which he expressed sympathy for the harm done to Koreans who were forced into industrial slavery during Japanese colonial rule. However, the prime minister stopped short of issuing an apology, a point noted by the Korean opposition, which has pledged it will not permit Yoon to let Japan off the hook for its past abuses, and it is doubtful that Kishida can offer anything more substantive without triggering a revolt with the ranks of his own party and stoking nationalist passions that would benefit Ishin at the expense of the LDP.

In late November, South Korea, China, and Japan agreed to resume annual trilateral talks for the first time since 2019. But there is little reason to believe that the recent developments portend a fundamental shift in bilateral ties with China. Beijing likely sees the resumption of trilateral talks with Seoul and Tokyo as a means of reducing the incentive for South Korea and Japan to seek closer bilateral ties, particularly on security-related matters.

More broadly, it is no coincidence that China's adoption of a more conciliatory diplomatic posture since mid-2023, highlighted by Chinese President Xi Jinping's decision to meet with his US counterpart at the Asia-Pacific Economic Cooperation (APEC) Summit in San Francisco in early November, comes at a time when mounting evidence of trouble for the Chinese economy makes it unwise for Beijing to pick fights with its most important global partners. However, if economic difficulties on the mainland come to pose an explicit threat to Xi's political control, the danger that a regime on the defensive might feel compelled to lash out cannot be dismissed out of hand.

FRAGILE RECOVERY CREATES POLICY CHALLENGES

The unveiling of the economic stimulus package in early November coincided with the release of provisional data revealing a marked slowdown in activity in the July-September quarter. GDP contracted by 0.5% compared to the previous quarter, as high inflation dampened household spending, compounding the negative effects of weak demand for Japan's exports. The decline followed an unexpectedly strong advance in the second quarter, when GDP posted a sequential gain of 1.2%. The volatility of the quarterly figures underscores the challenges for the government as it attempts to bolster a flagging post-pandemic recovery without undermining the central bank's efforts to manage inflation and steady a yen that has been unusually volatile over the last two years.

The currency depreciated by more than 23% between early March and late October 2022, when it hit a 32-year low of JPY150.0 to the dollar. The decline was triggered by soaring inflation in the US, which prompted aggressive tightening by the Fed that widened the interest-rate differential as the Bank of Japan (BOJ) signaled its intention to stick with its ultra-loose monetary policy. The slide was temporarily reversed as expectations that US inflation had peaked contributed to a fall in the long-term interest rate and the BOJ announced plans to increase the upper limit of the trading range on the 10-year bond yield from 0.25% to 0.5%, effectively narrowing the interest-rate differential.

The exchange rate fell below JPY128.0 in January, but renewed uncertainty for the inflation outlook in the US sent the yen into a renewed slide, pushing the exchange rate back above JPY140.0 by late May. Despite the easing of pressure for additional tightening by the Fed, the yen has continued to weaken and fell below JPY150.0 once again in early November. The BOJ responded by pushing the yield cap up to 1%, but pressure is growing for a more substantive tightening strategy that could reinforce the weakness of domestic demand. The \$113 billion economic package will give the BOJ some room for maneuver in

the near term, but monetary authorities will proceed cautiously with tightening, which carries a risk of a disruptive unwinding of the yen carry trade.

The persistent weakness of the yen and the fastest wage growth in decades point to sustained inflation above the BOJ's target of 2% in the near term. The impact of the fiscal stimulus will not be felt until 2024, when the exhaustion of the post-pandemic rebound will nevertheless produce a deceleration of real GDP growth from the 2% pace forecast in 2023. Any significant improvement in the outlook likely hinges on an unexpectedly strong revival of external demand that boosts the export sector.

Exports grew at a sluggish pace in the first half of 2023 and registered a small year-on-year contraction in the third quarter. However, a pronounced decrease in the imports bill driven by lower commodity prices has had a positive effect on the trade balance. With a recovery in tourism boosting services income, the current account surplus totaled \$108 billion at the end of September, up from \$69 billion at the same point last year, and is on track to reach 3%-3.5% of GDP by the end of the year, which is still below the pre-pandemic trend.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk claims and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have “predictive power for both political risk insurance claims as well as political risk events measured by news coverage.”

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
NOVEMBER 2023 VERSUS DECEMBER 2022

RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
<i>Very Low Risk</i>					
1	Norway	86.3	87.0	-0.8	2
2	Switzerland	86.0	87.3	-1.3	1
3	Denmark	85.0	84.8	0.3	6
4	Taiwan	84.8	84.3	0.5	7
5	Singapore	84.3	86.0	-1.8	3
6	Luxembourg	84.0	86.0	-2.0	3
7	Ireland	83.8	82.3	1.5	7
8	Saudi Arabia	82.5	85.5	-3.0	5
9	Brunei	81.5	81.8	-0.3	10
10	Qatar	80.8	80.0	0.8	17
11	Canada	80.5	81.8	-1.3	10
11	Iceland	80.5	80.5	0.0	15

* C Harvey, et al., “Political Risk Spreads,” Journal of International Business Studies, (2014), 471-493.

TABLE 1
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NOVEMBER 2023 VERSUS DECEMBER 2022

RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
11	United Arab Emirates	80.5	82.3	-1.8	7
14	Netherlands	80.3	80.5	-0.3	15
15	Kuwait	80.0	81.0	-1.0	13
Low Risk					
16	Australia	79.5	81.8	-2.3	10
17	Botswana	79.3	77.3	2.0	24
17	Japan	79.3	76.5	2.8	26
19	Sweden	79.0	81.0	-2.0	13
20	New Zealand	78.8	76.0	2.8	28
21	Germany	78.5	79.0	-0.5	18
21	Hong Kong	78.5	74.3	4.3	35
21	Korea, Republic	78.5	78.3	0.3	20
24	Finland	77.5	78.3	-0.8	20
25	Bahamas	76.8	74.3	2.5	35
25	Trinidad & Tobago	76.8	77.5	-0.8	23
27	Austria	76.5	78.3	-1.8	20
27	Costa Rica	76.5	72.3	4.3	47
27	Oman	76.5	78.5	-2.0	19
27	Portugal	76.5	75.3	1.3	32
31	Czech Republic	76.0	76.0	0.0	28
32	Guyana	75.5	75.5	0.0	31
32	Kazakhstan	75.5	76.5	-1.0	26
34	Uzbekistan	74.8	73	2.3	43
35	Belgium	74.5	74.5	0.0	34
36	Italy	74.3	73.3	1.0	41
37	Latvia	74.0	71.8	2.3	51
37	Malaysia	74.0	74.0	0.0	39
37	Slovenia	74.0	73.0	1.0	42

TABLE 1
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NOVEMBER 2023 VERSUS DECEMBER 2022

RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
40	Azerbaijan	73.8	72.5	1.3	43
40	Libya	73.8	70.8	3.0	58
40	Panama	73.8	73.5	0.3	40
40	Uruguay	73.8	75.3	-1.5	32
44	Croatia	73.5	74.3	-0.8	35
44	Israel	73.5	76.0	-2.5	28
44	Malta	73.5	74.3	-0.8	35
44	United Kingdom	73.5	76.8	-3.3	25
48	Jamaica	72.5	72.3	0.3	47
48	Poland	72.5	71.3	1.3	54
48	Spain	72.5	72.5	0.0	43
51	Dominican Republic	72.0	72.3	-0.3	47
52	Chile	71.8	71.5	0.3	52
52	France	71.8	72.5	-0.8	43
52	Philippines	71.8	70.8	1.0	58
55	Brazil	71.5	70.0	1.5	64
55	Vietnam	71.5	71.3	0.3	54
57	India	71.3	70.5	0.8	61
58	Bulgaria	71.0	70.8	0.3	58
58	China, Peoples' Rep.	71.0	69.3	1.8	66
58	Hungary	71.0	71.3	-0.3	54
58	Paraguay	71.0	64.3	6.8	93
58	Thailand	71.0	65.5	5.5	87
63	Guatemala	70.5	71.0	-0.5	57
63	United States	70.5	72.3	-1.8	47
Moderate Risk					
65	Gabon	69.8	66.8	3.0	82
65	Lithuania	69.8	70.5	-0.8	61

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RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
67	Cyprus	69.3	70.0	-0.8	64
68	Bahrain	69.0	68.8	0.3	71
68	Indonesia	69.0	68.3	0.8	75
68	Papua New Guinea	69.0	69.3	-0.3	66
71	Greece	68.8	68.5	0.3	73
72	Congo, Republic	68.5	64.3	4.3	93
72	Iraq	68.5	70.5	-2.0	61
72	Mexico	68.5	68.0	0.5	77
72	Peru	68.5	68.0	0.5	77
72	Slovakia	68.5	68.8	-0.3	71
77	Estonia	68.3	71.5	-3.3	52
77	Namibia	68.3	69.3	-1.0	66
79	Algeria	68.0	69.3	-1.3	66
79	Russia	68.0	66.0	2.0	86
81	Ecuador	67.5	68.5	-1.0	73
81	El Salvador	67.5	63.3	4.3	99
81	Romania	67.5	66.8	0.8	82
84	Armenia	66.8	60.0	6.8	111
84	Gambia	66.8	65.3	1.5	88
84	Honduras	66.8	66.8	0.0	82
84	Morocco	66.8	64.5	2.3	90
88	Mongolia	66.5	64.5	2.0	90
88	South Africa	66.5	67.8	-1.3	79
90	Tanzania	66.3	65.0	1.3	89
91	Serbia	65.8	67.0	-1.3	80
92	Guinea-Bissau	65.3	64.0	1.3	95
93	Zambia	65.0	62.8	2.3	100
94	Albania	64.5	63.8	0.8	98

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RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
95	Iran	64.3	66.8	-2.5	82
96	Bangladesh	64.0	62.5	1.5	102
96	Bolivia	64.0	67.0	-3.0	80
96	Cote d'Ivoire	64.0	62.3	1.8	104
99	Jordan	63.8	64.5	-0.8	90
99	Nicaragua	63.8	62.8	1.0	100
101	Togo	63.5	62.3	1.3	104
102	Colombia	63.3	64.0	-0.8	95
103	Madagascar	63.0	62.5	0.5	102
104	Suriname	62.5	58.5	4.0	116
105	Moldova	62.3	59.0	3.3	114
106	Cuba	61.8	69.0	-7.3	70
107	Cameroon	61.3	61.0	0.3	107
108	Ukraine	61.0	51.8	9.3	132
109	Ghana	60.5	58.5	2.0	116
110	Angola	60.3	68.3	-8.0	75
111	Mozambique	60.0	54.5	5.5	127
111	Uganda	60.0	59.5	0.5	112
High Risk					
113	Guinea	59.8	57.5	2.3	123
113	Tunisia	59.8	61.0	-1.3	107
115	Liberia	59.5	58.0	1.5	121
115	Sri Lanka	59.5	48.8	10.8	137
117	Belarus	59.3	57.0	2.3	125
118	Mali	58.8	58.8	0.0	115
118	Senegal	58.8	58.3	0.5	120
120	Burkina Faso	58.5	59.5	-1.0	112
121	Myanmar	58.3	56.0	2.3	126

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RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
122	Zimbabwe	58.0	61.5	-3.5	106
123	Argentina	57.5	64.0	-6.5	95
123	Ethiopia	57.5	58.5	-1.0	116
125	Egypt	57.3	57.5	-0.3	123
126	Kenya	57.0	58.5	-1.5	116
127	Haiti	56.8	54.0	2.8	129
127	Sierra Leone	56.8	53.5	3.3	130
129	Congo, Dem. Republic	56.3	60.3	-4.0	109
130	Nigeria	55.8	60.3	-4.5	109
130	Yemen, Republic	55.8	48.3	7.5	138
132	Turkey	55.5	54.3	1.3	128
133	Venezuela	55.0	58.0	-3.0	121
134	Somalia	51.8	52.0	-0.3	131
<i>Very High Risk</i>					
135	Pakistan	49.8	51.3	-1.5	134
136	Korea, D.P.R.	49.3	51.0	-1.8	135
137	Malawi	49.0	51.0	-2.0	135
138	Niger	47.8	51.8	-4.0	132
139	Syria	44.5	44.0	0.5	139
140	Sudan	43.5	43.3	0.3	140
141	Lebanon	34.5	41.3	-6.8	141

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