

**JAPAN IN 2023-24: COPING WITH  
DOMESTIC AND  
INTERNATIONAL CRISES**

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## Executive Summary

1. Japan fully opened in February 2023 to travellers abroad after almost three years of COVID-19 pandemic travel restrictions. This opening up boosted the Japanese tourist industry.
2. The Nikkei Index hit a record high in three decades in 2024. Japan has apparently ended a three-decade long deflation since the burst of its “bubble economy” in the early 1990s. However, a new problem – inflation in Japan – has emerged at the fastest pace since 1981.
3. Economically, while Japan is poised to regain its lead in Artificial Intelligence (AI), the ruling Liberal Democratic Party (LDP) sees the importance of regulating its development. At the G-7 Summit in Hiroshima in July 2023, Japan took the lead in the global governance of AI.
4. Consonant to the Kishida administration’s clarion call for “new capitalism” and wage increase for workers to improve livelihoods and stimulate consumer demand, Japanese labour union-major corporations negotiations resulted in an annual wage growth of 3.99%, the highest since 1993.
5. The Kishida administration proposed a US\$25 billion package to incentivise the Japanese to have more children to mitigate the country’s severe demographic decline and rapid ageing.
6. Amid the geostrategic uncertainty of a more assertive China, a relentless nuclearising North Korea and Russia’s invasion of Ukraine, the Japanese Cabinet approved a record military budget of 7.7 trillion yen (US\$56 billion), a hefty 16% increase in military spending in 2024 over the previous year.
7. Japan enhanced its trilateral security relations with its US ally and neighbouring South Korea. A summit between South Korean President Yoon Suk-yeol, US

President Joe Biden and Japanese Prime Minister Kishida Fumio at Camp David on 18 August 2023 boosted their security and economic ties.

8. Prime Minister Kishida is confronted by the greatest political scandal facing the ruling LDP in more than 30 years. This festering scandal is triggered by the systematic and wilful failure of LDP factions to report their financial slush funds and illegal kickbacks to their members of parliament.
9. Japanese public support for the Kishida administration dipped to 17.1% in December 2023, the lowest since the LDP returned to power in 2012. If public support for Kishida were to plunge to single digit, he will likely be replaced in the LDP presidential election in September 2024. The new LDP president will have to win parliamentary support to become the new Japanese prime minister.
10. Kishida's successor as prime minister could be another short-lived one if genuine political reforms are not introduced to address illegal funding to assuage public anger. If this scenario were to pan out, Japan will be bedeviled by rudderless political leadership amid turbulence at home and abroad.