
B. NORTH AMERICA

1. The United States of America

(a) U.S. Domestic Politics

On January 20, 2001, former Texas Governor George W. Bush assumed office as the 43rd president of the United States. It was said that the first priority for the new administration was to reunite the American people, who had been politically divided by the 36-day-long confusion over the results in the state of Florida, which determined the final result of the 2000 presidential election. In his inaugural address, President Bush appealed to the American people that the entire nation must unite to overcome its various problems.

President Bush identified tax reduction, education reform, Medicare (public medical insurance system for the elderly) reform, and national defense (increasing military personnel pay and reviewing defense capabilities) as his administration's main agenda for the first six months in office. On tax cuts, the U.S. Congress passed a law to reduce federal taxes by US\$1.35 trillion over 10 years in June. And on education reform, the No Child Left Behind Act, which reauthorizes the Elementary & Secondary Education Act of 1965, finally passed both houses of Congress in mid-December, incorporating most of President Bush's proposals, including the holding of annual scholastic ability tests and strengthening schools' accountability on their performance. The tax reduction and the education reform legislation became President Bush's primary accomplishments during his first year in office.

Meanwhile, in the almost evenly divided Congress (as of the beginning of 2001, there were 50 Republicans and 50 Democrats in the Senate, and the Republicans held a 10-seat majority in the House of Representatives), the Democrats voiced increasingly strong criticism of the Bush administration's environmental policies, including the withdrawal from his commitment during the election campaign to reduce carbon dioxide emissions. The Democrats also criticized the administration's energy policy placing greater emphasis on stabilizing supply by further developing domestic resources, which was adopted against the background of the California electricity crisis and skyrocketing gasoline prices, as being too supportive of industry. Furthermore, the Democrats criticized the administration that it was showing an increasingly conservative tilt so as to reinforce its foundations within the Republican Party. Amid these developments, Vermont

Senator Jim Jeffords defected from the Republican Party to be an independent in early June, citing differences with the Bush administration as well as the party leadership. This left the Democrats with a simple majority in the Senate and thus effectively handed the Democrats the initiative in the legislative process in the chamber.

The Bush administration was expected to face a difficult domestic political situation following the Congress' summer recess, because the Bush administration's job approval rating gradually decreased since President Bush's inauguration (it had fallen to under 55 percent by the end of August) and the Republicans had lost control of the Senate. However, the September 11 terrorist attacks in the United States completely changed the domestic political landscape.

In the wake of the terrorist attacks, President Bush manifested strong leadership. President Bush took charge in leading counter-terrorist efforts by establishing the Office of Homeland Security, primarily responsible for counter-terrorist activities and for strengthening the country's border controls and airport security. Moreover, the president actively advanced proposals on counter-terrorism legislation through the Congress. The Congress responded positively to the president's legislation requests in a bipartisan manner, and promptly passed the USA PATRIOT Act (a comprehensive anti-terrorism bill), and anti-terrorism measures including the Aviation and Transportation Security Act. Americans strongly supported President Bush's leadership in counter-terrorism efforts, and the administration's job approval rating shot up to nearly 90 percent, virtually overnight. As of early 2002, the Bush administration had enjoyed a job approval rating of more than 80 percent for four consecutive months.

However, the political situation is now shifting in the lead-up to the mid-term elections in November 2002. In March 2001, the U.S. economy entered a recessionary phase, and the Democrats have been intensifying their attack on the Bush administration's economic policies, which are not directly related to the fight against terrorism. Against that backdrop, partisan moves between the Republicans and the Democrats have been re-ignited in the Congress.

(b) U.S. Foreign Relations

The Bush administration announced an emphasis on relations with U.S. allies, including Japan, and on protecting U.S. national interests as the fundamental plank of its foreign policy. For his diplomatic team, President Bush appointed a large number of experienced leaders who had served in key positions under his father, former President George Bush, as well as many individuals who are known to favor Japan in their Asian policy.

With its emphasis on U.S. national interests, the Bush administration has taken a negative stance toward the Kyoto Protocol and the Comprehensive Nuclear-Test-Ban Treaty (CTBT), causing some countries to express concern over what they view as a unilateralist trend in U.S. foreign policy.

The Bush administration worked on revising U.S. foreign policy in many fronts, including U.S. relations with North Korea and Iraq. The administration's review of its policy toward North Korea was completed in June, at which time the U.S. indicated a willingness to hold bilateral talks with North Korea. In its Iraq policy, the U.S. has been lobbying other countries toward implementing more effective sanctions against Iraq at the United Nations and in other settings.

Following the September terrorist attacks, the Bush administration adopted counter-terrorist efforts as its top priority issue, and this greatly influenced U.S. domestic and foreign policy and the entire international situation. President Bush himself took the initiative in diplomatic efforts calling on other countries for their participation and support for counter-terrorists activities, and successfully created a wide-ranging international coalition against terrorism with the support of countless countries including Russia, China, and many of the Arab states. While condemning terrorism, however, certain countries have called on the U.S. to exercise restraint in its military activities, to play a more active role in the Middle East peace process, and to curb expansion of its military activities outside of Afghanistan.

With regard to U.S.–Russia relations, each country expelled some of the other's diplomats in March over an incident in which a Federal Bureau of Investigation (FBI) agent was suspected of spying for Russia, creating tense bilateral relations. However, U.S.–Russia relations subsequently improved dramatically following a series of top-level discussions and with the bilateral cooperation in the fight against terrorism after the September 11 attacks. In November, President Vladimir Putin made an official visit to the United States. At summit meetings with President Putin in Washington, D.C. and on his private ranch, President Bush expressed his intention to greatly reduce its strategic nuclear arsenal. In December, the U.S. announced that it was withdrawing from the Anti-Ballistic Missile (ABM) Treaty, and the Russian government responded calmly as Russian leaders were already expecting this. The U.S. and Russia are continuing their deliberations toward some sort of written agreement regarding missile defense and reductions in strategic nuclear warheads.

U.S.–Chinese relations temporarily grew tense following the U.S.–China military aircraft collision incident in April 2001, but the tensions were subsequently eased through diplomatic negotiations. There have been signs of U.S.–China collaboration in the fight against terrorism following the September 11 terrorist attacks, and a U.S.–China Summit meeting took place in October on the sidelines of the Asia–Pacific Economic Cooperation (APEC) Economic Leaders' Meeting in Shanghai.

(c) U.S. Economy

In March 2001, the U.S. economy entered a recessionary phase following a decade-long expansion that had begun in March 1991, the longest period

of continuous growth in U.S. economic history.¹⁶ The beginning of the recession was dated as March because the industrial production, wholesale and retail sales, and employment statistics all showed a downturn from that month.

The economic slowdown became increasingly clear from the second half of 2000, and U.S. authorities implemented active fiscal and monetary policies throughout 2001. In fiscal policy, President Bush championed a major tax cut as an economic stimulus measure immediately upon assuming office, and he pushed Congress to pass tax reduction legislation quickly. The Congress passed a tax reduction bill in June 2001, stipulating a tax decrease of approximately US\$1.35 trillion over 10 years. As the first concrete measure, income tax refund checks were mailed to taxpayers in July. In monetary policy, the Federal Reserve Board (FRB) implemented a total of seven interest-rate reductions by September as an urgent monetary easing policy aimed at supporting economic recovery.

The U.S. economy, which was already slowing down, suffered major damage from the terrorist attacks in September 2001. The New York Stock Exchange was briefly closed; the airlines, insurance, and tourism industries were directly damaged; other industries suffered indirectly from a reduction in personal consumption due to a loss of consumer confidence; capital investment decreased due to a worsening of business performance; and U.S. exports declined due to the worsening of economic conditions overseas. Together, these developments resulted in an increasingly uncertain outlook for the U.S. economy. In particular, firms in industries such as the airline and tourism industries that suffered the greatest damage announced a series of layoffs, and the U.S. unemployment rate shot up immediately from September. Moreover, in the week following the terrorist attacks, the Dow Jones industrial average, which had been holding at around 10,500 in early 2001, plunged to below the 8,300 level, and the Nasdaq index, which is mostly comprised of high-technology issues, fell from around 2,000 to below 1,500.

In reaction to the attacks, the U.S. Congress, working with unprecedented speed, approved legislation for US\$40 billion in emergency government expenditures and for US\$15 billion in emergency support for the airline industry. Beyond this, President Bush called on Congress for an additional US\$60–75 billion in economic stimulus measures to revive consumer confidence, promote capital investment, and support the unemployed. The deliberations on these additional stimulus measures were difficult due to the confrontation between the Republicans, who emphasized tax reductions, and the Democrats, who sought government expenditures to counter unemployment. In the end, an economic stimulus bill that both extended the eligibility period for unemployment benefits and provided preferential corporate tax measures was passed in March 2002.

Meanwhile, in monetary policy the FRB implemented four additional interest rate cuts, including the emergency interest rate cut announced

16. These statistics were announced by the National Bureau of Economic Research, Inc. (NBER) in November 2001.

immediately following the terrorist attacks. Thus, the FRB lowered the interest rate a total of 11 times during 2001 (for a total interest rate decrease of 4.75 percent), creating a new record for the greatest number of interest rate cuts during a single calendar year.

As a consequence of all those economic and monetary policies, the damage from the terrorist attacks was not as serious as had been expected, and signs of improvement appeared in certain areas, such as progress in inventory adjustments and a rise in consumer confidence indices. Stock prices also recovered beyond their pre-September 11 levels, as the Dow rose to nearly 10,000 and the Nasdaq index approached 2,000 by the end of the year.

However, the U.S. authorities were then left with little room for additional fiscal and monetary policies due to the worsening budget deficit and the lowered interest rate following the active economic stimulus policies implemented during 2001. Specifically, as a result of the reduced tax revenues from the economic downturn and the series of increased government expenditures, the federal budget is likely to fall from a US\$127 billion surplus in FY 2001 (October 2000 through September 2001) to a deficit in FY 2002, after recording a surplus for four consecutive years from FY 1998. Moreover, the U.S. policy interest rate is now close to 0 percent in real terms.

During the third quarter of 2001 (July to September), the U.S. economy posted its first quarter of negative growth since 1993, but GDP growth turned sharply positive in the fourth quarter (October to December) thanks to the positive effect of active economic policies. It is believed that business conditions are close to bottoming out, and the sustainability of the recovery is now the main focus of attention.

2. Canada

In Canada, the Liberal Party, led by Prime Minister Jean Chrétien, continued to stably manage the government following the November 2000 House of Commons election, and it continued to enjoy high public approval ratings. The Canadian economy, which has grown at a rate of approximately 4 percent since 1997 (the annual growth rate of 2000 was 4.4 percent), clearly began to decelerate from the fourth quarter of 2000 (when it marked an annualized growth rate of 1.6 percent) due to the impact of the economic slowdown in the United States. The Canadian economy was further influenced by the terrorist attacks in the United States (Canada's annualized growth rate was minus 0.6 percent in the third quarter of 2001), and its real gross domestic product (GDP) annual growth rate was 1.5 percent in 2001. As for fiscal policy, Canada has maintained a budget surplus ever since attaining a balanced budget in FY 1997 (the budget surplus for FY 2000 was C\$17.1 billion).

In foreign affairs, the Third Summit of the Americas took place in Quebec City in April, reflecting Canada's continuing emphasis on multilateral diplo-

macy. Following the September 11 terrorist attacks, cooperating with the United States and controlling the Canada–U.S. border became key issues for Canada. Moreover, Canada announced the dispatch of six warships, six military aircraft, and 2,000 troops to support the U.S.-led military operations in Afghanistan.

The Canadian economy is highly dependent on foreign trade, and Canada continued to promote free trade via the World Trade Organization (WTO) and other international frameworks as the main pillar of its economic diplomacy. Simultaneously, Canada has also taken a positive stance toward concluding bilateral and regional free trade agreements, beginning with the North American Free Trade Agreement (NAFTA).

In relations between Japan and Canada, Prime Minister Junichiro Koizumi and Prime Minister Chrétien held a summit meeting during the July 2001 Genoa Summit. Prime Minister Koizumi and Prime Minister Chrétien also held two telephone conversations in the aftermath of the terrorist attacks in the United States. Moreover, Foreign Minister Makiko Tanaka met with Foreign Minister John Manley on the sidelines of the July 2001 G8 Foreign Ministers' Meeting in Rome.

There are no major issues of concern in the bilateral economic relations between Japan and Canada. Trade relations between Japan and Canada are mutually complementary, and the balance of trade is more or less equal. Japan primarily imports raw materials from Canada, and Canada mostly imports manufactured goods from Japan.