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NORTH AMERICA

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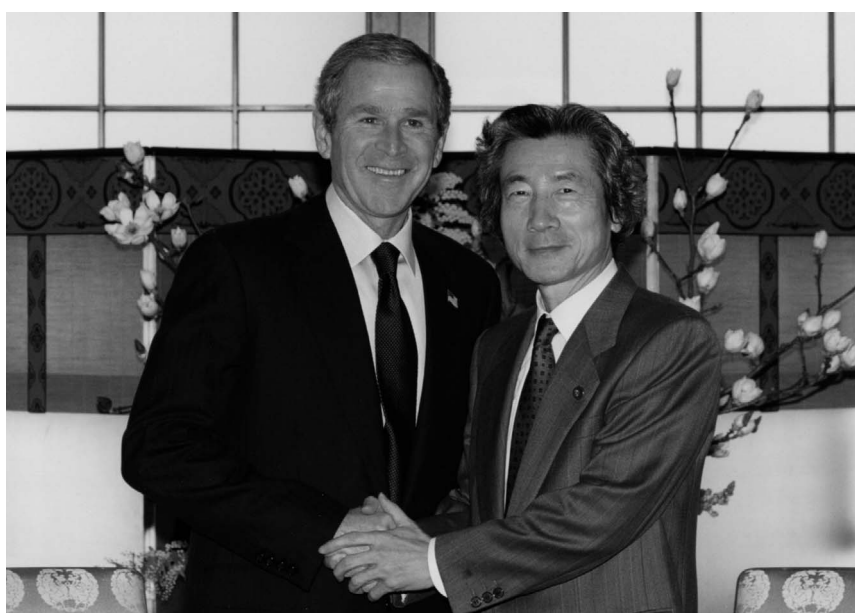
(a) Overview

President George W. Bush of the United States (US), who received strong support for his responses in the fight against terrorism after the terrorist attacks on September 11, 2001, continued to maintain high approval ratings throughout 2002 in light of growing concerns regarding security among the American people. With these high approval ratings, the Joint Resolution to Authorize the Use of United States Armed Forces against Iraq passed through both the House of Representatives and the Senate in October and in the midterm election on November 5, the Republican Party won a historic victory, obtaining a majority in both the House of Representatives and the Senate. Furthermore, on November 25, an act of Congress was signed establishing the Department of Homeland Security, which would be in charge of all of homeland security issues including counter-terrorism measures.

In its external relations, the US has continued to take

the lead in the international fight against terrorism. While recognizing the issue of the proliferation of weapons of mass destruction (WMDs) and their delivery vehicles as a serious challenge to security, the US has undertaken efforts toward that end. In his State of the Union Address in January 2002, President Bush referred to North Korea, Iran and Iraq as countries constituting an “axis of evil.” In the National Security Strategy of the United States of America announced in September, President Bush expressed his view that the US’s cause is the defense of free society and peace and that it would face new post-Cold War threats such as terrorism and the proliferation of WMDs and their delivery vehicles with a resolute stance.

In these efforts, the Bush administration has maintained its position of placing importance on relations with allies such as Japan as well as international coordination. In its National Security Strategy, the administration emphasized its position of placing importance on coordination with the international community



Prime Minister Junichiro Koizumi meeting with President George W. Bush (February Photo: Cabinet Public Relations Office)

including its allies. Regarding the response toward the issue of Iraq, in his speech at the United Nations (UN) General Assembly, President Bush expressed his position that he would make efforts through the UN Security Council. In this context, many consultations were held with US allies and members of the Security Council, with Secretary of State Colin Powell playing a central role. As a result, in order to ensure that Iraq would abolish WMDs and their delivery vehicles, the Security Council acknowledged that Iraq's behavior actually constituted a "material breach" of the relevant Security Council resolutions and unanimously adopted Security Council resolution 1441, which requested the acceptance of strengthened inspections by the UN and the International Atomic Energy Agency (IAEA).

Japan's diplomacy toward the US is the pillar of Japan's diplomacy. This is based on the recognition that enhancing the Japan-US Security Arrangements and the bilateral economic relations is essential for the realization of peace, stability and prosperity for Japan and the Asia-Pacific region, as well as that the cooperation between the two countries in exercising leadership on various issues of the international community is critical for Japan's national interest. In 2002, a personal relationship of trust between President Bush and Prime Minister Junichiro Koizumi was further strengthened through President Bush's visit to Japan in February and Prime Minister Koizumi's visit to the US in September.

The fight against terrorism and the issue of proliferation of WMDs and their delivery vehicles, in particular issues concerning Iraq and North Korea, became the major focus of cooperation between Japan and the US in 2002 and frequent consultations were held between the two countries at various levels including the summit and foreign ministerial level. Japan has expressed its strong support for the US's leadership in the fight against terrorism. Japan has continued to cooperate and to support activities for the US and other armed forces under the Anti-Terrorism Special Measures Law (the decision was made on November 19 that the period of dispatch of Self-Defense Forces (SDF) would be extended by six months). Furthermore, regarding reconstruction assistance to Afghanistan, Japan and the US have closely coordinated with each other toward the "consolidation of peace" in Afghanistan, such as in the area of the construction of a main road in the country.

The year 2003 marks the 150th year since Commodore Matthew Perry arrived at Uraga and 2004

marks the 150th year since the signing of the Treaty of Peace and Amity between Japan and the United States of America. After 150 years of shared history, both Japan and the US have come to maintain the strongest alliance in the Asia-Pacific region. As President Bush stated in his speech delivered at the Diet on the occasion of his visit to Japan in February 2002, both Japan and the US must closely cooperate as allies to share the future vision of the Asia-Pacific region as a "fellowship of free Pacific nations" and work toward its realization. Furthermore, in order to strengthen the basis of the Japan-US relations, efforts are required to deepen and expand even more mutual understanding and exchange between the peoples of the two countries.

(b) US Domestic Politics

Against a backdrop of the concerns among the American people for their own security after the terrorist attacks, the major themes of the State of the Union Address in January 2002 for President Bush were, along with economic stability, the fight against terrorism and homeland security. In order to promote major domestic issues and also to support Republican Party candidates and raise funds for the midterm elections, President Bush made active campaign trips which he had refrained from since the terrorist attacks.

In March, friction between the Republican and Democratic Parties, which had calmed following the terrorist attacks, rekindled and there were occurrences such as the disapproval of the president's judicial appointments by the Senate Judiciary Committee. The Campaign Finance Reform Act, which prohibits "soft money" contributions that were unrestricted before, was enacted and scheduled to take effect after the midterm elections. Despite President Bush's efforts, however, permanent tax relief legislation, an energy bill and other legislation were not enacted.

In May, it became clear that the US government had advance information of the possible terrorist attacks before September 11, 2001, allowing strong criticism by the Democratic Party. Since then, the target of criticism has shifted from the President to federal agencies in charge of intelligence such as the Federal Bureau of Investigation (FBI) and the Central Intelligence Agency (CIA). In response, the establishment of a special investigative commission was proposed. In light of these circumstances, President Bush proposed in June the

establishment of the Department of Homeland Security, which was to be the biggest reform of the federal government since 1947. The bill establishing the Department of Homeland Security and the special investigative commission concerning the September 11 terrorist attacks was enacted and signed at the end of November.

In domestic politics, accounting fraud by corporations became a serious issue. Following the bankruptcy of Enron Corporation in January, the false accounting of major long-distance communications company WorldCom was discovered in June. President Bush appealed for a response to repeated corporate scandals and concerns over the economic recession, prompting Congress to enact the Corporate Fraud Accountability Act (Sarbanes-Oxley Act of 2002) with unusual promptness. This was due to the fact that the false accounting issue had damaged the trust in the US economy, and also became a serious domestic issue from the perspective of political funds. With both parties facing midterm elections in November, they were pressed for a speedy response.

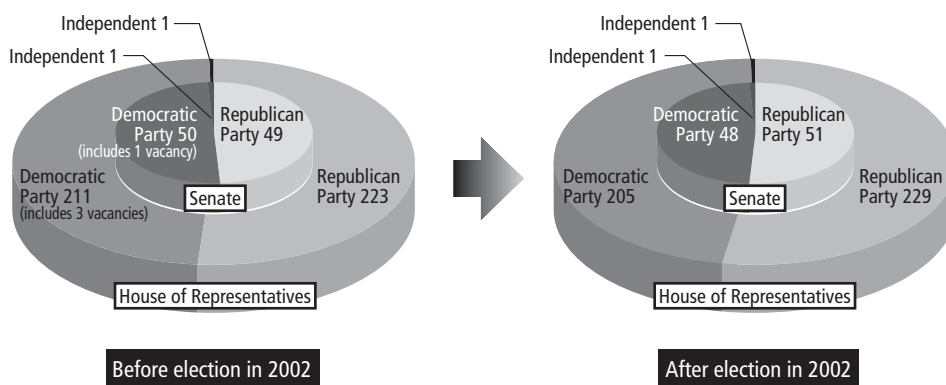
The focus of politics in Washington after the summer holidays shifted drastically to the issue of Iraq. On September 4, President Bush called for Congress to adopt a resolution approving the use of military force

against Iraq. This resolution was passed in the House of Representatives on October 10 and in the Senate on the following day. According to the results of public opinion polls, 60% of American people supported the use of military force against Iraq. Nearly 95% of people believed that the administration of President Saddam Hussein had already possessed WMDs or was in the process of developing them. Approximately 70% believed that President Hussein was trying to use WMDs against the US.

In the midterm elections on November 5, amidst these developments, the main focus was not only on domestic issues such as the economy and society, but also on security issues like terrorism and Iraq. With high approval ratings in the range of 60%, President Bush vigorously supported Republican candidates in constituencies with close races until the final stage of the election, and strongly appealed to the concerns of the American people for security. As a result, the Republican Party won back the majority in the Senate by securing 51 seats and maintained the majority in the House by securing 229 seats. This was the first time after the Second World War for a ruling party to increase its number of seats in the midterm elections under a newly elected president. It was also the first

An Inter-Party Comparison of Power within the US Congress

Composition of the 108th Congress



Number of seats in the Senate	Number of seats in the House of Representatives
<ul style="list-style-type: none"> Republican Party Democratic Party Independent 	<ul style="list-style-type: none"> Republican Party Democratic Party Independent

time, excluding the first six months of President George W. Bush's term, for the Republican Party to hold the presidency and dominate both houses of Congress at the same time since the first half of the first term of the Dwight D. Eisenhower administration. This was a historic victory for the Republican Party and furthermore, it can be assessed that the people's trust in President Bush was demonstrated. However, the difference in the number of seats is slight and the management of Congress in the future is not expected to be easy.

As important issues for the future, the Bush administration is expected to immediately undertake the fight against terrorism and respond to the issue of Iraq as well as economic measures. In December, President Bush announced the resignation of Secretary of the Treasury Paul O'Neil and Assistant to the President for Economic Policy Lawrence B. Lindsey, and nominated John Snow, chairman and CEO of CSX Corporation, and Stephen Freidman, former chairman of Goldman Sachs, respectively, as their successors. Meanwhile, Senate Majority Leader Trent Lott made a comment defending the policy of racial segregation in a congratulatory address for Senator Strom Thurmond's 100th birthday, for which he received strong criticism. He lost the support of conservatives within the Republican Party and resigned as Senate majority leader. Senator Bill Frist, who has served as the Republican Party's election committee chairman, was elected the next Senate majority leader by a telephone ballot.

(c) US Economy

After ten years of the longest economic growth in history, the US economy began to slow in March 2001. Due to factors such as the effect of the terrorist attacks, the growth rate of real gross domestic product (GDP) in 2001 was 0.3%, but the economy appeared to enter again a phase of growth in the fourth quarter of 2001. In the first quarter of 2002, private consumption and housing investment steadily increased due to the effects of tax reductions and monetary easing. Moreover, inventory adjustment expanded significantly during that period and the GDP growth rate (annualized rate, compared with the previous quarter) showed high growth at 5.0%. Driven by this recovery in demand, production began to increase in the beginning of 2002 and employment improved. However, in the second quarter, due to factors including the slowdown in

private consumption, the real GDP growth rate declined significantly to 1.3%. In the third quarter, the growth rate recovered substantially to 4.0% due to the contribution of housing investment, private consumption which was boosted by automobile sales buoyed by the lowered interest rate, and other factors. However, in the fourth quarter, the growth rate stalled at 0.7% (according to advance estimates) due to the effects of a considerable slowdown in private consumption.

The fall in stock prices and the delay in the recovery of the corporate sector can be the causes of the slowdown of economic recovery. Stock prices fell rapidly after May due to distrust in corporate accounting and others. In October, the Dow Jones industrial average and the Nasdaq index, composed largely of high-tech stocks, fell below their lowest levels for the first time in approximately five years and six years, respectively. It appeared that the falling stock prices curbed consumption, which had a negative effect on consumers and business sentiment. Since its upturn in capital investment has been delayed, the corporate sector has also been a factor in hindering recovery.

On the fiscal front, in light of the terrorist attacks in the US, Congress approved legislation for a total of US\$40 billion in emergency government expenditures and for US\$15 billion in emergency assistance for the airline industry. In addition, in March 2002, Congress passed an economic stimulus bill that extended the eligibility period of unemployment benefits and provided preferential corporate tax measures. Tax reductions that will amount to US\$1.35 trillion over ten years were decided upon in June 2001, which President Bush is aiming to make permanent. As the Republican Party emerged victorious in both the House of Representatives and the Senate in the midterm elections, there is a greater possibility of making this a reality. Meanwhile, in addition to active fiscal policy as well as decreased tax revenues resulting from factors such as a worsening economy, the FY2002 budget had a deficit of US\$158 billion, the first deficit in five years.

On the monetary front, with interest rates at sufficiently low levels as a result of having been lowered 11 times in 2001, the greatest number of interest rate cuts during a single calendar year, and with the economy positioned in a recovery phase, interest rates were untouched until October 2002. However, as it was believed that uncertainty over the economy was inhibiting consumption, production and employment,

the Federal Reserve Board (FRB) lowered interest rates by 0.50% in November and the target level of the federal funds (FF) rate, which is the policy rate, is now at the historically low level of 1.25%.

At present, although the US economy is continuing to maintain high productivity, factors such as the following may dampen the economy: (1) quite weak expectations for the strength of a recovery in capital investment, which is drawing the most attention as an influence over the future economy; (2) finance problems²⁷ for the current account deficit under the growing fiscal deficit; and (3) concerns over military action against Iraq.

Among the important moves concerning trade policy in the US in 2002 was the enacting of Trade Promotion Authority, which was revived eight years after its expiration in 1994 under former President Bill Clinton's administration. Upon its passing, the Bush administration has expressed its intention to actively promote negotiations toward the conclusion of free trade agreements (FTA). Furthermore, it intends to accelerate negotiations aiming to conclude the World Trade Organization (WTO) Doha Development Agenda by 2005. It is necessary to observe closely what effects the new developments in US trade policy will have on Japan's economic diplomacy.

(d) US Foreign Relations

In his State of the Union Address in January 2002, President Bush clarified his position that the US would continue to be engaged in the world without falling into isolationism by hammering out the following as its basic policy of diplomacy: protecting peace, freedom and democracy from terrorism and autocracy; building international solidarity for the fight against terrorism; establishing an order of priorities in diplomacy based on national interest; strengthening relations with its allies; and forming a strategic framework including missile defense and the non-proliferation of WMDs.

Above all, the need to respond to new post-Cold War threats such as terrorism and the proliferation of WMDs and their delivery vehicles has come to largely define the Bush administration's policy of foreign relations. In his State of the Union Address, President Bush

referred to North Korea, Iran and Iraq as countries which are trying to acquire WMDs and assist terrorists, and he condemned them together with their terrorist allies as constituting an "axis of evil" that intends to threaten world peace. Furthermore, the National Security Strategy, which was submitted to Congress in September for the first time under the Bush administration, expressed that rogue states and terrorists had become the new threats after the Cold War. In addition, the Strategy expressed that the security environment had fundamentally changed with traditional deterrence no longer being valid. This is because terrorists do not fear death and use their statelessness as their most potent protection, while they might use WMDs. Moreover, the National Strategy to Combat Weapons of Mass Destruction, which was announced in December, indicated that the possession of WMDs by hostile states and terrorists was the "one of the greatest security challenges" facing the US. It also outlined as a national strategy to combat it, the US policy for responses to counter-proliferation, non-proliferation and to the consequences of the use of WMDs.

The Bush administration has tackled issues concerning Iraq as its highest priority. In July, consultations between the UN and Iraq ended in a stalemate and a resumption of inspections by the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) and IAEA did not take place. As tensions heightened, President Bush delivered a speech at the general debate of the UN General Assembly on September 12. In his speech, President Bush pointed out that Iraq had defied Security Council resolutions. He also stated, in addition to emphasizing the need to work with the Security Council and indicating his intention to strive toward the adoption of necessary resolutions, that if Iraq failed to respond, taking action would be unavoidable. Furthermore, the resolution approving the use of military force against Iraq which was adopted in both houses of Congress, responding to President Bush's request, approved the use of US military forces in Iraq where the president deemed it necessary and appropriate to guarantee the safety of the US in facing a threat from Iraq and in ensuring that Iraq would comply with all of the relevant Security Council resolutions. Afterward, on November 8, Security Council resolution

²⁷ This is a tendency whereby capital flows from foreign countries, which offset the current account deficit, are dwindling and causing concern for the US economy.

1441, which strongly urged Iraq to fulfill all conditions such as allowing enhanced inspections, was unanimously adopted by member states including Syria. On November 27, inspections in Iraq resumed for the first time in approximately four years. However, because Iraq's cooperation toward this end was not enough, President Bush again pointed out the need for Iraq to abandon its WMDs and their delivery vehicles in his State of the Union Address on January 28, 2003. On February 24, the US, together with the United Kingdom (UK) and Spain, submitted a new Security Council draft resolution. A revised draft resolution was submitted on March 7 and discussions were held in the Security Council regarding this revised draft resolution. Following a summit meeting between the US, the UK, Spain and Portugal on March 16, Secretary of State Powell stated on March 17 that they decided not to seek a vote on this revised draft resolution in the Security Council. Furthermore, on the same day, President Bush delivered a speech, stating that armed conflict would result unless President Hussein of Iraq left his country within 48 hours (as of March 18).

In regard to North Korea, which like Iraq had been labeled as a part of the "axis of evil," the Bush administration expressed its view that it was prepared to begin consultations with North Korea without any preconditions after it finished its task of reviewing its policy toward the country in June 2001. In April 2002, North Korea also expressed its intention to resume dialogue with the US. Secretary of State Powell and North Korean Foreign Minister Paek Nam Sun had an unofficial contact on the occasion of the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) Ministerial Meeting in Brunei at the end of July and Assistant Secretary of State James Kelly visited North Korea in October as a special envoy of the president. However, on the occasion of Assistant Secretary of State Kelly's visit to North Korea, North Korea admitted the existence of a uranium enrichment program. As a result, in the US, skepticism over the "Agreed Framework" of 1994 between the US and North Korea and the continuation of the Korean Peninsula Energy Development Organization (KEDO) intensified primarily within the Congress. In particular, opposition intensified over the continuation of the supply of 500,000 tons of heavy oil per year to North Korea through KEDO according to the "Agreed Framework." On November 14, the KEDO Executive

Board decided that it would stop its supply of heavy oil to North Korea after December and made it clear that the resumption of its supply depended upon North Korea's future actions to abandon its nuclear weapons development program. In regard to the issue of North Korea's nuclear weapons development, the Bush administration's position is that it will aim toward a peaceful resolution through diplomatic pressure under the close coordination of relevant countries including Japan and the Republic of Korea (ROK) as well as China and Russia. At the same time, the US position is that in order for the US to consent to dialogue, it is necessary for North Korea to express its intention to abandon its nuclear weapons development program.

The relations with Russia further advanced throughout 2002. The US, after giving six months advance notice as stipulated in the Anti-Ballistic Missile (ABM) Treaty, officially withdrew from this treaty in June. A month before, on the occasion of President Bush's visit to Russia in May, President Bush and President Vladimir Putin signed a treaty concerning the reduction of strategic nuclear weapons (the Moscow Treaty) and announced the Joint Declaration on the New Strategic Relationship. These agreements can be regarded as the indication of the strong will of the leaders of the US and Russia, based on mutual trust and cooperation, to establish more stable bilateral relations and based on such relations to create a new strategic framework. Regarding China, with which the US improved relations due to increased cooperation after the terrorist attacks in the US, President Bush visited China in February and President Jiang Zemin visited the US in October, and held a forward-looking exchange of views regarding issues such as those concerning North Korea and Iraq. Although there are still concerns over issues such as Taiwan, China's military expansion and human rights, the US and China have basically maintained friendly relations with each other.

The Bush administration has demonstrated a position that it will be active in the area of development, as poor countries may be a hotbed of terrorism, and announced the Millennium Challenge Account under which it will increase the amount of its development assistance by US\$5 billion (equivalent to an increase of approximately 50%) by 2006. While the US announced at the UN General Assembly in September that it would return to the United Nations Educational, Scientific and Cultural Organization (UNESCO), it has maintained a



Prime Minister Junichiro Koizumi and President George W. Bush observing *Yabusame* (archery on horseback) (February Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)

cautious or negative position toward some multilateral frameworks, such as the Kyoto Protocol and the Comprehensive Nuclear-Test-Ban Treaty (CTBT).

(e) Japan-US Relations

In 2002, both Japan and the US advanced close consultations and policy coordination in a wide range of areas and made efforts to increase further the reliability of the Japan-US Security Arrangements. In light of these circumstances, the fight against terrorism and issues concerning Iraq and North Korea became an important focus between Japan and the US.

In January 2002, Japan and the US, together with Saudi Arabia and the European Union (EU) served as co-chairs of the International Conference on Reconstruction Assistance to Afghanistan, which was held in Tokyo, and achieved significant results. At the Japan-US foreign ministers' meeting that was held on this occasion, the two sides reconfirmed the partnership of the two countries concerning the fight against terrorism and assistance for peace-building and reconstruction of Afghanistan and agreed to continue close consultations on the issue of the US military in Okinawa. Furthermore, when Prime Minister Koizumi visited the US in September, both Japan and the US announced that they would cooperate, together with Saudi Arabia, in the construction of a main road in

Afghanistan.

In February, President Bush visited Japan for the first time since assuming office. At the Japan-US summit meeting, President Bush expressed his gratitude for Japan's cooperation in the fight against terrorism. As responses to issues involving North Korea, Iran and Iraq were gathering attention due to the reference to an "axis of evil" in the State of the Union Address right before the visit, President Bush stated that the US had not excluded any options but wanted to resolve these issues peacefully. Furthermore, at the summit meeting, President Bush expressed his full support for Prime Minister Koizumi's structural reforms and a frank exchange of views was held regarding Okinawa issues, global warming and other topics. Moreover, during his visit to Japan, President Bush gave a speech at the Diet and emphasized that Japan and the US share a vision for the future of the Asia-Pacific region as a "fellowship of free Pacific nations" and that they need to cooperate even more closely with each other.

At the Japan-US foreign ministers' meeting that was held on the occasion of the 9th ARF Ministerial Meeting in which North Korean Foreign Minister Paek attended and the situation on the Korean Peninsula was the major focus, in light of the Japan-North Korea foreign ministers' meeting and contact between the foreign ministers of the US and North Korea that had taken place right before, the two sides had an exchange of views on the

situation in North Korea and agreed that Japan and the US would closely cooperate in their position toward North Korea in the future. Furthermore, Secretary of State Powell again confirmed the position that the US would closely consult its allies, including Japan, in its responses to the situation in Iraq. Afterward, in the Japan-US vice-ministerial strategic dialogue between Vice-Minister for Foreign Affairs Yukio Takeuchi and Deputy Secretary of State Richard Armitage in Tokyo on August 27–28, they had a frank exchange of opinions from various perspectives on international issues, including the situations in Iraq and North Korea.

On the occasion of the World Summit on Sustainable Development (Johannesburg Summit) that was held in South Africa from the end of August to September, Minister for Foreign Affairs Yoriko Kawaguchi and Secretary of State Powell announced the “Clean Water for People” initiative on which Japan and the US would cooperate toward achieving the international goal of halving the number of people who do not have access to safe drinking water or basic sanitation by 2015. In 2002, Japan and the US promoted cooperation in the area of development including the area of health. In addition, Japan and the US also advanced cooperation for global issues stated in the Partnership for Safety and Prosperity, which was announced on the occasion of the Japan-US summit meeting in June 2001.

In September, Prime Minister Koizumi and Foreign Minister Kawaguchi visited the US on the occasions of the first anniversary of the terrorist attacks in the US as

well as the UN General Assembly. Following a stay in Boston, Prime Minister Koizumi visited New York and gave a speech entitled, “Japan-United States Alliance in the 21st Century: Three Challenges” at a lecture that was co-sponsored by the Council on Foreign Relations and Jiji Press. At the Japan-US summit meeting, Prime Minister Koizumi stated that he was deeply impressed by President Bush’s speech at the general debate of the UN General Assembly and stressed that international collaboration was vital in addressing the issue of Iraq, with which President Bush also agreed. Furthermore, President Bush again expressed his strong support for Prime Minister Koizumi’s visit to North Korea, which was scheduled to take place immediately afterward. Foreign Minister Kawaguchi met with Secretary of State Powell in New York on September 13 and exchanged views on issues regarding Iraq and North Korea. Moreover, Foreign Minister Kawaguchi met with Assistant to the President for National Security Affairs Condoleezza Rice, Secretary of State Powell, Secretary of Defense Donald Rumsfeld and US Trade Representative Robert Zoellick on September 16–17. In addition, Foreign Minister Kawaguchi gave a policy speech entitled, “Common Challenges: US and Japan, Current Japanese View” at the Center for Strategic and International Studies (CSIS) in Washington. In these series of meetings, Foreign Minister Kawaguchi explained the results of Prime Minister Koizumi’s visit to North Korea on September 17 and the two sides confirmed that they would cooperate closely in the



Minister for Foreign Affairs Yoriko Kawaguchi meeting with Secretary of State Colin Powell on the occasion of the UN General Assembly (September)

future in responding to issues concerning North Korea, including security issues such as nuclear weapons and missiles. The US expressed its support for Prime Minister Koizumi's visit to North Korea.

Afterward, Japan and the US had consultations frequently at various levels including the summit and foreign ministerial levels on Iraq and North Korea. They continued close consultations and partnership through activities under international frameworks. The continuation of cooperation and support activities for the US and other armed forces under the Anti-Terrorism Special Measures Law has been highly praised by the US and the dispatch of the Aegis ship to the Indian Ocean by the Maritime Self-Defense Force (MSDF) in December was welcomed as increasing Japan's ability to fulfill its duties in the fight against terrorism.

In December, Foreign Minister Kawaguchi and Minister of State for Defense Shigeru Ishiba visited the US to attend the Japan-US Security Consultative Committee (SCC, or 2+2 Meeting). During the consultations, a frank exchange of views was held on issues regarding the fight against terrorism, Iraq, North Korea, missile defense and the US forces stationed in Japan, and the two sides confirmed that as allies, Japan and the US would cooperate closely in their efforts to resolve these issues. In the Joint Statement that was released after the meeting, the two sides announced that regarding the issue of Iraq, Japan and the US would continue to strongly urge Iraq to fulfill the terms of Security Council resolution 1441. Furthermore, regarding security issues concerning North Korea, Japan and the US stated their position that they would urge North Korea to abandon its entire nuclear weapons development program in a prompt and verifiable manner, stop all of its activities concerning ballistic missiles, fully comply with the Biological Weapons Convention (BWC) and join the Chemical Weapons Convention (CWC), so as to seek a peaceful resolution.

(f) Japan-US Economic Relations

The recent Japan-US economic relationship has overcome relations that were once symbolized by friction and changed to cooperative relations through constructive dialogue. Based on the spirit of such cooperation, areas in which Japan and the US should cooperate are wide-ranging, spanning from those on the global scale, such as the new WTO round to those on a regional scale, such as

building regional economic partnerships undertaken by each country and the Asian economic situation. The areas of cooperation also include those at the bilateral level such as structural reform, regulatory reform and the reform of financial institutions and other corporations.

The Bush administration places economic policy as an inseparable factor of its entire foreign policy in strengthening partnerships with its allies. The US recognizes that Japan's economic recovery is essential not only for the prosperity of the economies of both Japan and the US as well as the entire world economy, but also for the stability and prosperity of the Asia-Pacific region, and thus strongly supports Prime Minister Koizumi's structural reform.

The Japan-United States Economic Partnership for Growth, which is the framework for economic dialogue between Japan and the US that was agreed upon by Prime Minister Koizumi and President Bush on the occasion of the Japan-US summit meeting in June 2001, reflects changes in the nature of Japan-US economic relations. In 2002, constructive dialogue including the following was conducted.

1. Regarding Subcabinet Economic Dialogue in which strategic dialogue on bilateral, regional and global issues are held, the second meeting occurred in May and a frank exchange of views took place on topics such as the current situation and economic management of the Japanese and US economies, new WTO round, regional cooperation in the Asia-Pacific region and in the Americas, development assistance policy, counter-terrorism measures and the management of the Partnership in the future.
2. Regarding Private Sector/Government Commission Meetings in which constructive input is gathered from the private sector, the first meeting was held in May with the participation of relevant private sector members and government officials of both Japan and the US. Under the theme of "Creating an Environment for Sustainable Growth: Raising Productivity and Corporate Revitalization," discussions took place on corporate activities such as corporate governance and the role of government in the market. Furthermore, a follow-up meeting was held in Washington in November under the initiative of private sector participants.
3. Regarding the Regulatory Reform and Competition Policy Initiative which developed and reorganized

Japan-US Deregulation Dialogue, various working group meetings and high-level meetings at the vice-ministerial level took place concerning the recommendations of both Japan and the US, such as the areas of telecommunications, information technologies (IT), energy and medical devices/pharmaceuticals and cross-sectoral regulations. The results of these meetings were compiled as the first report to the two leaders, which was announced on the occasion of the Japan-US summit meeting held at Kananaskis along with the G8 Summit in June. In October, recommendations concerning the second year of dialogue were exchanged and, since then, various working group meetings have been convened.

4. Regarding the Trade Forum which serves as an “early warning” mechanism on trade issues between Japan and the US, the first meeting was held in Tokyo in July and discussions occurred on agriculture-related and public works issues.
5. Various meetings have been held for the Investment Initiative for discussing ways to improve the environment for foreign direct investment in both countries as well as the Financial Dialogue focusing on monetary and fiscal policy and macroeconomic policy.

Japan’s share of the US trade deficit has dropped from a peak of 65% to less than 15%. At present, there are no significant individual issues of trade friction that

might be politicized between the two countries, but there are matters with which Japan is concerned.

For example, on March 20, the US government implemented remedial measures centering on tariff hikes for steel products pursuant to Section 201 (Safeguards) of the Trade Act of 1974. Japan appealed to the WTO regarding those measures as being protectionism that violates the WTO agreements. In light of this, a panel composed of eight appealing countries, including Japan and the European Community (EC), was established within the WTO on June 14 and the first meeting was held from October 29–30 and the second meeting was held from December 10–12.

Furthermore, the above-mentioned Sarbanes-Oxley Act of 2002 stipulates the creation of independent auditing organizations, guarantees the independence of auditing corporations, intensifies the responsibility of corporate managers and other items. However, concerns over certain provisions have been raised by Japanese corporations that are subject to this law: extension of the effect of independent auditing organizations to foreign auditing corporations that are in charge of auditing foreign corporations listed on US stock exchanges, and the imposition of an obligation to establish an auditing committee composed entirely of independent directors outside the corporation. Thus, the Japanese Government is requesting the US government to exempt Japanese corporations in the application of this law.

2	Canada
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(a) Overview

Through multilateral fora such as the G8 and the UN, Canada has been making efforts to actively disseminate values including the peace and stability of the international community, democracy and respect for human rights as concrete policy issues. Cooperation with Canada will become even more important in the future for Japan to tackle new issues in the international community.

(b) The Situation in Canada and Japan-Canada Relations

Events that are particularly notable for Canada in 2002

are, in the area of foreign relations, the G8 Summit and the fight against terrorism, and for domestic politics, Prime Minister Jean Chrétien’s retirement announcement.

Canada hosted the Kananaskis Summit as the G8 chair in 2002 and has actively carried out multilateral diplomacy through themes such as Africa, the fight against terrorism and the world economy. In the fight against terrorism, Canada, in carrying on with 2001 activities, dispatched warships, special forces and ground troops to the Afghanistan region. In addition, under close partnership with the US, its biggest trading partner and ally, Canada made efforts to strengthen control along the border between the two countries.

In domestic politics, the approval ratings of Prime



Prime Minister Junichiro Koizumi meeting with Prime Minister of Canada Jean Chrétien before the G8 Kananaskis Summit (June Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)

Minister Chrétien, who has led the government since October 1993, fell due to his dismissal of Minister of Finance Paul Martin in June. Former Finance Minister Martin, who enjoyed nationwide popularity, was the leading candidate to be the next prime minister. Afterward, in August, Prime Minister Chrétien made an announcement stating that he would hand over the seat of prime minister in February 2004, which was a de facto retirement declaration. Following this, the ruling Liberal Party announced that it would hold a leadership convention on November 15, 2003.

The Canadian economy turned around from the slowdown in 2001 due to the effects of the recession in the US and has been expanding, with the growth of private consumption and investment in residential construction fueled by the low interest rates (the quarterly growth rates of the 2002 gross domestic product (GDP) on an annualized basis were 5.7% in the first quarter, 4.4% in the second quarter and 3.1% (preliminary figure) in the third quarter).

For Japan, Canada is a country with which it shares

views on a wide range of issues such as UN Peacekeeping Operations, arms control, disarmament and non-proliferation, and the international economy, and the two countries have deepened cooperative relations in these areas. In June 2002 in Vancouver, Foreign Minister Yoriko Kawaguchi gave a policy speech entitled, “Common Opportunities: Japan and Canada in the 21st Century,” in which she emphasized this point. Such cooperative relations were confirmed at the Japan-Canada foreign ministers’ meeting (June 12) between Foreign Minister Kawaguchi and Foreign Minister William Graham on the occasion of the G8 Foreign Ministers’ Meeting in Whistler and the Japan-Canada summit meeting (June 25) between Prime Minister Junichiro Koizumi and Prime Minister Chrétien on the occasion of the G8 Kananaskis Summit. Because Canada was the G8 chair in 2002, VIP visits were actively held, with many VIPs at the ministerial level from Japan such as the Minister of Finance and the Minister of the Environment visiting Canada and Speaker of the House of Commons Peter Milliken from Canada visiting Japan in March.