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EUROPE

(a) Overview

The year 2002 was a historical and significant year for Europe as progress toward “one Europe” was made through the decisions to enlarge the European Union (EU) and the North Atlantic Treaty Organization (NATO). The EU has made steady development in deepening the process of the EU integration, represented by the circulation of the single currency euro at the beginning of the year. Accession negotiations for ten candidate countries, mainly in Central and Eastern Europe, made progress and the negotiations were declared complete at the European Council (EU Summit) in Copenhagen in December 2002. The EU will consist of 25 countries, with 460 million people and approximately twice the gross domestic product (GDP) of Japan, from May 2004.

The EU has great influence in international rule-making and other undertakings in the international community to address global issues. The political and economic importance of the EU in the international community is likely to increase as the EU expands and deepens integration. It will be very important for Japan to promote cooperation with the EU in a wide range of areas and build a strategic partnership in the context of enhancing Japan’s role in the international community and widening the scope of its diplomacy.

Japan must strengthen not only its relationship with the EU but also its ties with the major countries of Europe that fulfill a significant role in the international community. In particular, Japan must continue to strengthen and expand its ties with countries with a major role in the international community, including the United Kingdom (UK) and France, permanent members of the United Nations (UN) Security Council, and Germany and Italy, members of the G8.

Thus, Japan is moving forward on two fronts in its relations with Europe, strengthening its ties with the EU as it expands and becomes more strongly integrated on the one hand, and expanding bilateral relations with the individual countries of Europe, on the other. To establish the Japan-Europe relationship on a truly sound footing, Japan must deepen people-to-people and

cultural exchange in a wide range of areas, while continuing efforts on the political and economic fronts.

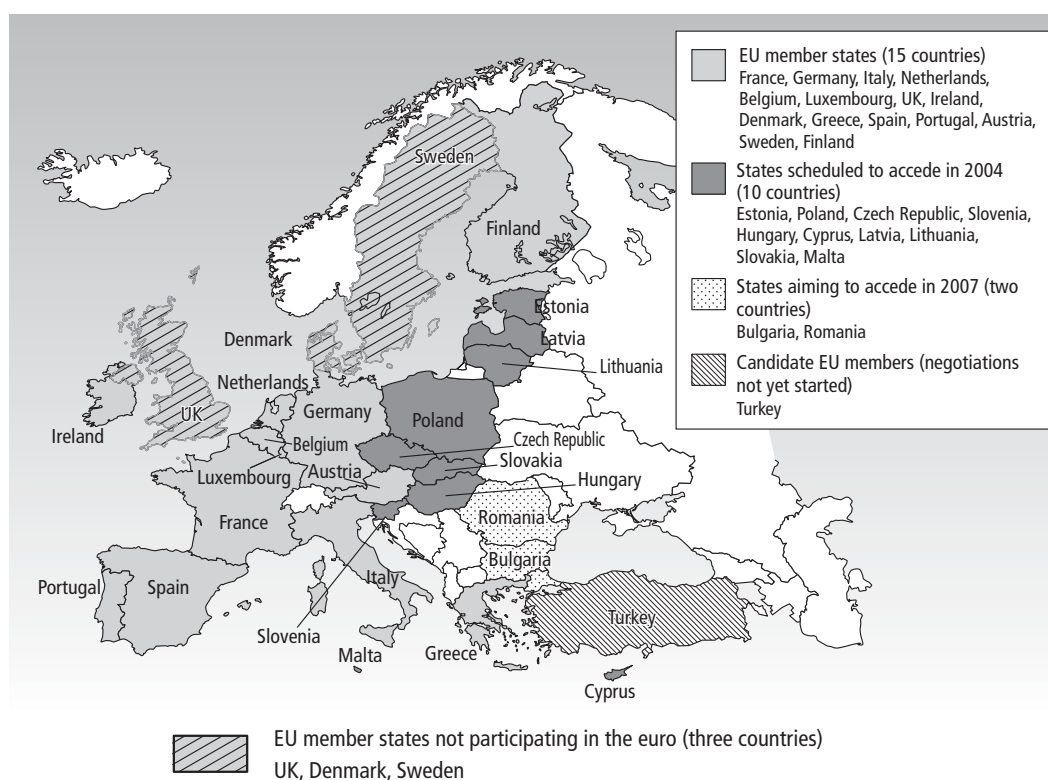
(b) The European Union**Deepening Integration and Enlargement of the EU**

A number of European countries including France and Germany held national elections in 2002. There was concern that negotiations on deepening integration and enlargement would grind to a halt as domestic issues and national interests took priority, but as it turned out, with the leadership of the countries holding the EU presidency (Spain in the first half of 2002, Denmark in the second half), steady progress was made on the process of enlargement and integration. The high-profile second national referendum in Ireland in October to ratify the Treaty of Nice, a precondition to EU enlargement, resulted in a majority in favor of it, and the Treaty went into effect in February 2003.

In regard to deepening integration, progress was made in many areas, most notably in economic policy with the circulation of euro notes and coins, but also in social reform, immigration and refugee policy as matters of justice and home affairs. In regard to the Common Foreign and Security Policy (CFSP) too, Secretary General of the Council of the European Union and High Representative for the CFSP Javier Solana and others are making progress and have achieved a degree of success. However, since foreign policy and security policies fall under the sovereignty of each member country, there are some issues on which each country holds a different position. With regard to European Security and Defense Policy (ESDP), since the declaration on the operational capability of some crisis-management operations at the European Council in Laeken in December 2001, the EU has continued consultations with NATO over the use of military force. As a result, agreement was reached at the time of the European Council in Copenhagen in December, and it is predicted that a concrete strategy will be put into practice in Macedonia and elsewhere.

Concerning enlargement of the EU, excellent

Current Situation of EU Enlargement and the European Monetary Union (EMU)



	Proportion of world GDP (%)	Proportion of global trade volume (%)
Eurozone	19.2	28.4
EU	24.9	35.0
US	31.2	15.0
Japan	15.4	6.1

Note: GDP figures are for 2000. Trade volume figures are 2001 results. The proportion of global trade volume includes intra-regional trade.

Source: World Bank, IMF.

progress was made on accession negotiations for the candidate countries mainly in Central and Eastern Europe, and the completion of accession negotiations with 10 countries—Poland, the Czech Republic, Hungary, Estonia, Slovenia, Cyprus, Slovakia, Latvia, Lithuania and Malta—was announced at the European Council in Copenhagen. The accession treaty is to be formally signed in Athens in April 2003, followed by the completion of the ratification procedure in each country. A new EU of 25 member states will be inaugurated in May 2004.

Future of Europe

Enlargement and the deeper integration of the EU bring with them the question of how open should the EU be to European citizens, as well as the question of what sort of organization should it be for the most efficient management. The Convention³⁰ was convened to discuss the future of Europe. Since the end of February 2002 vigorous debates on the issues have taken place. In preparation for the Intergovernmental Conference (IGC) scheduled for the second half of 2003, the Convention will submit a document in the middle of the year that

³⁰ Made up of former President of France Giscard d'Estaing as chairman, former Italian Prime Minister Giuliano Amato and former Belgian Prime Minister Jean-Luc Dehaene as the vice-chairmen, 15 representatives of the heads of state or government of the member states, 30 representatives of the national parliaments of the member states, 16 members of the European Parliament and two representatives of the European Commission. Representatives from governments and national parliaments of the candidate countries can participate in the discussion without veto.

(Photo)

finalizes the proposals for the future agenda for Europe, including those on a future European constitution.

The EU Economy

The EU economy saw a gentle export-led recovery in early 2002, fuelled by recovery in the United States (US) economy. However, the appreciation of the euro due to the slowing of the US economy from the middle of the year caused a slump in exports. The export slump and stagnancy in consumer spending slowed the pace of recovery (GDP growth forecasts for 2002: EU 1.0%, Eurozone 0.8%).

On the currency front, the euro entered into circulation with no major hitches in 12 of the 15 EU member states, except for the UK, Denmark and Sweden, on January 1. The value of the euro rose consistently from April, reaching parity with one US dollar in July and floating around that rate since then. The eurozone may in the future expand to include EU countries presently not in the eurozone and new EU member countries.

The fiscal circumstances of some EU countries have worsened as a result of a prolonged slump that has continued since 2001. Under the Stability and Growth Pact, countries using the euro must limit fiscal deficits to under 3% of GDP, but with the blow-out by Portugal (4.1%) in 2001, and Germany's prediction of a fiscal deficit of 3.75% in 2002 and France at 2.7%, the Council of Economic and Financial Affairs adopted a recommendation on excessive deficit to Germany and an early warning to France. Under these circumstances,

a proposal was made that the application of the Stability and Growth Pact be revised.

With inflation at one stage surpassing the 2% target, the European Central Bank (ECB), which had left official interest rates untouched since it eased the rates in November 2001, lowered interest rates by 0.50% in December 2002 to 2.75% because of the delayed economic recovery.

(c) Japan-EU Relations

Cooperation between Japan and the EU intensified across a variety of fields in 2002 with the implementation of the Action Plan for EU-Japan Cooperation, adopted at the Tenth Japan-EU Summit in December 2001.

President of the European Commission Romano Prodi visited Japan in April, holding talks with Prime Minister Junichiro Koizumi as well as becoming the first president of the European Commission to address the Japanese Diet. Prime Minister Koizumi had a wide-ranging discussion with Denmark's Prime Minister Anders Fogh Rasmussen, the EU presidency-holder, and President of the European Commission Prodi at the Eleventh Japan-EU Summit held in Tokyo in July. At the summit they exchanged views on counter-terrorism measures, the regional situations in the Middle East, Afghanistan and North Korea, environmental issues, the World Trade Organization (WTO) and other matters, and Japan and the EU agreed to enhance their cooperation on

major issues facing the international community, based on their strategic partnership. The Fourth Japan-EU Business Dialogue Round Table, a meeting of Japanese and EU business leaders held on the same day, submitted a proposal to Japan and EU leaders stressing the importance of strengthening the economic relationship between Japan and the EU.

At the summit in July, the leaders agreed to establish a Steering Group to follow up on the Action Plan. The Action Plan has been implemented steadily since then. In the economic field, with the aim of increasing trade and investment³¹ between Japan and the EU, Japan's second-largest trading partner and largest investment partner, the Japan-European Community (EC) Mutual Recognition Agreement (MRA) went into effect in January. The Japan-EU Regulatory Reform Dialogue, held since 1994 to improve the business environment in Japan and the EU, has been enhanced. The Draft Text of the Cooperation Agreement between the Government of Japan and the European Community concerning Cooperation on Anti-Competitive Activities, initialed in June, is expected, when it goes into effect, to build relations between competition authorities in response to the globalization of corporate activity. In addition, Minister

for Foreign Affairs Yoriko Kawaguchi holds frequent telephone conferences with High Representative for the CFSP Solana and European Commissioner for External Affairs Chris Patten, allowing for a timely exchange of information and opinions on the international situation.

Relations between Japan and Europe have a long history and tradition, but compared to Japan's relations with the US or the countries of Asia, the interaction could be said to be relatively sparse. Hence, one of the four major objectives of the Action Plan is "bringing together people and cultures." As one of the concrete initiatives taken to this end, the Japan-EU Symposium on Further Promoting People-to-People Exchanges was held in Tokyo in November. Participants included opinion leaders and experts of Japan and the EU from the business sector and from the areas of academic research, education, the press and cultural exchange organizations, as well as local authorities exchange bodies, and they actively discussed the current situation of exchanges between the regions, the problems faced and how to promote exchange in the future. Further concrete action will be considered in the run-up to the Japan-EU Year of People-to-People Exchanges in 2005.



Prime Minister Junichiro Koizumi, European Commission President Romano Prodi (left) and Danish Prime Minister Anders Fogh Rasmussen (center) at the joint press conference following the 11th EU-Japan Summit Meeting (July Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)

³¹ Japan's trade with the EU totaled 13.222 trillion yen in 2001 (Japan's largest trading partner was the US at 22.3826 trillion yen), and investment in EU member states was 1.2975 trillion yen in FY2001 (investment in the US was 797 billion yen). Source: Ministry of Finance statistics.

(d) Japanese Diplomacy and Major Western European Countries

In the UK, the Labour government led by Prime Minister Tony Blair maintained its stable administration. Germany held federal elections in September in which the Social Democratic Party (SPD) and the Green Party edged out the Christian Democratic Union and the Christian Social Union to take a razor-thin majority of seats in the Bundestag, giving the Gerhard Schroeder administration, a coalition of the SPD and the Green Party, a second term. In Sweden too, the Social Democratic Party retained power in general elections in September.

While some countries maintained stable administrations as outlined, other countries for a time were dominated by the fear of the extreme right as immigration, employment and other domestic issues intensified in the slumping economy and dissatisfaction with existing governments unable to provide sweeping solutions escalated. In the first round of the presidential elections in April in France, for example, extreme right-wing party leader Jean-Marie Le Pen obtained more votes than the Socialist Party candidate and the standing prime minister Lionel Jospin. In the Netherlands, the Second Chamber elections of May also saw the List Pim Fortuyn (LPF), led by candidate Pim Fortuyn, a politician known for his right-wing statements and who was assassinated by a radical leftist youth, make electoral gains and take a place in government.

However, in the second round of the French presidential elections in May, the conservative president Jacques Chirac was re-elected by a crushing margin over rival candidate Le Pen. The center-right then

scored a clear-cut victory in the June National Assembly elections, and the inauguration of the Jean-Pierre Raffarin government signaled the end of *cohabitation* power-sharing, eventually resulting in a stable political situation. In the Netherlands too, the LPF joined the center-right coalition led by candidate Jan Peter Balkenende to form a new government. The LPF then fell out of step with the government, bringing the complete collapse of the administration in November. The general elections of January 2003 resulted in significant setbacks for the LPF. Furthermore, in Austria, internal conflicts in the Freedom Party, said to be on the hard right, resulted in the dissolution of the governing coalition of the People's Party and the Freedom Party. The Freedom Party lost a large number of seats at the November general election, but the People's Party and the Freedom Party renewed their coalition government, which was sworn in on February 28, 2003.

In relations with Japan, Minister for Foreign Affairs Makiko Tanaka visited Portugal, the UK, Spain and other countries in January, holding meetings with senior figures in each country. In April, Foreign Minister Kawaguchi visited the UK and Belgium (EU) before traveling to Afghanistan, meeting with UK and EU leaders to discuss regional situations such as Afghanistan and the issue of peace in the Middle East. During the FIFA World Cup in May and June, moreover, German President Johannes Rau and a number of other European dignitaries visited Japan. Drawing particular attention was the sharing of the Japanese Government aircraft by German Chancellor Schroeder after the G8 Kananaskis Summit with Prime Minister Koizumi to watch the FIFA World Cup soccer final game in Japan. Prime Minister of Greece Costas Simitis also visited Japan in March. British Foreign Secretary Jack Straw visited Japan in July, issuing a joint statement with Foreign Minister Kawaguchi promising to strengthen further the cooperative relationship between Japan and the UK.

In addition to these exchanges, Japan held summit meetings with the leaders and foreign ministers of G8 countries and other major European countries at multi-lateral world conferences such as the G8 Kananaskis Summit, the World Summit on Sustainable Development (the Johannesburg Summit) and the Fourth Asia Europe Meeting (ASEM) Summit, where discussions took place on matters of mutual concern, the international situation and challenges ahead. In January



Prime Minister Junichiro Koizumi and German Chancellor Gerhard Schroeder boarding the Japanese Government aircraft after the G8 Kananaskis Summit (June Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)

2003, Foreign Minister Kawaguchi visited France, the G8 presidency-holder in 2003, to discuss the urgent issues of North Korea and Iraq with President Chirac and Minister of Foreign Affairs Dominique de Villepin, and they confirmed Japan-France cooperation to ensure the success of the 3rd World Water Forum in March 2003, the G8 Evian Summit in June and the Third Tokyo International Conference on African Development (TICAD III) in September. High Representative for the CFSP Solana visited Japan in February 2003 and exchanged views on North Korea and Iraq with Prime Minister Koizumi and Foreign Minister Kawaguchi. Working-level exchanges of information and opinions are held between Japan and the EU in a variety of fields. Japan has entered negotiations and has begun exchanging information with France and Belgium on social security agreements, following similar initiatives with Germany and the UK. These agreements have been strongly sought by the industrial world.

In addition, His Imperial Highness The Crown Prince visited the Netherlands in January 2002 to attend the wedding of the Dutch crown prince, while His Royal Highness Prince Andrew of the UK and His Royal Highness Crown Prince Philippe of Belgium visited Japan on the occasion of the FIFA World Cup. Their Majesties The Emperor and Empress visited the Czech Republic, Poland, Austria and Hungary in July, and in September, Her Majesty The Empress visited Switzerland to attend the International Board on Books

for Young People (IBBY) Jubilee Congress.

(e) The Countries of Central and Eastern Europe and Japanese Diplomacy

Significant progress was seen in 2002 in regard to the accession of Central and Eastern European countries and the Baltic states to the EU and NATO. The conclusion of EU accession negotiations for ten countries, principally from Central and Eastern Europe, was declared at the European Council in Copenhagen in December, and those countries are now completing the domestic procedures in preparation for their accession in May 2004. It was also confirmed that negotiations would continue with Bulgaria and Romania, countries whose negotiations fell behind other candidate countries, with the aim of accession in 2007. It was decided at the same meeting that with respect to Turkey, accession negotiations would begin without delay should it be deemed to have satisfied the political criteria for opening accession negotiations. In regard to NATO, it was decided at the NATO Summit in Prague in November to invite seven countries to accede (the three Baltic states, and Slovakia, Slovenia, Bulgaria and Romania). The Summit also confirmed that the door was open to countries other than these seven, particularly the three participants in the Membership Action Plan (MAP)—Macedonia, Croatia and Albania—who will now pursue a range of reforms toward future accession.

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Furthermore, the Central and Eastern European countries are taking the initiative on creating their own free trade agreements (FTAs) and policy coordination, even intra-regionally with one another.

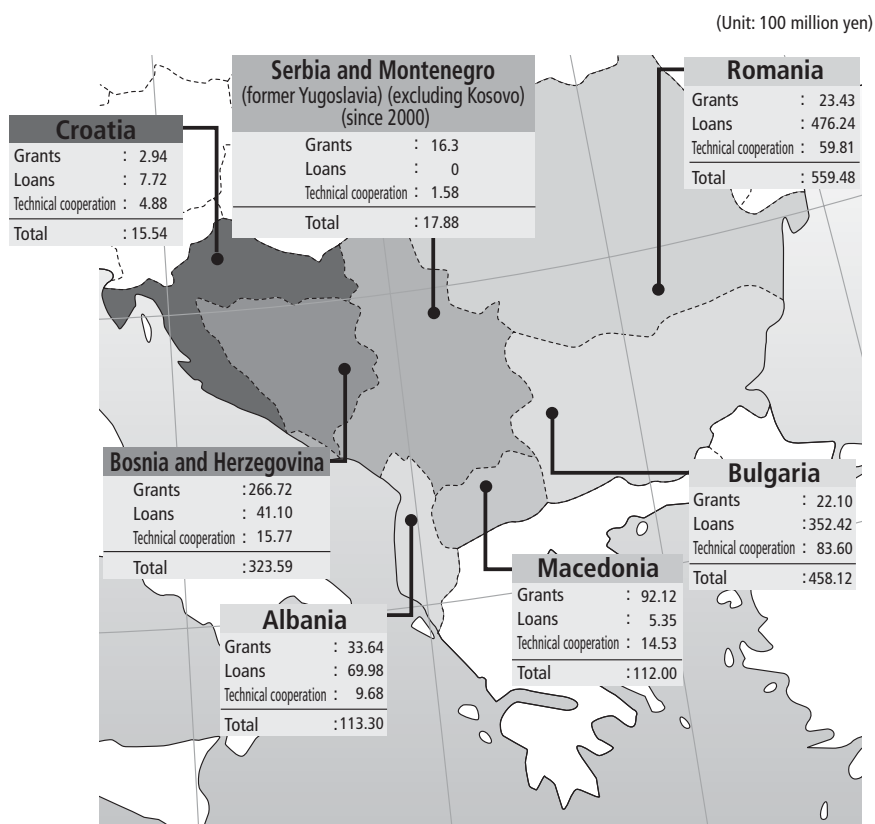
Japan is striving to build good relations with these Central and Eastern European countries in anticipation of enlargement and the deepening of European integration. Since the end of the Cold War, Japan has provided assistance to the Central and Eastern European region for democratization and the transformation to a market economy, and Japan's direct investment in the region is trending upward.

In this context, there were a great number of high-level mutual visits between Japan and the Central and

Eastern European countries in 2002. In February, President of Romania Ion Iliescu visited Japan to mark the 100th anniversary of bilateral exchange, and from Japan as mentioned earlier, Their Majesties The Emperor and Empress visited Poland, Hungary, Austria and the Czech Republic in July, while in October, Her Imperial Highness Princess Sayako visited Romania, Croatia and Italy, deepening the relationship through these people-to-people exchanges.

The relationship with the three Baltic states was also deepened by the visit by Senior Vice-Minister for Foreign Affairs Shigeo Uetake to Estonia in May and the visit of Estonian Foreign Minister Kristiina Ojuland to Japan in June.

Japan's Bilateral Assistance to Southeastern Europe (FY1991–2001 total)



- Notes:
1. Amounts for grants and loans are based on exchange of notes (E/N); technical cooperation amount is based on the record of Japan International Cooperation Agency (JICA) spending.
 2. In April 1996, Japan announced that it would provide US\$500 million of assistance to Bosnia and Herzegovina over the four years from 1996 to 1999, but it has to date implemented around \$300 million.
 3. Assistance to the former Yugoslavia (Socialist Federal Republic of Yugoslavia)/Serbia and Montenegro (former Federal Republic of Yugoslavia) was suspended, following the decision of the G24 to cut off economic cooperation in 1991, until 2000, excluding humanitarian aid through international organizations and grassroots grant aid (Japan provided US\$10 million in emergency assistance in December 2000 in the wake of the establishment of the Kostunica administration in September of the same year (US\$5.7 million was provided via the UNHCR); US\$50 million in assistance was also pledged in 2001.)
 4. Japanese assistance to the region of the former Yugoslavia (excluding Kosovo) was provided in large part through international organizations (refugee assistance in the former Yugoslav region, etc., approximately 23.8 billion yen), and the areas that made up the former Yugoslavia, namely Croatia, Bosnia and Herzegovina, Serbia and Montenegro, and Macedonia are benefiting as a result.
 5. Japan provided about US\$190 million to Kosovo in grant aid through international organizations from 1998 to 2001.

Agreement and the conclusion of hostilities in 1995.

In Macedonia, following the implementation of the Framework Agreement by representatives of ethnic Macedonians and ethnic Albanians in August 2001, efforts continued toward stability with legislative reform to the constitution and local government law, and peaceful parliamentary elections in September 2002 resulted in the establishment of a coalition government containing representatives of both ethnic groups.

While democratization and stabilization are progressing, it cannot be said that the wounds of long years of conflicts in these Balkan countries have yet healed, and it is essential therefore that international assistance continues to be given to these countries for domestic reconstruction. Japan is actively engaged in restoring stability in the Balkan region through personnel contributions such as the dispatch of election observers and economic cooperation because: (1) the Balkans conflicts were an issue that affected not just Europe but the international community as a whole; (2) efforts to address the Balkans conflicts are linked to participation in the formation of new norms and processes for the international community; and (3), as each Balkan country is a country of Europe, strengthening relationships with those countries will be beneficial from a long-term perspective in terms of the future relationship between Japan and Europe.

(Photo)

(f) The Balkans

The Balkans continued overall to move in the direction of stability and democracy throughout 2002.

In Yugoslavia, there were concerns that the Republic of Montenegro would unilaterally declare independence, but with the mediation of the EU, talks were concluded on the reorganization of the Federal Republic of Yugoslavia, and based on this agreement, the loose state union of “Serbia and Montenegro” was established peacefully on February 4, 2003.

In Kosovo, the Provisional Institutions of Self-Government were established in March, and in October, local elections were held without incident in spite of a boycott by some ethnic Serb residents.

In Bosnia and Herzegovina, the national and local elections were conducted in October, for the first time by the authorities in Bosnia and Herzegovina themselves since the conflicts ended with the Dayton Peace

(g) NATO

Based on the momentum that has built on cooperation with Russia since the terrorist attacks of September 11, 2001, principally in the fight against terrorism, NATO launched a new mechanism for cooperation with Russia in May with a decision to establish the NATO-Russia Council (NRC) as a consultative and decision-making body in which NATO members and Russia would stand as equals. Furthermore, at the NATO Summit Meeting held in Prague, Czech Republic, in November, NATO heads of state gathered to decide the invitation to seven Central and Eastern European countries to accede, and to discuss changes in NATO itself that would sustain NATO’s status as a relevant institution. Specifically, member countries decided on the creation of the NATO Response Force (NRF), the streamlining of the command structure and the announcement of the Prague Capabilities Commitment (PCC) in the aim of enhancing military capabilities, and expressed their

basic intention to bolster their response to terrorism, with details to be discussed at a later date. In relation to Japan, Japanese Vice-Minister for Foreign Affairs Yukio Takeuchi held talks with NATO Deputy Secretary General Minuto Rizzo when he visited Brussels in October, and in February 2003, the NATO Deputy Secretary General took the opportunity to visit Japan for Japan-NATO high-level consultations.

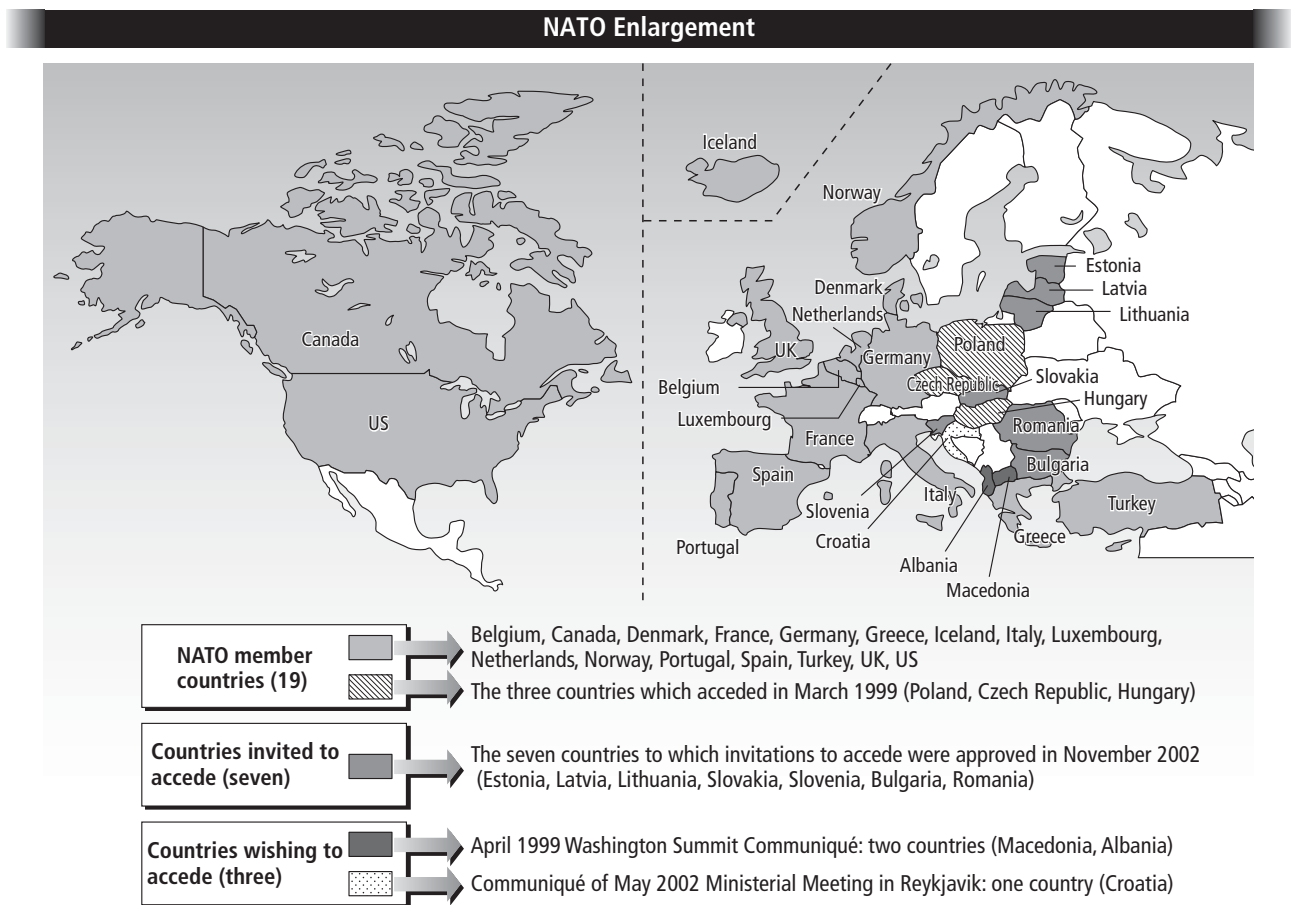
(h) Other regional institutions

In addition to the regional institutions of the EU and NATO, Europe also has in the field of security the Organization for Security and Co-operation in Europe (OSCE), and in the field of human rights and justice, the Council of Europe (CE), and their activities have been developing.

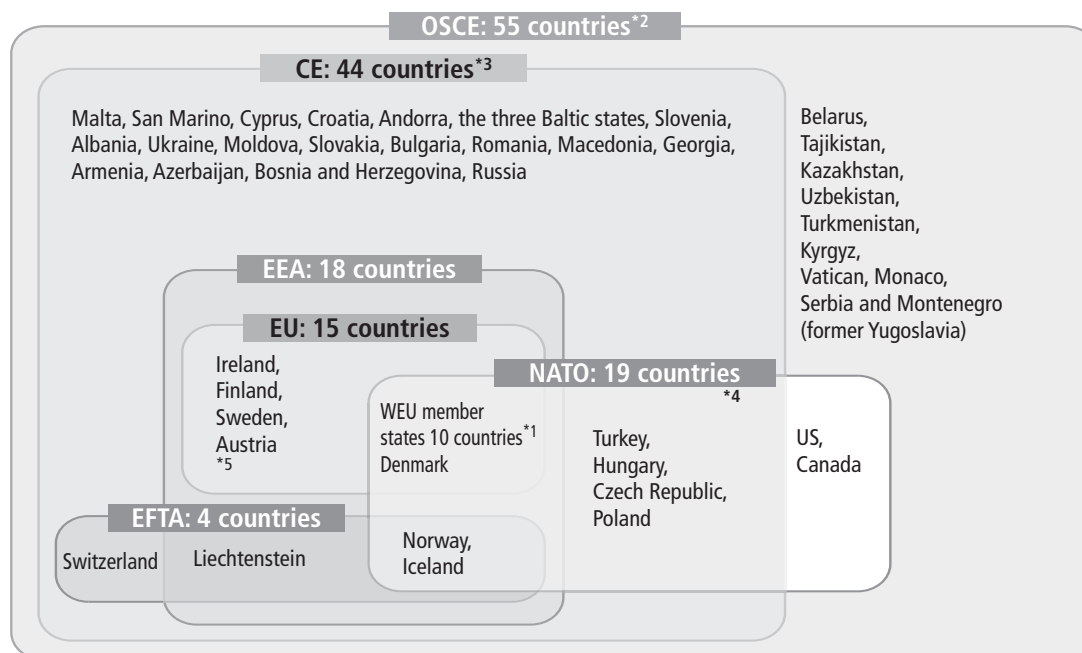
In relations with the OSCE, Japan, a Partner for Cooperation, participated as a matter of course in various discussions, and contributed personnel in the form of a dispatch of officials on various missions such as in Bosnia and Herzegovina and Kosovo as well as

financial contributions by shouldering election expenses in Eastern Europe. The importance of continuing to deepen cooperation and dialogue between the OSCE and Asia, beginning with Japan, was also confirmed at the Council of Foreign Ministers held in Porto, Portugal in December.

In relations with the CE, Japan, as an Observer of the Committee of Ministers, has been participating in its activities, for example, by attending various CE meetings, as it did in 2002 as well. CE Secretary General Walter Schwimmer visited Japan in March, and exchanges of parliamentarians are taking place. The CE is calling on Japan and the US to abolish the death penalty, and if no progress is seen in this matter, the CE has warned that it would call into question the continuing observer status of those countries. Therefore, Japan took up the stance for deepening dialogue with the CE, by explaining its death penalty system including the trend of public opinion. At the end of May, the Diet Members' League for the Abolition of the Death Penalty of Japan co-hosted a seminar in Tokyo with the CE Parliamentary Assembly on abolishing the death penalty.



Major International Institutions in Europe



O S C E	Organization for Security and Co-operation in Europe	C E	Council of Europe
E E A	European Economic Area	N A T O	North Atlantic Treaty Organization
E F T A	European Free Trade Association	W E U	Western European Union
E U	European Union		

Notes *1 WEU member states: UK, Italy, Netherlands, Greece, Spain, Germany, France, Belgium, Portugal, Luxembourg

Associate member states: Iceland, Turkey, Norway, Czech Republic, Hungary, Poland

Observers: Ireland, Denmark, Finland, Sweden, Austria

*2 Partners for Cooperation: Japan, ROK, Thailand, Mediterranean countries (Israel, Egypt, Tunisia, Algeria, Morocco, Jordan)

*3 Observers: Japan, US, Canada, Mexico, Vatican

*4 Accession invitations for Estonia, Latvia, Lithuania, Slovakia, Slovenia, Bulgaria and Romania were approved in November 2002.

*5 The conclusion of accession negotiations with Estonia, Poland, Czech Republic, Slovenia, Hungary, Cyprus, Latvia, Lithuania, Slovakia and Malta was declared in December 2002 (accession scheduled for May 2004).