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REALIZING THE PROSPERITY OF THE INTERNATIONAL COMMUNITY

Overview

The world economy in 2002 saw signs of recovery at the beginning of the year. The recovery, however, lacked stability due to a slowdown in the US economy's momentum of recovery caused by factors such as the fall in stock prices starting around spring, as well as to the fact that the strength of recovery in other major advanced countries waned. Despite these circumstances, efforts aimed toward the prosperity of the international community were made in various ways. For 2002, the two points that were particularly notable in relation to Japan were: (1) the launching of multilateral trade negotiations and (2) efforts aimed toward strengthening regional economic partnerships.

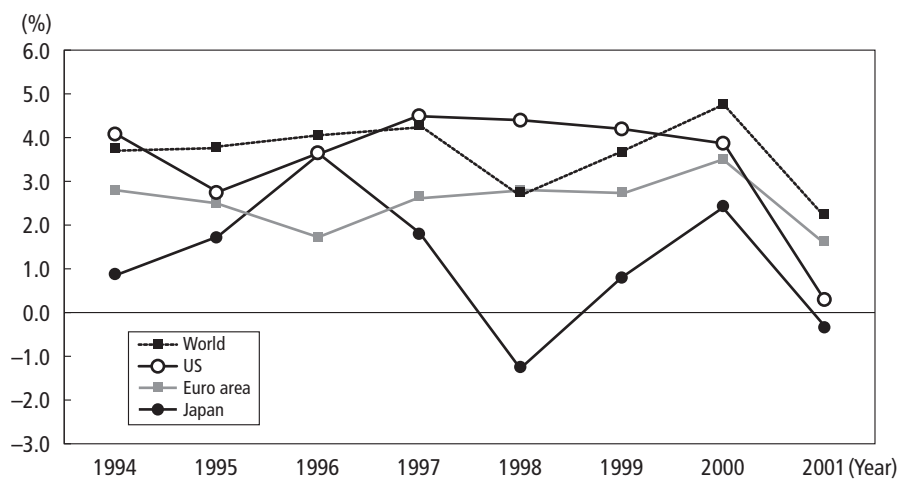
First, with regard to world trade, after the agreement reached at the Fourth Ministerial Conference of the World Trade Organization (WTO) held in Qatar in November 2001, new multilateral trade negotiations (new round of negotiations) started in January 2002. In addition to agriculture and services, rules on anti-dumping and "Singapore Issues"²⁹ including investment

will be taken up in this round of negotiations. The Fifth Ministerial Conference (Mexico) will be held in September 2003, and WTO members aim at concluding the negotiations by January 1, 2005. Japan also intends to actively contribute toward the advancement of the negotiations.

Second, there has been significant development in Japan's bilateral and regional economic policy. The Agreement between Japan and Singapore for a New Age Economic Partnership, the first free trade agreement (FTA) concluded by Japan, entered into force at the end of November. Japan is also currently working toward strengthening economic partnerships with Mexico, the Republic of Korea (ROK), member countries of the Association of Southeast Asian Nations (ASEAN) and others.

Such trends are expected to continue in 2003 and Japan intends to further actively participate in efforts with the aim of prosperity for the international community and to ensure economic growth for Japan.

Real GDP Growth Rate



Source: International Monetary Fund (IMF), *World Economic Outlook* (September 2002).

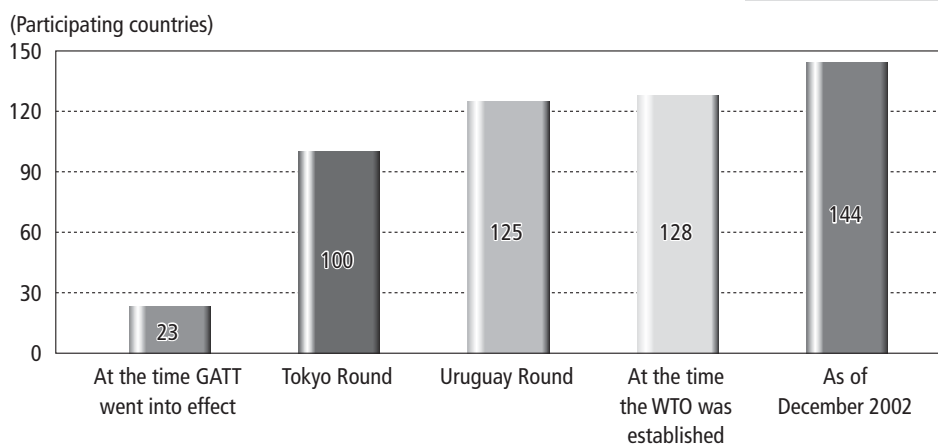
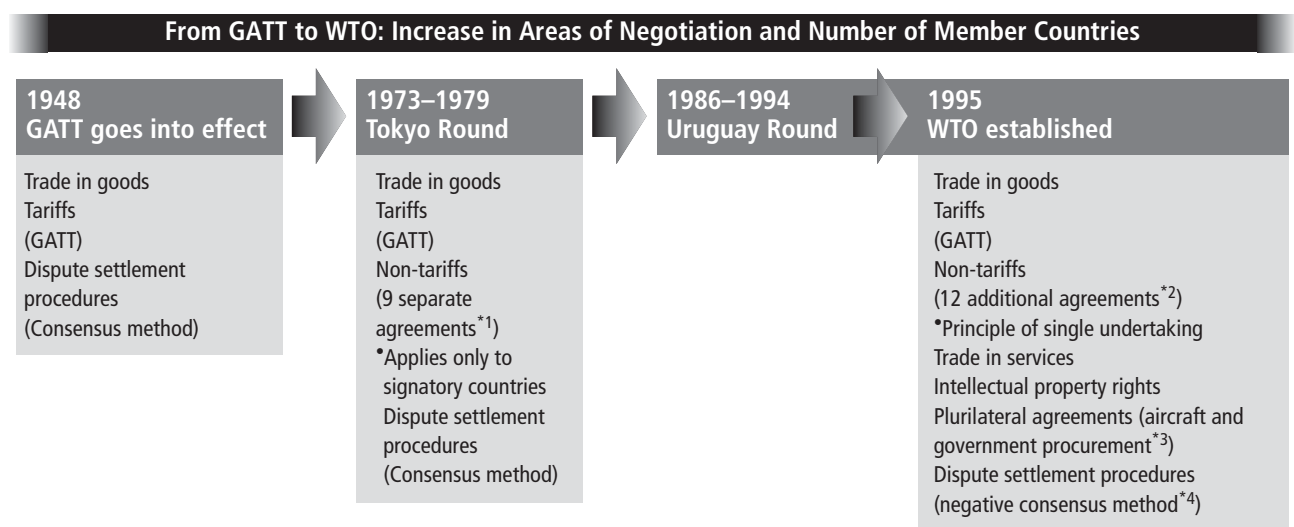
²⁹ Areas that were decided to be discussed in the future at the Singapore Ministerial Conference in 1996.

1 Strengthening the Multilateral Free Trade System

(a) Overview

Since the accession to the General Agreement on Tariffs and Trade (GATT) in 1955, Japan has been the greatest beneficiary under the GATT/WTO regime, which has supported the multilateral free trade system. Japan's

economy relies heavily on trade and investment. The maintenance and strengthening of the multilateral free trade system is of vital importance to Japan. Making a success of the Doha Development Agenda,³⁰ the first round since the WTO was established in 1995, is a crucial issue for the international community including Japan.



Notes: *1. Anti-dumping, subsidies and countervailing measures, customs valuation, technical barriers to trade, import licensing procedures, aircraft, government procurement, international dairy products, bovine meat.
 *2. Agriculture, sanitary and phytosanitary measures, textiles and clothing, technical barriers to trade, trade-related investment measures, anti-dumping, customs valuation, preshipment inspection, rules of origin, import licensing procedures, subsidies and countervailing measures, safeguards.
 *3. Agreements on dairy products and bovine meat became void in 1997.
 *4. Adoption or approval will be made if at least one country agrees to adoption or approval.

³⁰ Comprehensive trade negotiations that have been held since January 2002 upon the conclusion reached at the Fourth Ministerial Conference in November 2001. Negotiations are underway in seven areas: agriculture; market access for non-agricultural products; services; rules; trade-related aspects of intellectual property rights (TRIPS); trade and environment; and the Dispute Settlement Understanding (DSU). The deadline for concluding negotiations by a single undertaking is January 1, 2005.

The multilateral free trade system was significantly strengthened by the Uruguay Round,³¹ but it has become increasingly important to tackle issues such as: (1) the further liberalization of trade and improvement of rules and (2) the creation of new rules responding to the advancement of globalization. Furthermore, in the current negotiations, the perspective of how to integrate developing countries, which are facing various difficulties in their implementation of the Uruguay Round Agreement, into the multilateral free trade system is also important. It is necessary for Japan to address actively these issues and contribute to the stable development of the world economy.

(b) Outline of Negotiations in 2002

After the failure to launch negotiations at the Third Ministerial Conference that was held in Seattle in 1999, it was decided that the Doha Development Agenda would be launched at the Fourth Ministerial Conference that was held in Doha, Qatar in November 2001. At present, negotiations are ongoing in various areas with an aim to reach a conclusion in negotiations by January 1, 2005. At the informal ministerial meeting held in Sydney in November 2002, which Minister for Foreign Affairs Yoriko Kawaguchi attended, a certain amount of progress was

achieved on issues of developing countries such as trade-related aspects of intellectual property rights (TRIPS) and public health and special and differential treatment (S&D).³² Furthermore, an informal ministerial meeting was held in Tokyo in February 2003 with Foreign Minister Kawaguchi acting as the chair, in which constructive and interactive discussions were held between ministers in an exceedingly unofficial atmosphere. Discussions focused on various topics such as the three areas of market access—agriculture, services and non-agricultural products, as well as development-related issues such as TRIPS and public health and S&D. In particular, discussions that will contribute to the promotion of future negotiations were held on agriculture and development-related issues, which are the central issues for this round of negotiations. The Fifth Ministerial Conference, as the mid-term review of negotiations, is scheduled to be held in Cancun, Mexico in September 2003.

Agriculture

Negotiations regarding agriculture are ongoing, mainly in the three areas of market access, domestic support and export competition. This is for the crucial purpose of establishing modalities³³ no later than the end of March 2003.

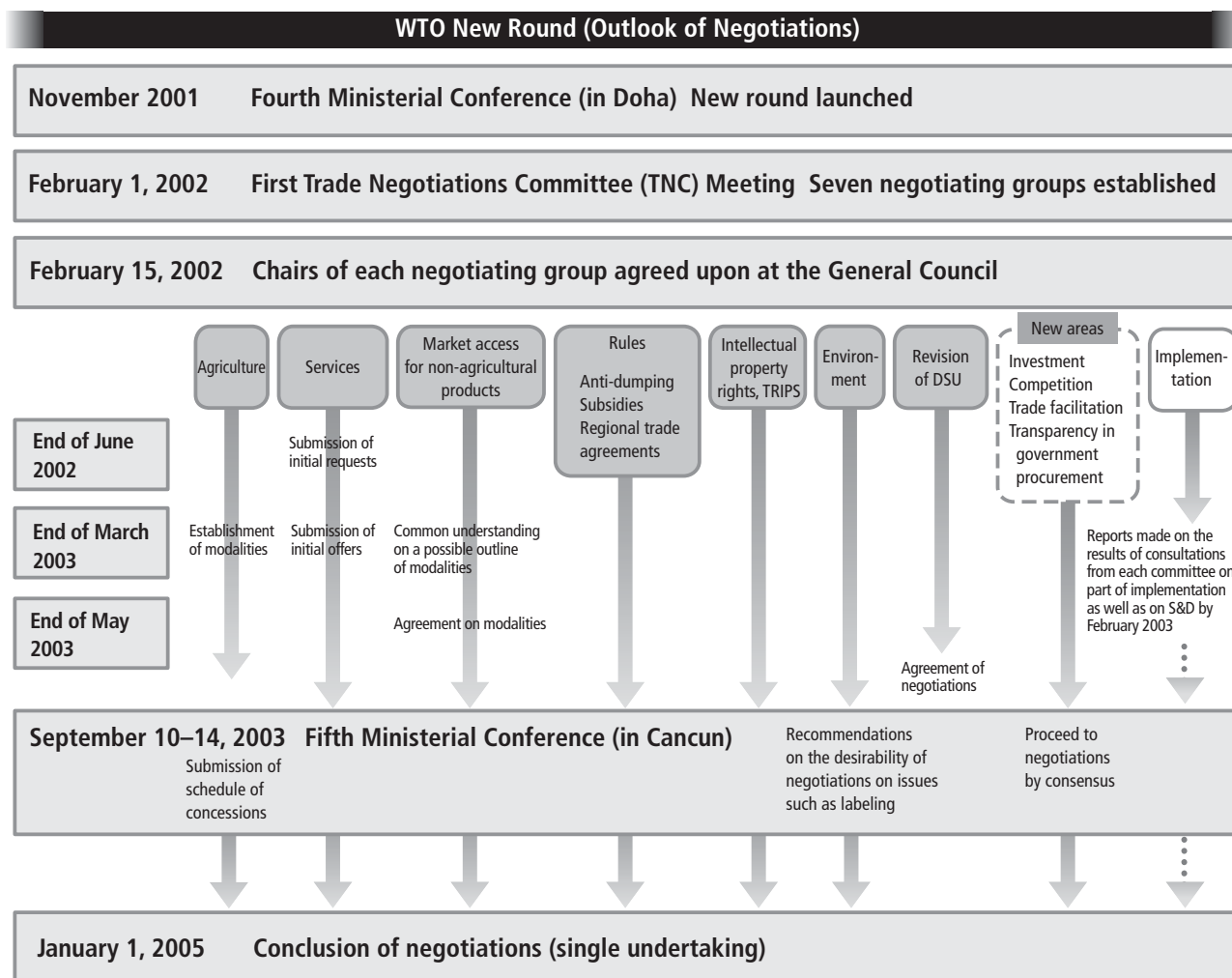


Minister for Foreign Affairs Yoriko Kawaguchi chairing the WTO Tokyo Informal Ministerial Meeting (February 2003)

³¹ Comprehensive trade negotiations that were held for nine years from 1986 to 1994. Rules were added in areas such as agriculture, services and intellectual property rights that had previously not been addressed in trade.

³² Under the WTO agreement, special and differential treatment such as the exemption and alleviation of obligations for least developed countries (LDC) is exercised.

³³ Rules and levels of liberalization in liberalizing trade and realizing fair trade that applies to all WTO members.



Japan has contributed to negotiations by raising “Japan’s Proposal”³⁴ in December 2000 and several subsequent specific proposals. After compiling and further detailing, Japan submitted the “Additional Inputs” in November 2002. Furthermore, in January 2003, Japan expressed its support for the main points of reduction commitments³⁵ in the modality proposal of the European Union (EU) and is steadily getting prepared for the negotiations on modalities scheduled until March.

The three points in Japan’s position are: “flexibility” among commodities enabling different treatment of different commodities, “continuity” of the reform process since the Uruguay Round Agreement, and “balance” between the rights and obligations of importing and exporting numbers. Japan’s approach to the negotiations is to establish rules that fully take into consideration issues of non-trade concerns such as the multi-functionability of agriculture³⁶ and food security.

³⁴ A comprehensive proposal for agricultural negotiation submitted before the full-scale negotiations on agriculture. Setting coexistence of a variety of agriculture as a basic philosophy, this proposal pursues: (1) consideration for the multi-functionability of agriculture; (2) ensuring food security and redressing the imbalances between agricultural and importing countries in terms of applied rules and disciplines; (3) consideration for developing countries; and (4) consideration for the concerns of consumers and civil society.

³⁵ The EU proposed the modality proposal that it submitted to the WTO in January, which is summarized in terms of reduction commitments as follows: (1) reduction of tariffs by 36% on a simple average basis with a minimum reduction of 15% by product; (2) reduction by 55% of domestic support (called “Amber Box” subject to reduction commitment); and (3) reduction of export subsidies by 45%.

³⁶ The concept explains that agriculture not only produces food but also fulfills the function of externalities, such as preserving nature and culture in a better form and maintaining the environment.

Services

With regard to negotiations on the liberalization of services trade, in accordance with the decision at the Doha Ministerial Conference, each member started submitting from the end of June 2002 its initial requests on service sectors of interest. By the end of March 2003, each member shall submit its initial offer that was compiled in response to requests it received, after which full-scale negotiations are expected to take place. In order to make the negotiations on services a success, it is essential to secure active participation of more developing country members in negotiations as well as to improve the level of liberalization of developed country and major developing country members. On rule making concerning services, negotiations are underway on issues including transparency of domestic regulations, emergency safeguard measures, etc.³⁷

Market Access for Non-Agricultural Products

In negotiations on market access for non-agricultural products to reduce tariffs on products other than agricultural products, the following issues are mainly focused on: how to realize the reduction or elimination of tariffs; how to realize the elimination of tariff peaks³⁸ and tariff escalation³⁹ of developed countries, requested by the developing countries; how to realize the correction of high tariffs in developing countries, requested by the developed countries; and how to realize S&D for developing countries. Based on the concept that improving market access for non-agricultural products will benefit all member countries including developing countries, Japan submitted proposals concerning tariff reduction methods and measures with regard to developing countries in November 2002.

Rules (Primarily Anti-Dumping)

With regard to negotiations on rules, discussions are being held respectively on anti-dumping (AD), subsidies and regional trade agreements. In the AD negotiations, in

order to prevent protectionist uses of AD measures, discussions are being advanced between a group including "imposed countries" such as Japan, which are working toward clarifying and improving AD Agreement disciplines, and a group including the United States (US), which is reluctant to revise the AD Agreement. Japan has created a group with various countries and regions (AD Friends) with which it shares the same position and is actively participating in the negotiations, in particular through submitting a joint paper. It is Japan's view that the progress in the work aimed to amend the AD Agreement should be confirmed at the Fifth Ministerial Conference.

TRIPS

With regard to the TRIPS Agreement⁴⁰ that comprehensively handles intellectual property rights such as copyrights, trademarks, geographical indication, designs and patents, there have been two challenges: one is the issue of the access of medicines whose problem lies in the fact that the rise in prices of pharmaceutical products due to the patent system hinders developing countries from obtaining and using (accessing) them; another is the establishment of a multilateral notification and registration system for the additional protection of geographical indication. Regarding access to medicines, it is possible for countries that have the capacity in the pharmaceutical sector domestically to manufacture such products that involve patents by utilizing a compulsory license.⁴¹ However, what is sought are measures for countries without such a manufacturing capacity in the pharmaceutical sector domestically. A report on an expeditious solution to the General Council was planned for submission by the end of 2002, but as no final agreement was reached, it was decided that consultations would continue in 2003 as well. Furthermore, as for the multilateral notification and registration system for additional protection of geographical indication, one of the issues is to establish a multilateral notification and registration system to further strengthen

³⁷ An emergency measure that allows a temporary exemption from liberalization commitments in the WTO, in the event that, as a result of liberalization, domestic industries are significantly affected due to a rapid increase in service imports in a given sector.

³⁸ This refers to the items on which there are high tariffs, assuming that there are high tariffs on the side of the developed countries. There is no clear definition of specifically what percentage constitutes a tariff peak.

³⁹ A mechanism by which tariff rates increase as the degree of processing advances.

⁴⁰ The expression, the TRIPS Agreement, comes from the acronym of the Agreement on Trade-Related Aspects of Intellectual Property Rights. In addition to establishing the minimum level of intellectual property rights protection, this agreement stipulates the procedures for the enforcement of rights and procedures for dispute settlements.

⁴¹ A system in which patented inventions (pharmaceutical products in this case) can be used without obtaining the consent of the patent holder under certain conditions.

additional protection for wines and spirits⁴² that is recognized by the WTO Agreement. Japan, the US and other countries are together proposing to establish a system that is not legally binding and under which the burden on each country is light.

Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)

At the Fourth Ministerial Conference, it was decided to strive to reach agreement no later than May 2003 on the revision of the DSU (improving and clarifying the system), which can be considered as a kind of court procedure for resolving trade disputes. Japan is making efforts in order to reach an agreement by May 2003 through actively contributing to the discussion while ensuring that the proposals⁴³ it submitted in October 2002 be reflected as much as possible in negotiations.

Environment

With regard to trade and the environment, there is a difference in views between the EU and some other countries such as the developing countries. The EU supports making rules emphasizing importance on the environment, while developing countries are concerned about trade restrictions related to environmental protection which could be regarded as protectionism. Japan is raising proposals aiming toward the realization of sustainable development and to promote greater consistency between trade rules and environmental rules.

Singapore Issues

The so-called “Singapore Issues,” namely investment, competition, trade facilitation and transparency in government procurement, will move into negotiations after the modalities of negotiations are decided by explicit consensus at the Fifth Ministerial Conference. With regard to the establishment of investment rules on which Japan is placing particular emphasis, some developing countries are concerned that their investment policies, which play a

central role in development policies, will be restrained if WTO rules on investment are established, and are thus taking a negative stance. A significant issue that will need to be tackled will be how to involve these developing countries in negotiations.

(c) Issues of Developing Countries

Developing countries are facing various difficulties in observing WTO rules and regulations. This is a major reason why many developing countries are hesitant to participate in negotiations. Thus they have been requesting that the WTO agreements be revised, S&D provisions be made mandatory and assistance be given for capacity building for fulfilling the agreements. Developed countries including Japan have been considering to what extent they are able to respond to the developing countries’ requests while maintaining the unity of the rules of the WTO agreements. At the same time, they have been providing technical assistance to developing countries for capacity building. As Japan recognizes that there can be no success in negotiations without the active participation of developing countries, it will continue to actively make efforts on this issue in the future as well.

(d) The WTO Dispute Settlement System

In comparison to the GATT era, the WTO dispute settlement system has been actively utilized by member countries. Since the WTO was established in January 1995, by the end of December 2002, 275 disputes (number of cases where a request for consultation is made) have been brought to the WTO dispute settlement system (the number of cases under the GATT from 1948 to 1994 was 314).

Japan also actively utilizes this system. In 2002, the panel in the US Byrd Amendment⁴⁴ case issued a report which accepted most of the claims by the complaints

⁴² Wines and spirits are under “additional” protection as they are under greater protection in comparison to ham and other products (ham must be protected in cases where it is misleading or confusing, but wines and spirits must be protected even if they are not misleading or confusing).

⁴³ The main focus of Japan’s proposal is that procedures should be revised so that approval of countermeasures may be requested only after the compliance panel determines that recommendations of the Dispute Settlement Body have not been implemented. Under the existing procedures, it is unclear which comes first—the decision of the compliance panel concerning whether recommendations have been implemented or the request for approval of countermeasures—although Japan’s proposal is intended to address this problem.

⁴⁴ The Byrd Amendment is the US’s domestic law which obliges US authorities to distribute their revenue acquired by anti-dumping and countervailing duties to domestic companies and others which supported the anti-dumping or countervailing petitions (enacted in October 2000).

consisting of 11 countries and regions including Japan, European Community (EC) and the ROK. The US appealed against the panel report and the Appellate Body held an oral hearing. Furthermore, Japan together with seven other countries including the EC and the ROK filed WTO cases against the US on the US safeguard measures, as well as on the US's sunset review of the Anti-dumping Duties on Corrosion-Resistant Carbon Steel Flat

Products.⁴⁵ The panel meetings were held on the respective cases. Against Japan's quarantine measures (fire blight disease of apples and this case is also under the panel proceeding), the US filed a complaint.

The impartial and fair dispute settlement system of the WTO is useful in ensuring the stability of the multilateral free trade system and it is important to continue to enhance the effectiveness and credibility of this system in the future.

2

Strengthening Economic Partnerships

(a) Overview

Free trade agreements and economic partnership agreements (FTA/EPAs) are effective means of strengthening partnerships in areas that are not covered by the World Trade Organization (WTO) and achieving liberalization beyond levels attainable under the WTO. In recent years, FTA/EPAs have been rapidly increasing in number as a means of complementing and strengthening the multilateral free trading system under the WTO. The expansion of a web of FTA/EPAs after the 1990 is remarkable. At present, approximately 140 FTAs have been notified to the WTO and are in force and among those, over 90 were notified in the 1990s and nearly 30 after the year 2000.

Maintaining and strengthening the multilateral free trading system under the WTO is the main pillar of Japan's external economic policy. At the same time, Japan is also working actively and strategically toward strengthening economic partnerships through FTA/EPAs. FTA/EPAs offer economic benefits such as the expansion of export and import markets through the elimination of tariffs and non-tariff measures, economic revitalization that is gained by factors such as the promotion of imports of inexpensive and high-quality goods and services. Furthermore, in cases where Japanese companies are suffering disadvantages in terms of conditions for competition due to FTA/EPAs that already exist between third party countries, it is important for Japan to remove such disadvantages by concluding FTA/EPAs

with those countries. Japan will comprehensively and strategically determine the favorable countries and regions as well as the favorable fields for strengthening its economic partnerships, taking into consideration various factors such as the scale of economic benefits that can be gained through the conclusion of FTA/EPAs, necessity of strengthening political and diplomatic relations, promotion of Japan's own structural reform and requests of the Japanese industrial community. The Ministry of Foreign Affairs (MOFA) published "Japan's FTA Strategy" in October 2002, which showed a basic strategy on FTA/EPAs.

Meanwhile, taking into account that since in the conclusion of FTA/EPAs, the elimination of duties and other restrictive regulations of commerce with respect to substantially all the trade is required under the WTO Agreement, key to the success of the negotiations aimed toward the conclusion of FTA/EPAs is how to deal with items which are not so competitive that they would be sensitive to the liberalization. In addition, it is also necessary that other areas such as the movement of natural persons be discussed sufficiently.

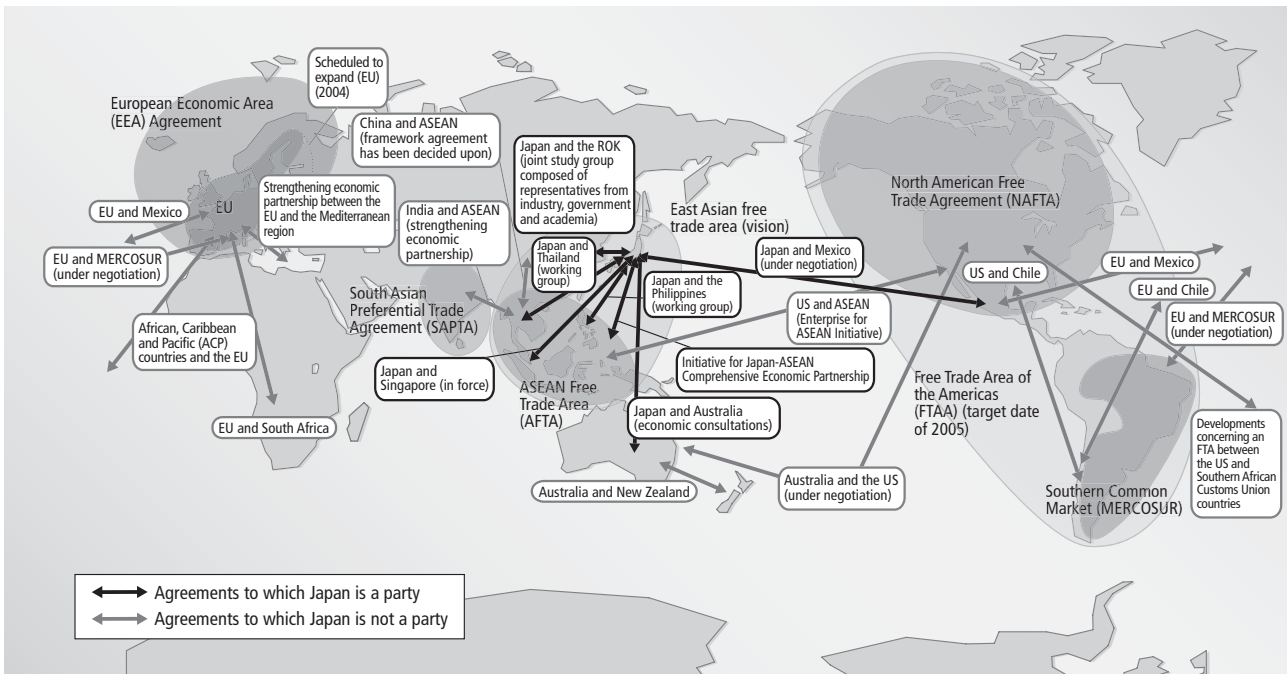
(b) Individual Cases

Singapore

Negotiations between the Governments of Japan and Singapore started in January 2001 after a joint study group comprising government officials, prominent academics

⁴⁵ As a result of the Uruguay Round negotiations, it is clearly stated in the AD Agreement that AD measures shall in principle be terminated (sunset) in five years unless the necessity of continuation is determined through the review procedure. This issue is that the US failed to comply with this rule. Japan's claim is that the US sunset review procedure is inconsistent with the WTO rules with respect to the law, regulations and operation methods.

Developments in Free Trade Agreements (FTA) and Economic Partnership Agreements (EPA) (particularly those that involve Japan, the US and the EU)



- Note: AFTA: The 10 countries of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam)
 EU: 15 countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden and the UK). It is scheduled to expand in 2004. It is expected that the 10 countries of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia will become new members.
 EEA: Includes the EU, Iceland, Liechtenstein and Norway
 NAFTA: 3 countries (US, Canada and Mexico)
 MERCOSUR: 4 countries (Argentina, Brazil, Paraguay and Uruguay)
 SAPTA: 7 countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) of the South Asian Association for Regional Cooperation (SAARC)

and business leaders from both countries. When Prime Minister Junichiro Koizumi visited countries of the Association of Southeast Asian Nations (ASEAN) in January 2002, the prime ministers of Japan and Singapore signed the “Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership” in Singapore. Afterward, upon receiving Diet approval, the agreement entered into force on November 30, 2002. The agreement strengthens the economic partnership in a wide range of areas, including not only the liberalization and facilitation of trade and investment but also financial services, Information and Communications Technology (ICT), science and technology, human resources development, the promotion of trade and investment, small and medium enterprises, broadcasting and tourism. This agreement is expected to be an example of a means to strengthen economic relations between Japan and countries in Asia and other regions in the future.

Mexico

At the Japan-Mexico summit meeting in June 2001, the two leaders agreed to establish a joint study group comprised of individuals from industry, government and academia circles (“Japan-Mexico Joint Study Group on the Strengthening of Bilateral Economic Relations”). The Joint Study Group has held a total of seven meetings since September 2001. In July 2002, it published a report proposing that the two governments should promptly start working with the aim of concluding an agreement for strengthening a bilateral economic partnership, which would include elements of an FTA, as a concrete measure for strengthening the bilateral economic relations. In light of this proposal, at the Japan-Mexico summit meeting held in Los Cabos, Mexico in October, the two leaders decided to launch negotiations to conclude a bilateral agreement, including the elements of an FTA, to strengthen the bilateral economic partnership between Japan and Mexico. The first round of negotiations was

held in November and the second round was held in February 2003. It is expected for the negotiations to finish in substance as soon as possible with a target of approximately one-year period after the first round of negotiations. In Japan's relations with Mexico, one of the specific problems is that Japanese companies in Mexico are suffering disadvantages in terms of conditions for competition in comparison with the companies of the United States (US) and European Union (EU) so that it is required to arrange a bilateral legal framework to resolve such a problem.⁴⁶

Republic of Korea (ROK)

The Japan-ROK FTA Business Forum, whose establishment was agreed upon at the Japan-ROK summit meeting in September 2000, issued a joint declaration in January 2002 stating that a Japan-ROK FTA should be promoted at an early date as a comprehensive economic partnership agreement. On the basis of this proposal, the leaders of Japan and the ROK agreed to establish an industry, government and academia-linked research group when Prime Minister Koizumi visited the ROK in March 2002. The Joint Study Group held four meetings as of February 2003. It has been studying various areas that could be included in a Japan-ROK FTA on the basis of their shared view on the necessity of an early conclusion of a comprehensive FTA.

ASEAN

During his round trip to ASEAN countries in January 2002, Prime Minister Koizumi proposed an "Initiative for Japan-ASEAN Comprehensive Economic Partnership" and extensive discussions and considerations have been made in the various meetings such as the Japan-ASEAN Forum (vice-ministerial level meeting) with respect to materialization of this initiative. Furthermore, the "Japan-ASEAN Comprehensive Economic Partnership Discussion Group" hosted by the chief cabinet secretary was established in April. In October, the discussion group published its interim report putting forward such ideas that from a realistic point of view, the Japan-ASEAN economic partnership initiative, for the time being, would be materialized through the conclusion of a

series of bilateral comprehensive economic partnership agreements. At the Japan-ASEAN Summit Meeting in November, a joint declaration providing the guiding principles for further advancing the initiative was issued. The joint declaration endorsed the approach that, while considering a framework for the realization of a Comprehensive Economic Partnership between Japan and ASEAN as a whole, Japan could have consultations for a bilateral economic partnership with any ASEAN member country ready for such consultations. The joint declaration also stated that the implementation of measures for economic partnership, including elements of a free trade area, should be completed as soon as possible within 10 years. In regard to an economic partnership between Japan and ASEAN as a whole, a committee consisting of relevant senior officials will be established to consider a framework for the realization of the economic partnership, and the committee will present its report to the Japan-ASEAN Summit Meeting in 2003.

In regard to the bilateral economic partnerships, the governments of Japan and Thailand held two preparatory meetings in May and July 2002 with the aim of establishing a working group. In these meetings, it was confirmed that the two sides would hold discussions, using the Japan-Singapore Economic Partnership Agreement as a basis or reference to the bilateral economic partnership. At the Japan-Thailand Economic Partnership Consultations (vice-ministerial level meeting) in July, they agreed on issues such as the scope of the discussions and the structure of the working group, and since then, three meetings of the working group have been held.

As for the Philippines, President Gloria Macapagal-Arroyo's proposal at the Japan-Philippines summit meeting in May 2002 to establish a working group has led to the holding of three working group meetings following a preparatory meeting. Furthermore, a joint statement was issued after the Japan-Philippines summit meeting in December, expressing the two leaders' hope for the expeditious commencement of the next stage for the realization of the bilateral economic partnership.

As for Malaysia, at the Japan-Malaysia summit meeting in December, Prime Minister Mahathir Mohamed proposed the commencement of consultations, stating that

⁴⁶ Mexico's average tariff rates are approximately 16% (APEC Individual Action Plan (IAP) 2002). Japanese companies are suffering disadvantages in terms of conditions for competition in comparison with the companies of the US and EU due to their existing FTAs with Mexico, whose process of the elimination of tariffs has been proceeding. Japan's major import items from Mexico include crude oil, electric machinery, automobiles and pork, while Japan's major export items to Mexico include integrated circuits, generators and other machinery and automobile parts.

the Malaysian side would put forward its official proposal for the bilateral economic partnership in early 2003. In light of the foregoing, it has been decided that the consultations will start in the working group at the working level.

Australia

At the Japan-Australia summit meeting in May 2002, it

was established that high-level consultations at the vice-ministerial level would begin in order to pursue all options for developing a deeper economic relationship between the two countries. Three director-level meetings were held and the results of the consultations will be submitted to the leaders of both countries after vice-ministerial level consultations to be held in June 2003.

3

Other International Economic Issues

(a) Information and Communications Technology (ICT)

Information and Communications Technology (ICT) can greatly strengthen democracy and enhance government transparency by sending and transmitting information, as well as bringing about economic expectations such as increase in productivity and enhancement of market potential. From this viewpoint, Japan is striving to build an information society globally by utilizing ICT in various fields.

Firstly, Japan is advancing international coordination of systems and policies, such as the establishment of international rules through bilateral, regional and multilateral frameworks. Bilateral frameworks include those of Japan-US and Japan-EU. In June 2002, the first report to the leaders of Japan and the US concerning the Japan-US Regulatory Reform and Competition Policy Initiative was made, including measures such as regulatory reforms and cooperative efforts in the ICT area of both countries. Regional frameworks include Asia-Pacific Economic Cooperation (APEC). At the Tenth APEC Economic Leaders' Meeting in October 2002, the "Statement to Implement APEC Policies on Trade and the Digital Economy" was adopted, which aims at promoting intra-regional trade by the digital economy, through deregulation of electronic commerce among others. Multilateral frameworks include the Organisation for Economic Cooperation and Development (OECD), World Trade Organization (WTO), United Nations Commission on International Trade Law (UNCITRAL), World Intellectual Property Organization (WIPO) and the G8 Lyon Group, which are actively tackling issues such as security, electronic commerce, tax, privacy, coding and the prevention of cybercrime. Particularly, the OECD

revised its information security guidelines in July 2002.

Secondly, Japan is advancing international cooperation to bridge the digital divide. The Digital Opportunity Task Force (DOT Force), which was established following the G8 Kyushu-Okinawa Summit, has held discussions among a wide range of relevant actors. It submitted a status report on the implementation of the action plan that was developed in May 2001, to the G8 Kananaskis Summit in June 2002. Furthermore, Japan is providing cooperation through Official Development Assistance (ODA) mainly in the following areas: intellectual contribution toward policy formation and institution-building, human resources development, ICT infrastructure building/network establishment, and promotion of the use of ICT in development assistance.

(b) Energy Issues

Japan's Energy Diplomacy

Energy is the foundation of the daily lives of people and economic activity. As Japan relies on foreign sources for approximately 80% of its energy, securing a stable supply of energy (energy security) is a critical issue in Japan's foreign policy. Through organizations such as the International Energy Agency (IEA), Japan is cooperating with other developed countries in preparing countermeasures for dealing with emergencies such as disruptions in the oil supply and improving the global energy supply-demand structure. Moreover, Japan is making efforts to increase its energy security through cooperation with the Asian region, where energy demand is expected to increase in the future due to economic growth, as well as with oil-producing countries.

In the Asian region, even though energy demand is



Senior Vice-Minister for Foreign Affairs Seiken Sugiura (on the right) at a conference in Azerbaijan, as part of the Silk Road Energy Mission (July)

expected to increase, it appears there is vulnerability in terms of emergency response as is demonstrated by the lack of efforts to prepare oil stockpiling and other measures. Under such recognition, the Seminar on Energy Security in Asia was held in Tokyo in March 2002. The necessity of developing measures such as oil stockpiling was pointed out at this seminar, and Japan stated that it was prepared to share its knowledge, experience and technology concerning oil stockpiling with China, the ROK and ASEAN countries. In light of this trend, the ASEAN+3 (Japan, China, ROK)-IEA Joint Workshop was held in Tokyo in December. At this meeting, discussions were held on concrete measures for cooperation in ASEAN+3, including emergency response.

In July, from the perspective of diversifying sources of energy, the Silk Road Energy Mission, which was composed of members of industry, government and

academia circles and headed by Senior Vice-Minister for Foreign Affairs Seiken Sugiura, was dispatched to Kazakhstan, Uzbekistan, Azerbaijan and Turkmenistan. This mission held meetings with ministers of each country and called for the strengthening of energy cooperation between the Silk Road region, which possesses a latent potential to supply energy, and the Asian region from a long-term perspective, through a "Look East" policy.

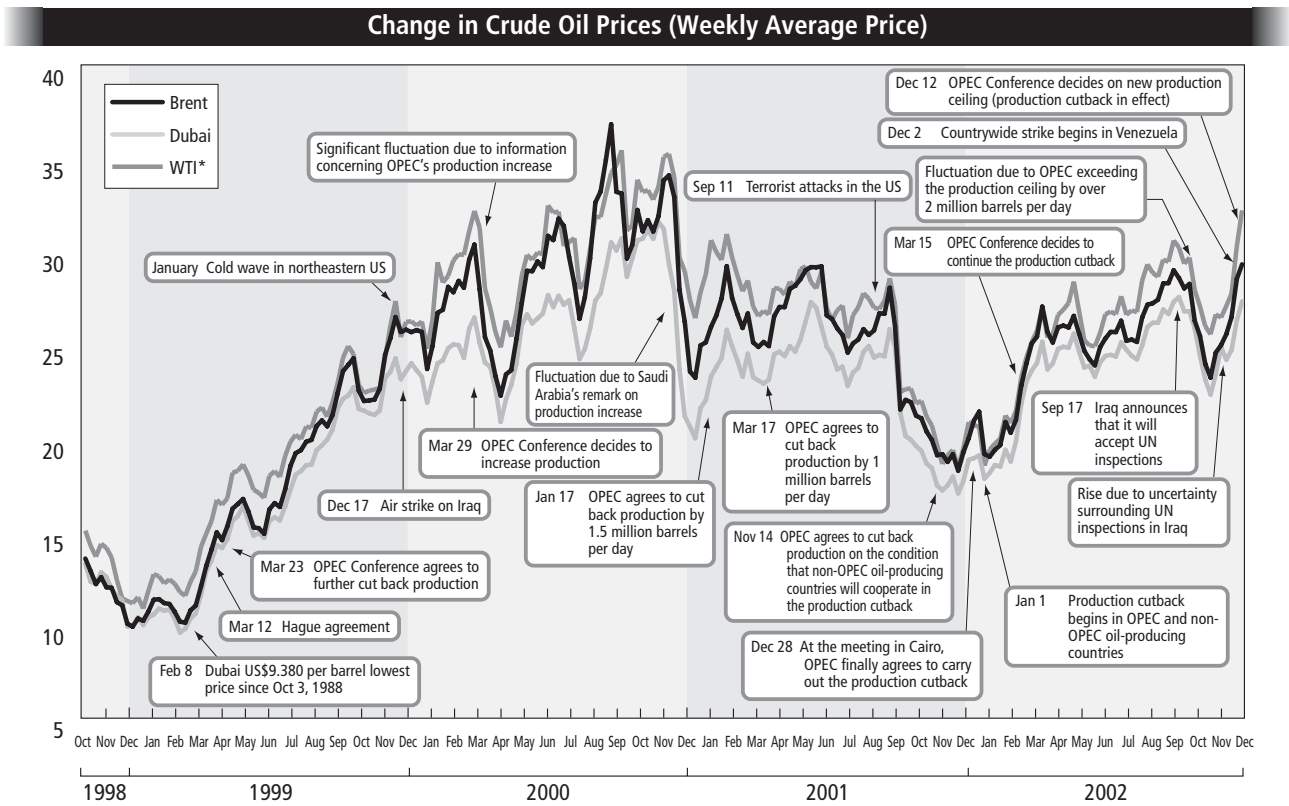
In September, from the viewpoint of promoting dialogue between energy-producing and energy-consuming countries, the Eighth International Energy Forum was held in Osaka and 65 countries and 10 international organizations participated. At this forum, Japan pointed out the necessity of utilizing natural gas and renewable energy in order to achieve economic growth, environmental protection and energy security. Before the forum, the Organization of the Petroleum Exporting Countries (OPEC) Conference was held in Osaka. This was the first time the conference was held in an energy-consuming country in Asia. The importance of Asia in terms of energy was emphasized at the conference.

Oil Market Trends

In light of the stagnation in the world economy after the terrorist attacks in the US, crude oil prices remained low in the beginning of 2002 as they did in the latter half of 2001. After February, crude oil prices rose due to factors such as the heightened tensions regarding the Israeli/Palestinian situation. This trend was further spurred in April by Iraq's crude oil embargo that lasted one month as well as by the confusion brought about by the situation in Venezuela, which made crude oil prices rise even higher. After August, crude oil prices remained at high levels due to observations concerning the Iraqi situation in particular, and they rose even higher due to the effects of the nationwide strike in Venezuela that began in the beginning of December.

(c) Food Issues

According to the Food and Agriculture Organization of the United Nations (FAO), the amount of food production in the world from 2002 to 2003 continued to increase subsequent to the previous term. It is expected that the amount of food production will be approximately 1.954 billion tons, and there is enough production to meet the amount of demand. However, due to an imbalance in the supply and demand of food, there was an average of



Note: * WTI: West Texas Intermediate

approximately 799 million undernourished people in developing countries from 1998 to 2000, and these figures remain at a high level today. Even comparing these figures to those from 1990 to 1992, the population of undernourished people has been reduced by only 20 million. This is due to the fact that although improvements were seen in a part of the Asian region, mostly in China, it was offset by the worsening situation in the African region.

Furthermore, food shortages and poverty are very closely related to one another and 25,000 people die

every day from hunger and poverty. In addition, approximately 30 countries are facing serious food shortages caused by drought, flood, conflict, political, social and economic confusion and other reasons. As a result, approximately 67 million people require emergency food aid.

In order to respond to such circumstances, Japan is implementing comprehensive measures including agricultural development, world trade, education and technology transfer, as well as food aid and food production increase assistance on a bilateral basis or through international organizations.

(d) Fishery Issues

In Japan, marine products have traditionally played an important role in people's diet, and Japan's per capita consumption of marine products is significantly higher than that of other countries. Meanwhile, in response to the wide-spreading international concern that three-fourths of global marine fishery resources have been exploited to their maximum sustainable level or to unsustainable levels due to overfishing, greater



Parliamentary Secretary for Foreign Affairs Kenichi Mizuno talking to other participants at the World Food Summit: five years later (June)

emphasis is being placed on international cooperation to conserve fishery resources and protect the marine environment. In light of these circumstances, it is expected that Japan will play an active role in managing international fisheries resources not only as one of the world's leading fishing countries but also as a major importer of marine products.

In particular, in regard to highly migratory tuna and tuna-like species, unrestrained fishing by flag-of-convenience (FOC) vessels in recent years has become a threat to resources. These vessels are registered with countries that are not members of regional fisheries management organizations with the purpose of evading regulations.

(Photo)

Japan has strengthened its efforts to eliminate FOC vessels through regional fisheries management organizations and other systems. It is also taking various measures such as preventing imports of marine products caught by FOC vessels. The Western and Central Pacific Fisheries Convention (WCPFC) was adopted in September 2000 with the aim of conserving and managing fish stocks in the Western and Central Pacific, which yields approximately half of the world's fishery production of tuna and tuna-like species and approximately 80% of that of Japan. Japan was opposed to the adoption of this convention since it considered the convention did not fully reflect the position of fishing nations, which are a minority. However, Japan is in a position to continue to participate in preparatory meetings that aim toward establishing rules of procedure of the WCPFC to actually manage this convention, and Japan also seeks to advance consultations with various countries so that its concerns can be substantively resolved.

In regard to whaling, the 54th Annual Meeting of the International Whaling Commission (IWC) was held in May 2002 in Shimonoseki City, Yamaguchi Prefecture. At this meeting, the resumption of whaling activities, which Japan has long upheld as a policy objective, was not approved. However, progress was seen, such as the fact that the highest-ever number of favorable votes were obtained regarding Japan's request for an interim relief quota of minke whales to Japan's small-type coastal whaling communities. Furthermore, full-scale investigations began at the end of June for the second phase of the Japanese Whale Research Program under Special Permit in the Western North Pacific. Although there is criticism from some countries, Japan is conveying its position that the catch of whales should be discussed in a non-emotional and scientific manner based on the principle of the sustainable use of marine living resources including whales.