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NORTH AMERICA

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United States

(a) Overview

In 2003, the administration of President George W. Bush continued to fight against terrorism strongly and launched the military operation against Iraq, which was acknowledged to have committed a serious violation of a series of United Nations (UN) Security Council resolutions concerning the suspected development of weapons of mass destruction (WMD) in Iraq. As a consequence, the administration of President Saddam Hussein of Iraq collapsed. Currently, the United States (US), along with

concerned countries, is making efforts to reconstruct Iraq and is also working in coordination with concerned countries to resolve the various issues faced by the international community, in particular the reconstruction of Afghanistan and the nuclear issues in North Korea and Iran. Domestically, the current administration has been working to maintain its trend of economic recovery through such measures as tax reductions and making efforts to carry out measures for the weak in society such as Medicare (health insurance for the elderly) reform. It

has also continued to reinforce its homeland security. In addition, both the Republican and Democratic candidates have started their full-fledged campaign for the 2004 presidential election.

The year 2003, was the 150th anniversary of the first visit of Commodore Perry to Japan and 2004 is the 150th anniversary of the signing of the Japan-US Treaty of Peace and Amity. With 150 years of history, Japan and the US have formed and maintained the strongest alliance in the Asia-Pacific region. The partnership with the US, an ally which shares basic values and interests with Japan, 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. With this recognition, it is necessary for Japan to strengthen further the Japan-US partnership.

(Photo)

(b) Japan-US Relations

In 2003, both Japan and the US advanced close consultations and policy coordination in a wide range of areas and made efforts to strengthen further the Japan-US Security Arrangements. In addition, a variety of commemorative projects for the 150th anniversary of the Japan-US relationship were implemented in both countries.

Political Cooperation

In 2003, following on from 2002, the endeavor to tackle challenges over Iraq and North Korea was brought into major focus in cooperation in the political field between Japan and the US. On February 22, when diplomatic efforts toward the resolution of the issue of Iraq's WMD reached the final stage, Secretary of State Colin Powell of the US visited Japan, made a courtesy call on Prime Minister Junichiro Koizumi and held a Japan-US foreign ministers' meeting with Minister for Foreign Affairs Yoriko Kawaguchi. Concerning Iraq, Prime Minister Koizumi and Foreign Minister Kawaguchi indicated the importance of international coordination, highly praised the tenacious efforts of the US at the Security Council and stated that they hoped the US would continue its efforts. As for North Korea, the two countries once again confirmed that they shared serious concerns about recent movements with respect to nuclear development by North Korea and reconfirmed the importance of continuous close cooperation between Japan, the US, and the Republic of Korea (ROK) for the peaceful resolution of this issue.

On March 17, President Bush issued the ultimatum which demanded that Iraq should comply with a series of UN Security Council resolutions. Prime Minister Koizumi immediately expressed support for the US policy, and right after the commencement of the military operation on March 19, he stated that Japan would continue its efforts to balance the importance of the Japan-US alliance and international coordination and asserted support for the actions by the US and its allies.

After the declaration about the conclusion of major combat operation in Iraq, Prime Minister Koizumi visited the private ranch of President Bush in Crawford, Texas from May 22 to 23, and held a Japan-US Summit Meeting. The two leaders confirmed that the modern Japan-US alliance is a truly global "Japan-US alliance in the global context" in the sense that in cooperation with the countries of the world, Japan and the US work together on resolving various important challenges in the world, and agreed to strengthen further the alliance. In the

meeting, President Bush expressed gratitude for the support of Japan for the US military operation against Iraq and Prime Minister Koizumi once again emphasized the importance of international cooperation and explained that Japan intended with its own initiatives to fulfill an active role in the reconstruction of Iraq. The leaders also exchanged frank opinions concerning Japan-US security including missile defense, Japan-US economic relations, and current issues such as the fight against terrorism, the proliferation of WMD, and the situations in North Korea as well as the Middle East. In addition, Prime Minister Koizumi raised the issue of the realization of a civil-military dual use of Yokota Air Base and the leaders agreed to carry out its feasibility study.

On August 5, Minister of Justice Mayumi Moriyama, Chairman of the National Public Safety Commission Sadakazu Tanigaki, Ambassador of Japan to the US Ryozi Kato and Attorney General John Ashcroft of the US signed the Treaty between Japan and the United States of America on Mutual Legal Assistance in Criminal Matters (Mutual Legal Assistance Treaty).

On October 17, President Bush stopped over in Japan on his way to Thailand to attend the 11th APEC Economic Leaders' Meeting, and had a talk with Prime Minister Koizumi over dinner. In the meeting, the two leaders reconfirmed the concept of the "Japan-US alliance in the global context" and reaffirmed that Japan and the US would closely cooperate with each other in tackling various issues such as Iraqi reconstruction and the North Korean nuclear issues, while maintaining coordination with other countries in the world. Moreover, when Prime Minister Koizumi explained that the Law Concerning the Special Measures on Humanitarian and Reconstruction Assistance in Iraq had been enacted and once again emphasized the importance of international coordination, President Bush highly praised the contribution of Japan to the reconstruction of Iraq.

Secretary of Defense Donald H. Rumsfeld of the US visited Japan from November 14 to 16, making a courtesy call on Prime Minister Koizumi and holding a meeting with Foreign Minister Kawaguchi. Both sides exchanged their opinions concerning Iraq, North Korea, missile defense, Okinawa and the review of the military posture of the US forces. Secretary Rumsfeld then visited Okinawa, the first US Secretary of Defense to do so since then-Secretary of Defense Richard B. Cheney 13 years previously, and held a meeting with Governor Keiichi Inamine of Okinawa Prefecture.

Furthermore, Japan and the US have carried out close inter-governmental cooperation at every level, including frequent telephone conferences at the summit and foreign ministerial level.

With a view to strengthening the foundation of the long-term bilateral relationship, the Japanese Government invited to Japan young leaders from areas where many Japanese-Americans live and held meetings between Japanese-American representatives and the heads of the diplomatic establishments in the US in order to advance the relationship between Japan and Japanese-Americans. In addition, a variety of exchange projects including those commemorating the 150th anniversary of the Japan-US relationship were vigorously carried out.

Economic Relations

The recent Japan-US economic relationship has grown out of one once symbolized by friction to a cooperative one through constructive dialogue. Based on the spirit of such cooperation, Japan and the US should address a wide range of issues, varying from those on the global scale including the new round of the World Trade Organization (WTO) to those on a regional scale, such as economic cooperation in the Asia-Pacific region. The areas of cooperation also cover those at the bilateral level such as structural reform including regulatory and financial reform as well as corporate reform.

The Bush administration recognizes that Japan's economic recovery is essential not only for the sustainable growth of both Japan and the US as well as the entire world, but also for the stability and prosperity of the Asia-Pacific region, and thus it strongly supports Prime Minister Koizumi's structural reform.

The Japan-United States Economic Partnership for Growth, which is a framework for economic dialogue

between Japan and the US that Prime Minister Koizumi and President Bush agreed to establish on the occasion of the Japan-US Summit Meeting in June 2001, reflects changes in the nature of Japan-US economic relations. Under this framework, a variety of constructive dialogues were conducted in 2003.¹

There was also progress toward the conclusion of bilateral treaties concerning economic activities between Japan and the US. Specifically, Ambassador of Japan to the US Ryozi Kato and Treasury Secretary John W. Snow of the US signed, on November 6, the Convention between the Government of Japan and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the New Japan-US Income Tax Convention), the first overall revision of the Tax Convention in 30 years. The Convention provides for reductions in the taxes imposed on cross-border dividends, interest and royalties sent to parent companies from subsidiaries established in the other country and as well as prevents double taxation. Substantial agreement has also been reached on a social security agreement covering the prevention of the dual payment of social security contributions for both Japanese and US pension systems and health insurance systems, and allowing to add up the periods for which a person has paid social security contributions in both countries. The conclusion of these agreements is expected to result in large cost savings for both Japanese and US companies and, as a consequence, makes economic activities involving investment between the two countries more vigorous and efficient.

Economic Points under Discussion

Japan's share of the US trade deficit has dropped from a

¹ * Subcabinet Economic Dialogue (strategic economic dialogue on bilateral, regional and global issues): The third meeting was held in Washington in April. The trends and forecast for the economies of Japan and the US, as well as regional and global issues (Asian economy, transport security and efficiency of distribution, WTO, Iraqi issues, etc.) were discussed.

* Private Sector/Government Commission (meetings in which constructive input is gathered from the private sector): The second meeting was held in Washington in April. Under the theme of "Successfully Meeting Economic Challenges in the 21st century," discussions took place on the economies of both countries, corporate governance, the economic impact of demographic trends (declining birthrate and aging of society), the WTO, etc. (A follow-up meeting was held in October.)

* Regulatory Reform and Competition Policy Initiative: Various working group meetings and high-level meetings at the subcabinet level were held concerning both Japanese and US recommendations on regulatory reform and competition policy in the areas of: (1) telecommunications, (2) information technologies (IT), (3) energy, (4) medical devices/pharmaceuticals, and (5) cross-sectoral issues. The achievements of these meetings were compiled as a report to the two leaders, which was announced on the occasion of the Japan-US summit meeting in May. In October, the third recommendations were exchanged and, since then, respective working group meetings have been convened.

* Trade Forum: The second meeting was held in Washington in July and discussions were held on several issues including agriculture and public works.

* Other Dialogue: Meetings were also held for the Investment Initiative to discuss ways to improve the environment for foreign direct investment in both countries, as well as the Financial Dialogue to discuss macroeconomic policy including monetary and fiscal policy.



Minister for Foreign Affairs Yoriko Kawaguchi at a meeting with Secretary of State Colin Powell of the US (June)

peak of 65% (in 1991) to 12% (in 2003). With the efforts made by the governments of Japan and the US, there are at present no significant individual issues of friction that could be politicized between the two countries. However, it is necessary to tackle the following issues as current matters of concern.

Since the terrorist attacks of September 2001, the US has been fundamentally strengthening its security measures concerning trade and the movement of people. Regarding physical distribution, the US has introduced obligatory prior notification of cargo information and facilities registration system for goods being shipped to the US and food products being transported to or carried into the US. Regarding the movement of people, the US has reinforced immigration controls, including stricter implementation of visa issuing procedures. As the US is the largest economy and trading country, such systems could have a huge impact on economic activities on a global scale. For this reason, Japan has been taking every opportunity, for example filing public comments or consultations under Japan-United States Economic Partnership for Growth, to make proposals to and consult with the US to ensure that such counter-terrorism measures do not have unreasonable negative effects on trade and investment activities.

In addition, Japan has requested the WTO for the resolution of several US trade measures claiming that they could violate the WTO agreements. Among them, the US announced the withdrawal of its steel safeguard measures

on December 4, in response to the WTO's ruling in the Dispute Settlement Proceedings that the measures violate the WTO agreements. However, there remain a number of other measures that the US has not abolished or amended yet, despite the fact that the WTO has already found them inconsistent with its rules: the US Revenue Act of 1916 (the so-called Anti-Dumping Act of 1916), anti-dumping measures on certain hot-rolled steel products from Japan, and the so-called Byrd Amendment, which stipulates the distribution of revenues from anti-dumping duties to US domestic producers. In a number of fora, Japan has requested the US to take action to eliminate these measures as soon as possible.

The US Secretary of Agriculture announced the detection of a cow that was tested presumptive positive for Bovine Spongiform Encephalopathy (BSE) on December 23 (US time), and subsequently, on December 25, it was confirmed that the cow in question was infected. Due to these developments, Japan imposed a ban on US beef imports. A delegation from the US Department of Agriculture visited Japan to explain the facts of the case on December 29 (Japan time), and then the two countries commenced discussions to resolve the issue with a view to ensuring food safety.

(c) The Situation in the US

Domestic Politics

With the victory of the Republican Party in the 2002

midterm elections, the Bush administration promoted a series of conservative measures from the beginning of 2003. President Bush announced measures to stimulate the economy including large-scale tax cuts and re-nominated a federal judge whose appointment had been rejected by Congress on the grounds that he was too conservative. In addition, President Bush stated publicly that he did not support the University of Michigan's affirmative action policies (preferential treatment for minority racial groups in university admission allocations), which were under review by the US Supreme Court. Moreover, in the 30th anniversary year of the Supreme Court's judgment deciding the constitutionality of abortion, President Bush announced policies calling for the banning of partial-birth abortion as well as the banning of human cloning. In the Presidential State of the Union Address on January 28, 2003, the president's comments on the tense situation in Iraq attracted much attention but he devoted the first half of his address to domestic issues and reemphasized the importance of economic growth and job creation, application of "the compassion of America" to various social problems, affordable health care and homeland and international security.

Concerning the US Congress, in the 2002 midterm elections, the Republican Party regained the majority in the Senate (Republican Party: 51 seats, Democratic Party: 48 seats, independent: 1 seat) and increased its number of seats in the House of Representatives, maintaining its majority (Republican Party: 229 seats, Democratic Party 205 seats, independent: 1 seat). However, as the Republican majority in the Senate was very slim, partisan battles continued over the bills President Bush promoted. The notable legislation enacted was the Jobs and Growth Tax Relief Reconciliation Act (May 28); the emergency wartime supplemental appropriations acts, which were approved on April 12 and November 6, allocating US\$78.5 billion to the military operation against Iraq and US\$87.5 billion to reconstruction assistance, respectively, for a total of US\$166 billion; the Medicare Prescription Drug, Improvement and Modernization Act (December 8), which was to expand the health support system for seniors that was established in 1965; and the Partial Birth Abortion Ban Act (November 5). In addition, the US Leadership Against HIV/AIDS, Tuberculosis and Malaria Act (May 27), authorizing the spending of US\$15 billion, was enacted. On the other hand, discussions concerning an energy reform bill stalled in both houses, preventing its enactment during the Congressional session.

In the field of homeland security, the Department of Homeland Security was established on January 24, integrating the affairs concerning counter-terrorism and homeland security that had been decentralized among 22 government agencies. As a result, the homeland security measures were reinforced through a strengthening of security and immigration controls at airports and ports, the collection and analysis of information related to terrorism, the integrated implementation of investigating and cracking down on terrorists, and the introduction of a national threat advisory system.

The president's approval rating was in the 50%-range at the beginning of the year and rose to the upper 70%-range at the time of the commencement of the military operation against Iraq in March. Subsequently, it gradually declined, and as deaths of American soldiers continued even after the declaration of the end of major combat on May 1 and the situation in Iraq deteriorated, which was exemplified by the bombing of the UN local headquarters, the president's approval rating declined to 50% in September, the lowest level since the terrorist attacks in the US. Afterward, President Bush's sudden quick visit to Iraq on November 27 and the capture of former Iraqi President Saddam Hussein on December 13 made a favorable impression on the American public and the president's approval rating recovered from the mid-50s to the 60%-range in December. Yet, in 2004, the rating sometimes dipped to under 50%.

At the beginning of 2003, nine Democratic Party candidates entered the race to gain the Democratic nomination for the 2004 presidential election and the party debates began from early fall. As the result of the primaries and caucuses, Senator John Kerry effectively secured the nomination as the Democratic Party presidential candidate on March 2, 2004.

Economy

The US experienced continuous economic expansion over the ten-year period from March 1991 to March 2001, the longest period of growth in its history. Subsequently, it recorded negative growth temporarily but returned to positive growth from the fourth quarter of 2001 and the economy is currently estimated in a growth phase. The annualized growth rate of real gross domestic product (GDP) in the third quarter of 2003 compared with the previous quarter was 8.2% (the highest quarterly growth rate in the recent 19 and a half years since the first quarter of 1984). This growth is considered to be the result of

solid growth in consumption and investment resulting from the low interest rate policy and the tax reductions.

On the fiscal front, President Bush announced a growth and jobs plan to strengthen the American economy on January 7, 2003, significantly brought forward the tax reduction program enacted in June 2001, in which reduction of US\$1.35 trillion is scheduled over ten years, to an implementation date of January 2003, and presented a new ten-year US\$674 billion economic stimulus package to the Congress with the abolition of personal income tax for dividends as its pillar. After deliberation in the Congress, President Bush signed the large-scale Jobs and Growth Tax Relief Reconciliation Act and it took effect on May 28. The enacted tax reduction amounts to about US\$350 billion over 11 years and is the third largest tax reduction in the US history. The abolition of the double taxation of dividends, which was regarded as the highlight of the bill, was not realized due to fears of an expansion of the fiscal deficit, being watered down to its "alleviation" in the Act. On April 2003, President Bush also signed and enacted the FY2003 Supplemental Appropriations Bill totaling US\$78.5 billion, which mainly aimed to budget expenditures for the military operation against Iraq. A rescue package (US\$3.7 billion) for the US aviation industry in continued business slump was also incorporated in this budget.

The FY2003 fiscal deficit announced by the US government on October 20 was US\$374.2 billion, an all-time high. The fiscal deficit has been continuing to worsen and there is a strong possibility that it will continue to expand in FY2004 and beyond. It is forecast that the increase in costs for American troops stationed in Iraq and the Medicare Improvement Act enacted in November will result in expenditures of about US\$400 billion over the next ten years and some estimates put the FY2004 deficit at more than US\$500 billion. There are concerns that the expansion in the fiscal deficit will cause higher long-term interest rates.

On the monetary front, the Federal Open Market Committee (FOMC) decided to lower the already low policy rate from 1.25% to 1.0% on June 24-25 in order to back up a recovery in the US economy, which had been unable to rid itself of a sense of uncertainty. It was the first time the FOMC had reduced the policy rate since November 2002, seven months previously, and the interest rate became its lowest since 1958, 45 years previously. Concerning the exchange rate, criticism and complaints were voiced particularly by US manufacturers

about the yuan being kept undervalued against the US dollar. In response to these complaints, the Bush administration once again made clear its position to maintain a "strong dollar" policy and keep a "market-driven" policy of leaving the determination of exchange rates to the market.

On the trade front, the 2003 trade deficit of products and services (Balance of Payments base) reached US\$489 billion (a 17% increase over the previous year), an all-time high, because the US economy entered a recovery phase, albeit a slight one, and imports of goods from China increased. The US trade deficit with China recorded an all-time high of US\$124 billion (a 20.3% increase over the previous year), and it had been larger than the trade deficit with Japan for four consecutive years.

Concerning the future US economy, there are some unpredictable aspects despite optimism in the general term. Namely, even though it is speculated that the economic stimulus effects from the low interest rate policy and tax reductions will decline in the second half of 2004, it is generally expected that a high growth rate of about 4% will be maintained. However, it is necessary to keep in mind some other factors including the following: (1) whether employment, which has been finally showing signs of recovery, will lead to a full-fledged recovery; (2) whether an autonomous economic recovery is possible from the second half of 2004 when the effects of tax reductions are expected to scale down; (3) the effects of the fiscal and trade deficits, the so-called "twin deficits" issue (especially the reduction in the inflow of capital from overseas due to the rapid depreciation of the US dollar); and (4) monetary policy (the timing of policy rate rises).

Among the important developments concerning US trade policy in 2003 was the move toward the conclusion of Free Trade Agreements (FTAs). The US signed bilateral FTAs with Singapore and Chile on May 6 and June 6, respectively. The US and four Central American countries (El Salvador, Guatemala, Honduras and Nicaragua) concluded FTA negotiations on December 17. In addition, the US is placing a high priority on the Free Trade Area of the Americas (FTAA) within its trade policy, the deadline for which is January 2005. Moreover, among the Asian countries, the US announced the commencement of FTA negotiations with Thailand on October 19. US Trade Representative Robert B. Zoellick, at the end of the Fifth WTO Ministerial Conference held in Cancún, Mexico in September, expressed the intention of the US to realize

trade liberalization selectively with those countries that are willing to do the same. US FTA policies will remain the focus of attention in the future and it is necessary to pay close attention to the effect that movements in these policies have on the Japanese economic diplomacy as well as the regional economy.

(d) Foreign Relations

In his State of the Union Address at the beginning of 2003, President Bush cited the following as the important issues in US diplomacy: the fight against terrorism, resistance to the proliferation of WMD and their delivery means, Iraq, North Korea, Afghanistan, the Middle East peace process and Iran. Continuing from 2002, President Bush advanced efforts in these areas.

In the field of the non-proliferation of WMD and their delivery means, while on a visit to Poland, President Bush announced on May 31 the Proliferation Security Initiative (PSI), which is designed to prevent the proliferation of WMD and their delivery means as well as related materials. The US has made active efforts together with the other countries including Japan to participate in the several training exercises of the PSI that have been held since that announcement.

Concerning the Iraq issue, the US has not only been central to the military operation in Iraq as well as activities for ensuring public security after the collapse of the Hussein administration, it has also fulfilled the role of leading the international community through negotiations for related resolutions in the UN Security Council, involvement in the political process in post-war Iraq and a major role in reconstruction assistance.

At the end of 2003, hostile forces continued attacks against the coalition forces and others in Iraq but the US continued to station about 140,000 troops in Iraq. It has made efforts to ensure public security, for example by carrying out a campaign to eliminate the insurgents. President Bush made a surprise visit to Baghdad on November 27, 2003, timed to coincide with Thanksgiving, and encouraged the American troops stationed there. Coalition forces captured former President Saddam Hussein in southern Tikrit on December 14. Currently, in compliance with the requirements of UN Security Council resolutions, Iraq is under the authority of the Coalition Provisional Authority (CPA) led by Ambassador L. Paul Bremer, appointed by President Bush, and the US is working to advance the political process while closely exchanging opinions with the people of Iraq.

Concerning the approach to Iraq, countries such as France, Germany and Russia had expressed opinions different to that of the US. However, after the end of major combat, a US-France summit meeting was held on the occasion of the Evian Summit, efforts toward restoring their relationship were displayed and a good US-EU relationship was emphasized at the US-EU Summit held on June 25.

The US has been making a huge contribution to reconstruction assistance for Iraq in addition to maintaining public security and advancing the political process. At the International Conference on Reconstruction in Iraq held in Madrid in October, the US announced its assistance of US\$18.6 billion. In addition, the US dispatched former Secretary of State James A. Baker III as a special presidential envoy on Iraqi debt to major Iraq creditor countries including Japan, France and Germany in December and he obtained the agreement of these countries about the necessity of reducing Iraq's debt.

Concerning issues surrounding North Korea, the US has been continuing diplomatic efforts aimed at the peaceful resolution of the North Korean nuclear issue, while cooperating closely with concerned countries, in particular Japan and the ROK. The Bush administration has refused to participate in direct two-party talks with North Korea and strongly adhered to its position that assumes negotiations in a multilateral framework with concerned countries including Japan, the ROK and China. Based on the position, the US participated in the US-China-ROK Three-Party Talks in April 2003, and the Six-Party Talks in August 2003 and February 2004. The US continues to insist that North Korea completely, verifiably and irreversibly dismantle its nuclear program and pursue a peaceful resolution through the process of the Six-Party Talks. Also in regard to the abduction issue of Japanese nationals, the US has supported the position of Japan in the Six-Party Talks.

Some reinforcement was seen in cooperative relations between the US and Russia: at a summit meeting held in St. Petersburg in June 2003, instruments of ratification for the Strategic Offensive Reductions Treaty (Moscow Treaty), which was signed in May 2002, were exchanged and the treaty came into force. On the other hand, there was no fundamental change to the differences in their positions on issues such as the Iraqi and Iranian nuclear issues. At a summit meeting held at Camp David in September, the US and Russia created a checklist of items of cooperation to be advanced in various fields and

decided that they would regularly investigate progress in each item in future.

As to relations with China, at the first summit meeting that was held in June at Evian since the inauguration of the new administration led by President Hu Jintao, the US and China confirmed the existence of constructive, cooperative relations between the two countries and agreed on the importance of a peaceful resolution to the North Korean nuclear issue and the development and maintenance of high-level reciprocal visits.

Concerning the Taiwan issue, President Bush once again expressed the traditional US position with regard to the “one China” policy. On the occasion of the visit to the US by Premier Wen Jiabao of China in December, President Bush stated that the movement toward a referendum by Mr. Chen Shui Bian, leader of Taiwan, indicated the possibility of an attempt to change unilaterally the status quo, and said he was opposed to any such attempt.

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Canada

(a) Japan-Canada Relations

Concerning Japan-Canada relations, Minister of Foreign Affairs William Graham visited Japan in June, having a meeting and working dinner with Foreign Minister Kawaguchi. On that occasion, the two foreign ministers agreed to resume the activities of the Japan-Canada Forum, an advisory committee for the leaders of Japan and Canada, with newly appointed co-chairs and committee members, and they announced the new committee members. The first meeting of the Forum was held in Montreal in November, and the members had a vigorous exchange of opinions about policies to make relations between Japan and Canada even closer.

As for economic relations, the Japanese Government imposed a ban on Canadian cattle and beef imports immediately after the detection of a BSE case in May. Apart from this, the current economic relationship between Japan and Canada is basically sound, with a slight improvement observed in trade and investment.

(b) The Situation in Canada

With respect to domestic politics, the ruling Liberal Party held a party convention on November 14 and selected Member of Parliament Paul Martin (former minister of finance) to be the new party leader. On December 12, Prime Minister Jean Chrétien resigned and Liberal Party leader Paul Martin became prime minister.

The Canadian economy recorded negative growth (annualized rate of -1.0%) in the second quarter of 2003, with the effects of several factors such as the outbreak of SARS mainly in Toronto, the center of the national economy, the occurrence of BSE, and the appreciation of

the Canadian dollar against the US dollar. Due to the growth in personal consumption and fixed capital formation in the private sector, however, it returned to positive growth (annualized rate of 1.3%) in the next quarter. The annual growth rate of GDP decreased to 1.7% (preliminary report) in 2003, half the level of the previous year, significantly affected by a decline in exports. On the fiscal front, the fiscal surplus that has been maintained since FY1997 is expected to continue in 2003, even though its estimate fell as a result of the decrease in revenue caused by the above-mentioned factors and additional financial demands to address SARS and BSE problems.

With respect to foreign policy, the Chrétien administration decided not to support the military operation by the US and United Kingdom (UK) in Iraq in March nor participate in the operation, citing the absence of a UN Security Council resolution. On the other hand, concerning the postwar reconstruction of Iraq, Canada provided transport planes to move humanitarian supplies and announced a contribution of nearly CDN\$300 million as funds for reconstruction. In addition, the Chrétien administration emphasized its position that it would contribute to the international community through cooperation in the fight against terrorism in Afghanistan. According to the general assessment, while Prime Minister Chrétien is said to have set back relations with the US due to Canada's nonparticipation in the military operation against Iraq, Prime Minister Martin is expected to develop relations between Canada and the US, as he expressed his intention to improve them even before his inauguration as prime minister.

C

LATIN AMERICA AND THE CARIBBEAN

(a) Overview

In Latin American and Caribbean countries, democratic systems, although still vulnerable, have taken root across most of the region, and an abundance of natural resources and vigorous steps toward economic liberalization and regional economic integration have stimulated renewed interest in this region as a market with growth potential for the future. In addition, the region has been strengthening its influence on the international stage through regional economic integration.

Japan, based on its traditionally friendly relations with Latin American and Caribbean countries and with the above-mentioned developments in the region in mind, has strengthened the relations through bilateral and multilateral dialogue. At the same time, it has made a variety of efforts to contribute to the stability and development of the region particularly through economic and technical cooperation, and support for elections. In 2003, Japan carried out a variety of consultations and cooperation including negotiations on the Japan-Mexico Economic Partnership Agreement (EPA).

(b) The Vigorous Movement toward Regional Economic Integration

Latin American and Caribbean countries take stands as their economic strategies on promoting economic development of themselves as well as domestic structural reform through strengthening economic partnership relations, primarily Free Trade Agreements (FTAs). Moreover, the countries are increasing their international influence as a group by strengthening regional economic integration.

In the Americas, numerous bilateral and interregional FTAs have been concluded since the early 1990s, in addition to multilateral regional economic integration, such as the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR) and the Andean Community, and vigorous movements were also observed in 2003.

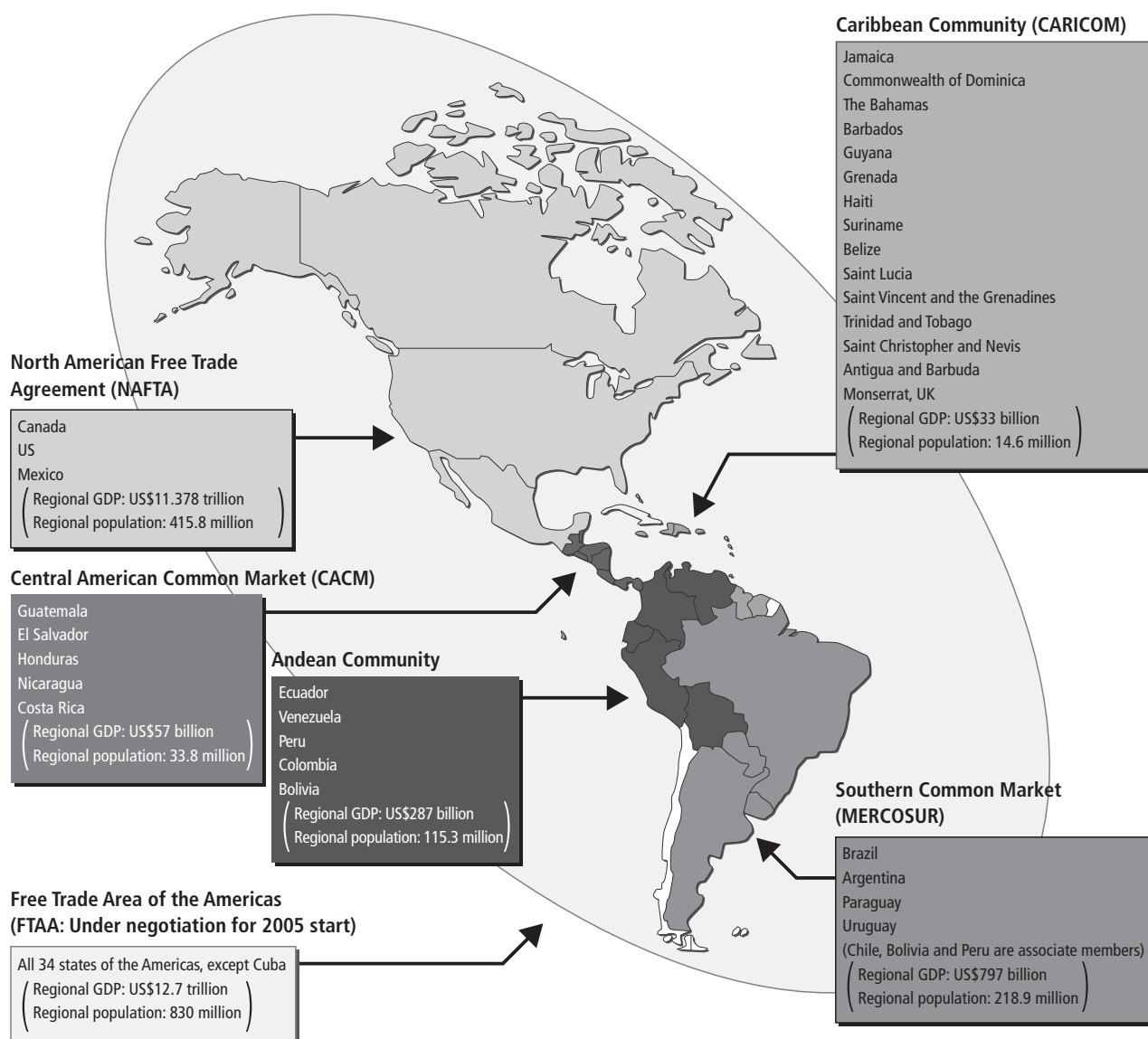
With a view to creating the Free Trade Area of the Americas (FTAA), which will encompass the entire Americas (except Cuba), a ministerial meeting was held in Miami in November. The leaders who attended the

meeting reaffirmed that negotiations were to be concluded by January 2005, determined minimum common obligations applicable to all the FTAA countries and agreed to a framework allowing for individual negotiations for other items including additional liberalization. Once the FTAA is established, it will be the world's largest FTA-zone (with a population of 800 million and a combined GDP of approximately US\$12 trillion) and will be expected to contribute to economic development within the region.

Taking the FTAA negotiations into consideration, Latin American and Caribbean countries have promoted negotiations on bilateral and intraregional FTAs as well as FTAs with countries outside the region. In particular, Brazil, standing against the US, aims for solidarity among the South American countries by reinforcing the unity of MERCOSUR and for strengthening the partnership between MERCOSUR and the Andean Community (an FTA among them was agreed to in December). At the same time, Brazil is working on concluding economic partnerships with countries outside the region, primarily an FTA between MERCOSUR and the EU. As it promotes regional economic integration, it aims to strengthen its political influence in Latin American and Caribbean countries and continues to increase its presence on the international stage through strengthening its relations with developing countries outside the region, such as India and South Africa, and also through forming the G20 at the World Trade Organization (WTO) ministerial meeting in Cancún. Meanwhile, the US has already concluded FTAs with Mexico, Canada and Chile, and in January 2004 it finished the negotiations on the US-Central America Free Trade Agreement (CAFTA) with five Central American countries. In addition, the US has announced the commencement of FTA negotiations with the Dominican Republic, Panama and four of the Andean Community countries excluding Venezuela.

There is a danger that due to this progress of economic integration in Latin America and Caribbean, Japanese companies may be disadvantaged throughout the region in competition with the companies of the US and Europe. The lack of an FTA between Japan and Mexico has actually put Japanese companies on disadvantageous ground compared with US and EU companies. Japan is

Regional Economic Integration in the Americas



conducting EPA negotiations with Mexico to prepare a legal framework to eliminate these competitive disadvantages and the concerned ministers of both countries reached agreements in substance on major elements in March 2004.

Current economic relations between Japan and Latin American and Caribbean countries remain at a low level, relative to the potential of the region with abundant mineral and energy resources and high production capacity in food. Taking the above-mentioned progress of regional economic integration in Latin American and Caribbean countries as well as movements to strengthen partnerships with countries outside the region into consideration, it is necessary for Japan to intensify economic

relations with Latin America and the Caribbean. Among others, Japan held in November the first bilateral economic consultations with Chile, which has been especially active in concluding FTAs, to reinforce further trade and investment relations between the two countries. Moreover, Japan is also working to strengthen a wide range of relations with Latin American and Caribbean countries through regular consultations with regional economic organizations such as MERCOSUR, the Caribbean Community (CARICOM) and the Central American Integration System (SICA), and through participation in the Forum for East Asia-Latin America Cooperation (FEALAC), which aims to strengthen relations between East Asia and Latin American and

Caribbean countries. Senior Vice-Minister for Foreign Affairs Masatoshi Abe attended the Second FEALAC Foreign Ministers' Meeting (FMM II), which was held in Manila on January 30–31, 2004.

(c) The Political and Economic Situation

Latin American and Caribbean countries have been advancing the transition to democratic government since the 1980s, and currently almost all countries have adopted democratic systems. Throughout the 1990s, the region implemented neoliberal economic reforms such as trade liberalization and the privatization of state-owned enterprises, and enjoyed stable economic growth. Although a slowdown in global economic growth and the Argentine financial crisis caused a deceleration of the economy in this region since 2001, a price of region's major export products and demand growth through a certain recovery of the global economy led to an overall recovery of the economy in the region, albeit a slight one, in 2003.

There are many challenges, however, that must be tackled such as a widening gap between the rich and poor, increasing unemployment and worsening public security. Against this background, new administrations were inaugurated in 2003: the Lula administration in Brazil, the Kirchner administration in Argentina and the Gutiérrez administration in Ecuador, all of which place importance on responding to those challenges. In Brazil, the government has been advancing social policies to tackle domestic poverty and carrying out food distribution to the poor. The key element is whether, under the budget restrictions, the government can set the economy, which has been stabilized under the austere fiscal policy, on to a growth path that will bring an increase in employment. In Argentina, while the government has been carrying out policies that place importance on the popular strata that have been suffering in the economic crisis, the foreign debt issue remains a huge impediment to those policies, and, as such, the necessity of domestic structural reform has been pointed out. In Ecuador, though sound economic management has been carried out in coordination with the international community, the current administration has difficulty running the government due to the secession of peoples including indigenous ones from the ruling party, which resulted mainly from economic problems.

The widening disparity in wealth gives rise to social instability and sometimes there is a danger that it can shake democratic systems. In Bolivia, the increased discontent of the people, particularly the indigenous

people who had been excluded from the benefits of economic reform, over domestic issues such as poverty, has accelerated their protests, resulting in a change of the president in October. In Venezuela, the confrontation between the government and dissidents continues, and the two-month long general strike came to an end in February, but steps are currently being taken to dismiss the president.

Moreover, regional disparities continue to widen among the Latin American and Caribbean countries which advance economic reforms. While there are countries such as Chile that enjoy sound economic performance owing to the progress in economic reforms, others are facing difficult economic management: Venezuela has experienced large negative growth caused by the backlash against liberalization; Argentina has been confronted with a severe economic crisis; and Uruguay has been suffering from the effects of the Argentine crisis. In addition, Colombia has been struggling with serious problems such as narcotics and terrorism, but under the new Uribe administration, a degree of progress has been seen. For example, the disarmament of private military organizations has been commenced and the public security situation has come to improve since then, albeit only slightly.

Japan has provided a variety of support for the efforts that Latin American and Caribbean countries have made, toward adhering to democratic systems, reducing the gap between the rich and poor, and carrying out economic reforms to achieve sound and stable economic growth while maintaining the conservation of the natural environment. For the issues of poverty and the environment as well as economic reform, Japan has provided financial and technical cooperation through Official Development Assistance (ODA). As for the assistance in strengthening democracy, the Japanese Government has provided financial assistance as well as the dispatch of election observers for the Election Observation Mission of the Organization of American States (OAS) on the occasion of the presidential election in Guatemala held in November and December 2003. Japan will continue to work on supporting the consolidation of democracy and economic reform efforts in Latin American and Caribbean countries.

Japan and Latin American and Caribbean countries carried on their efforts to strengthen relations through high-level VIP exchanges in 2003. From Latin America and the Caribbean, President Ricardo Lagos Escobar of Chile visited Japan in February and agreed to set up Japan-Chile bilateral economic consultations in the



State guests President Vicente Fox Quesada of Mexico and Mrs. Fox making a State Call on Their Majesties The Emperor and Empress (October Photo: Imperial Household Agency)

summit meeting with Prime Minister Koizumi. President of the Council of State Fidel Castro of Cuba stopped off in Japan in March and held a summit meeting with Prime Minister Koizumi. The two leaders exchanged a wide range of opinions about the bilateral relationship and international issues. Minister of Foreign Affairs Frederick A. Mitchell of the Bahamas visited Japan in August, and in the foreign ministers' meeting with Minister for Foreign Affairs Yoriko Kawaguchi, the two ministers carried out a meaningful exchange of views about their bilateral relationship. In October, President Vicente Fox Quesada of Mexico visited Japan as a state guest and it was confirmed that Japan and Mexico would build a partnership suitable for the new age. Minister of Foreign Affairs Rafael Bielsa of Argentina visited Japan in November for the first time since the inauguration of the new administration in Argentina, and in the foreign ministers' meeting with Foreign Minister Kawaguchi both countries shared the views concerning the necessity for developing relations between the two countries from a mid and long-term perspective.

From Japan, Senior Vice-Minister for Foreign Affairs Toshimitsu Motegi visited Mexico, Brazil, Argentina and Chile in August. As these four countries all play a central

role in Latin America and the Caribbean and also take an active part in the international arena, a wide range of dialogues not only on bilateral relations but also on global issues were held at the meetings. In addition, President of the House of Councillors Hiroyuki Kurata visited Chile and held talks with President Lagos and the presidents of the Congress in the same month. Her Imperial Highness Princess Sayako visited Uruguay and Honduras in November and held informal talks with President Jorge Luis Batlle of Uruguay and President Ricardo Maduro of Honduras respectively, attended a variety of ceremonies and deepened the friendly bilateral relations. Furthermore, Senior Vice-Foreign Minister Abe visited the Dominican Republic and Mexico in December. In the Dominican Republic, he held talks with President Rafael Hipólito Mejía Domínguez and informal talks with Japanese immigrants, and in Mexico he attended the signing ceremony for the UN Convention against Corruption besides discussions with VIPs.

It is important for Japan to hold high-level dialogue through more vigorous VIP exchanges and to continue to work on strengthening relations with Latin American and Caribbean countries in the future.