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EFFORTS AIMED AT REALIZING PROSPERITY IN THE INTERNATIONAL COMMUNITY

Overview (Economic Partnership Agreements (EPAs)/Free Trade Agreements (FTAs) are discussed in detail in Chapter 1)

In 2003, the uncertainty that had placed downward pressure on the world economy was eliminated after the war in Iraq, and the US economy served as the driving force for the movement toward economic recovery since the second half of the year. China, which overcame the effects of the Severe Acute Respiratory Syndrome (SARS), achieved a high rate of economic growth and played a leading role in growth in the Asian region.

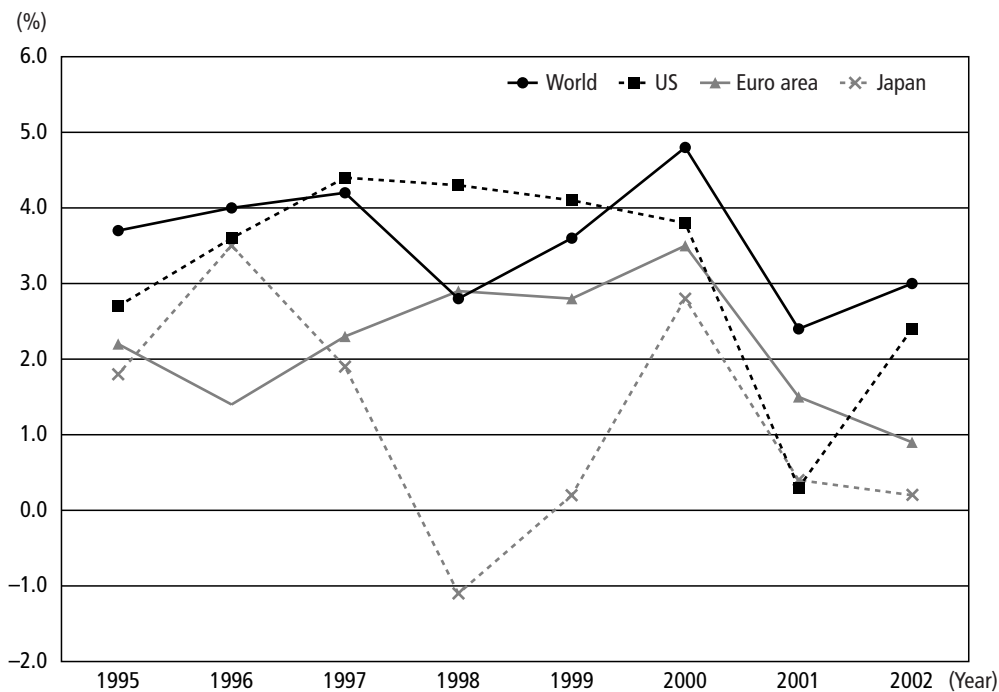
Under these circumstances, Japan strategically engaged in economic diplomacy with the following four priority issues as its pillars, while linking with security and economic cooperation. The first pillar is active participation in the creation of basic rules in the international economy at the global level, for example maintaining and strengthening the multilateral trading system, working on world economic growth and sustainable development through the G8 Summit and other fora. The second one is improvement and expansion of multi-

layered economic relations at the regional and bilateral levels by promoting regional economic partnership and cooperation through the conclusion of Economic Partnership Agreements (EPAs)/Free Trade Agreements (FTAs) and frameworks including the Asia-Pacific Economic Cooperation (APEC) and reinforcing Japan-US as well as Japan-Europe economic relations. The third one is to enhance economic security by addressing various issues such as energy security and issues concerning ocean, fishery and food resources. The final one is to assist Japanese companies abroad. In addition, it has promoted inward investment and regulatory reform as a part of its efforts to revitalize the Japanese economy.

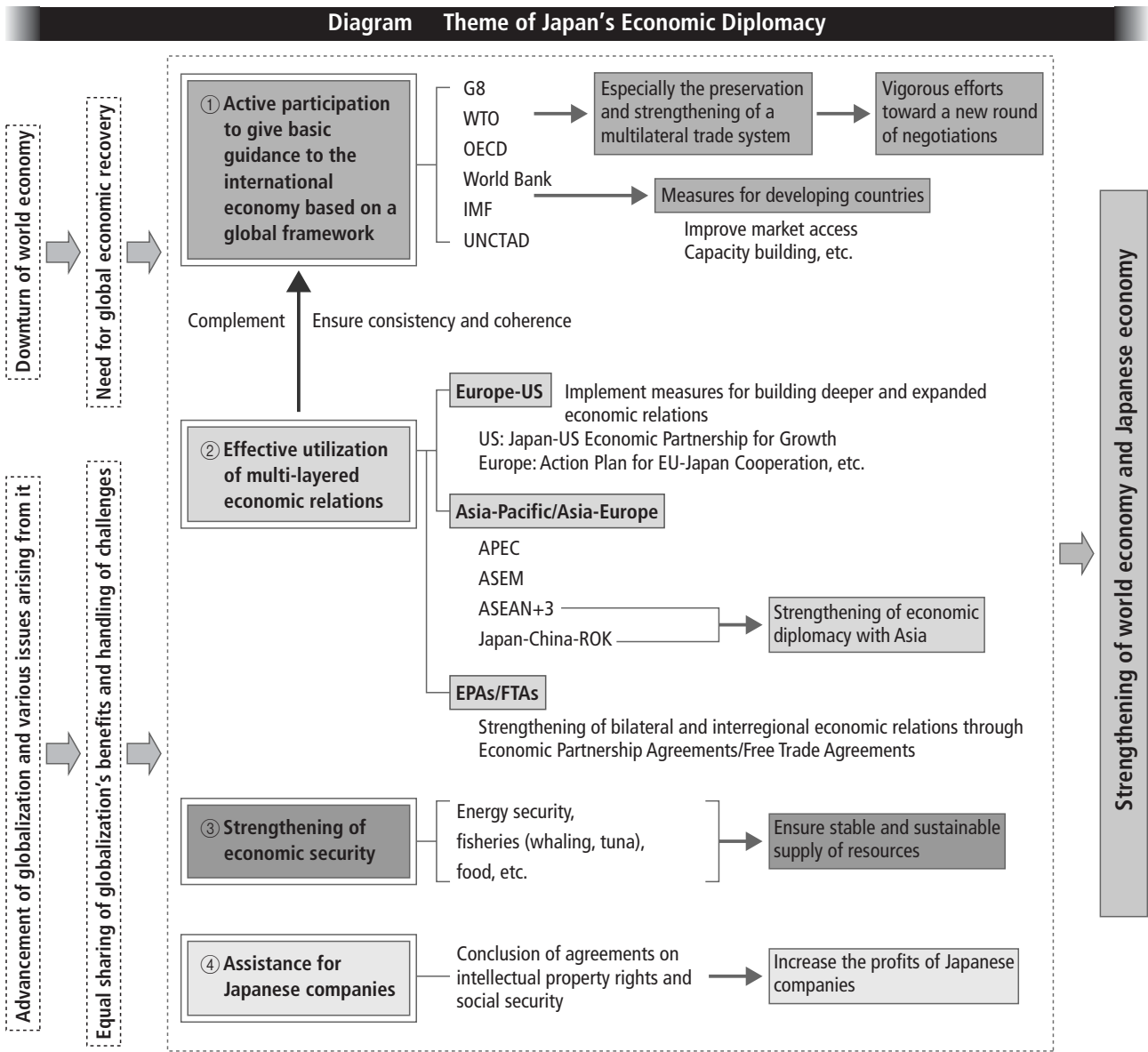
Japan intends to advance its economic growth while effectively addressing such external economic issues and vigorously participating in efforts aimed at realizing the prosperity of the international community.

Moreover, in regard to international science and technology, Japan will also promote bilateral and multilateral cooperation, based on the fact that it has developed as a science and technology-oriented nation.

Real GDP Growth Rate



Source: International Monetary Fund (IMF), *World Economic Outlook* (September 2003).



1 Strengthening the Multilateral Trading System

(a) Importance of the Multilateral Trading System

The development of the Japanese economy is heavily dependent on trade. After World War II, the multilateral trading system was formed in accordance with the General Agreement on Tariffs and Trade (GATT) and Japan has

benefited from this system through negotiations on the mutual reduction of trade barriers such as tariffs. This enabled Japan to achieve its present high level of development. The new round of negotiations, the Doha Development Agenda,¹ is under way in the World Trade Organization (WTO),² which was established in order to

¹ Comprehensive trade negotiations that have been held since January 2002 upon the conclusion of the Fourth Ministerial Conference in Doha in November 2001. The deadline for concluding negotiations by a single undertaking is January 1, 2005.

² As a result of the GATT Uruguay Round, which had been under way since 1986, GATT was progressively dissolved to become the WTO in 1995.

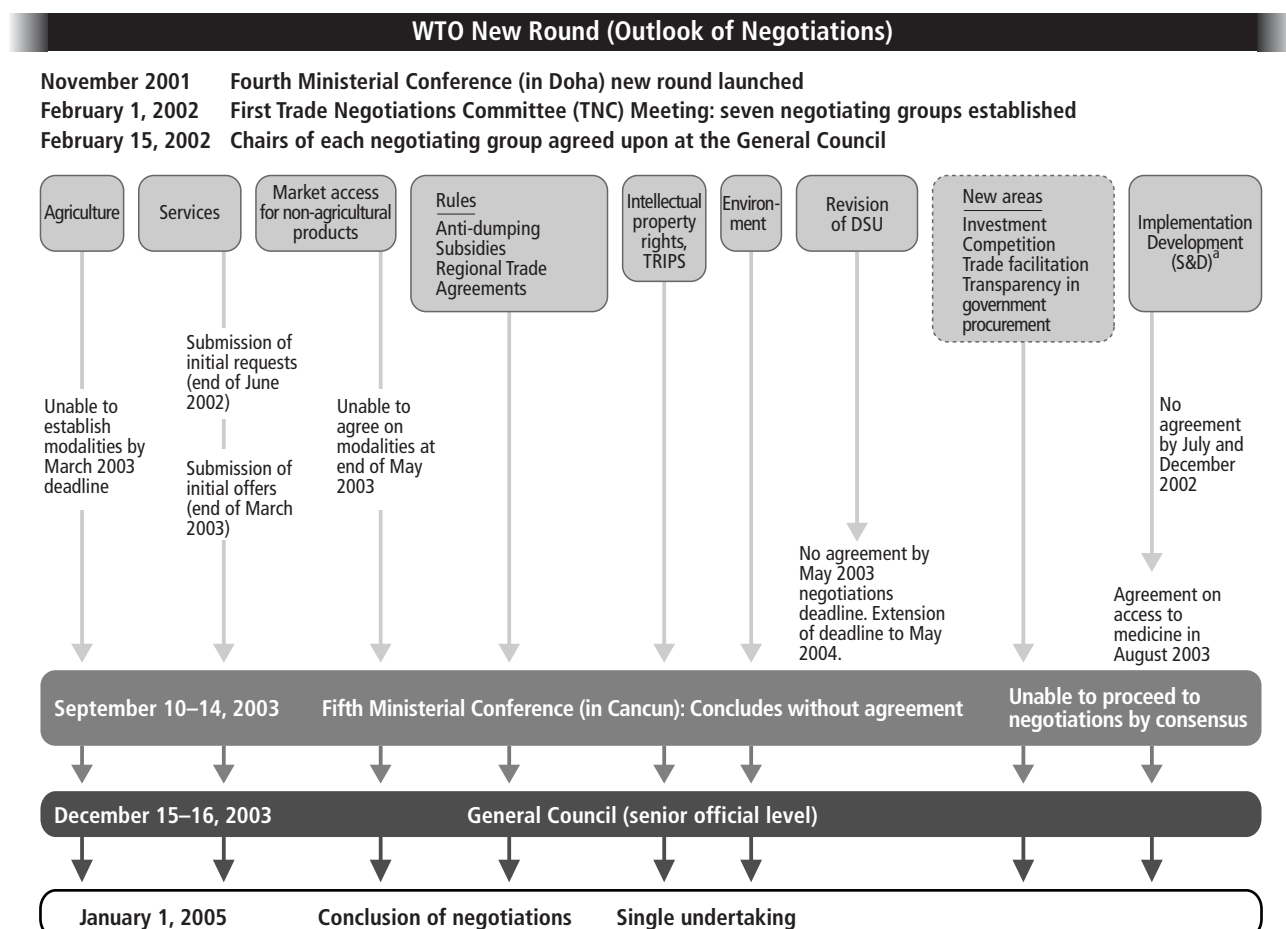
strengthen further this multilateral trading system. Japan has participated actively in the negotiations, trying to contribute to the (1) further liberalization of trade; (2) creation of new rules that respond to the age of globalization; and (3) economic development of developing countries through trade liberalization, aiming at an ambitious and balanced conclusion in line with Japan's national interests.

With respect to trade negotiations, it is also of great importance to compose a harmonious relationship between EPAs/FTAs, which are currently being initiated in various regions, and the multilateral free trade system of the WTO. While it is emphasized that further commitment toward liberalization could be attained through EPA/FTA negotiations rather than through WTO negotiations, it is also pointed out that the trade environment flooded with EPAs/FTAs could make tariff structures more complicated with disarrayed rules, resulting in an increase in the cost of global economic

activities. In addition, there are some objectives including the reduction of agricultural subsidies that could be fully achieved through multilateral rules. Realizing sufficient liberalization and creating a high level of rules at the multilateral level are essential to the sound development of worldwide trade, and EPAs/FTAs should be treated as a means to complement the multilateral trading system. It is necessary for Japan to promote its economic growth and contribute to the stable development of the world economy by vigorously advancing both the WTO new round of negotiations and the conclusion of EPAs/FTAs hand in hand.

(b) Outline of Negotiations in 2003

The negotiations for the Doha Development Agenda that commenced in January 2002 aimed to conclude by January 1, 2005, and as such, it was expected that a framework for the achievements of the Doha Development Agenda would be effectively decided at



^a Abbreviation for Special and Differential treatment. "Special" and "Differential" treatments for developing countries and Least Developed Countries (LDC), such as the exemption and reduction of obligations as recognized in the wording of the WTO agreement.

the 5th WTO Ministerial Conference in Cancun in September 2003 to add momentum to the remaining negotiations until 2005.³

Difficult negotiations were conducted at the Cancun Ministerial Conference, held from September 10 to 14, due to conflicts in each area. In agriculture, the most challenging area, the major developing countries formed a group called the G20⁴ in response to the framework⁵ agreed to by the United States (US) and European Union (EU) in August, which did not lay down any concrete numerical targets. The rift between the developing and developed countries became apparent in respect to agricultural export subsidies, as illustrated by the G20's assertion that the agreement between the US and EU was insufficient on account of the scale of reduction and elimination of agricultural subsidies. The developing countries also objected to the group composed mainly of developed countries, which aimed to negotiate the Singapore Issues⁶ as a single bundle. Triggered by the split between the developing countries and developed countries concerning the Singapore Issues, the conference drew to a close without reaching the desired agreement.

(c) Outline of the Main Areas

Agriculture

Japan has been participating in negotiations with the aim of achieving balanced results, mainly in the three areas of market access,⁷ domestic support⁸ and export competition,⁹ so that a market-oriented agricultural trade system will be established with due consideration to non-trade concerns such as the multifunctionality of agriculture and

food security.

Regarding the agreement between the US and EU in August 2003, Japan, Switzerland, Norway and other countries expressed their objection to the disproportionately high targets in the area of market access, establishment of a tariff cap and expansion of tariff quotas. Furthermore, developing countries including India and Brazil deemed this agreement to be a self-serving discipline for both the US and EU, and urged developed countries to improve further market access, reduce significantly domestic support and eliminate export subsidies, while maintaining that developing countries should be entitled to extremely gradual improvements in market access and discipline on subsidies. At the Cancun Ministerial Conference, Japan, together with other countries including Switzerland and Norway, objected to the establishment of tariff caps and expansion of tariff quotas and made a proposal outlining consideration for non-trade concerns. The conference ended without reaching a compromise among the US and EU and developing countries. Developing countries are of the opinion that progress in the area of agriculture is necessary to advance the overall negotiations.

Negotiations on Market Access for Non-Agricultural Products

The focus in this area of negotiation is to realize the reduction or elimination of tariffs and non-tariff barriers on non-agricultural products such as industrial products and forestry and fishery products.

Currently, there is no convergence concerning the following three points: a formula,¹⁰ a sectoral approach¹¹ and S&D for developing countries. Developed countries

³ WTO Informal Ministerial Meetings were held in Tokyo (February), Sharm El-Sheikh (June) and Montreal (July) in order to promote the WTO negotiations. Minister for Foreign Affairs Yoriko Kawaguchi served as the chair of the Tokyo meeting.

⁴ A group composed of developing countries with Brazil, India and China at its core. Although the countries making up this group have changed several times, these three countries have not changed.

⁵ This is not a modality that establishes the degree of liberalization or formulas in detail. It is a framework that does not set concrete figures, defined by formulas such as "[]% of the total items will be reduced by an average of []% and a minimum of []%."

⁶ At the Singapore Ministerial Conference in 1996, trade facilitation, transparency in government procurement, investment and competition were decided as the four areas in which discussions would take place in the future.

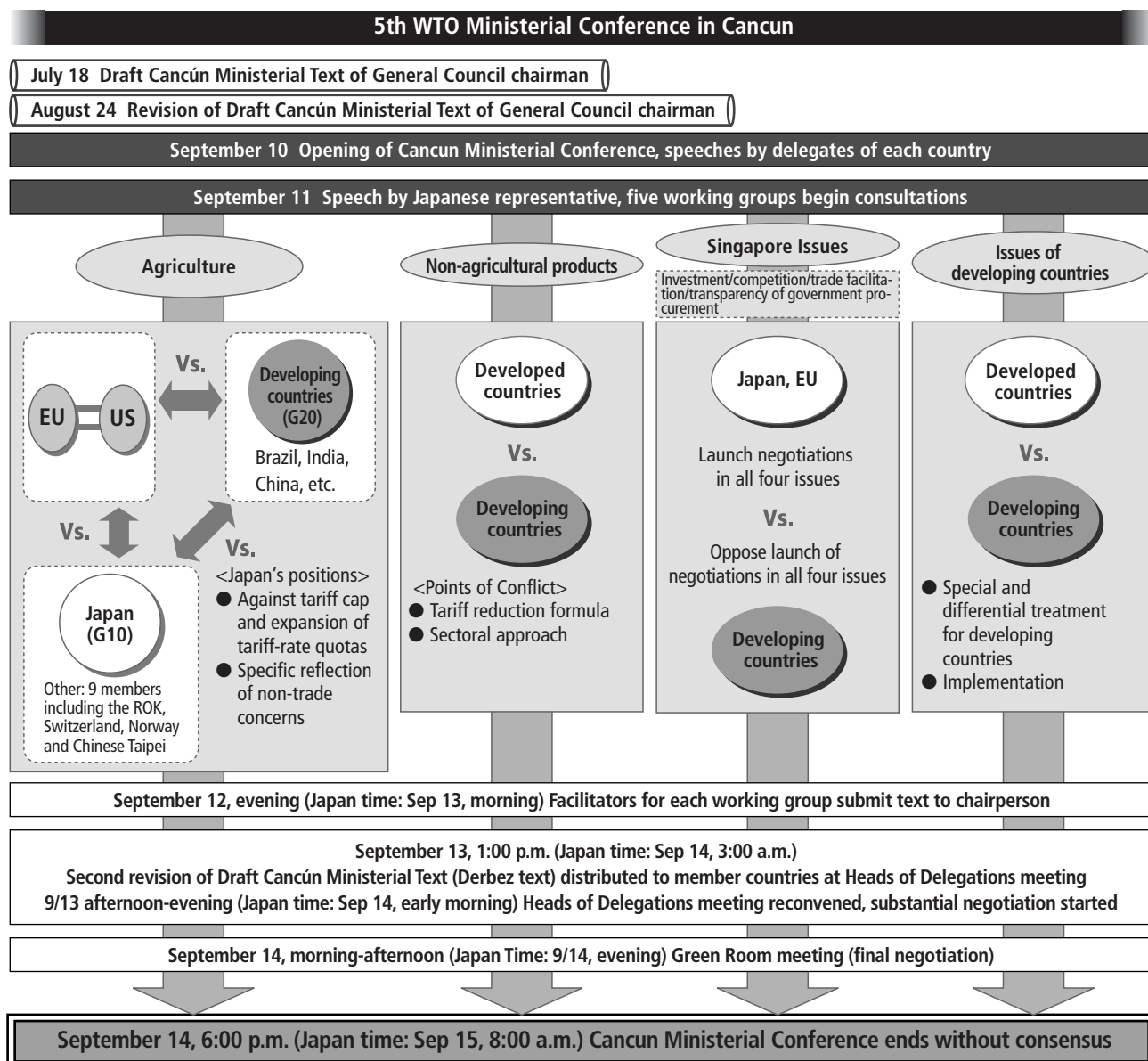
⁷ Negotiations on reducing or eliminating tariffs and expanding and creating tariff quotas. As for tariff reduction, two formulas are discussed, namely the UR formula (method of reducing tariffs by establishing an average reduction rate for all items and a minimum reduction rate for each item) and the Swiss formula (method of reducing tariffs below a certain level using a coefficient).

⁸ Negotiations on reducing or eliminating domestic agricultural subsidies, among others. Developing countries are insisting on significant reductions in subsidies of developed agricultural exporter countries.

⁹ Negotiations on reducing or eliminating subsidies that encourage exports and strengthening disciplines, including export subsidies and export credits. Developing countries are insisting on the elimination of all forms of export subsidies.

¹⁰ A method for reducing tariffs applied to all products of all participants in principle. Generally this is accomplished using a mathematical formula.

¹¹ A method of reducing tariffs for specific sectors. This is accomplished by eliminating tariffs that make specific sectors tariff-free or by harmonizing tariffs to certain levels and so on.



Note: October 18 APEC Joint Statement.

October 21 Bangkok Declaration: "Re-energize the negotiation process, building on Chairman Derbez's text of 13 September 2003."

and some developing countries seek more "ambitious" results, while many other developing countries focus on S&D for developing countries. More specifically, in regard to the formula, developed countries and some developing countries have been calling for further drastic measures to realize the correction of disparity in tariff rates. On the other hand, developing countries maintain, from the perspective of their development, that sufficient S&D should be given to them to ensure that the formula can reflect the tariff levels and situation of each country. Furthermore, as for a sectoral approach, aiming at the elimination or harmonization in

specific sectors, most developed countries believe that participation by all member states shall be important, whereas developing countries argue for voluntary participation. In addition, they call for sufficient S&D, insisting that the high dependency of tax revenue on tariffs should also be taken into consideration.

Services

With regard to negotiations on the liberalization of services trade, there was further progress in the environment, as seen in the decisions that were made at the Council for Trade in Services on autonomous

liberalization measures of each country in March 2003 and consideration to least developed countries (LDCs) in September 2003. Under these circumstances, following the decision at the Doha Ministerial Conference, member states have submitted their first proposals on liberalization as their own initial offers since the end of March 2003, but only 39 countries and regions among the 148 member countries and regions have done so as of the end of 2003 (Japan submitted its initial offer on March 31, 2003, the deadline established by the Doha Declaration). Since the Cancun Ministerial Conference, the negotiations in services decelerated as the momentum in the overall round of negotiations dwindled toward the end of 2003.

Other Issues

In addition to negotiations in agriculture, market access for non-agricultural products and services, the Doha Development Agenda also covers negotiations on rules concerning anti-dumping (AD) and subsidies, the environment, Trade-Related Aspects of Intellectual Property Rights (TRIPS),¹² and the improvement and implementation of the Dispute Settlement Understanding (DSU). With respect to TRIPS, an agreement was reached on the access of developing countries to pharmaceutical goods just before the Cancun Ministerial Conference in August. The handling of the four Singapore Issues—investment, competition, trade facilitation and transparency in government procurement—has also been a subject of attention.

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, 307 disputes, the number of cases where a request for consultations is made, have been brought to the WTO dispute settlement system by the end of February 2004 (the number of cases under the GATT from 1948 to 1994 was 314).

The impartial and fair dispute settlement system of the WTO functions as a pillar that provides stability and predictability of the multilateral free trade system and Japan has utilized this system proactively. For example, regarding the US Byrd Amendment,¹³ the WTO Appellate Body issued a report in January 2003 that accepted the complaints of 11 countries and regions including Japan, the European Community (EC) and ROK, and it was confirmed in the same month that the Byrd Amendment violated the WTO Agreement. Furthermore, Japan together with seven other countries including the EC member states and the ROK filed complaints against the US on its steel safeguards measures and the Appellate Body issued a report that agreed with these countries and regions. As a consequence, it was confirmed in December 2003 that these safeguards measures violated the WTO Agreement and that prompted the US to terminate the safeguards measures. Moreover, the Appellate Body accepted some of the claims that Japan had made regarding the US's sunset review of the Anti-dumping Duties on Corrosion-Resistant Carbon Steel Flat Products.¹⁴ Meanwhile, the Appellate Body issued a report accepting the claims that the US had filed on Japan's quarantine measures (fire blight disease of apples).

¹² The expression TRIPS Agreement comes from the acronym 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 as well as procedures for dispute settlements.

¹³ The Byrd Amendment is the US's domestic law that obliges the US administration to distribute the revenue from anti-dumping and countervailing duties imposed on foreign products to US domestic companies that supported the anti-dumping or countervailing petitions (enacted in October 2000).

¹⁴ As a result of the Uruguay Round negotiations, it is clearly stated in the Anti-Dumping Agreement that anti-dumping measures shall in principle be terminated (sunset) in five years unless the necessity for continuation is determined through a review procedure. The 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 in respect to the law, regulations and operation methods.

2

Active Participation in the Creation of Basic Rules in the International Economy

(a) Overview

Under the new international environment after the terrorist attacks in the US, the international community has been pressed to respond to global challenges such as sustainable development mainly in developing countries, counter-terrorism and the non-proliferation of weapons of mass destruction (WMD) and their delivery means, in addition to global economic growth. Japan has been tackling these issues by active participation in efforts to create basic rules for the G8, Organisation of Economic Co-operation and Development (OECD) and other fora.

(b) G8 Summit

At the G8 Evian Summit held June 1 to 3, 2003 in France, rebuilding cooperative relations among the G8, which had been divided over their positions regarding the

situation in Iraq, and ensuring global economic growth were brought into focus. After candid and fruitful discussions, the G8 reaffirmed cooperation and solidarity among its member countries, including relations between the US and France. In addition, 13 action plans were issued, which listed concrete actions that the G8 should take in the future on the strengthening of counter-terrorism measures, sustainable development and other issues.

Moreover, prior to the summit, the G8 had a vigorous exchange of opinions on growth and international cooperation during dialogue with emerging and developing countries.¹⁵ This dialogue was held at the invitation of France, the chair, as an independent meeting separate from the meetings among the G8 leaders.

Based on the strong relationship of mutual trust between Prime Minister Junichiro Koizumi and each of



The leaders of the countries that participated in the G8 Evian Summit (June Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)

¹⁵ This dialogue was attended by the leaders of the 12 countries of Egypt, Algeria, Nigeria, South Africa, Senegal, Mexico, Switzerland, Brazil, China, Saudi Arabia, Malaysia and India, as well as the heads of four international organizations, the United Nations, World Bank, International Monetary Fund and World Trade Organization. (Countries and organizations are listed in the order announced by France. Morocco was invited but did not attend.)

the G8 leaders, Japan was successful in affirming coordination within the G8 and promoting dialogue with the developing countries. In addition, Japan successfully increased the interest and understanding of the G8 leaders as well as the international community on its policy toward North Korea including the abduction issue, SARS, which had spread mainly in East Asia, and the management of Japan's economy.

(c) Organisation of Economic Co-operation and Development (OECD)

The Organisation of Economic Co-operation and Development (OECD) conducts analyses and proposes

policies on a wide range of areas such as economic growth, trade, development, environment, and science and technology. At the OECD Ministerial Council Meeting held in April 2003, the countries agreed based on Japan's proposal to launch the strategic project "Action Plan for OECD; Measures to Promote Investment for Development," to highlight the importance of the role of private investment in development. In addition, at Japan's initiative, a review of the committee structure and decision-making methods has begun to reform the organization, whose rigidity has become evident after 40 years since its establishment.



Parliamentary Secretary for Foreign Affairs Shogo Arai meets with OECD Secretary-General Donald J. Johnston (November)

3	Strengthening Economic Security
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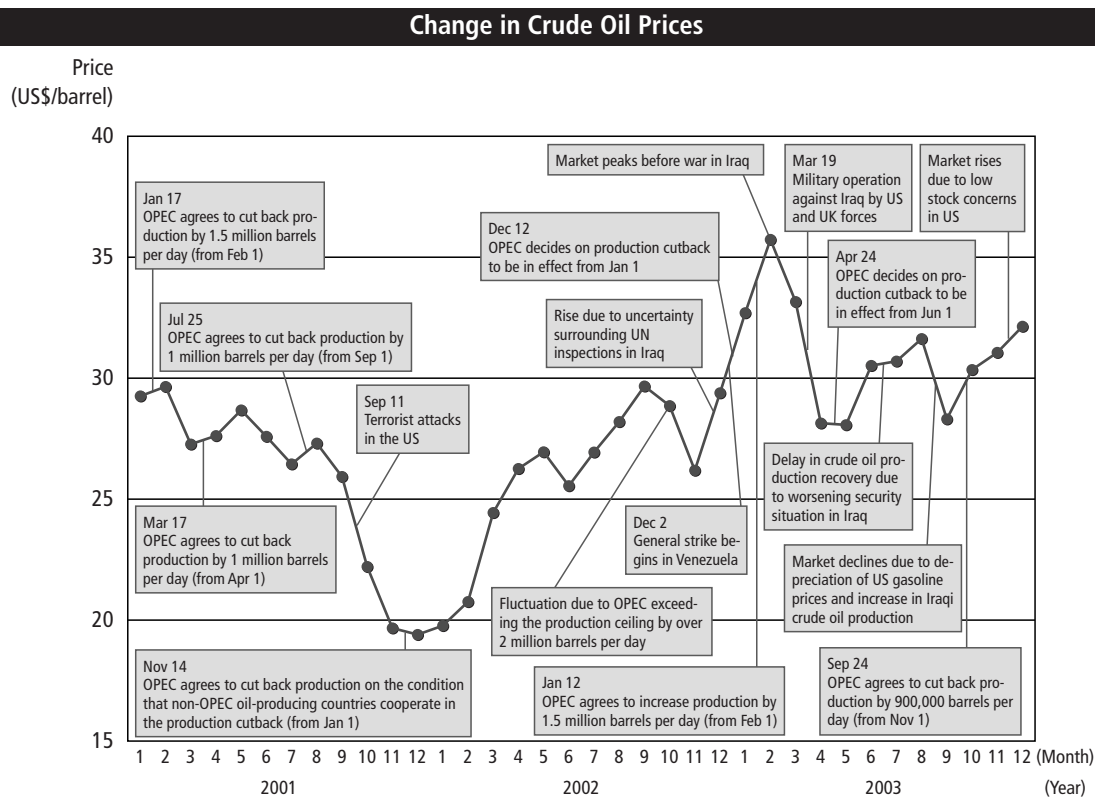
(a) Overview

Japan is dependent on many overseas primary resources. Therefore, it is indispensable for Japan to take measures to secure a stable resource supply and develop a desirable international environment so that Japan can maintain the stable economic and social lifestyles of its people and eliminate threats to life and property. As such, Japan has been advancing the following efforts.

(b) Energy Security

Japan relies on foreign sources for over 80% of its energy. As Japan imports over 99% of its oil, which accounts for approximately half its energy use, securing a stable supply of energy (energy security) is critical in Japan's foreign policy.

Japan has been cooperating with other developed countries through organizations such as the International Energy Agency (IEA) in preparing countermeasures for



dealing with emergencies including disruptions in the oil supply. Particularly in 2003, there were concerns over a reduction in the flow of oil from the Middle East, on which Japan is dependent for 87% of its crude oil imports, due to the growing tensions over the situation in Iraq since the beginning of the year, and as such, Japan prepared for a reduction in the flow of oil through coordination with IEA members and non-member countries as well as consultations with oil-producing countries. As a consequence, a situation such as a sharp rise in oil prices was averted and its significance was highly evaluated among the member countries at the IEA Meeting of the Governing Board at Ministerial Level.

From the viewpoint of energy security, it has become important to develop a system for dealing with emergencies in the Asian region, which has seen a remarkable boost in energy demand in recent years. Japan cooperated with a view to enhancing regional energy security in 2003 by playing a leading role in creating the Energy Security Initiative Implementation Plan at APEC in October and drawing up joint actions on energy security among concerned countries in the Tokyo Declaration for the

Dynamic and Enduring Japan-ASEAN Partnership in the New Millennium adopted at the Japan-ASEAN Commemorative Summit in December.

In addition to strengthening traditional bilateral relations, Japan has been vigorously participating in the IEA; the International Energy Forum (IEF), a forum for dialogue between producing and consuming countries; as well as the International Partnership for the Hydrogen Economy (IPHE), whose objective is to realize international cooperation in the production, transport and other aspects regarding hydrogen, which has been drawing attention as a new energy source.

(c) Marine Issues

Japan is surrounded by ocean on all of its four sides. It is not only the third largest fishing nation in the world, but also a maritime nation that depends on marine transport in order to import energy resources including oil and minerals.

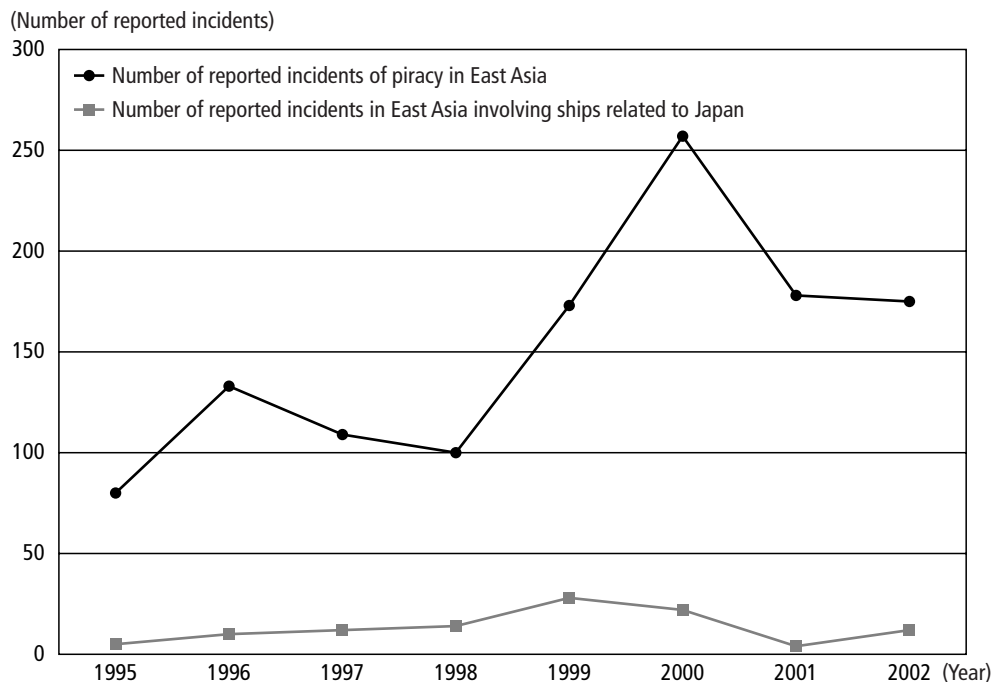
Piracy incidents have risen sharply in Southeast Asia in recent years (175 of the 383 total incidents worldwide in 2002 occurred in this region¹⁶). These pose not only threats to Japan's maritime transport, but also an adverse factor in

¹⁶ Source: International Maritime Organization (IMO), *Reports on Acts of Piracy and Armed Robbery against Ships Annual Report 2002*.

Number of Reported Incidents of Piracy

	1995	1996	1997	1998	1999	2000	2001	2002
East Asia	80	133	109	100	173	257	178	175
Malacca Straits within East Asia	12	12	8	6	37	112	58	34
Indian Ocean	15	30	41	25	51	109	86	66
Africa	15	28	41	41	52	62	80	70
Latin America and the Caribbean	20	32	45	38	29	41	23	67
Others	2	5	16	6	4	2	3	5
Total	132	228	252	210	309	471	370	383
Number of incidents involving ships related to Japan	8	11	18	19	39	31	10	16
Number of incidents in East Asia involving ships related to Japan	5	10	12	14	28	22	4	12

Source: International Maritime Organization, *Reports on Acts of Piracy and Armed Robbery against Ships Annual Report 2002*; Ministry of Land, Infrastructure and Transport, *Maritime Report 2003*.



this region's stability and economic development as a whole. Therefore, Prime Minister Koizumi proposed a legal framework for combating piracy at the ASEAN+3 Summit Meeting in November 2001. Under Japan's leadership, the draft of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia was established in cooperation with the ASEAN members, China, ROK, India, Sri Lanka and Bangladesh in November 2003. Moreover, in order to ensure economic interests by securing a stable supply of marine resources, Japan has been conducting submarine topography and geological studies in the surrounding sea area with a view to extending the boundaries of Japan's continental shelf to

a maximum of 350 nautical miles in accordance with the United Nations (UN) Convention on the Law of the Sea.

(d) Fishery

Marine products have traditionally played an important role in the Japanese people's diet, and Japan's per capita consumption of marine products is significantly higher than that of other countries. Meanwhile, international concern that three-fourths of global marine fishery resources have been exploited to their maximum level or to unsustainable levels due to overfishing has been increasing widely, and as such, the international community has attached great importance to international cooperation to

conserve fishery resources and protect the marine environment. In light of these circumstances, Japan has been playing an active role in managing international fishery resources as one of the world's leading fishing countries and a major importer of marine products.

In 2003, regional fisheries management has made progress in dealing with illegal, unreported and unregulated (IUU) fishing operations. In particular, the positive listing scheme¹⁷ was introduced at Japan's initiative in each responsible management organization for tuna in the Atlantic Ocean, Indian Ocean, Eastern Pacific Ocean and South Pacific Ocean. Furthermore, the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean is expected to enter into force in June 2004. This convention aims to conserve and manage highly migratory fish stocks in the Western and Central Pacific, which yields half of the world's fishery production of tuna and tuna-like species and approximately 80% of that of

Japan. Japan has been working to create procedures and regulations, based on its view that this convention should fully reflect the position of fishing nations.

In regard to whaling, the 55th Annual Meeting of the International Whaling Commission (IWC) was held in Berlin in June 2003. At the meeting, the resumption of commercial whaling, which Japan has long upheld as a policy objective, was not approved, and the establishment of the Conservation Committee that attaches importance only to the protection of whales was adopted by a majority vote of anti-whaling countries. In recent years, the number of member countries supporting the sustainable use of whales has matched the number of anti-whaling countries in the IWC, and Japan has been appealing to various countries in coordination with other countries supporting the sustainable use of whales in order to further strengthen its position within the IWC that marine living resources including whales should be utilized in a sustainable manner based on scientific grounds.

Topic

Is It Okay to Eat Whale Meat?

Have you ever seen canned or packaged whale meat at the supermarket? There must be some people wondering "isn't whaling banned?" Under the commercial whaling moratorium (temporary cessation) of the International Whaling Commission (IWC), no commercial whaling has been carried out, while research whaling for studying natural resources is recognized as a right under the IWC treaty, and Japan has therefore been carrying out research whaling in the Pacific Ocean and Antarctic Ocean. Most whale meat, currently being sold in supermarkets and specialty stores, is a byproduct of the research whaling. In compliance with the treaty provision stating that "any whale taken under research whaling shall be utilized so far as practicable," the whale meat has been sold and the revenue from the sale has been allocated to research costs. (In addition, in some regions, small-type coastal whaling of whale species that fall outside the jurisdiction of the IWC is being carried out under the permission system of the Fisheries Agency.)

At the Annual Meeting of the IWC, held in Shimonoseki City, Yamaguchi Prefecture, in May 2002, a delegate from an anti-whaling country made a speech critical of Japan, saying that "Japan is smuggling whale meat" while displaying a package of whale meat that was sold in a supermarket and labeled "Product of Greenland." The Fisheries Agency immediately obtained a sample of the whale meat and carried out a DNA analysis, which led to the conclusion that the meat was byproduct from a whale harvested in Japan's research whaling program, and that it was not the result of smuggling but a labeling mistake by the store. In this way, Japan's research whaling, including the past record of byproducts, has been managed scientifically.

The position of Japan and many other countries is that whale species should be managed scientifically within an international framework, and that cetaceans which are declining in number such as the blue whale should be protected while cetaceans which exist in sufficient numbers such as the minke whale should be used effectively to the extent that it may not have a negative impact on their numbers based on a scientific grounds. However, the current situation is that there is a large number of hard-line anti-whaling countries that will never accept the harvesting of any cetacean breed no matter how much they may increase in number. Most cetaceans are not endangered. Japan believes it is reasonable that the principle of the sustainable use of natural resources, which has been accepted throughout the world, be applied to cetacean resources as well. As such, Japan has been continuing tenaciously to make its case.

¹⁷ By creating a list of registered vessels that comply with regulations, imports from IUU fishing vessels that are not on this list can be excluded.

4 Promoting Investment into Japan and Regulatory Reform

Promoting foreign direct investment into Japan is an effective method of revitalizing the Japanese economy because this will enhance the competitiveness of Japanese companies. However, foreign direct investment remains at a remarkably low level for Japan's economic scale. Therefore, Japan decided that it would take measures to make Japan an attractive market for foreign companies with the objective of doubling the cumulative amount of foreign direct investment into Japan in five years beginning in 2001. The Ministry of Foreign Affairs has been working to promote inward investment by actively using its overseas agencies and also acting in coordination with the relevant organizations including the Japan External Trade Organization (JETRO). Moreover, since it is important to improve the investment environment through deregulation and other measures to encourage investment from developed countries, Japan has been making the following efforts regarding its relations with the US and EU.

Based on the Japan-US Economic Partnership for Growth, Japan and the US have been discussing various

issues—how to increase the number of methods for foreign companies to conduct mergers and acquisitions (M&A) in Japan and how to improve the understanding of foreign direct investment (FDI)—under the Japan-US Regulatory Reform and Competition Policy Initiative aimed at facilitating business through regulatory reform, as well as the Investment Initiative with the purpose of improving the investment environment.

With respect to relations with the EU, the largest provider of direct investment to Japan in recent years, the Japanese Government has been making efforts such as holding seminars in various places in Europe as well as Japan based on the Japan-EU Initiatives on Investment for promoting reciprocal investment, which were adopted at the Japan-EU Summit in May 2003. Vigorous exchanges of opinions in a wide range of areas have been held at the Japan-EU Dialogue on Regulatory Reform, which has been held every year among working-level officials since 1994, with a view to improving the business environment.

5 International Science and Technology Cooperation

(a) Overview

Since the beginning of the 21st century, the international community has attached great importance to international cooperation by making full use of the power of science and technology to resolve various challenges including sustainable development in economy as well as industry, the environment, natural resources and energy, and health and sanitation. From that perspective, Japan intends to aim at the further development and application of science and technology. To this end, it will actively advance multilateral international cooperation, while promoting bilateral cooperation with other countries, in order to expedite large-scale international scientific projects that cannot be implemented by one country alone.

(b) Individual Cases

In order to promote bilateral cooperation in science and technology, Japan has concluded bilateral science and technology cooperation agreements with various countries and it has also held exchanges of opinions on challenges including science and technology policy as well as consultations on specific projects of joint research and development (R&D) through regular inter-governmental meetings based on those agreements. In 2003, Japan held such bilateral meetings with the US, France, Canada, Sweden and the Netherlands. In addition, it newly concluded agreements with Norway and South Africa to promote its enhanced cooperation.

Japan's efforts in areas such as natural resources and energy, space, earth observation, life sciences, and disarmament and non-proliferation are examples of large-scale international science projects that have been promoted.

In the field of natural resources and energy, Japan has promoted the ITER project, a joint international project that aims to demonstrate the feasibility of nuclear fusion energy, which is expected to be the ultimate source of energy for humankind with an almost permanent supply. Japan has been proactively participating in the inter-governmental negotiations with the purpose of forming an international consensus on the framework of the joint implementation of the ITER in Rokkasho Village, Aomori Prefecture.

With respect to the area of outer space, Japan has been participating jointly with various countries in the International Space Station (ISS) program to construct a laboratory for a wide range of experiments under the special conditions of outer space. In accordance with the ISS program, Japan intends to launch its first-ever manned experimental facility called *Kibo* (which means hope). Currently, Japan has been advancing cooperation with various countries in resuming space shuttle flights by overcoming the impact to the ISS program resulting from the space shuttle *Columbia* accident in February 2003.

In regard to the area of earth observation, the need for observation on a global scale, not only on the level of a

country's own territory, has been growing recently. Based on this, Japan has principally advanced initiatives such as the ARGO Project (advanced ocean observation) and the Integrated Ocean Drilling Program (IODP) in cooperation with various countries.

In the area of life sciences, concerns that cloned human beings will be formed as a result of the rapid advancement of biotechnology have spurred international debate in recent years. Japan has been vigorously urging the international community through the UN and other fora to conclude as soon as possible an international convention against the reproductive cloning of human beings.

Regarding the area of disarmament and non-proliferation, Japan has been assisting the provision of civilian employment for scientists and engineers of the former republics of the Soviet Union engaged in WMD development through the International Science and Technology Center (ISTC), an organization established in Moscow in 1994 by Japan and other countries. As of December 2003, Japan has provided approximately US\$57 million in project assistance through the ISTC.