

## B North America

### 1 United States

#### (a) Overview

In 2004, the administration of President George W. Bush continued to steadfastly push ahead with the fight against terrorism and engaged in the maintenance of order and reconstruction in Iraq with other countries based on a number of United Nations (UN) resolutions following the end of major combat operations. The United States (US) is at present cooperating with countries concerned to deal with issues facing the international community, such as the reconstruction of Afghanistan and North Korea's nuclear issue. In domestic politics, a presidential election and congressional as well as gubernatorial elections took place in November. President Bush was re-elected and began his second term in January 2005. In addition to making efforts to maintain economic growth through such measures as tax cuts, the administration has investigated the situation concerning the terrorist attacks in the US on September 11, 2001. Taking into account the final report by the National Commission on Terrorist Attacks upon the US (the so-called 9/11 Commission) on proposals for terrorism prevention, the Bush administration is working to bring about a realignment of the intelligence agencies that is built upon lessons learned from the terrorist attacks.

The year 2004 was the 150th anniversary of the signing of the Japan-US Treaty of Peace and Amity. The relationship between Japan and the US now is one of the strongest alliances in the world. The partnership with the US, an ally which shares various values and interests with Japan, is the linchpin of Japan's diplomacy. This alliance is the foundation for peace and prosperity in Japan and the Asia-Pacific region. At the same time, under the concept of the "Japan-US alliance in the global context," both countries are cooperating to demonstrate leadership on issues facing the international community.

#### (b) Japan-US Relations

In 2004, both Japan and the US kept close consultations and policy coordination in a wide range of areas. Furthermore, both countries made efforts to further strengthen the Japan-US Security Arrangements and to maintain and reinforce the bilateral relationship.

#### *Political Cooperation*

Following on from 2003, the major focus of political cooperation between Japan and the US was maintenance of security and reconstruction in Iraq and the issues concerning North Korea. While cooperating in the promotion of reconstruction and the political process in Iraq, Japan has been making efforts to promote international cooperation that includes the US and has been cooperating with the US and other relevant countries in the Six-Party Talks aimed at solving the issues concerning North Korea.

US Vice President Richard B. Cheney visited Japan in April 2004 and met with Prime Minister Koizumi Junichiro to discuss such issues as Iraq, including hostage-taking incidents, and North Korea. Shortly before Prime Minister Koizumi made his second visit to North Korea, then Minister for Foreign Affairs Kawaguchi Yoriko met with then Secretary of State Colin Powell in Washington DC on May 14 on the occasion of the foreign ministers' meeting of the Group of Eight (G8). They exchanged views on policy toward North Korea and other issues, including Iraq, the Middle East, and Japan-US security relations. On June 8, Prime Minister Koizumi held a summit meeting with President Bush at Sea Island on the occasion of the G8 Summit. With the UN Security Council considering the adoption of a resolution concerning the reconstruction of Iraq, President Bush expressed his appreciation for Japan's cooperation and



*Prime Minister Koizumi meets with US President Bush in September. (Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)*

generous assistance regarding Iraq. In response, Prime Minister Koizumi noted that the Iraqi people themselves needed a firm determination to rebuild the country and that Japan was prepared to support the efforts of the Iraqi people to the best of its ability. On the topic of North Korea, Prime Minister Koizumi explained the results of his meeting with Chairman of North Korea's National Defense Commission Kim Jong Il when the prime minister visited North Korea in May, and stressed the importance of the Six-Party Talks framework. In response, President Bush lauded Prime Minister Koizumi's undertakings and agreed that the Six-Party Talks are important, and that the US would work closely with Japan and the Republic of Korea (ROK). Additionally, the two leaders exchanged their opinions on such matters as Bovine Spongiform Encephalopathy (BSE), the Iranian nuclear issue, UN reform, and Japan-US security relations.

Following the transfer of sovereignty in Iraq on June 28, then Foreign Minister Kawaguchi met with then Secretary of State Powell in Jakarta on July 1 on the occasion of the Association of Southeast Asian Nations (ASEAN) Post-Ministerial Conferences. Then Foreign Minister Kawaguchi explained Japan's stance of having the Self-Defense Forces (SDF) undertake humanitarian and reconstruction assistance under Japanese command and noted the importance of the international community uniting to support the interim government in Iraq. In response, then Secretary Powell expressed his appreciation for Japan's assistance. At the same meeting, the two sides agreed to implement an exchange program for personnel between Japan's Ministry of Foreign Affairs and the US State Department beginning in 2005. The two sides also exchanged opinions on various international issues, such as North Korea, Afghanistan, and Sudan.

On July 7, during her visit to Japan, then National Security Advisor Condoleezza Rice paid a courtesy call on Prime Minister Koizumi and met with then Foreign Minister Kawaguchi and exchanged opinions on such issues as Japan-US relations, Iraq, China, North Korea, and UN reform. Prime Minister Koizumi expressed to then National Security Advisor Rice Japan's position on Iraq, and she relayed a message from President Bush expressing his deep appreciation for Japan's humanitarian and reconstruction assistance through the SDF, its financial assistance, and its efforts to realize international cooperation.

On September 21, Prime Minister Koizumi, who was in New York to attend the UN General Assembly, met with President Bush. The two leaders exchanged opinions on Iraq, the realignment of US forces, BSE,



*Foreign Minister Machimura holds a press conference with then US Secretary of State Powell in October.*

North Korea, UN reform, and other issues, and they reaffirmed Japan-US cooperation on these issues.

At the beginning of October, shortly after taking office as Minister for Foreign Affairs, Machimura Nobutaka traveled to the US, where he met separately with then Secretary of State Powell, Secretary of Defense Donald Rumsfeld, then National Security Advisor Rice, and Chairman of the Senate Foreign Relations Committee Senator Richard Lugar. In late October, then Secretary Powell visited Japan, where he paid a courtesy call on Prime Minister Koizumi and met with Foreign Minister Machimura. They discussed such issues as BSE, Iraq, Afghanistan, Japan-US security relations, and the situation on the Korean Peninsula.

On November 20, Prime Minister Koizumi met with President Bush in Chile on the occasion of the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting. Prime Minister Koizumi expressed his appreciation for the assistance of the US forces in Japan and others in the wake of the Chuetsu Earthquake in Niigata Prefecture. The two leaders exchanged opinions on such issues as North Korea, the realignment of the US forces, and Iraq. Prime Minister Koizumi reaffirmed his determination to continue cooperation with regard to reconstruction in Iraq.

Supporting the close relationship between Japan and the US are a wide range of exchanges and a mutual understanding among the citizens of both countries. The year 2004 marked the 150th anniversary of Japan-US relations, and both countries held a variety of exchange events, including a commemorative ceremony in Yokohama in April attended by Prime Minister Koizumi. Additionally, the government is continuing to promote multilevel exchanges of people, including efforts to strengthen ties with Japanese-Americans by bringing young Japanese-American leaders to Japan from all over the US, and the Mansfield Fellowship Program, which provides opportunities for US federal government em-



ployees to undergo training in Japanese government agencies and private-sector companies.

### ***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 Doha Development Agenda negotiations on 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 governance.

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. Japan will continue to hold constructive dialogues in order to further develop cooperative economic relations with the US during the second term of the Bush administration.

The Japan-US 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 2004.<sup>1</sup>

The following are outstanding issues from the perspective of maintaining the cooperative and constructive economic relationship between Japan and the US.

First is the issue of the resumption of the beef trade between Japan and the US. On December 23, 2003, a cow suspected of having BSE was discovered in the state

of Washington. Following this, the Japanese government suspended the import of US beef. The two countries immediately began talks aimed at resolving the issue, and four director-general level meetings have since been held with the goal of resuming trade in beef. At the fourth meeting in October 2004, the two governments came to share the view that two-way trade in beef and beef products would be resumed under certain conditions and modalities based on science, subject to their respective domestic approval processes. Further details of some conditions and modalities remain to be worked out by experts and working-level officials of both countries. Work on the details is ongoing at present.

Second is the issue of US measures that have been ruled to be inconsistent with the WTO agreements, including Section 801 of 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. On a number of occasions, Japan has requested the US to take action to eliminate these measures as soon as possible. As a result, on December 3, 2004, President Bush signed a bill repealing the Anti-Dumping Act of 1916. However, the Byrd Amendment still remains in violation of WTO agreements, and in November 2004 the WTO approved a petition from Japan and a number of other countries to permit retaliatory measures. Additionally, there are concerns that the US method of calculating the dumping margin (the difference between domestic prices and export prices), known as "zeroing,"<sup>2</sup> is inconsistent with the WTO agreements. In November Japan submitted to the US a request for consultations based on the WTO agreements.

Third, since the terrorist attacks of September 2001, the US has been strengthening its immigration controls, including making more stringent the processes for obtaining and revalidating a visa.<sup>3</sup> For this reason,

1. The details of the dialogues are as follows. (1) Subcabinet Economic Dialogue (strategic dialogue on bilateral, regional, and global issues): At the fourth round of talks in Washington on July 16, discussions were held on such issues as the Japan-US economic relationship (macro-economics in the two countries, US immigration control, privatization of Japan Post, BSE, the implementation of WTO recommendations), international economic relations (the WTO Doha Development Agenda negotiations, the Asian economy), and Iraq. (2) 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: (a) telecommunications, (b) information technologies (IT), (c) energy, (d) medical devices and pharmaceuticals, and (e) cross-sectoral issues. The achievements of the meetings were compiled into a report that was presented to the two countries' leaders and announced on the occasion of their meeting on June 8. On October 14, the fourth recommendations were exchanged, and the first working group meeting was held from early to mid-December.

2. When domestic prices are lower than export prices, the difference is treated as zero. Use of this method results in high dumping margins overall. As a result, the affected companies are charged higher anti-dumping duties.

3. Issues include the requirement from July 2004 that all visa applicants are in principle subject to an interview and the suspension of visa revalidation within the US. These measures are having a considerable negative impact on the lives and work of employees of Japanese corporations residing in the US.

Japan has been taking every opportunity, for example, filing public comments or consultations in line with the Japan-US Economic Partnership for Growth, to make proposals to and consult with the US to ensure that enhanced counter-terrorism measures do not affect trade and investment adversely.

### (c) The Situation in the US

#### *Domestic Politics*

The main focus of the US domestic political scene in 2004 was the presidential election on November 2. Aiming for reelection, President Bush made an early effort to solidify the base of his Republican Party, and he appealed for support as a strong leader in the fight against terrorism and as someone who believes in the spread of freedom. On the Democratic Party side, Senator John Kerry won his party's nomination in the primaries. Senator Kerry emphasized that he was a hero in the Vietnam War and that he was a strong candidate on national security issues, rather than focusing on the economic policies that are a traditional strength of the Democratic Party.

The 2004 election was a close one that recalled the 2000 election, but several reasons have been pointed to for President Bush's victory, such as that he ran for reelection as a "war president," solidified his electoral position, projected an easy-to-understand message, and succeeded in coordinated efforts to get supporters to the polls, as well as that the economy in general was recovering, though unemployment was a point of contention, and that political conservatism is growing in the US. President Bush won 51% of the vote, becoming the first person to win a majority in a presidential election since 1988. Additionally, though voter turnout had been on a downward trend for about the past 40 years, turnout in

2004 approached 60%, returning to a level last seen in the late 1960s. In the elections for Congress, the Republicans maintained control of both the Senate and the House of Representatives, increasing their majorities in both houses.

In the 2004 elections, the biggest issue was Iraq. In various public-opinion surveys, people who did not support US policy on Iraq outnumbered those who did, due to such factors as the failure to discover any weapons of mass destruction (WMD), the handling of such information by the US government, the worsening situation in Iraq centered on the uprising in Fallujah in March, and the abuse of Iraqi prisoners at Abu Ghraib that came to light in April. Because of this, President Bush's support rating dropped to the mid-forties at one point. He appealed for the understanding of the people by giving a number of speeches emphasizing the handover of sovereignty in Iraq and the progress being made in the political process; support for democratic movements in Afghanistan, Iraq, and the Middle East as a whole; and that Iraq is on the front line in the fight against terrorism.

On July 22, 2004, the National Commission on Terrorist Attacks upon the US (commonly known as the 9/11 Commission) released its final report, which stated that US intelligence agencies had missed opportunities to disrupt the planned attacks by Al-Qaeda. The report included proposals for reforms of government organs, such as the creation of a cabinet-level Director of National Intelligence who would oversee the country's intelligence agencies. Though its passage was in doubt due to opposition among some members of Congress, the Intelligence Reform and Prevention Act was supported strongly by President Bush and was enacted shortly before the close of the 108th Congress.

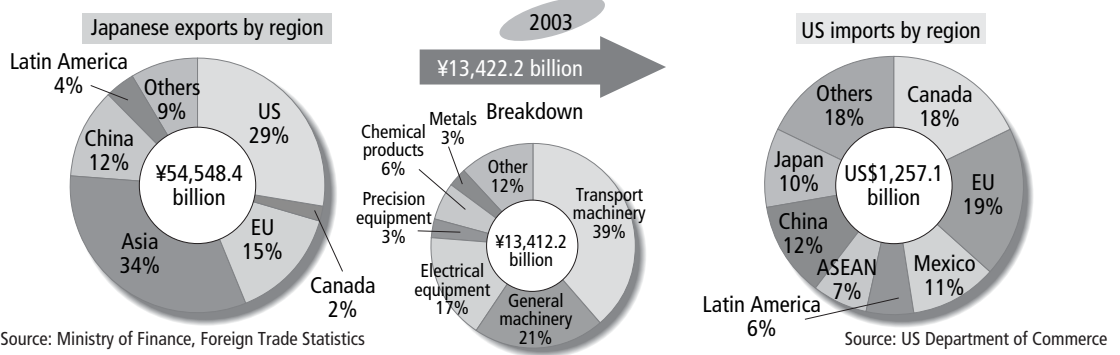
#### *Economy*

With the economic slowdown that followed the collapse of the information-technology bubble combined with the effects of the 9/11 terrorist attacks, the US economy at one point had slipped into negative growth. Since then, however, there has been strong personal consumption supported by an improved employment environment and private-sector capital investment that has added strength to a cyclical recovery, and the economy has recorded positive growth from the fourth quarter of 2001 through the end of 2004. At present, the economy is seen as being in an expansionary phase, and the general consensus is that growth of around 3.5% will continue. With the goal of supporting the economy following the 9/11 terrorist attacks, the Bush adminis-

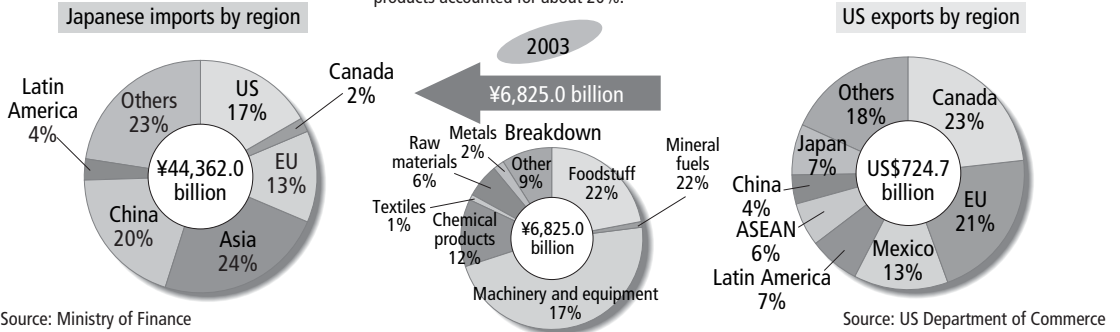
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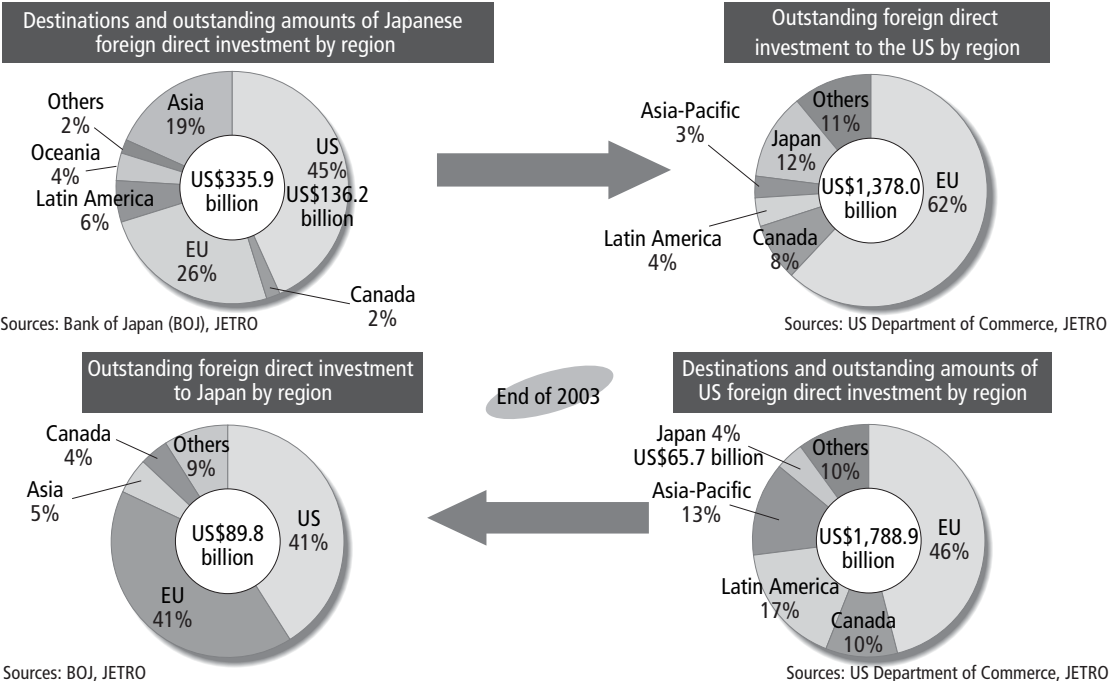
**Exports from Japan to the US** \* The US is the largest export market for Japan. Meanwhile, Japan ranks fifth in terms of exports to the US, following the EU, Canada, China, and Mexico.  
 \* Machinery and equipment account for roughly 80% of Japanese exports to the US.



**Imports to Japan from the US** \* The US is the second-largest source of imports into Japan after China. Japan is the fourth-largest export market for the US after Canada, the EU, and Mexico. (Japan and Mexico traded places in 1997.)  
 \* Machinery and equipment accounted for about 40% of Japanese imports from the US, and food products accounted for about 20%.



**Direct investment (stock)** \* The US is the largest destination of foreign direct investment from Japan and the largest source of foreign direct investment in Japan.



tration has implemented economic measures centering on a series of tax reductions.<sup>4</sup>

On the financial front, taking into account strong personal consumption and capital investment, on June 6 the Federal Reserve Board (FRB) raised interest rates for the first time in roughly four years. The FRB has raised rates six times since then, with the federal fund rate standing at 2.50% as of the end of February 2005. Chairman of the FRB Alan Greenspan is expected to finish the work of correcting the super-low interest rate policy before his term comes to an end in January 2006, and many are of the opinion that in 2005 the FRB will continue the policy of hiking interest rates that it has pursued since June 2004.

There are fears that the greatest risk facing the US economy in the future is the budget deficit and the trade deficit, the so-called twin deficits, both of which have been growing in recent years. Market insiders have pointed to the possibility that the exacerbation of the twin deficits could spark such problems as a rapid rise in interest rates, increasing exchange-rate pressures (a weak dollar), and a decreased willingness to buy on the part of consumers. There are fears that a fall in the value of the dollar or a rise in interest rates could crowd out private-sector investment, roil the stock market, and result in shockwaves across the global economy. The economic focus of the second Bush administration will be strengthening employment creation and reforming social security.

In terms of trade, the US deficit in merchandise trade in 2004 was US\$650.8 billion, up 22.3% over the previous year and a new record. The US trade deficit with Japan in 2004 was US\$75.2 billion, up 13.9% over the previous year and the second-highest level ever. However, the US trade deficit with China was up 30.6% over the previous year to US\$162.0 billion, a new record. For the past five years China has accounted for the largest share of the US trade deficit.

On the fiscal side, the US budget deficit for fiscal 2004 (October 2003 to September 2004) was US\$412.6 billion (approximately ¥45.2 trillion), the highest-ever level for the second consecutive year. In addition to increased spending on Iraq, the implementation of large-

scale tax cuts is the main cause of the increasing deficit. President Bush has pledged to cut the budget deficit in half by 2009, but there are negative factors regarding improvement on expenditures: (1) defense spending is exempt from an upper limit on expenditures; (2) cuts in the income tax and other taxes are expected to be made permanent; (3) supplementary budgets to cover military costs in Afghanistan and Iraq are seen as inevitable; (4) the fiscal situation of the Pension Benefit Guaranty Corporation, which guarantees the payment of corporate pension funds, is worsening; and (5) in the medium term, entitlement costs are expected to rapidly increase with the prescription-drug benefit added to Medicare and the aging of the postwar baby-boom generation. Employment has grown for 19 consecutive months since June 2003, and as of December 2004 approximately 2.62 million jobs had been created. Accordingly, the employment situation is expected to continue to improve.

In the area of trade policy, the US has been negotiating for the conclusion of several Free Trade Agreements (FTA). In 2004 the US government concluded bilateral FTAs with Australia, Morocco, and Bahrain. The US is also showing interest in opening FTA negotiations with the United Arab Emirates, Oman, and the ROK. While taking note of US FTA policy, Japan will need to pay attention to the US FTA policy as well as to the impact of these movements on Japan's economic diplomacy and individual regional economies.

### **Foreign Relations**

In his State of the Union Address in January 2004, President Bush listed as important foreign-policy challenges the fight against terrorism, preventing the proliferation of WMD, Iraq, North Korea, and the Middle East Peace Process, following up on the efforts of 2003 and promoting them.

In the area of the non-proliferation of WMD, the US has promoted the expansion of the number of countries taking part in the Proliferation Security Initiative (PSI) (refer to P. 157). Additionally, through the adoption of UN Security Council Resolution 1540 on non-proliferation of WMD, the US exercised its leadership in making WMD proliferation a criminal offense in each

4. In concrete terms, immediately following the 9/11 terrorist attacks the US implemented US\$40 billion in emergency spending and US\$15 billion in support for domestic airlines and additionally enacted the Economic Growth and Tax Relief Reconciliation Act of 2001, which will result in a total of US\$1.35 trillion in tax cuts by fiscal 2011, centering on reductions in the income tax and the phased abolition of the estate tax. In March 2002 an economic stimulus package was enacted that included an extension in unemployment benefits and preferential tax treatment for corporations. In May 2003 Congress enacted the Jobs and Growth Tax Relief Reconciliation Act, which will result in US\$349.7 billion in tax cuts by fiscal 2013, mainly tax reductions as applied to dividends and the sale of stock shares. In September 2004 Congress passed the Working Families Tax Relief Act, which extended tax cuts totaling US\$145.9 billion, including an expansion of the deduction for child dependents, the elimination of the marriage penalty to lighten the tax burden on families with two working spouses, and the expansion of the 10% income-tax bracket.

country. With the United Kingdom (UK), the US also played a leading role in getting Libya to abandon its WMD programs, and together with allied and friendly countries the US is actively dealing with the nuclear programs of Iran and North Korea.

With regard to Iraq, the US has played the central role not only in the military campaign and the maintenance of order following the collapse of the Saddam Hussein regime but also in such areas as negotiations on related UNSC resolutions, contributions to the political process in Iraq, and reconstruction assistance, leading the international community. The handover of political authority in Iraq was completed in June 2004. With preparations being made for the January 2005 elections for the Iraqi Transitional National Assembly, the US made efforts to secure stability, such as by increasing its force level to about 150,000 personnel. The US is also putting its efforts into training the Iraqi military, police, and security forces.

In terms of reconstruction assistance for Iraq, the US has made the largest contribution, and significant results can be seen, particularly in the area of infrastructure, such as electrical power, water, sanitation, communications, and transportation. In December 2004, the US signed an agreement to cancel 100% of its Iraqi debt, going beyond what the Paris Club had committed to.

On the issues surrounding North Korea, the US has continued to work closely with Japan, the ROK, and other related countries, making diplomatic efforts to reach a peaceful solution to the issue of North Korea's nuclear development. The Bush administration has taken a firm stance regarding negotiations with North Korea, refusing bilateral talks and insisting on the Six-Party framework that also includes Japan, the ROK, China, and Russia. Through the diplomatic process, the US is pursuing the complete dismantlement of North Korea's nuclear weapons programs under international verification. In its "Patterns of Global Terrorism 2003" report issued in April 2004, the Department of State again identified North Korea as a "state sponsor of terrorism," and it mentioned the abduction issue for the first time.

With regard to the Middle East Peace Process, the US has firmly adhered to a policy based on the so-called Roadmap, which points the way to the peaceful coexistence of Israel and a Palestinian state. Following the death of Palestinian Liberation Organization (PLO)

Chairman Yasser Arafat in November 2004, the US joined with UK Prime Minister Tony Blair in declaring a new effort to achieve Middle East peace.

Additionally, the US is encouraging fundamental reforms in the Middle East in the areas of politics, economy, and education. At the June 2004 G8 Summit at Sea Island, the "Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa" was announced as an extension of the US's "Middle East Partnership Initiative" (refer to the diagram on P. 114).

In addition to continuing operations against Taliban and Al-Qaeda remnants, the US has continued to support reconstruction and democratization in Afghanistan. And while supporting improved relations between India and Pakistan, the US is working to strengthen relations with both countries, such as by agreeing to continue and strengthen its strategic partnership with India and by granting Pakistan the status of a major non-NATO ally.

In East Asia, the US has continued to strengthen its alliances with Japan, the ROK, Australia, Thailand, and the Philippines, and its security partnership with Singapore. The US has also expanded its cooperative relationship with China on such issues as the Six-Party Talks concerning North Korea, reconstruction in Afghanistan and Iraq, the fight against terrorism, and narcotics trafficking.

With regard to relations with Europe, the North Atlantic Treaty Organization (NATO), which has heretofore continued to play a major role in the reconstruction of Afghanistan, agreed in November 2004 to greatly expand the number of personnel it is dispatching to train the Iraqi military and police. The tension between the US and Europe over the propriety of taking military action against Iraq showed signs of abating somewhat.

Also at the Sea Island G8 Summit, a summit meeting between the leaders of the US and Russia was held that stressed the importance of such issues as a strong US-Russia partnership, the rule of law as the fundamental basis for democratic values, freedom of the press, and transparent and fair legal proceedings. Additionally, the US has contributed to stability in Georgia and Ukraine through early support for the new governments there.

As for Africa, the US has referred to the situation in Darfur, western Sudan, as "genocide."<sup>5</sup> While cooperating with the international community, the US is en-

5. President Bush used this word on September 10, and Secretary of State Powell also used this word when testifying at a public hearing of the Senate Committee on Foreign Relations. Japan does not recognize the humanitarian situation in Darfur as genocide.



deavoring to bring to a conclusion the civil war in Sudan. The US has also actively led the international initiative for reconstruction assistance for Liberia. And in July 2004, the US decided on an extension of the African Growth and Opportunity Act, which promotes economic growth in select countries by expanding their tax-free exports to the US.

In the area of economic cooperation, the US remained the world's largest contributor of aid. In May 2004, the US designated 16 countries as eligible for the Millennium Challenge Account.<sup>6</sup> The US has also begun implementing aid for HIV/AIDS based on the "President's Emergency Plan for AIDS Relief," which commits US\$15 billion over five years.

**2** Canada

**(a) Japan-Canada Relations**

Japan and Canada share common values on many points and cooperate closely in a wide variety of areas, including politics, economics, security, and culture. A variety of cultural events were conducted in 2004 to mark the seventy-fifth anniversary of diplomatic relations between the two countries, and in June, Her Imperial Highness Princess Takamado made an official visit to Canada. In January 2005, Prime Minister Paul Martin and Mrs. Martin visited Japan. In addition to having an audience with Their Majesties the Emperor and Empress, Prime Minister Martin had a summit meeting with Prime Minister Koizumi Junichiro. The two leaders issued a joint statement and two accompanying documents addressing peace and security, and the framework for bilateral economic relations.

Regarding the economic relationship, the balance of trade has been largely equal, and relations are fundamentally sound. At the January 2005 summit, the prime ministers of Japan and Canada agreed to launch the Innovative Canada-Japan Economic Framework,<sup>7</sup> which is aimed at drawing out the maximum latent potential of Japan-Canada economic relations. With the finding of Bovine Spongiform Encephalopathy (BSE) in Canada in May 2003, though, the Japanese government suspended imports of cattle and beef products from Canada. This continues to be an outstanding issue between the two countries.

**(b) The Situation in Canada**

In the June 2004 federal election, the ruling Liberal Party lost seats in parliament, falling below the 50% threshold and making the Martin administration the first minority government in 25 years. This was due to such factors

as financial scandals surrounding a government subsidy program that supports cultural activities in the Province of Quebec. The subsidy was created to strengthen relations between Quebec and the federal government. The major priority issues for domestic politics at present are reform of the health care system and the legalization of same-sex marriage.

On the foreign-policy front, there is a sense of crisis that Canada's international influence is in a long-term state of decline. In order to tackle this situation, the government is undertaking a comprehensive reexamination of its external strategy (Foreign Policy Review). Canada started its history as a federal state that brought together provinces with diverse cultural backgrounds. Additionally, Canada has developed by accepting a large number of immigrants. A pillar of Canada's new international contributions is to provide failed states with knowledge Canada has accumulated in this process relating to governing systems, and Canada is aiming to advance cooperation in which it excels. Improving relations with the US following the different positions on Iraq is an issue for Canada, and the question of whether to participate in the US-led missile defense system is a pressing matter.

**(c) Economy**

Following the economic slowdown in 2003 (GDP growth of 2.0%) that resulted from such factors as severe acute respiratory syndrome (SARS), the occurrence of BSE, and the appreciation of the Canadian dollar against the US dollar, the economy rebounded in 2004. With a recovery in personal consumption and an expansion of exports, GDP grew by an annualized rate of 2.8% in the first quarter of 2004, 4.5% in the second quarter, 2.9% in the third quarter, and 1.7% in the

6. Millennium Challenge Account: Aid for countries that are committed to good governance, training of human resources, and sound economic policies.

7. This effort contains three pillars: (1) strengthening the Joint Economic Committee (JEC) that oversees Japan-Canada economic relations; (2) specifying priority areas for cooperation; and (3) conducting a one-year joint study program to analyze the current state of Japan-Canada relations with regard to trade and investment and to consider policies for strengthening various facets of the relationship.

fourth quarter, showing a solid recovery. On the fiscal front, government management of the budget continues to remain sound. The fiscal 2004 budget of the federal government of Canada includes funding for such issues as reform of the system of health and medical

care, strengthening education and research and commercializing the results of research, prioritizing local communities, and strengthening international relations through economic cooperation and peacekeeping operations.